
TSA

TOBACCO SETTLEMENT AUTHORITY

**Tobacco Settlement
Authority**

Special Meeting

June 23, 2020

TSA

TOBACCO SETTLEMENT AUTHORITY

Meeting Agenda

YOU ARE HEREBY NOTIFIED that the Tobacco Settlement Authority will hold a **Special Meeting** at 1:00 p.m. prevailing Pacific Time, on Tuesday, June 23, 2020, to consider the items in the agenda below.

Per the Governor’s proclamation regarding the Open Public Meetings Act and Public Records Act (Proclamation 20-28) and due to extraordinary public-health circumstances related to the ongoing COVID-19 (coronavirus) outbreak, participation in this meeting will only be offered virtually.

To join virtually, please go to www.zoom.us and enter:

Meeting ID: 850 5965 5097

Password: 952482

Participants using a computer without a microphone who wish to participate verbally, please dial: 1-(888) 788-0099 U.S. toll-free

Please note that the line will be muted to the public except during the public comment portions of the meeting.

- I. **CALL TO ORDER:** *Chair, Ms. Carla DewBerry*
- II. **INTRODUCTION OF NEW BOARD MEMBERS:** *Chair* 1
- III. **APPROVAL OF THE DECEMBER 16, 2019 SPECIAL MEETING MINUTES:**
Chair..... 2
- IV. **ACTION ITEMS:**
 - A. Election of Secretary and Treasurer for one year term – *Mr. Steve Walker* 3
 - B. Review and consider action on RESOLUTION #20-01 authorizing the use and acceptance of electronic signatures – *Mr. Paul Edwards* 4

C. Finance Report – *Mr. Bob Cook*

- 1. Review and consider adopting the Annual Budget for the period July 1, 2020 – June 30, 2021 5
- 2. Review and consider approval of the current Financial Statement 6
- 3. Review and consider approval of Invoice for Services: January 1, 2020 – March 31, 2020 7

V. INFORMATION ITEMS

- A. Invoice for Services: October 1, 2019 – December 31, 2019 – *Mr. Bob Cook*..... 8
- B. Tobacco Securitization Market Update – *Ms. Kym Arnone, Jefferies LLC* 9
- C. Trustee Report – *Ms. Christine Ok, U.S. Bank* 10
- D. Status of Nonparticipating Manufacturer (NPM) Adjustment Arbitration
– *Mr. Robert J. (Rusty) Fallis, Assistant Attorney General*

VI. ADDITIONAL INFORMATION ITEMS

- A. Executive Director’s Report – *Mr. Steve Walker*
- B. Authority Meeting Schedule – *Mr. Steve Walker*
 - 1. December 2, 2020

VII. PUBLIC COMMENT : *Chair*

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

VIII. MISCELLANEOUS BUSINESS AND CORRESPONDENCE 11

IX. EXECUTIVE SESSION *(if necessary)*

X. ADJOURNMENT

TAB 1

TOBACCO SETTLEMENT AUTHORITY

New Board Member: Ken Vyhmeister



Ken Vyhmeister was born in Chile in 1963, the son of two medical professionals, a heart surgeon and neonatologist. He immigrated to the United States at the age of 16 and graduated in 1984 from Loma Linda University with bachelor's degrees in accounting and management.

Ken worked at Price Waterhouse as an auditor for five years and as a tax manager at Ernst & Young for two years. He further specialized in Family Office accounting, obtained a master's degree in taxation and worked 13 years as corporate controller for the holding companies of two billionaire families in Newport Beach, California until 2005

when he moved to Walla Walla, Washington.

He is currently Associate VP for Financial Administration for Walla Walla University, where he has worked for 15 years. Ken's wife Carmen is a family practice physician. They have four adult children and one high school senior. Ken's hobbies include playing racquetball and the piano.

TOBACCO SETTLEMENT AUTHORITY

New Board Member: James Krejci

James Krejci is a seasoned Commercial Banking professional with First Interstate Bank in Spokane, WA. Krejci's particular area of expertise is in Commercial & Industrial Banking for Manufacturers, Wholesalers, and Non-profit Organizations such as Private Universities and Hospitals.



Before beginning his career in Commercial Banking, Krejci attained a bachelor's degree in Business Finance from the University of Idaho. After beginning his career in 2011 with Sterling Savings Bank and spending several years in underwriting, operations, and corporate finance, he moved into his current role as a Commercial Banker. In 2017, he was selected to attend the Pacific Coast Banking School – a doctorate-level Banking & Leadership program facilitated through the University of Washington – where he graduated with honors in 2019 and his thesis paper was chosen to be published in the school's Library.

Outside of his professional career and passion for leadership, James can be found working on his hobby of podcasting, serving the community through various Board and Committee roles, and enjoying the beauties of the Pacific Northwest with his wife and four children.

TAB 2

TOBACCO SETTLEMENT AUTHORITY
Special Meeting

Minutes

December 16, 2019

Acting Board Chair, Mr. Tim Kerr, called the special meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:03 p.m. on Monday, December 16, 2019.

The meeting was held in the Board Room of the Washington State Housing Finance Commission located on the 28th floor of 1000 Second Avenue, Seattle, Washington 98104.

