

**TOBACCO SETTLEMENT AUTHORITY  
BOARD OF DIRECTORS  
Special Meeting**

**Minutes**

**May 15, 2018**

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 11:05 a.m. on Tuesday, May 15, 2018.

The Special Meeting was held in the Board Room of the Washington State Housing Finance Commission (the “Commission”) located on the 28th floor of 1000 Second Avenue, Seattle, Washington 98104.

Board members Ms. Carla DewBerry and Mr. Tim Kerr were present in the board room. Board members Ms. Marlis Petersen Spawn, Mr. Mike Roberts, and Mr. Gavin Cooley were present by telephone. Authority staff members present were Mr. Kim Herman, Executive Director; Mr. Paul Edwards, Deputy Director; Mr. Bob Cook, Senior Finance Director; Ms. Carol Johnson, Affiliates Manager; Ms. Debra Stephenson, Senior Controller; and Program Assistants, Ms. Rona Monillas and Mr. Mike Gary.

Finance team members present were Ms. Faith Pettis and Ms. Stacey Lewis of Pacifica Law Group; Ms. Debbie Kuykendall of U.S. Bank; and Mr. Fred Eoff of Public Financial Management Group. Joining via teleconference was Assistant Attorney General, Mr. Rusty Fallis; Ms. Kym Arnone of Jefferies LLC; Mr. Howard Zucker and Mr. Roger Bagley of Hawkins, Delafield and Wood; and Mr. Mike Leffler of Citigroup.

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on December 7, 2017. Mr. Roberts made the motion and it was seconded by Mr. Kerr. The minutes were approved unanimously, 5-0.

**Approval of the  
December 7, 2017  
Special Meeting  
Minutes**

## **Election of Secretary and Treasurer**

Ms. DewBerry introduced Mr. Herman to present the election of Board Secretary and Treasurer. Mr. Herman stated that each year, the Board elects a Secretary and a Treasurer. He noted that the past year, Mr. Roberts served as Secretary and Ms. Petersen Spawn served as Treasurer.

Ms. Petersen Spawn agreed to continue her role as Treasurer if the board chooses to nominate and re-elect her. Mr. Kerr has agreed to take the role as the next Secretary if the Board chooses to nominate and elect him.

Mr. Roberts made the motion to elect Mr. Kerr as Secretary and Ms. Petersen Spawn as Treasurer and it was seconded by Mr. Cooley. The motion was approved unanimously, 5-0.

Ms. DewBerry thanked Mr. Roberts for his invaluable contribution to the TSA Board for the last eight years as well as his continued support for the citizens of Washington State.

## **Trustee Report**

Ms. DewBerry introduced Ms. Kuykendall to present the Trustee's Report.

Ms. Kuykendall reported that the audited financials for fiscal year 2017 have been posted to EMMA. She stated that the expected tobacco settlement revenues (TSR's) that were received amounting to approximately \$35 million were used to pay interest due on June 1, 2018 and to pay serial bonds maturing on June 1, 2018 in the amount of \$13,215,000. She also mentioned that the remaining funds will be used to pay the annual expenses of the agency and to hold aside money for interest due on December 1, 2018.

Ms. Kuykendall stated that the amount of bonds paid off and the regularly scheduled redemptions for this year totaled \$12,505,000. She also stated that the new par outstanding was \$182,480,000.

**Status report on  
Nonparticipating  
Manufacturer  
(NPM)  
Adjustment  
Arbitration**

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

Mr. Fallis reported that Washington State completed its hearing on the 2004 NPM adjustment arbitration in mid-April and that they are currently in post hearing briefings. He also added that about half of the states have completed their hearings and the other half will not be having their hearings until fall, extending to April, 2019.

He also specified that announcements regarding decisions are expected to be made in late summer of 2019.

Mr. Herman asked Mr. Fallis for an estimate of how much money the State of Washington might get if the original MSA continues to be reinforced, considering that TSA bonds are only supposed to be outstanding through 2023. Mr. Fallis replied that he would check and let Mr. Herman know. Mr. Fallis added that after the 2013 NPM arbitration results for 2003, Washington received approximately \$15 million.

**Introduction of  
Finance Team  
and Presentation  
of Refunding  
Proposal**

Ms. DewBerry asked Mr. Herman to introduce the finance team and make a presentation about the proposed refunding.

