
TSA

TOBACCO SETTLEMENT AUTHORITY

Tobacco Settlement Authority

Special Meeting

July 11, 2019

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 Thursday, July 11, 2019, to consider the following:

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

II. APPROVAL OF THE DECEMBER 18, 2018 SPECIAL MEETING MINUTES:

Chair **1**

III. ACTION ITEMS:

A. Election of Secretary and Treasurer for one year term – *Mr. Kim Herman* **2**

B. Finance Report – *Mr. Bob Cook*

1. Review and consider adopting the Annual Budget for the period July 1, 2019 –
June 30, 2020 **3**

2. Review and consider approval of the Financial Statement **4**

IV. INFORMATION ITEMS

A. Invoice for Services – *Mr. Bob Cook* **5**

B. Tobacco Securitization Market Update – *Ms. Kym Arnone, Jefferies LLC* **6**

C. Trustee Report – *Ms. Deborah Kuykendall, U.S. Bank* **7**

D. Status of Nonparticipating Manufacturer (NPM) Adjustment Arbitration
– *Mr. Kim Herman* **8**

V. ADDITIONAL INFORMATION ITEMS

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

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

1. December 4, 2019

VI. PUBLIC COMMENT : *Chair*

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

VII. MISCELLANEOUS BUSINESS AND CORRESPONDENCE

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VIII. EXECUTIVE SESSION *(if necessary)*

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

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.

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

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.

December 18, 2018

1

**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

TAB 2



Memorandum

To: Tobacco Settlement Authority Board Members

From: Carol Johnson

RE: **Election of Secretary and Treasurer**

Date: July 3, 2019

CC: Kim Herman, Paul Edwards, Bob Cook, Debra Stephenson

BACKGROUND:

The enabling legislation that created the Tobacco Settlement Authority included a Governor-appointed Chair and a board-elected Secretary and Treasurer. The primary role of the Secretary will be to sign official documents of the Authority, and in cooperation with staff, to maintain the minutes and records of the Authority's meetings and actions. The primary role of the Treasurer will be to coordinate with staff to accurately report on the financial status of the Authority and to interact with the Authority auditor on behalf of the Board.

The Secretary and Treasurer will each serve a one-year term and as officers will be authorized to sign checks on behalf of the Authority. The elected officer positions are currently held by Mr. Tim Kerr as Secretary and Ms. Marlis Petersen Spawn as Treasurer. Both have agreed to continue to serve in their positions if re-elected.

ACTION:

The Board is required by statute to elect a Secretary and Treasurer from among its members. Both positions serve for a one-year term.

Staff recommends that both positions be filled. For these positions, a simple majority vote is required by the members in attendance.

TAB 3



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 12, 2019

Re: Annual Budget for the fiscal year July 1, 2019 – June 30, 2020

BACKGROUND

Tobacco Settlement Authority staff have prepared the following proposed Program Summary and operating budget for the upcoming July 1, 2019 – June 30, 2020 fiscal year ("FY20").

Total expenses are budgeted at \$108,308 (7.9%) less than the prior year budget, primarily due to a decrease in budgeted staffing levels to .42 FTE, as a vacant Commission position partially allocated to the Authority was eliminated for this year.

During the current fiscal year, we are recognizing \$61,121 in operating revenues from Tobacco Settlement Revenues (TSRs). This amount is intended to support FY20 operations. Similarly, in April 2020, we anticipate requesting \$70,000 in operating revenues from the TSR payment. While this amount is intended to support operations for the following fiscal year, it is properly recognized when received.

PROPOSED ACTION

Management recommends that the Authority Board review, consider and act on the July 1, 2019 – June 30, 2020 budget.

TOBACCO SETTLEMENT AUTHORITY

Program Summary Fiscal Year 2019-2020

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:

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

TSA
Budget Summary for the fiscal year ending: June 30, 2020

FINANCIAL AND PROGRAM INFORMATION

	FYE 20 Proposed Budget	FYE 19 Projected Actual	FYE 19 Budget as Adopted
Personnel Resources [FTE's]			
Permanent	0.42	0.35	0.33
Temporary		-	0.14
Total FTE's	0.42	0.35	0.47
Program Budget			
Interest Income	2,706	3,058	2,335
Other Income	70,000	61,121	-
Total Revenue	72,706	64,179	2,335
Employee Expenses	69,269	29,457	76,209
Travel Expenses	750	-	1,000
Professional Fees	23,750	16,993	25,000
Office Expenses	14,540	12,921	15,327
Total Expenses	108,308	59,370	117,536
Total Income/(Loss)	(35,602)	4,809	(115,201)