Board members Ms. Marlis Petersen-Spawn and Mr. Wolfgang Opitz were present by telephone. Authority staff members present were Mr. Steve Walker, 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. Ms. Christine Ok of U.S. Bank. Joining via teleconference were Ms. Kym Arnone of Jefferies LLC; Mr. Fred Eoff of Public Financial Management Group; Mr. Howard Zucker and Mr. Roger Bagley of Hawkins, Delafield and Wood; and Mr. Timothy Rattigan, Mr. Michael Jang and Mr. Jigar Bhakta of Citigroup. Mr. Rusty Fallis from the Washington Attorney General’s Office and Ms. Amy Sutherland, Auditor from Moss Adams were also present.

**Introduction of
the New
Executive
Director**

Mr. Kerr introduced and congratulated the new Executive Director, Steve Walker. Mr. Kerr shared a press release announcing Mr. Walker’s new role as the Executive Director for the Washington State Housing Finance Commission and the affiliate agencies, the Tobacco Settlement Authority and the Washington Higher Education Facilities Authority.

**Approval of the
July 11, 2019
Special Meeting
Minutes**

Ms. Kerr asked for a motion to approve the minutes of the meeting held on July 11, 2019. Mr. Opitz made the motion and it was seconded by Ms. Petersen-Spawm. The minutes were approved unanimously, 3-0.

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

Mr. Kerr introduced Ms. Amy Sutherland of Moss Adams LLP to present the Independent Auditor's Report.

Ms. Sutherland stated that the unmodified opinion of the audit showed that the financial statements for the audit report for the year ending June 30, 2019 were presented fairly and in accordance with the U.S. auditing standards.

Ms. Sutherland specified that there were no changes to the accounting policies that were applicable to the Authority. She added that management has selected and applied significant accounting policies appropriately and consistent with those of prior years.

Ms. Sutherland stated that management's estimate of tobacco settlement receivables and related revenue follows a consistent methodology. The auditors determined that these estimates are reasonable in relation to the financial statements as a whole.

Ms. Sutherland highlighted Notes 5 and 7 which show bond payable information, overall terms of the bonds, and contingencies.

Mr. Cook encouraged board members to read the notes in the report because they provide a good summary of the activities of the Authority.

Mr. Cook asked for a motion to accept the audit report. Ms. Petersen-Spawm made the motion and it was seconded by Mr. Opitz. The motion was approved unanimously, 3-0.

**Review &
Consider
Approval of
Financial
Statement**

Mr. Cook presented the unaudited, current financial statement of the Authority's General Operating Fund. Mr. Cook stated that the operating financial statements as of October 31, 2019 show assets of approximately \$159,000 with \$29,000 of liabilities, leaving a net unrestricted position of around \$130,000. Revenue shown is about \$1,200. He mentioned that there will be additional revenue this April from Tobacco Settlement Revenues (TSRs).

Mr. Cook asked for a motion to approve the unaudited financial statement. Mr. Opitz made the motion and it was seconded by Ms. Petersen-Spawn. The motion was approved unanimously, 3-0.

**Invoice for
Services**

Mr. Cook stated that the invoices from the Housing Finance Commission for a six-month period from April 1, 2019 through September 30, 2019 totaled just over \$16 thousand. The invoice was previously approved by Board Treasurer, Ms. Petersen-Spawn.

**Tobacco
Securitization
Market Update**

Mr. Kerr introduced Ms. Kym Arnone of Jeffries LLC to present the Tobacco Securitization Market update.

Ms. Arnone stated that the backdrop for market technicals is favorable due to unprecedented fund flows in the municipal market. She reported that the new money that came into the market in excess of \$1.2 billion represented 49 consecutive weeks of inflows. Year to date 2019 inflows have totaled \$82 billion with over \$20 billion in high yield bond funds. Ms. Arnone concluded that we should end the year well, with in excess of \$84 billion coming into municipal bond funds.

Ms. Arnone reported that tobacco supply has been limited, consisting of two refundings totaling \$505 million for San Diego County and Inland Empire (Riverside County). Both were led by Jefferies.

Ms. Arnone stated that “vintage” tobacco bonds that were issued between 2005 and 2008 continue to trade close to par since they are currently callable. She added that “modern” tobacco traded near an all-time low yield.

Ms. Arnone reported that consumption declines have hovered between 4.5% and 5% since 2017. Altria’s 10-Q for the third quarter estimates that industry shipments have declined 5.5% through the first nine months of 2019, and estimates a 4% to 6% annual average decline through 2023.

Ms. Arnone said that Altria cancelled its merger with Philip Morris International following the FDA’s proposed ban on flavored vaping products. She added that in November the White House suggested that it may raise the legal age for buying e-cigarettes to 21 years old.

Ms. Johnson asked about a new tobacco product called Heat Sticks. Ms. Arnone said that the product is called IQOS and is manufactured by Altria. She added that Altria has sold it internationally for some time and that they have started selling it domestically in select test markets in the United States. She noted that it is in its pilot stage and not available in every market.

Trustee Report

Mr. Kerr introduced Ms. Christine Ok to present the Trustee’s Report.

Ms. Ok reported that payments for interest due for both the 2013 series and 2018 series were received and paid to bond holders in December. She stated that total outstanding bonds has not changed since the last report. Series 2013 bonds were outstanding in the amount of \$108,420,000 and Series 2018 bonds were outstanding in the amount of \$43,630,000, totaling \$152,050,000 in total bonds outstanding.

