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# TSA

TOBACCO SETTLEMENT AUTHORITY

## **Tobacco Settlement Authority**

Special Meeting

**May 15, 2018**

**TOBACCO SETTLEMENT AUTHORITY**  
**MEETING AGENDA**  
**May 15, 2018**

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 11:00 a.m. Pacific Time, on Tuesday, May 15, 2018, to consider the following:

- I. Call the Meeting to order: Chair, Ms. Carla DewBerry
- II. Approval of Minutes for the December 7, 2017 Special Meeting: 1  
Chair
- III. Action Item
  - A. Election of Secretary and Treasurer for one year term – Mr. Kim Herman 2
- IV. Information Items
  - A. Trustee report - Ms. Deborah Kuykendall, U.S. Bank 3
  - B. Status of Nonparticipating Manufacturer (NPM) Adjustment Arbitration – Mr. Robert J. (Rusty) Fallis, Assistant Attorney General
- V. Additional Action Items
  - A. Introduction of Finance Team and Presentation of Refunding Proposal – Mr. Kim Herman
    - 1. Jefferies LLC, Book-Running Senior Manager - Ms. Kym Arnone, Managing Director, Joint-Head of Municipal Finance
    - 2. Public Financial Management, Inc., Financial Advisor to the Authority - Mr. Fred Eoff, Senior Managing Consultant
    - 3. Pacifica Law Group LLP, Co-Bond Counsel to the Authority – Ms. Faith Pettis
    - 4. Hawkins, Delafield & Wood LLP, Co-Bond Counsel to the Authority - Mr. Howard Zucker and Mr. Roger Bagley

**B. Review and consider action on Resolution #18-01.**

**4**

A RESOLUTION of the Tobacco Settlement Authority authorizing the issuance of bonds by the Authority to refund a portion of its outstanding 2013 bonds; approving the forms of indenture, bond purchase agreement, bonds and related bond documents; delegating to certain authorized officers and the Executive Director the authority to execute such documents in final form subject to various limitations; deeming “final” the preliminary official statement; and authorizing the Chair and Executive Director to do all other things and execute all other certificates which are necessary or desirable to issue the bonds.

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

**5**

**VI. Additional Information Items**

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

**6**

**B. Executive Director’s Report - Mr. Kim Herman**

**VII. Public Comment**

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

**VIII. Miscellaneous Business and Correspondence**

**7**

**IX. Executive Session**

**X. Adjournment**

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

Next TSA Meeting: June/July 2018 TBD

**TAB 1**

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

**Minutes**

**December 7, 2017**

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:03 p.m. on Wednesday, December 7, 2017.

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.

In addition to the Chair, board members Mr. Tim Kerr, Mr. Mike Roberts, and Ms. Marlis Petersen Spawn were present in the board room. Authority staff members present were Mr. Kim Herman, Executive Director; Mr. Bob Cook, Senior Finance Director; Ms. Carol Johnson, Affiliates Manager; Ms. Debra Stephenson, Senior Controller; and Mr. Mike Gary, Program Assistant.

Finance team members present were Ms. Faith Pettis of Pacifica Law Group; Ms. Debbie Kuykendall of US Bank; and Assistant Attorney General, Mr. Rusty Fallis. Also present was Ms. Amy Sutherland of Moss Adams. Joining via teleconference was Ms. Kym Arnone of Jefferies LLC, and Mr. Roger Bagley of Hawkins, Delafield and Wood.

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

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on June 7, 2017.

Mr. Roberts made the motion and it was seconded by Mr. Kerr. The minutes were approved unanimously, 4-0.

**Consider & Act  
on Staff  
Recommendations  
Regarding  
Selection  
of a Financial  
Advisor**

Ms. DewBerry introduced Mr. Herman to present staff recommendations regarding selection of a financial advisor for the Authority.

Mr. Herman stated that the Authority is required at least once every two calendar years to select finance team members through a competitive process. He referred to the memo found under Tab 2 in the board packet.

Mr. Herman stated that on October 12, 2017 the Request for Proposals (RFP) were posted both to the Authority's website and to the State's General Administration Database System (WEBS). The RFP notice published in the *Daily Journal of Commerce* for two days. Mr. Herman stated that on October 13, the RFP was e-mailed and mailed to all eight firms on the Authority's current approved roster of financial advisors. Two responses were received on October 31, one from Public Financial Advisors LLC (PFM), the Authority's current financial advisor, and the other from Hilltop Securities.