TSA - Budget Report for the fiscal year ending: June 30, 2020

		Proposed Budget	Current Year, Projected Actual	Current Year Budget	Prior Year Actual
	<u>Revenues</u>				
4020	Interest Earned	2,706	3,069	2,335	2,158
4051	Unrealized Gain/Loss on Invest	-	(11)	-	0
4900	Other Income	70,000	61,121	-	19,300
	Total Revenues	72,706	64,179	2,335	21,458
	<u>Expenses</u>				
5010	Salaries & Wages	49,619	22,117	59,053	18,571
5021	Annual Leave	4,075	-	-	-
5031	Payroll Taxes	3,507	1,673	3,810	1,460
5032	Health Insurance	5,292	2,430	5,922	1,870
5033	Retirement	6,317	2,636	6,910	2,293
5041	Commute Trip Reduction	410	601	459	582
5043	Recognition - Employee	50	-	56	-
5120	In State Travel Expenses	750	-	1,000	311
5210	Accounting Fees	19,000	15,500	16,000	15,000
5220	Legal Fees	3,750	1,493	7,500	3,093
5230	Financial Advisor Fees	1,000	-	1,500	-
5410	Printing (Letterhead, etc)	600	514	600	371
5420	Supplies- Office	1,058	1,121	1,618	333
5430	Postage	100	82	150	110
5431	Delivery	250	243	400	213
5460	State Services	-	-	-	25
5498	Office Expense - Other	841	479	294	932
5510	Rent- Office Building	2,228	1,970	2,520	1,485
5511	Facility Rent - Conference Rms	-	-	-	13
5600	Telephone	169	128	207	98
5610	Database Design & Support	840	683	940	-
5630	Software Maintenance & Support	1,802	1,199	1,348	929
5670	Legal Advertising	-	-	-	124
5810	Insurance	6,500	6,501	7,000	6,483
5840	Meeting Expense	150	-	250	-
	Total Expenses	108,308	59,370	117,536	54,294
	Revenue over (under) Expense	(35,602)	4,809	(115,201)	(32,836)

TAB 4

TOBACCO SETTLEMENT AUTHORITY

June 24, 2019

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, 2019, 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: Leora Tyau
Leora Tyau
Fiscal Analyst 4

Approved by: Shirleen Noonan
Shirleen Noonan
General Operations Manager

TOBACCO SETTLEMENT AUTHORITY
GENERAL OPERATING FUND

May 31, 2019
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, 2019
(See Accountant's Compilation Report)

	Current Year	Prior Year	Variance Amount	%
<i>ASSETS</i>				
Cash and Cash Equivalents:	\$ 179,611	\$ 177,830	\$ 1,781	1%
Prepaid Expenses & Other Receivable	541	543	(2)	0%
<i>Total Assets</i>	<u>\$ 180,152</u>	<u>\$ 178,373</u>	<u>\$ 1,779</u>	<u>1%</u>
<i>LIABILITIES</i>				
Accounts Payable and Other Liabilities	\$ 12,665	\$ 13,177	\$ (512)	-4%
<i>Total Liabilities</i>	<u>12,665</u>	<u>13,177</u>	<u>(512)</u>	<u>-4%</u>
<i>NET POSITION</i>				
Unrestricted	167,487	165,196	2,291	1%
Total Net Position	<u>167,487</u>	<u>165,196</u>	<u>2,291</u>	<u>1%</u>
<i>Total Liabilities and Net Position</i>	<u>\$ 180,152</u>	<u>\$ 178,373</u>	<u>\$ 1,779</u>	<u>1%</u>

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, 2019
(See Accountant's Compilation Report)