Ms. Ok said that payments continue to come in from the Lehman bankruptcy. She received checks totaling \$33,523 in December.

Ms. Ok stated that the required semi-annual report was submitted to the rating agency in December. Disclosure reporting was made for the 2013 and 2018 bonds and was posted on EMMA in October. She also reported that the total reserve was maintained at \$31,997,719.44.

Status of Non-participating Manufacturer (NPM) Adjustment Arbitration

Mr. Kerr introduced Mr. Rusty Fallis to give a status report on the Nonparticipating Manufacturer (NPM) adjustment arbitration.

Mr. Fallis reported that the state's designated arbitrator for the 2004 NPM arbitration passed away unexpectedly prior to the panel coming to a decision. He added that one set of states has agreed to proceed with just the remaining two arbitrators while a different set, including Washington, decided to appoint a replacement arbitrator. For several months, one set of states has been looking for a replacement arbitrator to be seated while the participating manufacturers have filed a motion to disqualify the arbitrator. Mr. Fallis said that the American Arbitration Association (AAA) will decide on the motion in January. He added that if the motion to disqualify is denied, a decision from the panel may be available in the springtime. He noted if the motion is granted, it may add a few months to the process.

Executive Director's Report

Mr. Kerr asked Mr. Walker to give the Executive Director's report.

Mr. Walker notified the board about the donation made by the Authority to the scholarship administered by Independent Colleges of Washington (ICW) in Kim Herman's name. He added that this fund was established to honor Mr. Herman's legacy of service to the state of Washington.

Mr. Walker reported that the Authority is still waiting for the Governor's Office to appoint a replacement board member for Mr. Gavin Cooley.

Mr. Walker gave a summary of relevant articles available in the board meeting packet. He added that if there is no change in the schedule, the next

Authority board meeting will be on June 3, 2020.

**Public
Comment**

Mr. Kerr asked if there were any comments from the public.

Adjournment

Mr. Kerr adjourned the meeting at 1:37 p.m.

Ms. Carla DewBerry, Chair

TAB 3



Memorandum

To: Tobacco Settlement Authority Board Members

From: Carol Johnson

RE: **Election of Secretary and Treasurer**

Date: June 23, 2020

CC: Steve Walker, 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 each serve a one-year term and as officers will be authorized to sign checks on behalf of the Authority. The position of Secretary is currently held by Mr. Tim Kerr. Ms. Marlis Petersen Spawn served as Treasurer until the end of her term on May 7. Currently the Authority has no appointed Treasurer.

Mr. Kerr has agreed to continue to serve as Secretary if he is re-elected. Mr. Wolfgang Opitz has agreed to serve as Treasurer if he is 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 4

TOBACCO SETTLEMENT AUTHORITY

MEMORANDUM

To: TSA Board
From: Paul Edwards
CC: Steve Walker
Date: June 23, 2020
Subject: Use and Acceptance of Electronic Signatures

Resolution #20-01 is a resolution of the Tobacco Settlement Authority (Authority) authorizing the use and acceptance of electronic signatures in accordance with RCW 19.360.020 and its successor statute, ESSB 6028, and further authorizing the development of procedures for implementation of the electronic signature policy.

On February 29, 2020, Washington State Governor Jay Inslee declared a state of emergency in all counties of Washington state under Chapters 38.08, 38.52 and 43.06 RCW and subsequently on March 23, 2020 issued an order requiring remote work in response to the novel coronavirus (COVID-19).

To ensure the continued operation of its core business functions during a period of mandated or encouraged remote work, the Authority intends to authorize the immediate use of electronic signatures.

Further, to provide for a consistent ongoing process for electronic signatures, the Authority intends to authorize an electronic signature policy and the development of implementing procedures.

TSA staff is recommending approval of this resolution.

Thank you for your consideration.

TOBACCO SETTLEMENT AUTHORITY

RESOLUTION NO. 20-01

A RESOLUTION of the Tobacco Settlement Authority authorizing the use and acceptance of electronic signatures in accordance with ESSB 6028 (Chapter 57, Laws of 2020) and further authorizing the development of procedures for implementation of the electronic signature policy.

APPROVED ON JUNE 23, 2020

PREPARED BY:

PACIFICA LAW GROUP LLP

1191 Second Avenue, Suite 2000
Seattle, Washington 98101

RESOLUTION NO. 20-01

A RESOLUTION of the Tobacco Settlement Authority authorizing the use and acceptance of electronic signatures in accordance with ESSB 6028 (Chapter 57, Laws of 2020) and further authorizing the development of procedures for implementation of the electronic signature policy.

WHEREAS, the Tobacco Settlement Authority, a public body corporate and politic of the State of Washington (the “Authority”), has been duly constituted pursuant to Laws of 2002, Chapter 365 of the State of Washington, as amended and as codified at Chap. 43.340 RCW (the “Act”); and

WHEREAS, ESSB 6028 (Chapter 57, Laws of 2020), known as the “Uniform Electronic Transactions Act”, which took effect on June 11, 2020, provides that a government agency may determine whether and the extent to which it will send, accept and rely on electronic signatures; and

WHEREAS, to provide for a consistent ongoing process for electronic signatures, the Authority intends to authorize an electronic signature policy and the development of implementing procedures;

NOW, THEREFORE, BE IT RESOLVED by the Tobacco Settlement Authority as follows:

Section 1. Electronic Signatures. To facilitate the operations of its core business functions, the Authority hereby authorizes the immediate use of electronic signatures by the Executive Director and his designee.

