
TSA

TOBACCO SETTLEMENT AUTHORITY

Tobacco Settlement Authority

Special Meeting

July 24, 2018

TSA

TOBACCO SETTLEMENT AUTHORITY

Meeting Agenda

YOU ARE HEREBY NOTIFIED that the Tobacco Settlement Authority will hold a Special Meeting in the Authority's Offices at 1000 Second Avenue, Suite 2800, Seattle, WA 98104 in the Board Room at 1:00 p.m. Pacific Time, on Tuesday, July 24, 2018, to consider the following:

I. CALL TO ORDER: *Chair, Ms. Carla DewBerry*

II. APPROVAL OF THE MAY 15, 2018 SPECIAL MEETING MINUTES: *Chair*

1

III. ACTION ITEMS:

A. Review and consider adopting the Annual Budget for the period July 1, 2018 – June 30, 2019 – *Mr. Bob Cook*

2

B. Review and consider approval of the Financial Statement – *Mr. Bob Cook*

3

IV. INFORMATION ITEMS

A. Invoice for Services – *Mr. Bob Cook*

4

B. TSA Refunding Recap – *Mr. Kim Herman and Ms. Kym Arnone, Jefferies LLC*

C. Tobacco Securitization Market Update – *Ms. Kym Arnone, Jefferies LLC*

D. Trustee Report – *Ms. Deborah Kuykendall, U.S. Bank*

5

1. Payments Update – 2013 Bonds

2. Overview of 2018 Bonds

V. ADDITIONAL INFORMATION ITEMS

A. Executive Director's Report – *Mr. Kim Herman*

B. Authority Meeting Schedule – *Mr. Kim Herman*

1. December 5, 2018

VI. PUBLIC COMMENT : *Chair*

(May limit public comment to five minutes or less per person).

VII. EXECUTIVE SESSION

VIII. MISCELLANEOUS BUSINESS AND CORRESPONDENCE

6

IX. ADJOURNMENT

Board Members may participate in the Special Meeting by dialing in on the designated call-in number.

TAB 1

**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.

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

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.

May 15, 2018

1

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 20th, 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

TAB 2



TOBACCO SETTLEMENT AUTHORITY

Ms. Carla DewBerry
Chair
Mr. Kim Herman
Executive Director

Memorandum

To: Board Members

From: Bob Cook; Debra Stephenson

CC: Kim Herman, Paul Edwards, Carol Johnson

Date: June 18, 2018

Re: Annual Budget for the fiscal year July 1, 2018 – June 30, 2019

BACKGROUND

Tobacco Settlement Authority staff have prepared the following proposed Program Summary and operating budget for the upcoming July 1, 2018 – June 30, 2019 fiscal year ("FY19").

Total expenses are budgeted at \$16,807 (16.7%) more than the prior year, primarily due to an increase in budgeted staffing levels to .47 FTE, reflecting an allocation of a temporary administrative staff member.

In April, we requested \$19,300 in operating revenues from Tobacco Settlement Revenues (TSRs). While this amount will be recognized in the current fiscal year, the funds were requested to support the FY19 budgeted expenditures.

PROPOSED ACTION

Management recommends that the Authority Board review, consider and act on the fiscal year 2018-2019 budget.

TOBACCO SETTLEMENT AUTHORITY

Program Summary Fiscal Year 2018-2019

Problem/Need:

Faced with a \$1.5 billion shortfall in the state's general fund, the Legislature authorized, and Governor Gary Locke signed into law on April 4, 2002, legislation establishing the Tobacco Settlement Authority (the Authority). The legislation authorized the Authority to issue revenue bonds backed by part (29.2%) of the state's portion of the revenue stream from the Master Settlement Agreement between the state and the five major tobacco manufacturers. In exchange, the Authority would deposit \$450 million in bond proceeds into the state general fund.

