



# The Corporation of the Town of Milton

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Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: September 8, 2025

Report No: ES-044-25

Subject: Milton Hydro Borrowing Limit Update

**Recommendation:** THAT the borrowing limit for Milton Hydro Holdings Inc., as well as each of the subsidiaries Milton Hydro Distribution Inc., Milton Energy and Generation Solutions Inc., and Milton Hydro Services Inc., be updated as outlined in Schedule A to this report, effective immediately.

THAT the borrowing limits outlined in Schedule 1 be reflected into the Shareholder Direction for Milton Hydro Holdings Inc. as part of the next consolidated update.

## EXECUTIVE SUMMARY

- The recommendations included in this report introduce the recognition of Milton Hydro Holdings Inc. and Milton Hydro Services Inc. in the Council authorized borrowing limits for Milton Hydro.
- The recommendations also maintain the financial ratios that Milton Hydro Distribution Inc. is expected to satisfy in relation to its borrowing, while removing the prescribed \$80 million borrowing limit, in order to better align the policy with the expected growth of the organization.
- Other updates to the borrowing limit include the recognition of both long term and short term borrowing within the policy language, as well as the delegated authority to provide waivers should they be required.
- If approved by Council, these updates will be effective immediately and reflected in the Shareholder Direction as part of the next consolidated update. Staff from both the Town and Milton Hydro will also continue to assess the adequacy of the borrowing limits, with any potential further improvements presented to Council for consideration.

## REPORT

### Background

The most recent update to the borrowing limit for Milton Hydro (MH) occurred in 2020 through report CORS-025-2020. Through that report, the following revised limits were established:

- 1) THAT the borrowing limit for Milton Hydro Distribution Inc. (MHDI) be increased to \$80,000,000, subject to the following conditions being maintained by MHDI:
  - The debt to capital ratio remaining at or below 60%
  - The current ratio remaining above 1.1:1
  - The debt service coverage ratio remaining above 1.15:1
- 2) THAT the future borrowing of Milton Energy and Generation Solutions Inc. (MEGS) remain contingent on the approval of Town Council following the presentation of a business case related to each initiative.

No borrowing authority was prescribed for Milton Hydro Services (MHS) as that subsidiary remained inactive, with no plans in place for future utilization.

Since the time of the 2020 report, MH has undertaken a restructuring of its debt. Previously, borrowing for MH was secured through individual agreements and promissory notes that were held by Infrastructure Ontario and TD Bank. The volume of different credit facilities that were in place at any point in time was generally numerous (for example - 18 different debentures/promissory notes existed at the time of the 2020 report to Council), and as a result there were significant administration and restrictive covenants for MH to manage.

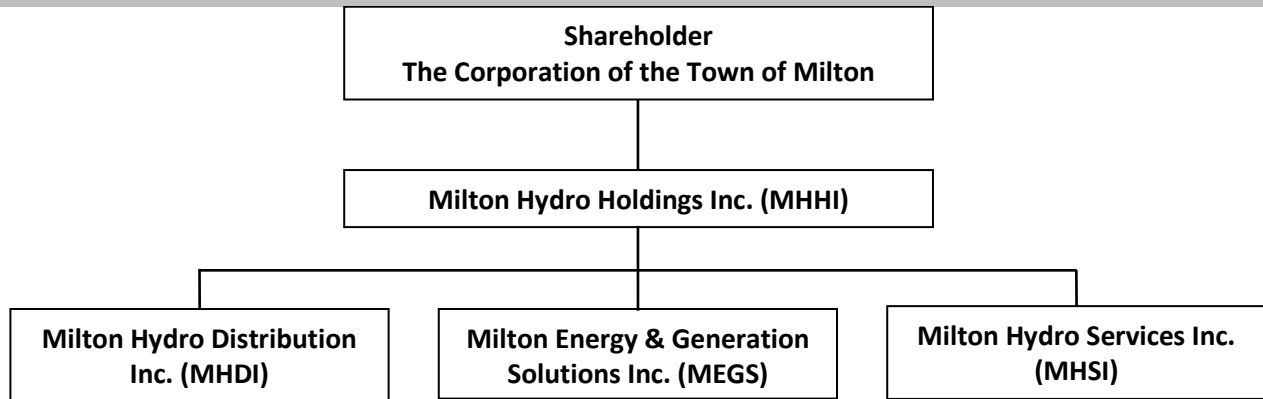
As a result, in 2024 MH undertook a process to replace each of its individual borrowings with a singular private placement of debentures with a value of \$63.5 million. At the same time, in order to achieve flexibility and efficiencies in the current and future issuances, MH began to borrow at the holding company level, with internal lending down to the various subsidiaries.