Section 2. Electronic Signature Policy. To further provide for consistency in processes, the Authority hereby authorizes the following electronic signature policy.

“Electronic signature” means an electronic sound, symbol, or process attached to or logically associated with a record and executed or adopted by a person with the intent to sign the record.

The Executive Director of the Authority may authorize one or more methods of electronic signature for specific types of agreements, transactions and general documents. No Authority staff member is authorized to accept an electronic signature or use an electronic signature unless or until the category of agreement, transaction or general document has been approved.

The manner, format, and criteria for use by a third party, of electronic signatures approved by the Executive Director will be determined on the basis of risk and set forth in procedures. Considerations of risks may include the typical value of the transaction, the likelihood and potential impact of deception and any other factors deemed relevant. Requests for consideration of electronic signatures for a specific type of agreement, transaction or general document should be directed to the Executive Director or his designee.

The Manager of Information Technology (or a party contracted for such role) is responsible for ensuring appropriate technology and processes are in place to ensure preservation, disposition, integrity, security, confidentiality and auditability of electronic signatures.

Section 3. Electronic Signature Procedures. The Executive Director will work with counsel to the Authority (1) to review proposed document types eligible for electronic signatures and (2) to develop implementing procedures for the use of electronic signatures. Notwithstanding the direction to create implementing procedures, the Executive Director or his designee, in his discretion, is authorized as set forth in Section 1 hereof to use an electronic signature prior to the establishment of procedures.

Section 4. Effective Date. This resolution shall become effective immediately upon its passage and execution by a majority of the members of the Authority at a duly constituted meeting.

ADOPTED at a special meeting duly noticed and called this 23rd day of June, 2020.

TOBACCO SETTLEMENT AUTHORITY

By _____
Chair

ATTEST:

Secretary

APPROVED AS TO FORM:

General Counsel

TAB 5



TOBACCO SETTLEMENT AUTHORITY

Ms. Carla DewBerry
Chair
Mr. Steve Walker
Executive Director

Memorandum

To: Board Members
From: Bob Cook; Debra Stephenson
CC: Steve Walker, Paul Edwards, Carol Johnson
Date: June 11, 2020

Re: Annual Budget for the fiscal year July 1, 2020 – June 30, 2021

BACKGROUND

Tobacco Settlement Authority staff have prepared the following proposed Program Summary and operating budget for the upcoming July 1, 2020 – June 30, 2021 fiscal year (“FY21”).

Total expenses are budgeted at \$111,399, 2.9% higher than the prior year budget, primarily due to an increase in auditing fees for the periodic state audit.

During the current fiscal year, we recognized \$40,145 in operating revenues from Tobacco Settlement Revenues (TSRs). This amount is intended to support FY21 operations. Similarly, in April 2021, we anticipate requesting \$50,000 in operating revenues from the TSR payment. While it is intended to support operations for the following fiscal year, the TSR payment will properly be recognized as revenue when received.

PROPOSED ACTION

Management recommends that the Authority Board review, consider, and act on the July 1, 2020 – June 30, 2021 budget.

TOBACCO SETTLEMENT AUTHORITY

Program Summary Fiscal Year 2020-2021

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 (TSRs) 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 (TSRs) 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. Evaluate the impacts resulting from the COVID-19 pandemic on TSA processes and implement regulatory requirements or other changes as necessary.
5. Identify, communicate and support enhancements of the current program as well as the development of new tools to mitigate the impact of the COVID-19 pandemic.

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, 2021

FINANCIAL AND PROGRAM INFORMATION

	FYE 21 Proposed Budget	FYE 20 Projected Actual	FYE 20 Budget as Adopted
Personnel Resources [FTE's]			
Permanent	0.41	0.16	0.42
Temporary		-	-
Total FTE's	0.41	0.16	0.42
Program Budget			
Interest Income	1,661	2,437	2,706
Other Income	50,000	40,145	70,000
Total Revenue	51,661	42,582	72,706
Employee Expenses	70,104	30,072	69,269
Travel Expenses	500	69	750
Professional Fees	25,500	20,892	23,750
Office Expenses	15,295	10,885	14,539
Total Expenses	111,399	61,918	108,308
Total Income/(Loss)	(59,738)	(19,336)	(35,602)