In 2013, outstanding 2002 bonds were refunded. The refunding generated an estimated \$58.2 million of present value (PV) savings to the Authority and shortened the expected final maturity by 2 years. In June of 2018, an allowable portion of the 2013 bonds were refunded. The \$43,630,000 refunding generated estimated PV savings of \$4.95 million and shortened the maturity to an earlier date in 2023. By shortening the expected final maturity the pledged tobacco settlement revenues (TSR's) will be returned to the state sooner, giving the state access to the full TSR income stream.

Goal:

The primary goal of the program, as stated in the first paragraph above, was achieved in 2002. The TSA's primary purpose has been to monitor the feasibility of refunding and/or completing a new issue, monitor investments and payments, and periodically report on the status of the TSA's outstanding bonds, report on the tobacco securitization market, and return the 29.2% of tobacco revenues to the state as early as possible. By shortening the expected final maturity the pledged tobacco settlement revenues (TSR's) will be returned to the state sooner, giving the state access to the full TSR income stream.

Business Objectives:

1. Monitor receipt of all TSRs and payments of bond principal and interest by the Trustee and report to the board in June and December.
2. Monitor and report on the tobacco market and report to the board in June and December.
3. Coordinate with the TSA finance team to identify opportunities to refinance the outstanding bonds if a 5% savings can be met.
4. Explore and research opportunities to expand TSA's use of the Commission's Salesforce database system for agency monitoring and reporting if appropriate.

Assumptions:

1. A reasonable tobacco bond market continues to exist that will support repayment of the bonds by the expected maturity of 2023 or earlier.

TSA
Budget Summary for the fiscal year ending: June 30, 2019

FINANCIAL AND PROGRAM INFORMATION

	FYE 19 Proposed Budget	FYE 18 Projected Actual	FYE 18 Budget as Adopted
Personnel Resources [FTE's]			
Permanent	0.33	0.11	0.32
Temporary	0.14	-	0.09
Total FTE's	0.47	0.11	0.41
Program Budget			
Interest Income	2,335	2,113	25
Other Income	-	19,300	-
Total Revenue	2,335	21,413	25
Employee Expenses	76,209	22,089	60,954
Travel Expenses	1,000	340	1,100
Professional Fees	25,000	17,927	25,000
Office Expenses	15,327	10,205	13,675
Total Expenses	117,536	50,561	100,729
Total Income/(Loss)	(115,201)	(29,148)	(100,704)

TSA - Budget Report for the fiscal year ending: June 30, 2019

		Proposed Budget	Current Year, Projected Actual	Current Year Budget	Prior Year Actual
<u>Revenues</u>					
4020	Interest Earned	2,335.38	2,112.81	25.20	845.23
4051	Unrealized Gain/Loss on Invest	-	0.10	-	58.24
4900	Other Income	-	19,300.00	-	67,000.00
	Total Revenues	2,335.38	21,412.91	25.20	67,903.47
<u>Expenses</u>					
5010	Salaries & Wages	54,906.14	16,498.54	46,950.00	18,174.83
5021	Annual Leave	4,146.45	-	-	-
5031	Payroll Taxes	3,810.06	1,303.62	3,129.60	1,352.96
5032	Health Insurance	5,921.72	1,676.63	5,058.00	2,001.05
5033	Retirement	6,909.58	2,029.43	5,377.20	1,954.19
5041	Commute Trip Reduction	458.74	580.86	390.00	377.67
5043	Recognition - Employee	56.40	-	49.20	-
5120	In State Travel Expenses	1,000.00	339.82	1,100.40	500.40
5210	Accounting Fees	16,000.00	15,000.00	15,999.60	18,800.00
5220	Legal Fees	7,500.00	2,926.58	7,500.00	4,852.69
5230	Financial Advisor Fees	1,500.00	-	1,500.00	-
5410	Printing (Letterhead, etc)	600.00	405.14	600.00	398.11
5420	Supplies- Office	1,247.65	263.28	945.60	160.31
5430	Postage	150.00	119.79	150.00	45.80
5431	Delivery	400.00	144.09	225.60	189.12
5440	Equipment - Non Capitalized	70.50	-	-	-
5460	State Services	-	27.32	-	-
5498	Office Expense - Other	294.38	418.42	165.60	1,017.26
5510	Rent- Office Building	2,519.68	1,247.84	2,256.00	1,210.41
5600	Telephone	207.45	82.69	164.40	109.62
5610	Database Design & Support	940.00	-	-	-
5630	Software Maintenance & Support	1,347.72	866.34	1,916.40	1,266.70
5665	Partner Awards	300.00	-	-	-
5670	Legal Advertising	-	135.51	-	-
5810	Insurance	7,000.00	6,494.68	6,999.60	6,483.35
5840	Meeting Expense	250.00	-	252.00	-
	Total Expenses	117,536.47	50,560.58	100,729.20	58,894.47
	Revenue over (under) Expense	(115,201.09)	(29,147.67)	(100,704.00)	9,009.00

