

TOBACCO SETTLEMENT AUTHORITY
Special Meeting

Minutes

January 26, 2021

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:01 p.m. via videoconference and teleconference.

Board members present on the line were Mr. Tim Kerr, Mr. Wolfgang Opitz, Mr. Ken Vyhmeister, and Mr. James Krejci. Authority staff members present were Mr. Steve Walker, Executive Director; Mr. Paul Edwards, Deputy Director; Mr. Bob Cook, Senior Finance Director; Mr. Lucas Loranger, 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. Christine Ok of U.S. Bank; Mr. Rusty Fallis from the Washington Attorney General’s Office; Mr. Fred Eoff of Public Financial Management Group; Ms. Kym Arnone, Mr. William Bloom, and Ms. Kate Jovanoska of Jefferies LLC; Mr. Roger Bagley of Hawkins Delafield and Wood; and Mr. Timothy Rattigan and Mr. Michael Jang of Citigroup.

Other meeting attendees were Mr. Bob Woodard and Mr. Matt Vickery of the Washington State Housing Finance Commission; and Ms. Amy Sutherland of Moss Adams.

**Approval of the
June 23, 2020
Special Meeting
Minutes**

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on June 23, 2020. Mr. Opitz made the motion and it was seconded by Mr. Vyhmeister. The minutes were approved unanimously, 5-0.

**Consider and Act
on Staff
Recommendations
Regarding
Selection of
Investment
Banking and
Underwriting
Services**

Ms. DewBerry introduced Mr. Edwards to present the staff recommendations regarding selection of investment banking and underwriting services.

Mr. Edwards shared a memorandum explaining the process that the Authority followed. He stated that current contracts with Jefferies LLC as Book-Running Senior Manager and Citigroup Global Markets Inc. as Co-Senior Manager, expire on February 28, 2021.

Mr. Edwards gave a recap of the Request for Proposals (RFP) process. He added that an internal evaluation team thoroughly reviewed the submitted proposals and made a decision regarding the recommendations to the board.

Mr. Edwards said that staff recommended continuing to contract with Jefferies LLC as Book-Running Senior Manager and Citigroup Global Markets Inc. as Co-Senior Manager, for an initial term of 2 years with options to extend for up to 5 years. He added that the Authority has been very pleased with the service that the current senior underwriter team has provided since 2002.

Mr. Kerr made the motion and Mr. Opitz seconded the motion. The motion was approved unanimously, 5-0.

**Action Item:
Acceptance of
Final Audit
Report**

Ms. DewBerry introduced Ms. Amy Sutherland to present the summary of Audit Report to the Authority board.

Ms. Sutherland presented the overall results of the audit. She highlighted that the financial statements were presented fairly and in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Ms. Sutherland stated that management's judgments and accounting estimates were based on knowledge and experience about the past and current events, and assumptions about future events. She added that the key factors and assumptions used to develop these estimates were reasonable in relation to the financial

statements as a whole.

Ms. Sutherland encouraged board members to read the bonds payable information in Note 5 and the contingencies in Note 7.

Mr. Vyhmeister asked if the report could include only fiscal years 2020 and 2019.

Ms. Sutherland said that including 2018 in the Management Discussion and Analysis portion of the report is required under the governmental auditing standards. The 2018 results are not included in the financial statements themselves.

Mr. Vyhmeister asked why the revenue remained constant even if the shipments declined 5.5% in 2019. Mr. Cook said that inflation, estimates for the second half of the fiscal year, and projections based on the historical records were some of the reasons the revenue remained constant.

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

Ms. DewBerry asked for a motion to approve the Final Audit Report. Mr. Opitz made the motion. Mr. Kerr seconded the motion. The resolution was approved unanimously, 5-0.

Mr. Cook introduced the Authority's new Senior Controller, Mr. Lucas Loranger.

Mr. Cook presented the unaudited, current financial statement of the Authority's General Operating Fund. Mr. Cook stated that the financial statement as of November 30, 2020 shows assets of approximately \$107,000 with \$11,000 in liabilities, leaving a net unrestricted position of around \$96,000. He highlighted approximately \$41,000 in expenses to date and referred to the detailed breakdown of the expenses on the last page of the unaudited financial statement.

Mr. Cook stated that the invoices from the Housing Finance Commission covering

**Review &
Consider
Approval of
Current
Financial
Statement**

**Tobacco
Securitization
Market Update**

April to September 2020, totaling over \$25,000, have been approved by Board Treasurer, Mr. Opitz.