TSA - Budget Report for the fiscal year ending: June 30, 2021

	Proposed Budget	Current Year, Projected Actual	Current Year Budget	Prior Year Actual	
<u>Revenues</u>					
4020	Interest Earned	1,661	2,367	2,706	3,086
4051	Unrealized Gain/Loss on Invest	-	71	-	(4)
4900	Other Income	50,000	40,145	70,000	61,120
	Total Revenues	51,661	42,582	72,706	64,202
<u>Expenses</u>					
5010	Salaries & Wages	50,118	22,473	53,693	21,923
5021	Annual Leave	4,215	-	-	-
5031	Payroll Taxes	3,532	1,714	3,507	1,692
5032	Health Insurance	5,313	2,284	5,292	2,445
5033	Retirement	6,477	2,762	6,317	2,675
5041	Commute Trip Reduction	400	600	410	600
5043	Recognition - Employee	49	238	50	-
5120	In State Travel Expenses	500	69	750	126
5210	Accounting Fees	21,000	18,838	19,000	15,500
5220	Legal Fees	3,500	2,054	3,750	1,314
5230	Financial Advisor Fees	1,000	-	1,000	-
5410	Printing (Letterhead, etc)	700	540	600	384
5420	Supplies- Office	1,429	512	1,058	773
5430	Postage	150	79	100	84
5431	Delivery	500	299	250	182
5460	State Services	-	30	-	25
5498	Office Expense - Other	895	549	841	498
5510	Rent- Office Building	2,196	960	2,228	1,638
5600	Telephone	211	66	169	117
5610	Database Design & Support	-	614	840	730
5620	Information Services	27	-	-	-
5630	Software Maintenance & Support	2,337	690	1,802	1,046
5810	Insurance	6,600	6,548	6,500	6,483
5840	Meeting Expense	250	-	150	-
	Total Expenses	111,399	61,918	108,308	58,234
	Revenue over (under) Expense	(59,738)	(19,336)	(35,602)	5,969

TAB 6

TOBACCO SETTLEMENT AUTHORITY

June 5, 2020

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 [April 30, 2020](#), 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

April 30, 2020
Unaudited

CONTENTS

(See Accountant's Compilation Report)

Accountant's Report

Financial Statements:

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Tobacco Settlement Authority
Statement of Net Position
Fund: General Operating Fund
Division: All
April 30, 2020
(See Accountant's Compilation Report)

	Current Year	Prior Year	Variance Amount	%
<i>ASSETS</i>				
Cash and Cash Equivalents:	\$ 172,403	\$ 118,501	\$ 53,902	45%
Prepaid Expenses & Other Receivable	1,092	1,081	11	1%
<i>Total Assets</i>	\$ 173,495	\$ 119,582	\$ 53,913	45%
<i>LIABILITIES</i>				
Accounts Payable and Other Liabilities	\$ 21,136	\$ 10,711	\$ 10,425 (1)	97%
<i>Total Liabilities</i>	21,136	10,711	10,425	97%
<i>NET POSITION</i>				
Unrestricted	152,359	108,871	43,488	40%
Total Net Position	152,359	108,871	43,488	40%
<i>Total Liabilities and Net Position</i>	\$ 173,495	\$ 119,582	\$ 53,913	45%

(1) The increase in accounts payables is due to timing of interagency (IA) charges. In April of the prior year, outstanding payables included January - April 2019 IA charges. In the current year, outstanding payables include IA charges for the months of October 2019 - April 2020.

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

Division: All

For The Year To Date Ending: April 30, 2020

(See Accountant's Compilation Report)

	Current Period	Current Year to Date	Prior Year to Date	Variance Amount	%
<i>Revenues:</i>					
Interest Earned	\$ 111	\$ 2,238	\$ 2,535	\$ (297)	(1) -12%
Other	40,145	40,145	-	40,145	(2) NA
Total Unadjusted Revenues	40,256	42,383	2,535	39,848	1572%
<i>Expenses:</i>					
Salaries, Wages, and Employee Benefits	3,172	25,047	24,791	256	1%
Travel & Conferences	-	57	126	(69)	-55%
Professional Fees	2,852	20,548	16,814	3,734	(3) 22%
Office Expense	790	9,066	10,580	(1,514)	(4) -14%
Total Expenses	6,814	54,718	52,310	2,408	5%
<i>Adjustments</i>					
Gains/(Loss) on Investments	100	59	(20)	79	-395%
Total Adjustments	100	59	(20)	79	-395%
(Deficit) Excess of Revenues over Expenses	33,542	(12,276)	(49,795)	37,519	-75%
Net Position					
Total net position, beginning of period	118,817	164,635	158,666	5,969	4%
Current Increase (Decrease) to Net Position	33,542	(12,276)	(49,795)	37,519	-75%
Total net position, end of year	\$ 152,359	\$ 152,359	\$ 108,871	\$ 43,488	40%

- (1) The decrease in interest income is primarily due to a lower market yield in the current period of .43% compared to the same period in the prior year of 2.44%.
- (2) Other income reflects the receipt of Officer's Certificate funds in April 2020. In the prior year, \$60,120 was received in May 2019.
- (3) The increase in professional fees is primarily due to the periodic state audit, currently in progress. A state audit has not been completed in the recent past.
- (4) The decrease in office expense is primarily due to lower allocated overhead expenses from WSHFC. The allocation is based on TSA hours worked as a percentage of total WSHFC staff hours. At the beginning of the prior year there were additional TSA hours allocated due to work related to the refunding of revenue bonds.