TAB 3

TOBACCO SETTLEMENT AUTHORITY


June 28, 2018


Authority Directors
Tobacco Settlement Authority
Seattle, Washington

We have compiled the UNAUDITED statement of net position of the Tobacco Settlement Authority (the "Authority"), General Operating Fund, as of May 31, 2018 and the related statement of activities and changes in net position for the month then ended in accordance with generally accepted accounting principles.

This compilation is limited to presenting, in the form of financial statements, information that is accurate to the best of our knowledge and belief. These statements have not been audited or reviewed by an independent third party.

We have elected to omit substantially all of the disclosures required by generally accepted accounting principles including the statement of changes in financial position. If the omitted disclosures were included in the financial statements, they might influence the users' conclusions about the Authority's financial position, results of operations and changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about these matters.

Prepared by: 
Shirleen Noonan
General Operations Manager

Approved by: 
Debra L. Stephenson
Senior Controller

TSA

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TOBACCO SETTLEMENT AUTHORITY
GENERAL OPERATING FUND

May 31, 2018
Unaudited

CONTENTS

(See Accountant's Compilation Report)

Accountant's Report

Financial Statements:

Statement of Net Position	3
Statement of Activities & Changes in Net Position	4
Detailed Statement of Activities	5

Tobacco Settlement Authority
Statement of Net Position
Fund: General Operating Fund
Division: All
May 31, 2018
(See Accountant's Compilation Report)

	Current Year	Prior Year	Variance Amount	%
<i>ASSETS</i>				
Cash and Cash Equivalents:	\$ 177,831	\$ 200,466	\$ (22,635)	-11%
Prepaid Expenses & Other Receivable	541	606	(65)	-11%
<i>Total Assets</i>	<u>\$ 178,372</u>	<u>\$ 201,072</u>	<u>\$ (22,700)</u>	<u>-11%</u>
<i>LIABILITIES</i>				
Accounts Payable and Other Liabilities	\$ 13,177	\$ 4,438	\$ 8,739 (1)	197%
<i>Total Liabilities</i>	<u>13,177</u>	<u>4,438</u>	<u>8,739</u>	<u>197%</u>
<i>NET POSITION</i>				
Unrestricted	165,195	196,634	(31,439)	-16%
Total Net Position	<u>165,195</u>	<u>196,634</u>	<u>(31,439)</u>	<u>-16%</u>
<i>Total Liabilities and Net Position</i>	<u>\$ 178,372</u>	<u>\$ 201,072</u>	<u>\$ (22,700)</u>	<u>-11%</u>

(1) Higher payables balance is due to the timing of payments to the Commission for interagency expenses.