As a result of these changes, updates are required to the Town's shareholder direction through this report.

### Discussion

The current organizational structure for Milton Hydro is outlined below:

## Discussion



In order to reflect the revised approach to borrowing, wherein the debt required by each of the subsidiaries is issued by MHHI and subsequently lent to the subsidiaries, Council approval of the recommendations contained herein is required.

### MHDI Borrowing Limit

In addition to recognizing MHHI within the borrowing authority, revisions to the limit for MHDl are also being recommended in this report. Through the 2020 Council authorization, the borrowing limit for MHDl required the satisfaction of three conditions as follows:

- 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

An overall limit of \$80 million was also established, with consideration of the limit that had been requested by the MHDl Board.

Through this update, staff are recommending that the borrowing limit for MHDl remain subject to the 3 conditions noted above, however that the prescribed dollar limit of \$80 million be removed from the Council authority. This approach will align better with the requirements of a growing regulated utility, while still ensuring that appropriate financial safeguards are in place.

As was outlined in further detail in CORS-025-20, the debt-to-capital ratio of 60% was established with consideration for the OEB's deemed capital structure for rate-setting purposes, as well as prior analysis and recommendations that were prepared for MHDl by Morrison Park Advisors. The additional conditions related to the current ratio and debt service coverage ratio also then introduce measurements related to liquidity and cash flow to ensure the financial health of MHDl and its ability to meet the resulting debt payment

## Discussion

obligations. These three conditions also align with measures that were utilized to assess the borrowing of MHDl by its previous lenders in advance of the consolidation of the various debt facilities.

### MEGS and MHSI Borrowing Limit

No change is recommended to the borrowing authorization process for MEGS. Town Council approval will continue to be required in advance of any future borrowing, in order to allow the costs, benefits and risks that are associated with each unique initiative to be assessed. Clarity has been added as well that any potential borrowing for MHSI will require a similar review and approval by Town Council.

### MHHI Borrowing Limit

The overall borrowing limit for MHHI will be the aggregate of the limits for each of the subsidiaries. MHHI will be required to lend funding to the subsidiaries in alignment with the respective authorizations that each has received through Town Council.

### Borrowing Limit - Short vs. Long Term

Clarity has been added in the Council approved thresholds as well that the limits prescribed provide for both short term and long-term borrowing needs of the subsidiaries. As such, any form of line of credit borrowing, overdraft protection or other short-term borrowing will need to adhere to the conditions outlined and/or the Council authorities required. Loan guarantees provided by any of the Milton Hydro subsidiaries will also continue to be considered when measuring the borrowing capacity that remains available.

### Delegated Authority to Issue Waivers to MHHI and MHDl

Language has been introduced to delegate authority to the Town's CAO (or alternatively the CFO / Treasurer) to issue a waiver to MHHI and MHDl in the event that any of the three financial conditions (ratios) noted above are exceeded at any point in time. MHDl and MHHI are expected to undertake measures to ensure that the limitations are adhered to, but should there be points in time where for unforeseen reasons any of the ratio thresholds is exceeded, MHHI or MHDl may need to request a waiver (for example - for the purposes of satisfying the needs of a financial institution or auditor). In order to ensure timely issuance of such a waiver, delegated authority has been requested.



# The Corporation of the Town of Milton

Report #:  
ES-044-25  
Page 5 of 10

## Discussion

It is important to note that the issuance of the waiver remains at the discretion of the CAO (or alternatively CFO / Treasurer), and the MHHI and MHDl will support the review with the information and analysis that may be requested to ensure that the non-compliance is remedied.