Tobacco Settlement Authority
Detailed Statement of Activities
Fund: General Operating Fund
Division: All
For The Year To Date Ending: April 30, 2020
(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	-11.7%	\$ (297)	\$ 2,535	\$ 2,238	\$ 2,255	\$ (17)	-0.8%
Other Income	NA	40,145	-	40,145	58,333	(18,188)	-31.2%
Total Unadjusted Revenues	1572%	39,848	2,535	42,383	60,588	(18,205)	-30%
Expenses:							
Salaries & Wages - Staff & Temp. Svcs	0.6%	107	18,611	18,718	44,745	(26,027)	-58.2%
Employee Benefits - Staff	2.4%	149	6,180	6,329	12,980	(6,651)	-51.2%
Travel in state - Staff	-54.8%	(69)	126	57	625	(568)	-90.9%
Accounting Fees	21.5%	3,338	15,500	18,838	18,500	338	1.8%
Legal Fees	30.1%	396	1,314	1,710	3,125	(1,415)	-45.3%
Financial Advisor Fees	NA	-	-	-	833	(833)	-100.0%
Office Rent/Conf. Room Rentals	-50.5%	(816)	1,615	799	1,857	(1,058)	-57.0%
Deliveries	36.8%	67	182	249	208	41	19.7%
Insurance	0.9%	51	5,403	5,454	5,417	37	0.7%
Meeting Expense	NA	-	-	-	125	(125)	-100.0%
Software Maint. Support & Other Info Svcs	-29.3%	(451)	1,537	1,086	2,202	(1,116)	-50.7%
Postage	3.2%	2	62	65	83	(18)	-21.7%
Printing	16.9%	65	384	449	500	(51)	-10.2%
State Services	0.0%	-	25	25	-	25	NA
Supplies	-50.5%	(434)	860	426	882	(456)	-51.7%
Telephone	-47.6%	(50)	105	55	141	(86)	-61.0%
Other Office Expenses	12.0%	49	408	457	701	(244)	-34.8%
Total Expenses	5%	2,404	52,312	54,717	92,924	(38,207)	-41%
Adjustments							
Revenues:							
Investments Gain (Loss)	-395.0%	79	(20)	59	-	59	NA
Total Adjustments	NA	79	(20)	59	-	59	NA
(Deficit) Excess of Revenues over Expenses	-75.3%	\$ 37,522	\$ (49,797)	\$ (12,275)	\$ (32,336)	\$ 20,061	-62.0%

TAB 7

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period January 1, 2020 - March 31, 2020

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
January	\$ 1,919.29	\$ 356.69	\$ 6.31	\$ 2,282.29
February	2,105.75	184.80	6.91	2,297.46
March	2,558.49	174.21	9.26	2,741.96
Total Per Category	\$ 6,583.53	\$ 715.70	\$ 22.48	\$ 7,321.71
Previous Balance at December 31, 2019				7,871.28
Payments & Credit Memos (through May 31, 2020)				-
Due to WSHFC:				\$ 15,192.99

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 8

Statement of Account

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

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
October	\$ 2,687.80	\$ 224.83	\$ 6.87	\$ 2,919.50
November	1,964.39	236.54	7.75	2,208.68
December	2,205.79	514.80	22.51	2,743.10
Total Per Category	\$ 6,857.98	\$ 976.17	\$ 37.13	\$ 7,871.28

Previous Balance at September 30, 2019	9,091.39
Payments & Credit Memos (through December 31, 2019)	-
Payment made January 10, 2020	<u>(9,091.39)</u>
Due to WSHFC:	<u>\$ 7,871.28</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 9

Tobacco Securitization Market Update

(Will be distributed to Board Members prior to meeting)

TAB 10

TOBACCO SETTLEMENT BONDS

Trustee Update June 2020

Structure:

2018 Serial maturities from June 1, 2022 through 2024:

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

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	2,774,031.25	1,090,750.00	-	-	-
6/1/2020	2,774,031.25	1,090,750.00	13,970,000		14,055,000
	17,990,806.56	4,247,865.28	40,850,000.00	-	86,955,000.00

Total Bonds Outstanding = \$124,025,000

Series 2013: \$80,395,000 and Series 2018: \$43,630,000

Date	Projected TSR Receipts (OS pg 29)	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			-	33,523
6/1/2020	40,000,073.00	34,049,268.16	5,950,804.84	9,592
	121,613,374	103,622,601.05	17,990,772.95	476,489

Compliance:

Report to Rating Agency on Debt Service Dates: Report Submitted 6-5-2020

Disclosure Reporting:

Series 2013 and 2018 Continuing Disclosure Agreements:

EMMA Posting on 10-30-19 of Financial Statement and Voluntary Disclosure

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

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



TAB 11

TSA

TOBACCO SETTLEMENT AUTHORITY

Ms. Carla DewBerry
Chair
Mr. Steve Walker
Executive Director

March 12, 2020

Christine Ok
U.S. Bank
Corporate Trust Services
1420 Fifth Avenue, 7th Floor
PD-WA-T7CT
Seattle, WA 98101

RE: Tobacco Settlement Authority 2020 Officer's Certificate – Operating Account and Operating Contingency Account Funding

Dear Ms. Ok:

Pursuant to Section 402(a) and 502(a) of the Amended and Restated Indenture dated October 17, 2013, the Authority submits its annual Officer's Certificate due on or before April 15th.

The Authority certifies the amount of the Operating Cap, the maximum amount available to be drawn for operating expenses in the upcoming Fiscal Year to be 420,274.93.

This letter is to serve as certification from the Tobacco Settlement Authority that we request \$94,145 allowed under the Operating Cap for Fiscal Year July 1, 2020 – June 30, 2021. This total includes estimated Rating and Trustee fees of \$54,000.

When these funds become available, but no sooner than July 1, 2020, please transfer \$40,145 to the TSA Custody Account, confirming with Debra Stephenson when complete. Please retain the \$54,000 in order to pay the ratings and trustees fee invoices when due.

Please contact Debra Stephenson (Debra.L.Stephenson@wshfc.org) should you need additional information.