	Current Period	Current Year to Date	Prior Year to Date	Variance	
				Amount	%
<i>Revenues:</i>					
Interest Earned	\$ 228	\$ 2,764	\$ 1,933	\$ 831 (1)	43%
Other	61,120	61,120	19,300	41,820 (2)	217%
<i>Total Unadjusted Revenues</i>	<u>61,348</u>	<u>63,884</u>	<u>21,233</u>	<u>42,651</u>	<u>201%</u>
<i>Expenses:</i>					
Salaries, Wages, and Employee Benefits	1,959	26,750	20,213	6,537 (3)	32%
Travel & Conferences	-	126	311	(185)	-59%
Professional Fees	-	16,814	17,678	(864)	-5%
Office Expense	774	11,353	9,338	2,015 (4)	22%
<i>Total Expenses</i>	<u>2,733</u>	<u>55,043</u>	<u>47,539</u>	<u>7,504</u>	<u>16%</u>
<i>Adjustments</i>					
Gains/(Loss) on Investments	-	(20)	-	(20)	NA
<i>Total Adjustments</i>	<u>-</u>	<u>(20)</u>	<u>-</u>	<u>(20)</u>	<u>NA</u>
(Deficit) Excess of Revenues over Expenses	<u>58,615</u>	<u>8,821</u>	<u>(26,306)</u>	<u>35,127</u>	<u>-134%</u>
<i>Net Position</i>					
Total net position, beginning of period	108,872	158,666	191,502	(32,836)	-17%
Current Increase (Decrease) to Net Position	<u>58,615</u>	<u>8,821</u>	<u>(26,306)</u>	<u>35,127</u>	<u>-134%</u>
Total net position, end of year	<u>\$ 167,487</u>	<u>\$ 167,487</u>	<u>\$ 165,196</u>	<u>\$ 2,291</u>	<u>1%</u>

- (1) The interest income increase is primarily due to a higher market yield in the current period of 2.38 % compared to the same period in the prior year of 1.89%.
- (2) Other revenue balances reflect the receipt of Tobacco Settlement Revenue to support budgeted operating expenditures.
- (3) The increase in salaries and employee benefits is primarily due to the staffing of a position in the current year that was vacant in the prior fiscal year until mid-February 2018.
- (4) The increase in office expenses is primarily due to an increase in overhead expense allocation from WSHFC. The allocation is based on TSA hours worked as a percentage of WSHFC hours worked. As noted for salary expense, there was a vacant staff position in the prior fiscal year that was filled in mid-February 2018.

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

For The Year To Date Ending: May 31, 2019
(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	43.0%	\$ 831	\$ 1,933	\$ 2,764	\$ 2,141	\$ 623	29.1%
Other Income	217%	41,820	19,300	61,120	-	61,120	NA
Total Unadjusted Revenues	201%	42,651	21,233	63,884	2,141	61,743	2884%
Expenses:							
Salaries & Wages - Staff & Temp. Svcs	32.9%	4,961	15,097	20,058	54,131	(34,073)	-62.9%
Employee Benefits - Staff	30.8%	1,576	5,116	6,692	15,727	(9,035)	-57.4%
Travel in state - Staff	-59.5%	(185)	311	126	917	(791)	-86.3%
Accounting Fees	3.3%	500	15,000	15,500	15,917	(417)	-2.6%
Legal Fees	-50.9%	(1,364)	2,678	1,314	6,875	(5,561)	-80.9%
Financial Advisor Fees	NA	-	-	-	1,375	(1,375)	-100.0%
Office Rent/Conf. Room Rentals	46.8%	535	1,142	1,677	2,310	(633)	-27.4%
Advertising	-100.0%	(124)	124	-	-	-	NA
Deliveries	37.9%	50	132	182	367	(185)	-50.4%
Insurance	0.0%	-	5,943	5,943	6,417	(474)	-7.4%
Meeting Expense	NA	-	-	-	229	(229)	-100.0%
Software Maint. Support & Other Info Svcs	107.1%	849	793	1,642	2,097	(455)	-21.7%
Postage	-44.5%	(49)	110	62	138	(76)	-55.1%
Printing	3.5%	13	371	384	550	(166)	-30.2%
State Services	0.0%	-	25	25	-	25	NA
Supplies	263.5%	635	241	876	1,483	(607)	-40.9%
Telephone	43.4%	33	76	109	190	(81)	-42.6%
Other Office Expenses	18.5%	71	383	454	270	184	68.1%
Total Expenses	16%	7,501	47,542	55,044	108,993	(53,949)	-49%
Adjustments							
Revenues:							
Investments Gain (Loss)	NA	(20)	-	(20)	-	(20)	NA
Total Adjustments	NA	(20)	-	(20)	-	(20)	NA
(Deficit) Excess of Revenues over Expenses	-133.5%	\$ 35,129	\$ (26,309)	\$ 8,820	\$ (106,852)	\$ 115,672	-108.3%

TAB 5

Statement of Account

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

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
October	\$ 1,902.31	\$ 291.74	\$ 8.55	\$ 2,202.60
November	2,624.01	671.10	30.23	3,325.34
December	1,700.08	594.91	26.96	2,321.95
Total Per Category	\$ 6,226.40	\$ 1,557.75	\$ 65.74	\$ 7,849.89
Previous Balance at September 30, 2018				16,064.03
Payments & Credit Memos (through December 31, 2018)				<u>(16,064.03)</u>
Due to WSHFC:				<u>\$ 7,849.89</u>

Please make checks payable to:

Washington State Housing Finance Commission
1000 Second Avenue, Suite 2700
Seattle, Washington 98104-1046

(1) Office Expenses are expenses paid by WSHFC on behalf of TSA and allocation of certain HFC expenses based on TSA salary hours as a percentage of total HFC salary hours.