One example of a situation where a waiver may be needed may be in a year where the long-term debt that has been issued becomes re-payable (thereby moving to current liabilities). A waiver may be required in this scenario as the current ratio would likely fall below the target threshold. A waiver would be appropriate in this case as MHHI's re-financing strategy could alleviate the potential pressure, and the current ratio issue may just be one of timing.

## Borrowing Ratios

The following table presents the borrowing ratios for Milton Hydro as of 2024 year end.

Values as of 2024 Year End	Limit (MHDl only)	MHHI	MHDl	MEGS
Debt-to-Capital Ratio <i>Debt / (Debt + Equity)</i>	$\leq 0.6$	0.51	0.54	0.41
Current Ratio <i>Current Assets / Current Liabilities</i>	$\geq 1.1$	1.56	1.26	12.36
Interest Coverage Ratio <i>Income from Operating / Finance Costs</i>	$\geq 1.15$	2.50	2.65	(0.14)

Note: MHSI was inactive in 2024, and therefore has no figures to report. Figures presented include both long term debt as well as line of credit borrowing.

Of note are the ratios for MEGS, which highlight the value of assessing borrowing on the basis of each specific initiative for which debentures may be utilized. The current ratio for 2024 was influenced by the cash made available through a land sale, while interest coverage ratio is affected by numerous lines of business as well as administrative costs.

For MHDl, the subsidiary ended 2024 with debt outstanding (including long-term debt and line of credit borrowing) of \$65.5 million, which translated to a debt-to-capital ratio of 0.54. This amount was within the authorized limit of \$80 million. The debt-to-capacity limit of 0.6 for MHDl would have translated to a borrowing limit in 2024 of \$92.9 million (had the \$80 million limit been removed, as is recommended in this report, and subject to satisfaction of the other conditions).



# The Corporation of the Town of Milton

Report #:  
ES-044-25  
Page 6 of 10

## Discussion

Looking forward, as part of the 2025 Budget and Business Plan Milton Hydro forecasted several of the above noted ratios to the year 2029 for MHDl. Those forecasts suggest that the debt-to-capital ratio has the potential to further decline during the period (to a figure below 0.5 potentially), while the current ratio may increase to 1.5:1. The forward looking statement of comprehensive income also demonstrated that the interest coverage ratio was expected to remain above 2.0 during the forecast years.

## Next Steps

Through report ES-014-25, Council endorsed proposed amendments to the existing Shareholder Direction for MH, and directed staff to prepare an updated Shareholder Direction for Council approval. In that report, one of the proposed amendments considered was the recognition of the Holding Company's new role in the management of borrowing.

At the time of writing this report, the update to the entire Shareholder Direction is expected to be presented to Council in 2026. If the revised borrowing language included herein is approved Council, it will be incorporated into the updated Shareholder Direction. Staff from both the Town and Milton Hydro will also continue to assess the adequacy of the borrowing limits and the broader Shareholder Direction, with any potential further improvements presented to Council for consideration.



# The Corporation of the Town of Milton

Report #:  
ES-044-25  
Page 7 of 10

## 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, MHDl, MEGS and MHSI 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.

The recommendations contained within this report are largely aligned with the permissions and limitations that have been provided to MHHI and its subsidiaries since the last update in 2020. Of the recommended revisions:

- The recognition of borrowing by MHHI (for the purposes of subsequently lending to MHDl, MEGS and MHSI) is not expected to result in any change in risk to the organization, and should create efficiencies in the administration and management of future borrowing.
- Although the \$80 million prescribed threshold for MHDl is recommended to be removed, the three financial thresholds (as measured via financial ratios) are recommended to remain in order to ensure the financial viability of the regulated portion of Milton Hydro. This approach is expected to support the needs of the utility as it services a growing community.
- Clarity and efficiencies are expected in relation to the language added regarding short vs. long term borrowing and the delegated authorities pertaining to waivers.

