

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

Minutes

December 18, 2018

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 2:04 p.m. on Tuesday, December 18, 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, Mr. Tim Kerr, Ms. Marlis Petersen Spawn and Mr. Mike Roberts 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. 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. Debbie Kuykendall and Ms. Christine Ok of U.S. Bank; and Mr. Rusty Fallis, Assistant Attorney General. Joining via teleconference was Mr. Fred Eoff of Public Financial Management Group; Ms. Kym Arnone of Jefferies LLC; Mr. Howard Zucker and Mr. Roger Bagley of Hawkins, Delafield and Wood; and Mr. Mike Leffler and Mr. Michael Jang of Citigroup.

Due to her inability to be there in person, Ms. Dewberry requested that Mr. Herman chair the board meeting on her behalf.

Mr. Herman asked for a motion to approve the minutes of the meeting held on July 24, 2018. Mr. Roberts made the motion and it was seconded by Mr. Kerr. The minutes were approved unanimously, 4-0.

**Approval of the
July 24, 2018
Special Meeting
Minutes**

December 18, 2018

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

Mr. Herman introduced Mr. Cook to present the audit report.

Mr. Cook stated that the unmodified opinion of the audit showed that the financial statements for the audit report for the year ending June 30, 2018 are reasonably presented.

Mr. Cook said that the statement of net position showed that total assets were about \$55 million with liabilities of about \$193 million leaving a negative net position of \$140 million. He added that the \$140 million is the amount of revenue that the Authority is expecting to receive over time which will be used to pay off the bonds.

Mr. Cook encouraged the board members to read the notes in the report, especially Notes 1 and 2, because they provide a good description of the organization, its purpose, and the significant accounting policies.

Ms. DewBerry added that her conversation with Ms. Amy Sutherland, Senior Manager from Moss Adams, regarding the audit report was smooth and that there were no issues presented.

Mr. Cook asked for a motion to accept the audit report. Mr. Roberts made the motion and it was seconded by Ms. Petersen Spawn. The motion was approved unanimously, 4-0.

**Review &
Consider
Approval of
Financial
Statement**

Mr. Cook presented the unaudited, current financial statement on the general operating fund. Mr. Cook stated that the financial statement as of October 31, 2018 shows assets of approximately \$160,000 with \$28,000 of expenditures, leaving a net unrestricted position of around \$130,000. He added that current year-to-date revenue was around \$1,000 with expenditures of \$29,000 and a net deficit year to date of \$28,000.

Mr. Herman asked for a motion to approve the unaudited financial statement. Ms. DewBerry made the motion and it was seconded by Mr. Roberts. The motion was

approved unanimously, 4-0.

Invoice for Services

Mr. Cook stated that the invoices from the Housing Finance Commission for a six-month period from April 1, 2018 through September 31, 2018 totaled just over \$16 thousand. The invoice was previously approved by Board Treasurer, Ms. Petersen Spawn.

Tobacco Securitization Market Update

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

Ms. Arnone stated that in 2018, there were seven tobacco transactions that have been sold totaling \$7.3 billion. She added that since October, however, the tobacco market has been experiencing significant volatility along with the equity and fixed income markets.

Ms. Arnone added that bond fund flows have turned negative (14 of the last 15 weeks), with an outflow totaling an excess of \$6.4 billion. She added that over the same period, high yield funds have experienced over \$2.2 billion of outflows. Ms. Arnone stated that the last time the municipal market experienced such volatility was in November 2016 following the U.S. presidential elections.

Ms. Arnone reported that total industry shipments declined by 4.5% through the third quarter. She added that FDA Commissioner Scott Gottlieb is expected to propose banning menthol cigarettes. Menthol is a significant component of the total cigarette market, at approximately 30% of total cigarette sales in the United States.

Ms. Arnone pointed out some of the causes of the technical volatility in the tobacco market.

After hearing no questions, Mr. Herman thanked Ms. Arnone for her report.

Trustee Report

Mr. Herman introduced Ms. Kuykendall to present the Trustee's Report.

Ms. Kuykendall gave a report on the 2013 and 2018 bonds. She stated that in December 2018, payments on interest due for both 2013 and 2018 series was received. She specified that the total outstanding bonds is the same since the last report. Outstanding bonds from Series 2013 were \$182,480,000 and \$43,630,000 for series 2018, totaling \$226,110,000 in total bonds outstanding.

Ms. Kuykendall said that payments continue to come in from the Lehman bankruptcy. She mentioned that checks totaling \$123,285 came in December.

Ms. Kuykendall stated that the required semi-annual report was submitted to the rating agency. She added that disclosure reporting was made for the 2013 and 2018 bonds. She also reported that the total reserve was maintained at \$31,997,719.44.

Status of Non-participating Manufacturer (NPM) Adjustment Arbitration

Mr. Herman introduced Mr. Rusty 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 stated that the 2004 NPM adjustment arbitration is winding down. He mentioned that Missouri is the last state left to have its hearing, which is scheduled in April 2019.

Mr. Fallis reported that there were substantive motions on legal issues filed during the course of the various hearings, but the panel declined to rule on those, instead holding those until it makes its final decision. He mentioned that it is reasonable to think that the final decision will be made sometime this summer with Missouri concluding in April.

Mr. Herman asked when the 2005 arbitration will start if we get a ruling for the 2004 arbitration this summer. Mr. Fallis suspects that the states have already started gathering documents that they would need to present as part of the case, but the states can't declare a schedule for the next arbitration since that decision will come

from the panel.

Mr. Herman inquired if there will be a new set of judges next year since the current judges this year will be ending their term after they make the decision on the 2004 arbitration. Mr. Fallis said that there will be new judges next year.

**Executive
Director's
Report**

Mr. Herman thanked Mr. Roberts for his continued support for the Authority although his term ended on May 1. He added that the Governor has not yet appointed a new board member to replace him.

Mr. Herman congratulated Faith Pettis, the Authority's bond counsel, for her appointment by the Governor to the Western Washington University board of trustees. He also stated that Ms. Pettis was awarded the Senator Scott White Regional Leadership Award by the Seattle Chamber of Commerce in October. This award honors individuals who build bridges between competing interests, demonstrate a willingness to take on big problems, and move policy issues from discussion to action.

Mr. Herman presented relevant articles and correspondence regarding updates on the tobacco securitization market.

Mr. Herman stated that if there is no change in the schedule, the next Authority board meeting will be on June 5, 2019.

**Public
Comment**

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

Adjournment

Ms. DewBerry adjourned the meeting at 2:33 p.m.

Ms. Carla DewBerry, Chair