(2) Overhead is the allocation of HFC's depreciation expense based on TSA salary hours as a percentage of total HFC salary hours.

Approval for Payment



Authority Board Member

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period January 1, 2019 through March 31, 2019

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
January	\$ 2,413.01	\$ 348.38	\$ 8.67	\$ 2,770.06
February	1,828.59	380.34	10.69	2,219.62
March	2,029.43	333.64	10.46	2,373.53
Total Per Category	\$ 6,271.03	\$ 1,062.36	\$ 29.82	\$ 7,363.21
Previous Balance at December 31, 2018				7,849.89
Payments & Credit Memos (through December 31, 2018)				<u>(7,849.89)</u>
Due to WSHFC:				<u>\$ 7,363.21</u>

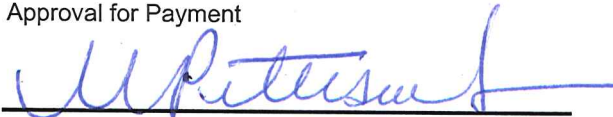
Please make checks payable to:

Washington State Housing Finance Commission
1000 Second Avenue, Suite 2700
Seattle, Washington 98104-1046

(1) Office Expenses are expenses paid by WSHFC on behalf of TSA and allocation of certain HFC expenses based on TSA salary hours as a percentage of total HFC salary hours.

(2) Overhead is the allocation of HFC's depreciation expense based on TSA salary hours as a percentage of total HFC salary hours.

Approval for Payment



Authority Board Member

TAB 6

TAB 6

Tobacco Securitization Market Update

(Will be distributed to Board Members prior to meeting)

TAB 7

TOBACCO SETTLEMENT BONDS

Trustee Update June 2019

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	2013 Series Interest Due	2018 Series Interest Due	2013 Series Maturities	2018 Series Maturities	Series 2013 Optional Redemptions
6/1/2018	5,329,212.50		13,215,000		12,505,000
7/2/2018	212,844.06				47,645,000
12/1/2018	3,450,343.75	975,615.28	-	-	-
6/1/2019	3,450,343.75	1,090,750.00	13,665,000		12,750,000
12/1/2019					
6/1/2020					
	12,442,744.06	2,066,365.28	26,880,000.00	-	72,900,000.00

Total Bonds Outstanding = \$152,050,000

Series 2013: \$108,420,000 and Series 2018: \$43,630,000

Date	Projected TSR Receipts (OS pg 32)	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			-	123,285
6/1/2019	40,778,814.00	34,319,420.34	6,459,394	12,277
12/1/2019			-	
6/1/2020			-	
	81,613,301	69,573,333	12,039,968	433,374

Compliance:

Report to Rating Agency on Debt Service Dates: Report Submitted 5-13-19

Disclosure Reporting:

Series 2013 and 2018 Continuing Disclosure Agreements: 11-20-18

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

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



TAB 8




Bob Ferguson
ATTORNEY GENERAL OF WASHINGTON

Revenue and Finance Division
PO Box 40123 • Olympia, WA 98504-0123 • (360) 753-5515

MEMORANDUM

DATE: June 12, 2019

TO: Tobacco Settlement Authority Board and Staff

FROM: Robert J. Fallis
Assistant Attorney General 

SUBJECT: **NPM Adjustment Arbitration Update**

I regret that an unavoidable schedule conflict prevents me from attending the upcoming Tobacco Settlement Authority meeting. In lieu of my usual oral report, I hope you will find useful this status report regarding the pending NPM Adjustment Arbitration under the Tobacco Master Settlement Agreement.

The last state-specific hearing for the 2004 arbitration is set for July 8, 2019, with the presentation of Missouri's final witness and likely some rebuttal participating manufacturer witnesses. The parties to all of the other cases have agreed to a 95-day post-hearing briefing schedule. Thus, it may be November before the arbitral panel issues its decision. Subsequent to the arbitral panel's rendering of its decision, there could be additional hearings relating to the allocation and reallocation of the NPM Adjustment for any states that the panel found to be non-diligent in the enforcement of those states' escrow laws. I expect the non-settling states and the participating manufacturers to commence the next arbitration proceeding despite the pendency of any allocation/reallocation hearing from the 2004 arbitration. Given the expense and delays associated with the NPM Adjustment arbitration process, the non-settling states and the participating manufacturers have begun discussions regarding the possibility of resolving in the next arbitration multiple years in dispute, although no agreement has been reached in that regard.