Tobacco Settlement Authority
Statement of Activities and Changes in Net Position
Fund: General Operating Fund

Division: All

For The Year To Date Ending: May 31, 2018

(See Accountant's Compilation Report)

	Current Period	Current Year to Date	Prior Year to Date	Variance Amount	%
<i>Revenues:</i>					
Interest Earned	\$ 204	\$ 1,933	\$ 697	\$ 1,236 (1)	177%
Other	-	19,300	67,000	(47,700) (2)	-71%
<i>Total Unadjusted Revenues</i>	<u>204</u>	<u>21,233</u>	<u>67,697</u>	<u>(46,464)</u>	<u>-69%</u>
<i>Expenses:</i>					
Salaries, Wages, and Employee Benefits	3,453	20,213	21,269	(1,056)	-5%
Travel & Conferences	-	311	500	(189)	-38%
Professional Fees	273	17,678	22,686	(5,008) (3)	-22%
Office Expense	1,143	9,338	9,160	178	2%
<i>Total Expenses</i>	<u>4,869</u>	<u>47,540</u>	<u>53,614</u>	<u>(6,074)</u>	<u>-11%</u>
<i>Adjustments</i>					
Gains/(Loss) on Investments	14	-	58	(58)	-100%
<i>Total Adjustments</i>	<u>14</u>	<u>-</u>	<u>58</u>	<u>(58)</u>	<u>-100%</u>
(Deficit) Excess of Revenues over Expenses	<u>(4,651)</u>	<u>(26,307)</u>	<u>14,141</u>	<u>(40,448)</u>	<u>-286%</u>
<i>Net Position</i>					
Total net position, beginning of period	169,846	191,502	182,493	9,009	5%
Current Increase (Decrease) to Net Position	<u>(4,651)</u>	<u>(26,307)</u>	<u>14,141</u>	<u>(40,448)</u>	<u>-286%</u>
Total net position, end of year	<u>\$ 165,195</u>	<u>\$ 165,195</u>	<u>\$ 196,634</u>	<u>\$ (31,439)</u>	<u>-16%</u>

(1) The interest income increase is primarily due to higher interest rates in the current year on the money market account.

(2) Balances reflect the receipt of Tobacco Settlement Revenue to support budgeted operating expenditures.

(3) The decrease in professional fees is a reflection of reduced external audit fees in the current year, as well as, higher legal fees in the prior year due to disclosure counsel fees.

Tobacco Settlement Authority
Detailed Statement of Activities
Fund: General Operating Fund
Division: All

For The Year To Date Ending: May 31, 2018
(See Accountant's Compilation Report)

	Variance-YTD vs. PY Actuals		Prior YTD	YTD	YTD	Variance-YTD Budget to Actual	
	%	Amount	Actual	Actual	Budget	Amount	%
Revenues:							
Interest Revenue	177.3%	\$ 1,236	\$ 697	\$ 1,933	\$ 23	\$ 1,910	8304.3%
Other Income	-71%	(47,700)	67,000	19,300	-	19,300	NA
Total Unadjusted Revenues	-69%	(46,464)	67,697	21,233	23	21,210	92217%
Expenses:							
Salaries & Wages - Staff & Temp. Svcs	-6.7%	(1,086)	16,183	15,097	43,038	(27,941)	-64.9%
Employee Benefits - Staff	0.6%	30	5,086	5,116	12,837	(7,721)	-60.1%
Travel in state - Staff	-37.8%	(189)	500	311	1,009	(698)	-69.2%
Accounting Fees	-20.2%	(3,800)	18,800	15,000	14,666	334	2.3%
Legal Fees	-31.1%	(1,208)	3,886	2,678	6,875	(4,197)	-61.0%
Financial Advisor Fees	NA	-	-	-	1,375	(1,375)	-100.0%
Office Rent/Conf. Room Rentals	7.0%	75	1,067	1,142	2,068	(926)	-44.8%
Advertising	NA	124	-	124	-	124	NA
Deliveries	41.9%	39	93	132	207	(75)	-36.2%
Insurance	0.0%	-	5,943	5,943	6,416	(473)	-7.4%
Meeting Expense	NA	-	-	-	231	(231)	-100.0%
Software Maint. Support & Other Info Svcs	-26.4%	(285)	1,078	793	1,757	(964)	-54.9%
Postage	137.0%	63	46	110	138	(28)	-20.3%
Printing	64.9%	146	225	371	550	(179)	-32.5%
State Services	NA	25	-	25	-	25	NA
Supplies	89.8%	114	127	241	867	(626)	-72.2%
Telephone	-24.0%	(24)	100	76	151	(75)	-49.7%
Other Office Expenses	-20.5%	(99)	482	383	152	231	152.0%
Total Expenses	-11%	(6,075)	53,616	47,542	92,337	(44,795)	-49%
Adjustments							
Revenues:							
Investments Gain (Loss)	-100.0%	(58)	58	-	-	-	NA
Total Adjustments	NA	(58)	58	-	-	-	NA
(Deficit) Excess of Revenues over Expenses	-286.1%	\$ (40,448)	\$ 14,139	\$ (26,309)	\$ (92,314)	\$ 66,005	-71.5%