Sincerely,



Robert D. Cook
Senior Director, Finance

Washington State Tobacco Settlement Authority, 1000 Second Avenue, Suite 2700, Seattle, WA 98104-1046

tel 206.464.7139 fax 206.587.5113 www.tsa-wa.org

From: Comfort, Cam (ATG) [mailto:cam.comfort@atg.wa.gov]

Sent: Wednesday, April 22, 2020 4:40 PM

Subject: FW: Additional MSA Payment Information

Dear MSA Contacts:

A slight positive correction. The amount received by the Treasurer yesterday was \$17,141,009.04 (not the \$17,120,172.83 that I reported in my email). Accordingly, the amount received by the TSA should have received is \$7,069,455.71.

Cam

From: Comfort, Cam (ATG)

Sent: Tuesday, April 21, 2020 2:19 PM

Subject: FW: Additional MSA Payment Information

Dear MSA Contacts:

The Office of the State Treasurer has received a wire today with the second MSA payment totaling \$17,120,172.83. This is the State's 70.8 percent share of the amount the IA said would be disbursed to Washington as part of its 2020 April payment. Accordingly, the TSA also should receive or has received \$7,060,862.24 (29.2 percent) today. Let me know if you have any questions.

Cam

From: Comfort, Cam (ATG)
Sent: Friday, April 17, 2020 11:58 AM
Subject: Additional MSA Payment Information

Dear MSA Contacts:

The Independent Auditor (IA) provided additional MSA payment information yesterday evening. According to the IA's calculations, Washington's share of this year's MSA disbursements is \$138,009,429.89. The amount disbursed, however, will be considerably lower because \$21,083,371.59 (a little more than 15 percent of Washington's calculated share) has been deposited into the disputed payments account due to the participating manufacturers' claim to the non-participating manufacturer's adjustment. Consequently, after the IA applied several other far smaller adjustments, Washington will receive a total of \$116,577,654.07. Thus, in addition to the \$92,396,619.00 disbursed yesterday, Washington should receive another \$24,181,035.07 on Tuesday, April 21. Of that amount, the State's share would be \$17,120,172.83 (70.8 percent) an

Please let me know if you have any questions or need additional information.

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: Comfort, Cam (ATG) <cam.comfort@atg.wa.gov>

Sent: Thursday, April 16, 2020 1:34 PM

Subject: Today's MSA Payment

The State received a payment today of \$65,416,806.25. Since the State receives .708 of Washington's share of all payments under the MSA, the Tobacco Settlement Authority should receive \$26,979,812.75 (29.2 percent). Based on these amounts, the payment to Washington today totaled \$92,396,619.00.

Cam

Cameron G. Comfort

Sr. Assistant Attorney General
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PO Box 40123
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From: Comfort, Cam (ATG) <cam.comfort@atg.wa.gov>

Sent: Thursday, April 16, 2020 11:52 AM

Subject: 2020 MSA Payment

Dear MSA contacts:

I've just received notice from the Independent Auditor (IA) that due to current market conditions, liquidity in the market is limited. Therefore, rather than making one disbursement on April 21, 2020, the IA will be instructing the escrow agent to disburse approximately \$4.5 billion to the States later today. A second disbursement is expected to be made on April 21. The IA should be providing more information about today's disbursement, as well as the expected disbursement on April 21, later today. I will provide an update when I received that information.

Cam

Cameron G. Comfort

Sr. Assistant Attorney General

Revenue and Finance Division

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From: Comfort, Cam (ATG) <cam.comfort@atg.wa.gov>

Sent: Thursday, April 2, 2020 3:16 PM

Subject: Revised MSA payment calculation from the Independent Auditor

Dear MSA Contacts:

Based on updated information and making a few corrections, the independent auditor (IA) has provided revised calculations of the annual payment amounts that are due to the states in April 2020 under the Master Settlement Agreement. The annual payment due to Washington has been nominally increased to \$138,009,429.89 (from an initial calculation of \$138,003,024.71). For several reasons, this year's distributions will be delayed until April 21. Because some tobacco manufacturers wait until April 15 to make their payments, the IA will need at least two days after that to make the necessary calculations for proper distribution of the funds to the states. Consequently, if the funds remained liquid, the earliest the IA could distribute them would be Monday, April 20. Maintaining the funds in cash at Citibank, however, is not a permitted investment specified in the Escrow Agreement. Therefore, the funds will be held in U.S. Treasury Bills maturing on April 21, 2020 and will be available for distribution on that date. Pursuant to the revised calculation, the State's share of the amount calculated by the independent auditor to be due is \$97,710,676.36 (70.8%) and the Tobacco Settlement Authority's share is \$40,298,753.53 (29.2%). Based on prior years' experience, however, many participating manufacturers are expected to withhold a portion of the amounts calculated to be due or deposit some portion of the calculated amounts into the disputed payments account related to the claim that the independent auditor should have reduced their payment obligations to account for the non-participating manufacturer adjustment. The NPM adjustment, if applied, would be based on the percentage shift in cigarette sales away from manufacturers participating in the MSA to non-participating manufacturers multiplied by three. The amounts withheld or deposited into the disputed payments account in 2019 was approximately 16 percent.