Ms. DewBerry asked for a motion to approve the unaudited financial statement. Mr. Krejci made the motion and it was seconded by Mr. Vyhmeister. The motion was approved unanimously, 5-0.

Ms. DewBerry introduced Ms. Kym Arnone to present the Tobacco Securitization Market update.

Ms. Arnone reported that the market started to stabilize in the summer which continued into the fall. She highlighted the record municipal bond issuance in October of \$70 billion, which was 15% of 2020 supply.

Ms. Arnone said that inflows since May have surpassed the \$50 billion of outflows in March and April. Six tobacco transactions were successfully priced: Merced County, CA (\$36 million); Sonoma County, CA (\$67 million); Michigan (\$467 million); Michigan (\$384 million); West Virginia (\$694 million); and Placer County, CA (\$60 million).

Ms. Arnone stated that Altria released Q3 2020 results on October 30th, reporting that the industry's domestic cigarette shipment volumes increased by 1% as opposed to the average 3% down per year.

Ms. Arnone reported that on June 17, the African American Tobacco Control Leadership Council filed a lawsuit requesting the court to compel the FDA to ban menthol-flavored cigarettes. She said that the FDA is scheduled to decide by April 29th. She added that such a ban would be significant to the tobacco market, as menthol cigarette sales represent 30-35% of total cigarette sales in the United States.

Mr. Vyhmeister inquired about expected U.S. consumer behavior if the FDA bans

menthol-flavored cigarettes. Ms. Arnone said that smoking non mentholated cigarettes, switching to e-cigarette products, and the opportunity for this group of people to quit smoking are some of the alternatives if the FDA banned this type of cigarette.

Ms. DewBerry inquired about the demographics of people who smoke menthol-flavored cigarettes. Ms. Arnone responded that a disproportionate number of black people smoke menthol products. She added that there are continuing discussions on whether menthol-flavored cigarettes should be banned or not.

Ms. Arnone stated that the bonds issued by the Authority are still scheduled to be paid off by 2024.

Trustee Report

Ms. DewBerry introduced Ms. Ok, the Bond Trustee from U.S. Bank National Association, 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. Series 2013 bonds were outstanding in the amount of \$80,395,000 and Series 2018 bonds were outstanding in the amount of \$43,630,000, totaling \$124,025,000 in total bonds outstanding.

Ms. Ok said that payments continue to come in from the Lehman bankruptcy. She received checks totaling \$4,731 in October.

Ms. Ok stated that the required semi-annual report was submitted to the rating agency in December. She also reported that the total reserve was maintained at \$31,997,719.44.

Mr. Vyhmeister inquired about the significance of the projected tobacco settlement revenue (TSR) compared to the actual TSR. Ms. Ok said that the projected TSR is not a requirement but for informational purposes only. Mr. Cook added that it is a reference to the amounts that were expected as of the initial bonds issue in 2002. He

further added that amounts have varied significantly from those projected in 2002.

Status of Non-participating Manufacturer (NPM) Adjustment Arbitration

Ms. DewBerry introduced Mr. Rusty Fallis from the Attorney General's Office to give the status report on the Nonparticipating Manufacturer (NPM) adjustment arbitration.

Mr. Fallis reported that the arbitration panel still has not issued a decision on the 2004 NPM adjustment arbitration even though the evidentiary hearings were concluded several months ago.

Mr. Fallis said that the parties have been negotiating a case management order for the next arbitration which cover years 2005, 2006, and 2007. He added the Authority's bonds may be paid off by the time a decision is made.

Ms. DewBerry asked if the Authority will still sunset after paying off the bonds in 2024 even though there is no final decision for the NPM adjustment arbitration. Mr. Fallis said that the Authority will still sunset and any money that is left will revert to the State.

Executive Director's Report

Mr. Walker said that the State legislative session started on January 11. He committed to keeping the board updated if anything comes up related to the Authority or its work.

Mr. Walker reported that the Authority received inquiries about the tobacco bonds and payoff dates. He said that these inquiries appeared to be connected to work on the Governor's budget. He added that the focus remains on the budget deficit, the economy, COVID-19, racial justice, and housing. Mr. Walker said that the State may be interested in the TSA's portion of the MSA income stream coming back to them after the bonds pay off in 2024.

Mr. Walker gave a summary of an article available in the meeting packet.

He added if there is no change in the schedule, the next Authority board meeting will be on June 2, 2021.

**Public
Comment**

Ms. DewBerry asked if there were any comments from the public. There were none.

Adjournment

Ms. DewBerry adjourned the meeting at 1:48 p.m.

Ms. Carla DewBerry, Chair