TAB 4

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period January 1, 2018 through March 31, 2018

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
January	\$ 1,365.18	\$ 261.16	\$ 3.33	\$ 1,629.67
February	1,316.61	173.00	5.00	1,494.61
March	2,216.32	152.16	4.18	2,372.66
<hr/>				
Total Per Category	\$ 4,898.11	\$ 586.32	\$ 12.51	\$ 5,496.94
Due to WSHFC:				<u>\$ 5,496.94</u>

Allocation of HFC's expenses is based upon percentage of TSA salary hours vs. total HFC's salary hours.
HFC's expenses include rent, maintenance, supplies, telephone, Information services & depreciation.

1. Office Expenses include rent, maintenance, supplies, telephone, postage, delivery, and travel as allocated through HFC's overhead allocation and direct vendor charges paid on behalf of TSA, etc.

2. This is HFC's allocation of overhead depreciation for the month.

Approved for Payment



Authority Board Member

TAB 5

TOBACCO SETTLEMENT BONDS

Trustee Update July 2018

Structure:

2018 Serial maturities from June 1, 2022 through 2024:

2013 Series maturities from June 1, 2019 through 2022, 2023, and 2027 and 2033

Combined: Bond Debt Service Table			
Date	Interest Due	Bond Maturities	Optional Redemptions
6/1/2018	5,329,212.50	13,215,000	12,505,000
7/2/2018	212,844.06	Partial Refunding	47,645,000
12/1/2018			
6/1/2019			
12/1/2019			
6/1/2020			
	5,542,056.56	13,215,000.00	60,150,000.00

Total Bonds Outstanding = \$226,110,000

Series 2013: \$182,480,000 and Series 2018: \$43,630,000

Date	Projected TSR Receipts (OS pg 139)	Actual TSR Receipts	Difference	Other Receipts
6/1/2018	40,834,487.00	35,253,912.55	(5,580,574)	279,726
7/1/2018		Earnings on Bd Proceeds		18,086
12/1/2018			-	
6/1/2019			-	
12/1/2019			-	
6/1/2020			-	
	40,834,487	35,253,913	(5,580,574)	297,812

Compliance:

Report to Rating Agency on Debt Service Dates: Report Submitted 6-1-18

Disclosure Reporting:

Series 2017 and 2018 Continuing Disclosure Agreements: Fall 2018

Total Reserve maintained at requirement = \$31,997,719.44

Series 2013: \$23,214,164.29 and Series 2018: \$8,783,555.15



TAB 6

June 26, 2018

Tobacco-bond refinancing to save millions for state

SEATTLE – The state of Washington will save an estimated \$5 million over the next five to six years, thanks to the refinancing of a portion of an existing bond issue by the Washington State Tobacco Settlement Authority.