As always, I am happy to answer questions and provide any information that you may find helpful.

RJF

TAB 9

Bloomberg

Billions at Stake in Opioid Suits, But It's No Tobacco Windfall

By Martin Z Braun

June 19, 2019 10:30 AM PDT

An Oklahoma case, the first of more than 1,600 lawsuits filed by U.S. state and local governments against opioid makers to go to trial, could serve as a key benchmark for governments hoping to recoup costs associated with the public health crisis.

However, verdicts and legal settlements resulting from the litigation are likely to be smaller than the 1998 global settlement with tobacco companies and won't significantly affect government budgets, according to Fitch Ratings.

The tobacco settlement with 46 states compensated them with more than \$200 billion for decades of tobacco-related health-care costs, but wasn't enough to alter state and local government credit quality, according to Fitch. The opioid epidemic has taken place over a shorter time span, and hasn't resulted in as many deaths, according to Marcy Block, a Fitch analyst.

"It's severe, but it's less if you think about the amount of deaths through tobacco usage," Block said.

Ten Times

More than 47,000 Americans died from opioid overdoses in 2017, including heroin and fentanyl, a synthetic opioid, according to the National Institute on Drug Abuse. Cigarette smoking is responsible for ten times as many deaths annually, according to the Centers for Disease Control and Prevention.

Oklahoma sued Johnson & Johnson, Purdue Pharma LP and Teva Pharmaceutical Industries Ltd. in 2017, alleging the companies deceived the public by overstating the benefits of their drugs while downplaying the risk of addiction. Teva in May agreed to pay \$85 million to resolve the suit. Purdue Pharma, the maker of OxyContin, agreed in March to pay \$270 million.

Bloomberg

The opioid litigation could cost the pharmaceutical industry between \$5 billion and \$50 billion, based on the 1998 tobacco deal and costs of the abuse epidemic, according to Bloomberg Intelligence analyst Holly Froum. Oklahoma is seeking at least \$10 billion in damages and penalties for current and future outlays from Johnson & Johnson.

“The depth of evidence against the opioid manufacturers, including any potential evidence of fraudulent marketing, will be a key determinant not only of how this case is decided, but the thousands of additional cases against the industry,” wrote Rachel Barkley, a senior vice president at Loop Capital Markets earlier this month. “Additionally, the size of any settlement would likely serve as a benchmark in future cases,” she said.

Securitized Proceeds

States and local governments issued tens of billions of dollars in muni bonds backed by the tobacco settlement and some used that money to plug budget gaps. The securities are repaid with the money they receive each year from cigarette companies under the settlement. The amount of the payments is based on annual cigarette shipments. There are currently \$85 billion of tobacco bonds outstanding, including debt issued to refinance previously issued securities.

At least 42 states and more than 1,900 municipalities have sued opioid manufacturers and distributors, blaming them for creating a national public-health crisis and demanding billions of dollars in damages.

A U.S. federal judge in Cleveland is overseeing opioid litigation brought by U.S. cities and counties and has set two trials for October. The scope of the litigation could result in a global settlement that mimics the resolution to the tobacco cases in the 1990s.

The CDC estimates that the total “economic burden” of prescription opioid misuse alone in the U.S. is \$78.5 billion a year, including the costs of health care, lost productivity, addiction treatment and criminal justice involvement.

Factoring the economic value of lives lost, the White House’s Council of Economic Advisers estimated the costs of the epidemic in 2015 totaled \$504 billion.

<https://www.bloomberg.com/news/articles/2019-06-19/billions-at-stake-in-opioid-suits-but-it-s-no-tobacco-windfall>

From: Creedon, Paul T [mailto:paul.t.creedon@citi.com]

Sent: Monday, May 06, 2019 4:26 AM

Cc: *MSD US PFD Tobacco <cititobacco@citi.com>

Subject: Tobacco Securitization Market Update - Release of NAAG MSA Payment Data

All,

Last week the National Association of Attorneys General (“NAAG”) posted MSA Payment data related to cigarette shipments, market share and the potential NPM Adjustment for sales year 2018 (payment year 2019). The NAAG data indicates that total net market cigarette shipments declined approximately 4.72% in sales year 2018 to 236.7 billion cigarettes from 248.5 billion cigarettes in sales year 2017. All cigarette shipment data in this email calculates the RYO equivalent conversion rate at 0.0325 ounces per cigarette. The 2018 decline in cigarette shipments was more pronounced for the OPMs with 2018 sales year shipments as reported by MSAI of 197.1 billion sticks or a 5.94% decline from 2017 sales year shipments. OPM shipments are a significant factor in the calculation of MSA Payments.

