

**TOBACCO SETTLEMENT AUTHORITY**  
**Special Meeting**

**Minutes**

**December 16, 2019**

Acting Board Chair, Mr. Tim Kerr, called the special meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:03 p.m. on Monday, December 16, 2019.

The meeting was held in the Board Room of the Washington State Housing Finance Commission located on the 28th floor of 1000 Second Avenue, Seattle, Washington 98104.

Board members Ms. Marlis Petersen-Spawn and Mr. Wolfgang Opitz were present by telephone. Authority staff members present were Mr. Steve Walker, Executive Director; Mr. Paul Edwards, Deputy Director; Mr. Bob Cook, Senior Finance Director; Ms. Debra Stephenson, Senior Controller; Ms. Carol Johnson, Affiliates Manager; and Ms. Rona Monillas, Affiliates Program Assistant.

Finance team members present were Ms. Faith Pettis of Pacifica Law Group; Ms. Ms. Christine Ok of U.S. Bank. Joining via teleconference were Ms. Kym Arnone of Jefferies LLC; Mr. Fred Eoff of Public Financial Management Group; Mr. Howard Zucker and Mr. Roger Bagley of Hawkins, Delafield and Wood; and Mr. Timothy Rattigan, Mr. Michael Jang and Mr. Jigar Bhakta of Citigroup. Mr. Rusty Fallis from the Washington Attorney General’s Office and Ms. Amy Sutherland, Auditor from Moss Adams were also present.

**Introduction of  
the New  
Executive  
Director**

Mr. Kerr introduced and congratulated the new Executive Director, Steve Walker. Mr. Kerr shared a press release announcing Mr. Walker’s new role as the Executive Director for the Washington State Housing Finance Commission and the affiliate agencies, the Tobacco Settlement Authority and the Washington Higher Education Facilities Authority.

**Approval of the  
July 11, 2019  
Special Meeting  
Minutes**

Ms. Kerr asked for a motion to approve the minutes of the meeting held on July 11, 2019. Mr. Opitz made the motion and it was seconded by Ms. Petersen-Spaw. The minutes were approved unanimously, 3-0.

**Action Item:  
Consider and  
Act on  
acceptance of  
Final Audit  
Report**

Mr. Kerr introduced Ms. Amy Sutherland of Moss Adams LLP to present the Independent Auditor's Report.

Ms. Sutherland stated that the unmodified opinion of the audit showed that the financial statements for the audit report for the year ending June 30, 2019 were presented fairly and in accordance with the U.S. auditing standards.

Ms. Sutherland specified that there were no changes to the accounting policies that were applicable to the Authority. She added that management has selected and applied significant accounting policies appropriately and consistent with those of prior years.

Ms. Sutherland stated that management's estimate of tobacco settlement receivables and related revenue follows a consistent methodology. The auditors determined that these estimates are reasonable in relation to the financial statements as a whole.

Ms. Sutherland highlighted Notes 5 and 7 which show bond payable information, overall terms of the bonds, and contingencies.

Mr. Cook encouraged board members to read the notes in the report because they provide a good summary of the activities of the Authority.

Mr. Cook asked for a motion to accept the audit report. Ms. Petersen-Spaw made the motion and it was seconded by Mr. Opitz. The motion was approved unanimously, 3-0.

**Review &  
Consider  
Approval of  
Financial  
Statement**

Mr. Cook presented the unaudited, current financial statement of the Authority's General Operating Fund. Mr. Cook stated that the operating financial statements as of October 31, 2019 show assets of approximately \$159,000 with \$29,000 of liabilities, leaving a net unrestricted position of around \$130,000. Revenue shown is about \$1,200. He mentioned that there will be additional revenue this April from Tobacco Settlement Revenues (TSRs).

Mr. Cook asked for a motion to approve the unaudited financial statement. Mr. Opitz made the motion and it was seconded by Ms. Petersen-Spawn. The motion was approved unanimously, 3-0.

**Invoice for  
Services**

Mr. Cook stated that the invoices from the Housing Finance Commission for a six-month period from April 1, 2019 through September 30, 2019 totaled just over \$16 thousand. The invoice was previously approved by Board Treasurer, Ms. Petersen-Spawn.

