

TOBACCO SETTLEMENT AUTHORITY
Special Meeting

Minutes

June 28, 2021

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 11:02 a.m. via Zoom and conference call.

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. Deanna Gregory 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 of Jefferies LLC; Mr. Roger Bagley and Mr. Howard Zucker of Hawkins Delafield and Wood; and Mr. Jigar Bhakta and Mr. Michael Jang of Citigroup.

**Approval of the
Jan. 26, 2021
Special Meeting
Minutes**

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on January 26, 2021. Mr. Kerr made the motion, and it was seconded by Mr. Opitz. The minutes were approved unanimously, 5-0.

**Election of
Secretary and
Treasurer**

Ms. DewBerry introduced Mr. Walker to present the election of Board Secretary and Treasurer.

Mr. Walker stated that each year the Board elects a Secretary and a Treasurer. He noted that the past year, Mr. Kerr served as Secretary and Mr. Opitz served as Treasurer. He added that both Mr. Kerr and Mr. Opitz agreed to continue in their roles as Secretary and Treasurer if the Board chose to nominate and re-elect them.

Mr. Opitz made the motion to elect Mr. Kerr as Secretary. The motion was seconded by Mr. Krejci. The motion was approved unanimously, 5-0.

Mr. Kerr made the motion to elect Mr. Opitz as Treasurer. The motion was seconded by Mr. Vyhmeister. The motion was approved unanimously, 5-0.

**Action Item:
Approval of
the Annual
Budget**

Ms. DewBerry introduced Mr. Cook to present the proposed annual budget for the fiscal year beginning July 1, 2021 thru June 30, 2022.

Mr. Cook stated that the Authority is budgeting \$144,692 in total expenses. He said that this is a 30% increase over the current year's budget to make allowance for additional legal review and submission of extensive public records in relation to a lawsuit between all counties in Washington and JUUL Labs, Inc.

Mr. Cook said that in April 2022, the Authority is anticipating requesting \$92,000 in operating revenues from the Tobacco Settlement Revenues (TSR). He added that during the current fiscal year, the Authority recognized approximately \$89,000 in operating revenues from the TSR.

Mr. Cook provided an overview of the expense budget for the fiscal year ending June 30, 2022. He then called the Board's attention to a more detailed breakdown of the expenses.

Mr. Vyhmeister asked why the predicted salary and wage budget is twice as large as the historical actual. Mr. Cook said that the high amount provides the Authority with a buffer in case more work is required during the fiscal year.

Mr. Krejci asked if professional fees in the proposed budget include audit fees and if total professional fees budgeted is consistent with prior years. Mr. Cook said that audit fees are included and that they were increased for the upcoming fiscal year because an allowance for the the state audit is included and it occurs every-other year.

Ms. DewBerry asked for a motion to accept the budget for fiscal year 2021-2022. Mr. Opitz made the motion, and it was seconded by Mr. Vyhmeister. The budget was approved unanimously, 5-0.

**Action Item:
Review &
Consider
Approval of
Current
Financial
Statement**

Mr. Cook presented the unaudited, current financial statement of the Authority's General Operating Fund. Mr. Cook stated that the financial statement as of April 30, 2021 shows assets of approximately \$178,000 with \$14,000 in liabilities, leaving a net unrestricted position of around \$163,000. He pointed out that nearly all the \$89,000 in revenue came from the Officer's Certificate, which was submitted in April. He then 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 October 2020 through March 2021, totaling over \$19,000, have been approved by Board Treasurer, Mr. Opitz.

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

**Tobacco
Securitization
Market Update**

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

Ms. Arnone stated that investors are completely influenced by market technicals. She said that high yield and high grade bond inflows are currently massive, with weekly record inflows.

Ms. Arnone reported that the Original Participating Manufacturer (OPM) shipments were down to 0.05% to slightly over \$183 billion, while total industry shipments increased by 2.02%. She added that this is positive from a credit perspective.

Ms. Arnone reported that the Food and Drug Administration (FDA) responded to a lawsuit stating that the agency will pursue rulemaking to prohibit menthol-flavored cigarettes. The FDA has advised that the new regulation be written over the course of at least a year, after which it will be open to public comment. She added that some states have also introduced legislation to ban the sale of flavored tobacco, including menthol cigarettes.

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 annual receipts from the TSRs were received and applied to the upcoming principal and interest payments in June. She explained that because funds are only received once a year, a portion was set aside for December payments as well as the Authority's annual expenses. She added that in June the Authority was able to optionally redeem \$17,557,417 of bonds which was applied to the 2013 bonds.

Ms. Ok detailed that Series 2013 bonds were outstanding in the amount of \$48,960,000 and Series 2018 bonds were outstanding in the amount of \$43,630,000, totaling \$92,590,000 in total bonds outstanding.

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

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.

Mr. Fallis stated that arbitration for the 2005, 2006, and 2007 sales years will be next. He said that the first stage of the hearing, which is a collective group presentation of evidence, will begin in the spring of next year. The state-specific hearings will likely begin in late summer or fall of that year.

**Executive
Director's
Report**

Mr. Walker reported that JUUL Labs Inc. served the Authority with a subpoena in April. He stated that the Authority is not the subject of any legal action or lawsuit. Mr. Walker said that Pacifica Law Group, the Authority's legal counsel, is collaborating with JUUL to understand their needs and narrow their focus. He added that the Authority has been prompt in responding to their requests for information about board meetings, MSA payments, and market reports.

Mr. Walker talked about the TSA Officer's Certificate. He added that this year the Authority requested \$88,970 to be transferred to the TSA custody account.

Mr. Walker presented relevant correspondence regarding the updates on the Tobacco Securitization Market and Master Settlement Agreement (MSA) payments.

He added that if there is no change in the schedule, the next Authority board meeting will be on December 1, 2021.

**Public
Comment**

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

Adjournment

Ms. DewBerry adjourned the meeting at 11:42 a.m.

Ms. Carla DewBerry, Chair