The NAAG data release also indicates that 2018 OPM market share declined by approximately 1.1% from 84.0% in 2017 to 82.9% in 2018. Correspondingly, both SPM and NPM 2018 market share increased to 9.79% and 7.30% from 9.32% and 6.67%, respectively. NAAG reports the sales year 2018 Potential NPM Adjustment Percentage at 14.66% or 1.9% higher than sales year 2017. This is the highest Potential NPM Adjustment Percentage since sales year 2004. According to NAAG, the Total Potential NPM Adjustment for sales year 2018 (payment year 2019) is approximately \$998.2 million.

A link to the NAAG data is provided below:

https://www.naag.org/naag/about_naag/naag-center-for-tobacco-and-public-health/master-settlement-agreement/msa-payment-info.php

If you have any questions regarding this email, please contact any member of Citi's Tobacco Securitization Team."

Paul Creedon

Managing Director | Co-Head of Public Finance Department, Citi

388 Greenwich Street, 8th Floor, New York, NY, 10013

Phone: 212-723-5589 | Cell: 201-965-5468

paul.t.creedon@citi.com

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From: Jang, Michael <michael.jang@citi.com>

Sent: Tuesday, April 30, 2019 1:33 PM

To: Jang, Michael

Cc: *MSD US PFD Tobacco

Subject: Tobacco Securitization Market Update - 2019 NAAG Payment Data and Altria 1Q Results

All,

On Friday, April 19th, the National Association of Attorneys Generals (“NAAG”) released the MSA payments to the states information for 2019. The data indicates that aggregate 2019 MSA payments to the states and territories through April 19th decreased by 14.87% compared to 2018 aggregate payments with 2019’s payments totaling over \$6.09 billion. The NAAG information indicates that MSA payments to the states to date total approximately \$132.76 billion. In addition to the expected impact of generally declining cigarette shipments, one factor in the overall decrease from 2018 MSA Payments appears to be the first year of NPM Settlement Agreement credits applied to eight of the ten states that became NPM Settlement Agreement signatories in 2018. The states and territories experienced a wide range of MSA payment results depending on whether they were NPM Settlement Agreement signatories or not and the timing their joining the NPM Settlement Agreement.

NAAG has not yet provided cigarette shipment, market share or potential NPM Adjustment information. We will provide such information to you when it becomes available.

On Thursday, April 25th, Altria (Philip Morris USA’s Parent) reported in its 10-Q filing for the three months ended March 31, 2019 that its domestic cigarette shipment volume declined by an estimated 7%, when adjusted for trade inventories. PM USA estimates that total cigarette industry volume declined by an estimated 5% for the three months ended March 31, 2019, compared to the same period last year. Altria cited several causes for first quarter volume weakness primarily driven by increased gas prices.

If you have any questions regarding this email, do not hesitate to contact any member of the Citi Tobacco Team.

From: Hankins, David M (ATG) [mailto:David.Hankins@atg.wa.gov]

Sent: Thursday, April 18, 2019 1:35 PM

Subject: RE: Distribution of Funds from Citibank to Washington today

Dear MSA contacts,

I have been advised that Citibank distributed the following amount to Washington: \$117,497,743.62. The \$655.46 difference is due to earnings. Therefore, the amount distributed to Washington will be \$83,188,402.48 and the Tobacco Settlement Authority's share will be \$34,309,341.13.

If there are any questions, please let me know. Otherwise, Cam will be back in the office next week.

From: Hankins, David M (ATG) [mailto:David.Hankins@atg.wa.gov]

Sent: Tuesday, April 16, 2019 9:50 AM

Subject: RE: Independent Auditor's Summary of Expected Amounts to be Disbursed under the MSA on April 18, 2019

Dear MSA Contacts:

The independent auditor has provided a summary on the amounts that are expected to be disbursed under the Master Settlement Agreement (MSA) on April 18, 2019 to Washington. According to the summary, the independent auditor expects \$117,497,088.16 to be disbursed to Washington. If that amount is disbursed, the State's share will be \$83,187,938.39 (70.8%) and the Tobacco Settlement Authority's share will be \$34,309,149.74 (29.2%).