Town Council will continue to be afforded the opportunity to consider future initiatives related to MEGS in advance of any new future borrowing, and the same opportunity has been created in relation to MHSI should that subsidiary return to an active status.

Respectfully submitted,

Glen Cowan  
Chief Financial Officer / Treasurer

For questions, please contact: Glen Cowan

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# The Corporation of the Town of Milton

Report #:  
ES-044-25  
Page 8 of 10

## Attachments

Schedule 1 - Borrowing Limits for Milton Hydro

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.



## Schedule 1 - Borrowing Limits for Milton Hydro

The borrowing capacity for Milton Hydro was originally established via section 5.2 (j) of the Shareholder direction, and has subsequently been updated by Town Council in 2002, 2009, 2012 and 2020. Subject to Town Council approval, the existing borrowing limits (as amended), are hereby replaced as outlined below.

### Borrowing Limits

For the purposes of calculating the level of borrowing (actual and projected), as well as the financial ratios that are utilized to establish the borrowing limits, the total borrowing and financing costs are to be inclusive of:

- Long term borrowing and related debt charges
- Short term borrowing and related debt charges (including lines of credit and overdraft)
- Debt Guarantees that may be issued by MHHI or its subsidiaries

### **Milton Hydro Distribution Inc. (MHDI)**

MHDI is authorized to borrow funds to support the regulated activities of the organization such that the following financial limitations ("Financial Thresholds") are adhered to:

- The debt-to-capital ratio [ debt / (debt + equity)] remains at or below 0.6
- The current ratio [ current assets / current liabilities ] remains above 1.1:1
- The debt service coverage ratio [Income from Operating / Finance Costs] remains above 1.15:1

MHDI shall assess these ratios in advance of any new borrowing to ensure that the addition of new borrowing (or provision of any guarantees) do not cause the organization to exceed the limitations outlined above.

MHDI shall also provide to the Town the calculation of the actual and projected ratios annually as part of the Budget and Business Plan process in order to demonstrate adherence to the shareholder authorized limit.

### **Milton Energy & Generation Solutions Inc. (MEGS)**

Town Council approval is required in advance of any form of borrowing for MEGS. Such approval will only be considered following the presentation to Council of the associated business case for any borrowing, including at minimum the costs, benefits and risks pertaining to the related initiative(s).



# The Corporation of the Town of Milton

Report #:  
ES-044-25  
Page 10 of 10

## **Milton Hydro Services Inc. (MHSI)**

Town Council approval is required in advance of any form of borrowing for MHSI. Such approval will only be considered following the presentation to Council of the associated business case for any borrowing, including at minimum the costs, benefits and risks pertaining to the related initiative(s).

## **Milton Hydro Holdings Inc. (MHHI)**

MHHI is authorized to borrow funds on behalf of, and for the purposes of MHDl, MEGS and MHSI. Such borrowing can be held in the name of MHHI, and subsequently lent by MHHI to each of the subsidiaries.

The borrowing limit for MHHI will total the aggregate limit for each of the subsidiaries (MHDl, MEGS, MHSI). In lending funding to the subsidiaries, MHHI is required to ensure that each subsidiary remains within the borrowing limit established by the Shareholder for that specific subsidiary.

## **Delegated Authority to Issue a Waiver from Covenants**

It is expected that in managing its overall borrowing, MHDl will take appropriate steps to ensure that the Financial Thresholds outlined above are adhered to. Should the limit for any of the Financial Thresholds be exceeded at any point in time, Town Council hereby delegates authority to the Town's CAO (or alternatively the Town's CFO / Treasurer) to issue a waiver to MHHI and MHDl if requested by those entities. The determination as to whether to issue a waiver under this delegated authority shall be at the sole discretion of the CAO (or alternatively the CFO / Treasurer). In order to support the decision, MHHI and MHDl shall support reasonable requests for information, analysis and forecasting that helps clarify why the Financial Threshold was exceeded, and how situation will be remedied.

No such waivers are expected to be required for MEGS or MHSI, as the borrowing for those subsidiaries can only occur after Council approval of the principal amounts.