**Tobacco  
Securitization  
Market Update**

Mr. Kerr introduced Ms. Kym Arnone of Jeffries LLC to present the Tobacco Securitization Market update.

Ms. Arnone stated that the backdrop for market technicals is favorable due to unprecedented fund flows in the municipal market. She reported that the new money that came into the market in excess of \$1.2 billion represented 49 consecutive weeks of inflows. Year to date 2019 inflows have totaled \$82 billion with over \$20 billion in high yield bond funds. Ms. Arnone concluded that we should end the year well, with in excess of \$84 billion coming into municipal bond funds.

Ms. Arnone reported that tobacco supply has been limited, consisting of two refundings totaling \$505 million for San Diego County and Inland Empire (Riverside County). Both were led by Jefferies.

Ms. Arnone stated that “vintage” tobacco bonds that were issued between 2005 and 2008 continue to trade close to par since they are currently callable. She added that “modern” tobacco traded near an all-time low yield.

Ms. Arnone reported that consumption declines have hovered between 4.5% and 5% since 2017. Altria’s 10-Q for the third quarter estimates that industry shipments have declined 5.5% through the first nine months of 2019, and estimates a 4% to 6% annual average decline through 2023.

Ms. Arnone said that Altria cancelled its merger with Philip Morris International following the FDA’s proposed ban on flavored vaping products. She added that in November the White House suggested that it may raise the legal age for buying e-cigarettes to 21 years old.

Ms. Johnson asked about a new tobacco product called Heat Sticks. Ms. Arnone said that the product is called IQOS and is manufactured by Altria. She added that Altria has sold it internationally for some time and that they have started selling it domestically in select test markets in the United States. She noted that it is in its pilot stage and not available in every market.

## **Trustee Report**

Mr. Kerr introduced Ms. Christine Ok to present the Trustee’s Report.

Ms. Ok reported that payments for interest due for both the 2013 series and 2018 series were received and paid to bond holders in December. She stated that total outstanding bonds has not changed since the last report. Series 2013 bonds were outstanding in the amount of \$108,420,000 and Series 2018 bonds were outstanding in the amount of \$43,630,000, totaling \$152,050,000 in total bonds outstanding.

Ms. Ok said that payments continue to come in from the Lehman bankruptcy. She received checks totaling \$33,523 in December.

Ms. Ok stated that the required semi-annual report was submitted to the rating agency in December. Disclosure reporting was made for the 2013 and 2018 bonds and was posted on EMMA in October. She also reported that the total reserve was maintained at \$31,997,719.44.

**Status of Non-participating Manufacturer (NPM) Adjustment Arbitration**

Mr. Kerr introduced Mr. Rusty Fallis to give a status report on the Nonparticipating Manufacturer (NPM) adjustment arbitration.

Mr. Fallis reported that the state's designated arbitrator for the 2004 NPM arbitration passed away unexpectedly prior to the panel coming to a decision. He added that one set of states has agreed to proceed with just the remaining two arbitrators while a different set, including Washington, decided to appoint a replacement arbitrator. For several months, one set of states has been looking for a replacement arbitrator to be seated while the participating manufacturers have filed a motion to disqualify the arbitrator. Mr. Fallis said that the American Arbitration Association (AAA) will decide on the motion in January. He added that if the motion to disqualify is denied, a decision from the panel may be available in the springtime. He noted if the motion is granted, it may add a few months to the process.

**Executive Director's Report**

Mr. Kerr asked Mr. Walker to give the Executive Director's report.

Mr. Walker notified the board about the donation made by the Authority to the scholarship administered by Independent Colleges of Washington (ICW) in Kim Herman's name. He added that this fund was established to honor Mr. Herman's legacy of service to the state of Washington.

Mr. Walker reported that the Authority is still waiting for the Governor's Office to appoint a replacement board member for Mr. Gavin Cooley.

Mr. Walker gave a summary of relevant articles available in the board meeting packet. He added that if there is no change in the schedule, the next

Authority board meeting will be on June 3, 2020.

**Public  
Comment**

Mr. Kerr asked if there were any comments from the public.

**Adjournment**

Mr. Kerr adjourned the meeting at 1:37 p.m.

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Ms. Carla DewBerry, Chair