With the refinancing, which closed June 20, the Tobacco Settlement Authority will be able to pay off approximately \$43.6 million in bonds sooner than anticipated—saving interest and returning tobacco-settlement revenue to the state earlier than anticipated.

“We take our stewardship of these financial tools very seriously and have watched the market for opportunities to save the state money,” said Carla M. Dewberry, chair of the TSA. “We’re very pleased to have again taken advantage of such an opportunity.”

The \$5 million savings come from refinancing and restructuring of an allowable portion of tax-exempt bonds the TSA issued in 2013, which themselves refinanced the original 2002 bonds.

The tobacco-settlement bonds originated in the late 1990s, when 46 states reached a settlement with the major tobacco companies over violations of antitrust and consumer-protection laws. Washington was awarded about \$4 billion, to be received in annual payments over time.

But due to a recession-related budget crisis, in 2002, state legislators decided to borrow against these future revenues. The Governor appointed the Tobacco Settlement Authority to issue the bonds and incur the debt. The resulting sale of bonds to investors generated \$450 million for the state general fund.

Ever since, the TSA has continued to pay off the debt using 29.2 percent of the state’s annual revenues from the tobacco settlement. A refinancing in 2013 saved the state approximately \$90 million over the life of the bonds.

The current refinancing means that the 29.2 percent currently used by the TSA to repay the debt will begin flowing directly to the state earlier than anticipated—a return of \$5.6 million.

The transaction would have been larger and generated more savings, but the 2017 Tax Cuts and Jobs Act eliminated the advance refunding of bonds in the interest of offsetting other tax cuts.

Thanks to the Tobacco Settlement Authority, the state has no obligation or liability related to the bonds. The bonds do not affect the state’s credit, credit ratings, or borrowing capacity.

For further information, visit www.tsa-wa.org or contact the TSA.

The [Tobacco Settlement Authority](http://www.tsa-wa.org) was created by state law in 2002 to issue bonds against future tobacco-settlement revenues. It is a five-member board appointed by the Governor, with administrative support provided by the staff of the Washington State Housing Finance Commission.

FAQ:

What is the Tobacco Settlement Authority?

The Tobacco Settlement Authority was created by state law in 2002 to issue bonds against future tobacco-settlement revenues. It is a five-member board appointed by the Governor, with administrative support provided by the staff of the Washington State Housing Finance Commission.

Why were the tobacco bonds issued?

To provide \$450 million for state budget relief in 2002 at the direction of the state legislature.

How much revenue was generated?

The bonds were sold for \$517 million. Most (\$450 million) was deposited into the state's general fund in 2002. The remainder covers required closing costs, a reserve account, and oversight.

What are tobacco-settlement revenues?

In the late 1990s, 46 states, including Washington, reached a Master Settlement Agreement with the major tobacco companies over violations of antitrust and consumer-protection laws. Washington state was awarded approximately \$4 billion, to be received over a period of 25 years. Payments to the state in accordance with the Master Settlement Agreement are tobacco-settlement revenues.

How do the bonds work?

Per legislation, the Tobacco Settlement Authority issued bonds that were purchased by private investors and it must repay the bonds over time, a process known as securitization. The TSA receives 29.2% of the tobacco-settlement revenues that come to the state each April and uses this portion to pay off the bonds. (The state Office of Financial Management receives the other 70.8%.)

How does this percentage compare with other states?

Most states have sold 100% of their anticipated tobacco revenues. Washington decided to issue bonds against no more than 30% of its expected tobacco revenues.

Is this debt carried by the state?

No. The state has no obligation or liability in any way related to the repayment of these bonds. The bonds can never directly affect the state's credit, its credit ratings, or its borrowing capacity.

Are the bonds all tax exempt?

Yes. The entire bond issue is tax exempt, meaning that investors do not have to pay federal income tax on interest on the bonds. Therefore, the Authority pays lower interest rates.