Attachment 2

MONEY NOT REQUIRED IMMEDIATELY (“MNRI”)

A municipality that invests under section 418.1 of the *Municipal Act, 2001* (“**Act**”) through ONE JIB is required to transfer control and management of its money that it does not require immediately to ONE JIB so long as it determines its MNRI in accordance with the rules, conditions and procedures set out in O. Reg. 438/97 (“**Regulation**”) on the Prudent Effective Date. That date is agreed upon by the municipality and ONE Investment, as the agent of ONE JIB, pursuant to a Prudent Effective Date Agreement.

Section 418.1 of the Act only refers to money. It does not expressly address how a municipality must treat investments that it has already made and holds prior to the Prudent Effective Date. That question is addressed by the Regulation that requires a municipality to give control and management of its “investments” as well as its money to its investment board or joint investment board. “Investments” over which a municipality must give control and management to ONE JIB include securities acquired with MNRI by the municipality at the time of acquisition provided that any proceeds from the investments themselves are not required immediately on the Prudent Effective Date.

It follows from this that, subject to the comments below regarding Restricted Special Assets, money and investments of a municipality that are determined by the municipality as not required immediately constitute MNRI.

How Does Council determine its MNRI?

Money/Cash

There is no definition of MNRI in the Act or the Regulation. It is up to a municipal council to determine its MNRI. The Act does state that MNRI includes money in a reserve fund (in addition to money in a sinking and retirement fund). However, the determination of MNRI is primarily based on the time horizon within which the money is required to meet the municipality’s financial obligations. However, other factors such as the source of the money and the purpose for which monies have been collected or set aside and are to be used or any combination of those factors can be considered by a municipal council in determining its MNRI.

In determining its MNRI a municipality can:

1. determine, based on its experience, a reasonable timeframe within which the municipality will in fact need money to meet its financial obligations regardless of what fund or source it comes from (to date Participating Municipalities have been using 18 to 24 months as a benchmark);
2. determine whether the money that *is required immediately* i.e., within the 18-to-24-month timeframe, should be taken from any particular source or fund; and
3. transfer the balance of the Participating Municipality’s money to ONE JIB as MNRI.

Investments (In-Kind Securities)

A municipality may have debt and/or equity securities invested under section 418 of the Act (i.e. the Legal List) before the Prudent Effective Date that it considers to be MNRI and that it wishes to transfer to ONE JIB *in specie* through ONE Investment instead of liquidating such securities and then remitting the cash proceeds for investment in accordance with its IPS (and its Investment Plan). In the case of debt securities, as they mature the proceeds would be invested by ONE Investment in accordance with the Participating Municipality’s IPS (and its Investment Plan). In the case of equities, they would be liquidated on or before a date to be agreed upon by the

Participating Municipality and ONE JIB through ONE Investment pursuant to a Transition Plan[1]. The proceeds would be treated in the same way as debt security proceeds.

Restricted Special Assets (that are not MNRI)

Some municipalities hold securities issued by corporations incorporated under section 142 of the *Electricity Act, 1998*, often referred to as **LDCs**. During the first four years of ONE JIB's operations such securities were characterized as MNRI on the basis that transfer and control of such securities would be conveyed to ONE JIB as MNRI on the condition that ONE JIB would not sell, transfer, assign or pledge such securities and would abide by the Participating Municipality's directions in respect of such securities. This practice was based on several considerations including: (i) when ONE JIB was established this manner of dealing with LDC securities was the practice of the City of Toronto; and (ii) LDC securities constitute prescribed eligible securities for MNRI under Part 1 of the Regulation (Legal List securities-see paragraph 9 of section 2 of the Regulation).

The purpose of the prudent investment regime is to give an additional financial tool to municipalities to generate revenues by investing in any security provided that they follow the rules, conditions and procedures in the Act and the Regulation. LDC securities were not originally invested in by municipalities with their MNRI. Instead, municipalities were mandated to transfer their electricity assets to LDCs in consideration for which the transferring municipalities received LDC securities. It is apparent that municipalities did not acquire LDC securities in order to maximize the return on the investment of their money that they did not require immediately. Rather those securities were acquired for the broader purpose of retaining control of the provision of an essential service to the public.

The historical practice of the Participating Municipalities including LDC securities in their MNRI but prohibiting ONE JIB from dealing in any way with those securities resulted in an anomaly because ONE JIB, as a fiduciary who is obligated to maximize returns on MNRI, has been precluded from doing so in respect of LDC securities.

There is no practical reason why ONE JIB should purport to accept control and management of securities over which it has no actual control and management and therefore no rationale for including LDC securities in a Participating Municipality's MNRI or for transferring such securities to ONE JIB.

A similar analysis applies to Participating Municipalities including their own debentures ("**Own Debt**") in their MNRI if in the related IPSs ONE JIB is precluded from dealing with such debentures in a manner that enables ONE JIB to maximize returns on them. In such circumstances this Own Debt should not be categorized as MNRI, since logically it is not.

Contemporaneously with the introduction of the OCIO Offering, ONE JIB is re-examining its existing practices to maximize efficiencies. Eliminating LDC and Own Debt securities from the MNRI of Participating Municipalities would increase the efficiency of the OCIO Offering because ONE JIB would have no obligations such as reporting in respect of such securities. Consequently, ONE JIB has refined its views in respect of LDC and Own Debt securities. ONE JIB has concluded that LDC and Own Debt securities should not be included as MNRI by Participating Municipalities based on the reasons set out above.

[1] "Transition Plan" means a written agreement between a Participating Municipality and ONE Investment on behalf of ONE JIB that is entered into when a Participating Municipality's MNRI is transferred to the OCIO Offering, then subject to concurrence from the municipal treasurer, it is expected that In-Kind Securities will be assessed by the OCIO Offering Sub-Investment Manager and dealt with in a manner consistent with the overall management of that Participating Municipality's portfolio which may include disposition to enable the Sub-Investment Manager to include proceeds from an In-Kind Security as part of its asset management approach to pursue more attractive opportunities.

New Participating Municipalities will be advised that their councils should consider not characterizing their LDC and Own Debt securities as MNRI and the same advice will be provided to existing Participating Municipalities with LDC and Own Debt securities designated as MNRI in their IPSs at the time of their next IPS review. To the extent that Participating Municipalities wish to include LDC and Own Debt securities in their IPSs, they can be described as restricted special assets that do not constitute MNRI.