Cam

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From: Comfort, Cam (ATG) [mailto:cam.comfort@atg.wa.gov]

Sent: Monday, March 09, 2020 11:56 AM

Subject: Independent Auditor's Initial Calculation of Payments Due Under the MSA

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, 2020. Based on its initial calculation, the independent auditor estimates that the annual payment *due* to Washington next month is \$138,003,024.71. For comparison purposes, last year's initial estimate was \$139,773,217.08. The initial estimate is based on 2019 data available to the independent auditor through early March 2020 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. During that time period, 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 beginning in 2018, 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 2.0532582 percent.

(b) INFLATION ADJUSTMENT

The cumulative upward inflation adjustment that will be used in calculating 2019 MSA payments will be 1.8991984 (or 89.91984 percent). During 2019, the change in “inflation” as defined under the MSA was 2.28513 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 .6149129. That figure indicates that in 2019 the total number of cigarettes sold nationwide was 38.50871 percent of the total number sold in 1996. For comparison purposes, the volume adjustment for last year’s payment was .5855576. This means that the decrease in the number of cigarettes sold nationwide in 2019 compared to 2018 was a little less than three 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 2020. 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 2019, Washington’s share of the amounts withheld and placed into the disputed payments account was about 16 percent of the annual payment that the independent auditor calculated was owed to Washington. Most participating manufacturers are expected in 2020 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 someone 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 <michael.jang@citi.com>
Sent: Thursday, April 30, 2020 5:39 AM
To: Jang, Michael <michael.jang@citi.com>
Cc: Creedon, Paul T <paul.t.creedon@citi.com>; Green, Thomas H <thomas.h.green@citi.com>; Bartlett, Jay <jay.bartlett@citi.com>; Bhakta, Jigar <jigar.bhakta@citi.com>
Subject: Tobacco Securitization Market Update - Altria 2020 Q1 Results

All,

Altria, Philip Morris USA's parent and the largest domestic cigarette manufacturer, reported its 2020 Q1 results today. For the three months ended March 31, 2020, Altria reported that its domestic cigarette shipment volume decreased by an estimated 5%, when adjusted for trade inventory movements, calendar differences relating to the leap year, Altria's estimate of consumer pantry loading due to COVID-19 and other factors. Without adjustment for consumer pantry loading, Altria's domestic cigarette shipment volume decreased by 3.5%. Altria cited the industry's rate of decline and retail share losses among other factors as reasons for the decline in shipments.

Altria estimates that total domestic cigarette industry volume for the three months-ended March 31, 2020 declined by 3.5%, when adjusted for trade inventory movements, calendar differences relating to the leap year, Altria's estimate of consumer pantry loading and other factors. Without adjustment for consumer pantry loading, Altria's estimate of total domestic cigarette industry volume decline is 2%. Altria also maintained its guidance for cigarette volumes for 2020, forecasting a full-year domestic cigarette industry decline rate between 4% and 6%.

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

Michael Jang

Director | Public Finance Department, Citi
388 Greenwich Street, Trading Floor 6, New York, NY 10013
Phone: 212-723-4947
michael.jang@citi.com

From: Jang, Michael [mailto:michael.jang@citi.com]

Sent: Thursday, April 23, 2020 12:22 PM

Subject: Tobacco Securitization Market Update – Full Release of NAAG MSA Payment

All,

Today, 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 2019 (payment year 2020). The NAAG data indicates that total net market cigarette shipments declined approximately 4.98% in sales year 2019 to 225.1 billion cigarettes from 236.9 billion cigarettes in sales year 2018. 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 2019 sales year shipments as reported by MSAI of 183.2 billion sticks or a 7.08% decline from 2018 sales year shipments. OPM shipments are a significant factor in the calculation of MSA Payments.

The NAAG data release also indicates that 2019 OPM market share declined by approximately 1.7% from 82.8% in 2018 to 81.1% in 2019. Correspondingly, both SPM and NPM 2019 market share increased to 10.4% and 8.5% from 9.8% and 7.4%, respectively. NAAG reports the sales year 2019 Potential NPM Adjustment Percentage at 18.24% or 3.4% higher than sales year 2018. This is the highest Potential NPM Adjustment Percentage on record. According to NAAG, the Total Potential NPM Adjustment for sales year 2019 (payment year 2020) is approximately \$1.226 billion.

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.

Michael Jang

Director | Public Finance Department, Citi

388 Greenwich Street, Trading Floor 6, New York, NY 10013

Phone: 212-723-4947

michael.jang@citi.com

From: "Jang, Michael" <michael.jang@citi.com>
Date: March 26, 2020 at 6:27:58 PM PDT
To: "Jang, Michael" <michael.jang@citi.com>
Subject: Tobacco Securitization Market Update – Altria MSA Payment Update

All,

On Thursday March 26, Altria (Philip Morris USA's parent) reported in its 8-K filing that it has fully drawn on a \$3 billion revolver. Citing uncertainty in the capital markets, Altria has elected to borrow the entire \$3 billion amount as a precautionary measure to increase its cash position and preserve financial flexibility. Altria intends to use a portion of the proceeds from the borrowing to help fund its MSA payments, dividend payments, and other general corporate purposes.

According to the filing, Altria typically accesses the commercial paper market early in the second quarter to help fund payments related to the Master Settlement Agreement and shareholder dividends.

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

Michael Jang

Director | Public Finance Department, Citi

388 Greenwich Street, Trading Floor 6, New York, NY 10013

Phone: 212-723-4947

michael.jang@citi.com