The amount expected to be disbursed is about \$22.3 million less than the amount calculated to be due. Almost all, or about \$22.3 million, is attributable to withheld payments by participating manufacturers claiming a non-participating manufacturer (NPM) adjustment. The withheld amount is 15.99 percent of amount calculated as due to Washington. The amount withheld is more than last year.

As always, please let me know if you have any questions.

David M. Hankins

Senior Counsel

Assistant Attorney General

Revenue Division

(360) 753-7084

(360) 664-2023 fax

e-mail David.Hankins@atg.wa.gov

"Please Save Paper Print Only When Necessary"

From: Hankins, David M (ATG) [mailto:David.Hankins@atg.wa.gov]

Sent: Thursday, April 11, 2019 10:12 AM

Subject: RE: Second Update on Independent Auditor's Summary of Expected Amounts to be Disbursed under the MSA on April 15, 2019

Dear MSA Contacts:

As I previously indicated, I would provide you updates when there was information to share. The Independent Auditor and TTB will not be able to get the revised data relating to the total market volume data for the 2019 IX(c)(1) Calculation and therefore, IA will not be revising its numbers. As I indicated in my 4-8-2019 e-mail, a preliminary analysis of the impact of the updated total market volume data indicates that the total amount due from SPMs, may need to be adjusted upwards by approximately \$90,000 to \$180,000.

Again, the independent auditor expects that it will disburse under the Master Settlement Agreement (MSA) on April 15, 2019, \$117,625,498.26 to be disbursed to Washington. If that amount is disbursed, the State's share will be \$83,278,852.76 (70.8%) and the Tobacco Settlement Authority's share will be \$34,346,645.49 (29.2%).

I will provide you further updates as I get them.

David M. Hankins

Senior Counsel

Assistant Attorney General

Revenue Division

(360) 753-7084

(360) 664-2023 fax

e-mail David.Hankins@atg.wa.gov

"Please Save Paper Print Only When Necessary"

From: Hankins, David M (ATG) [mailto:DavidH1@ATG.WA.GOV]

Sent: Monday, April 08, 2019 3:59 PM

Subject: RE: Update on Independent Auditor's Summary of Expected Amounts to be Disbursed under the MSA on April 15, 2019

Dear MSA Contacts:

Cam is out of the country and asked me to update you all on the upcoming payment. So, here is an update.

The independent auditor has provided an updated summary on the amounts that are expected to be disbursed under the Master Settlement Agreement (MSA) on April 15, 2019. According to the summary, the independent auditor now expects \$117,625,498.26 to be disbursed to Washington. If that amount is disbursed, the State's share will be \$83,278,852.76 (70.8%) and the Tobacco Settlement Authority's share will be \$34,346,645.49 (29.2%).

The amount expected to be disbursed is \$22 million less than the amount calculated to be due. Almost all, is attributable to withheld payments by participating manufacturers claiming a non-participating manufacturer (NPM) adjustment. The Independent Auditor did indicate that they would be providing a further update on April 10th as they have discovered that the Tobacco Trade Bureau total market volume data for the 2019 IX(c) (1) Calculation was overstated and as a result will be revised. The IA is working with TTB personnel to obtain revised data, and, upon receipt of the revised data, will resolve any differences in order to publish a 2019 IX(c)(1) Revised Final Calculation this week, if necessary. A preliminary analysis of the impact of the updated total market volume data indicates that the total amount due from SPMs, may need to be adjusted upwards by approximately \$90,000 to \$180,000. There is no impact to the amounts due for OPMs.

I will provide you further updates as I get them.

David M. Hankins

Senior Counsel

Assistant Attorney General

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e-mail David.Hankins@atg.wa.gov

"Please Save Paper Print Only When Necessary"

From: Comfort, Cam (ATG) [mailto:CamC1@ATG.WA.GOV]

Sent: Wednesday, March 06, 2019 4:25 PM

Subject: Independent Auditor's Initial Calculation of 2019 MSA Payment

Dear MSA Contacts:

The independent auditor has provided an initial calculation of the payments under the Master Settlement Agreement (MSA) that are due to the states on or about April 15, 2019. Based on its calculations, the independent auditor estimates that the annual payment due to Washington next month is \$139,773,217.08. For comparison purposes, last year's initial estimate was \$143,334,911.15. The initial estimate is based on 2018 data available to the independent auditor through early March 2019 and is subject to change based on additional information that is received before April 15. Of the amounts that will be paid to Washington, the State's share is 70.8 percent and the Tobacco Settlement Authority's share is 29.2 percent.