Mr. Herman introduced the following finance team members: Ms. Kym Arnone, Book-Running Senior Manager with Jefferies; Mr. Fred Eoff, the Authority's Financial Advisor from PFM; Ms. Faith Pettis, Co-Bond Counsel and General Counsel to the Authority, with Pacifica Law Group; and Hawkins, Delafield and Wood represented by Mr. Howard Zucker and Mr. Roger Bagley, Co-Bond Counsel.

Mr. Herman talked about the potential refunding of approximately \$47 million of

bonds which would end up returning to the State about \$4.3 million of additional funds based upon shortening the expected maturity and paying the bonds off in 2023.

He stated that the staff is recommending that Jefferies act as the sole senior manager on this transaction since the refunding is small. He also acknowledged Citigroup for their participation as a co-senior manager on the original 2002 bond issue and on the 2013 refunding.

Mr. Herman introduced Ms. Arnone to present the Tobacco Market and Structure Update. Ms. Arnone presented her report noting that supply and demand in the tobacco market are favorable.

Ms. Arnone also reported that on April 20<sup>th</sup>, the National Association of Attorneys General (“NAAG”) reported the total payments under the MSA to all states increased to \$6.692 billion, up 8.1% from the April 2017 distribution. She also mentioned that those jurisdictions that joined the NPM Term Sheet saw their payments increased as a result of the implementation of the final NPM Agreement. She added that the decline on total cigarette shipments is due to a number of reasons.

Ms. Arnone proceeded to report on the proposed Series 2018 Refunding. The structure consists of fixed amortization, investment grade, tax-exempt serial bonds maturing 2022-2024. She stated that all the bonds will be “A” rated by S&P based on current market conditions. She added that the transaction is expected to generate \$3.7 million of present value (PV) savings, representing 7.88% of the refunded par.

Mr. Herman introduced Mr. Fred Eoff to present his review of the proposed refunding. Mr. Eoff explained how the passage of the Tax Cuts and Jobs Act of 2017 prevented the 2018 TSA refunding from being a larger transaction. He concluded that the maturities included in the proposed refunding are the only ones

that could be currently refunded. Mr. Eoff added that the trimming down of the transaction costs was beneficial.

Ms. Pettis, from Pacifica Law Group, co-bond counsel and general counsel to the Authority, described that they will be working on the refunding transaction together with Mr. Zucker and Mr. Bagley of Hawkins, Delafield and Wood (co-bond counsel). Mr. Zucker agreed with Ms. Pettis and added that the team is in great shape to execute the transaction as planned. He also mentioned that they appreciate being involved in the transaction.

**Review &  
Consider Action  
on Resolution  
18-01**

Ms. DewBerry asked for a motion to approve Resolution 18-01. Mr. Kerr made the motion and it was seconded by Mr. Roberts. The Resolution was approved unanimously, 5-0.

**Review &  
Consider  
Acceptance of  
Financial  
Statement**

Ms. DewBerry introduced Mr. Cook to present the unaudited current financial statement. Mr. Cook stated that the financial statement for the three-month period through March 31, 2018 shows assets of approximately \$161,000 with approximately \$6,000 of payables, leaving a net unrestricted position of around \$155,000. Expenses for the year to date period ending March 31, 2018 were just over \$38,000. Earned interest totaled just over \$1,500, leaving a deficit so far for the year, which was anticipated.

Ms. DewBerry asked for a motion to accept the unaudited financial statements. Ms. Petersen Spawn made the motion and it was seconded by Mr. Roberts. The motion was approved unanimously, 5-0.

**Invoice for  
Services**

Mr. Cook stated that the invoices from the Housing Finance Commission for the six-month period from October 1, 2017 through March 31, 2018 totaled \$10,575.28. The invoices were previously approved by Board Treasurer, Ms. Petersen Spawn.

**Executive  
Director's  
Report**

Ms. DewBerry introduced Mr. Herman to present the Executive Director's Report.

Mr. Herman recognized everyone on the finance team for their work on the proposed refunding. He reported that the 2018 MSA payments were distributed in April. He mentioned that there were a series of emails addressing the 2018 MSA payments in the meeting packet.

Mr. Herman gave a summary of the relevant articles available in the meeting packet.

Mr. Herman stated that the next Authority board meeting will be scheduled some time in July 2018.

**Public  
Comment**

Ms. DewBerry asked if there were any comments from the public.

**Adjournment**

Ms. DewBerry adjourned the meeting at 11:45 a.m.

---

Ms. Carla DewBerry, Chair