The MSA payments owed by participating manufacturers depend on a number of factors. The primary factors are:

- the annual base payment under the MSA;

- the upward inflation adjustment;

- the downward volume adjustment (in 2019, the volume adjustment will be based on the total number of cigarettes sold nationwide in 2018 compared to the total number sold in 1996); and

- a potential NPM adjustment that, if it applies, would be based on the percentage shift in sales away from participating manufacturers to non-participating manufacturers multiplied by three.

(a) ANNUAL AND STRATEGIC CONTRIBUTION BASE PAYMENTS

Between 2008 and 2017, states received annual base payments and strategic contribution payments. The annual base payment and strategic contribution base payment amounts were \$8,139,000,000,000 and \$861,000,000 respectively. Beginning in 2018, the strategic contribution base payment amount was added to the annual base payment amount resulting in an increased annual base payment amount of \$9,000,000,000. This increased amount will be the base amount for all future annual payments under the MSA. This change adversely impacted Washington's MSA payments in 2018 and subsequent years, compared to 2008-17, because Washington's share of the strategic contribution payment was 5.7647432 percent and its share of the annual payment is just 2.0532582 percent.

(b) INFLATION ADJUSTMENT

The cumulative upward inflation adjustment that will be used in calculating 2019 MSA payments will be 1.8438819 (or 84.38819 percent). During 2018, the change in “inflation” as defined under the MSA was 1.91026 percent. Since the annual inflation adjustment under the MSA is the greater of “inflation” as defined or three percent, the independent auditor is using a three percent increase to determine the cumulative inflation adjustment percentage.

(c) VOLUME ADJUSTMENT

Absent a revision, the downward volume adjustment applying in 2019 will be .5855576. That figure indicates that in 2018 the total number of cigarettes sold nationwide was 41.44424 percent of the total number sold in 1996. For comparison purposes, the volume adjustment in 2017 was .559379. This means that the decrease in the number of cigarettes sold nationwide in 2018 compared to 2017 was a little more than 2½ percentage points.

(d) NON-PARTICIPATING MANUFACTURERS’ ADJUSTMENT

Regardless of the payments that the independent auditor ultimately determines are due, you should not expect full payment to be made by every participating manufacturer in 2019. Among other reasons, the independent auditor’s initial estimate for Washington does not include any reduction for a potential non-participating manufacturers’ (NPM) adjustment. Since 2006, many participating manufacturers have withheld some owed amounts to account for a NPM adjustment or have paid such amounts into the disputed payments account. For example, in 2018, Washington’s share of the amounts withheld and placed into the disputed payments account was about 14.5 percent of the annual payment that the independent auditor calculated was owed to Washington. Most participating manufacturers are expected in 2019 to again withhold or place some amounts into the disputed payments account to account for the NPM adjustment. When we receive additional information regarding this April’s MSA payments we will share that information with you. In the meantime, please feel free to contact me if you have any questions. Also, let me know if you should be removed from my MSA Payment contact list or know of anyone who should be added.

Thanks, Cam
Cameron G. Comfort
Sr. Assistant Attorney General
Revenue and Finance Division
PO Box 40123
Olympia WA 98504-0123
(360) 664-9429

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From: Jang, Michael [mailto:michael.jang@citi.com]
Sent: Monday, February 04, 2019 9:35 AM
Cc: *MSD US PFD Tobacco <cititobacco@citi.com>
Subject: Tobacco Securitization Market Update: Altria 2018 Earnings and 2019 - 2023 Industry Volume Outlook

All,

On January 31, 2019 Altria (Philip Morris USA's Parent) held its Fourth Quarter 2018 Earnings Conference Call and reported that its 2018 domestic cigarette shipment volume declined by an estimated 5.5%, when adjusted for trade inventories. Altria estimates that total cigarette industry volume declined by 4.5% in 2018, compared to 2017. Altria cited several causes for third quarter volume weakness primarily driven by the industry's rate of decline and retail share losses.

In addition, Altria estimated that 2019 total cigarette industry volume would decline by 3.5% to 5%. For 2019 through 2023, Altria's estimate of average annual U.S. cigarette industry volume declines is 4% to 5%.

If you have any questions regarding this email, do not hesitate to contact any member of the Citi Tobacco Team.

Michael Jang

Director | Public Finance Department, Citi
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Phone: 212-723-4947 | Cell: 917-683-4778
michael.jang@citi.com

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