Mr. Herman stated that in addition to himself, Authority staff members Ms. Johnson, Mr. Cook, Ms. Stephenson, and Deputy Director Mr. Paul Edwards, along with Ms. Pettis from Pacifica Law Group, reviewed the submitted proposals. Based upon that review, they agreed to recommend that the Authority Board retain Public Financial Advisors LLC (PFM) and determined no formal interviews were necessary. He concluded that both firms have been informed of the panel's recommendations to the Board.

Mr. Herman presented the panel's recommendation to approve the selection of the Authority's current financial advisor, Public Financial Advisors LLC (PFM) for an initial period of two years, with options to extend for up to a total of five years.

Mr. Roberts asked Mr. Herman where Hilltop Securities is located and if they had any branch offices located in Washington. Mr. Herman replied that Hilltop is based out of Texas, and they currently do not have any branch offices in

Washington. Mr. Herman added that Hilltop Securities works with the Authority's affiliate agency, the Washington State Housing Finance Commission. He noted that Hilltop's RFP to the Authority utilized a different team of professionals and that the work was unrelated to work done for the Commission.

Ms. DewBerry asked Ms. Pettis to briefly summarize the competitive bidding aspect of the RFP. Ms. Pettis stated that the Authority is not required to take the lowest bid in competitive bidding. She stated that there are extenuating circumstances with a contract of this type, such as very specialized knowledge and the make-up of the team. Mr. Herman added that price is not the sole factor and that judging criteria are listed in the RFP.

Ms. Petersen Spawn asked how PFM's current bid compared to their previous contract. Ms. Johnson replied that the minimum fee increased, the charge per \$1,000 in par value increased, and the hourly rate of their various officers increased. After discussions with staff, PFM lowered their initial quote for the minimum fee and the charge per \$1,000 of par value.

Ms. Dewberry asked for a motion to approve staff recommendations regarding selection of a financial advisor, with the selection of Public Financial Advisors LLC (PFM) for an initial period of two years and options to renew up to a maximum term of five years. Mr. Roberts made the motion and it was seconded by Mr. Kerr. The motion was approved unanimously, 4-0.

**Consider & Act  
on Acceptance of  
Final Audit  
Report**

Ms. DewBerry introduced Mr. Cook to present the audit report.

Mr. Cook stated the Audit Report for year ending June 30, 2017 was prepared by Moss Adams LLP. A summary handout was distributed to board members during the meeting. He added that Moss Adams delivered their opinion dated November 16, 2017 with confirmation that the statements are fairly presented with no qualifications.

Mr. Cook then introduced Ms. Amy Sutherland from Moss Adams to present the auditor's required communications.

Ms. Sutherland presented her report noting the audit was performed in accordance with the initial plan and was issued on November 16, 2017. The audit is an unmodified opinion. No material misstatements or errors were identified within the financial statements. The auditors did not identify any material weaknesses or significant deficiencies.

Ms. Sutherland summarized the responsibilities under Generally Accepted Accounting Principles of the United States (US GAAP). She mentioned that the disclosures in the financial statements were clear and consistent, and made reference to Notes 5 and 7. She added that there were no difficulties encountered during the audit and no disagreements with Management. No material misstatements or uncorrected items that were identified. She concluded that Management did not consult with other accounting firms and no significant issues or instances of fraud or noncompliance were noted. Ms. Sutherland reaffirmed Moss Adams' independence with respect to the Authority and thanked both Mr. Cook and Ms. Stephenson for their cooperation during the audit.

Ms. DewBerry, after hearing no further questions or comments from board members, asked for a motion to accept the audit report. Mr. Kerr made the motion and it was seconded by Ms. Petersen Spawn. The motion was approved unanimously, 4-0.

**Review &  
Consider  
Acceptance of  
Financial  
Statement**

Ms. DewBerry introduced Mr. Cook to present the unaudited current financial statement. Mr. Cook stated that the financial statement for the three-month period through October 31, 2017 shows assets of approximately \$192,000 with approximately \$23,000 of payables leaving a net unrestricted position of around \$170,000. There was about \$700 of interest income earned and a decrease to net position of \$21,686, leaving a deficit so far for the year, which was anticipated.

Ms. DewBerry asked for a motion to accept the unaudited financial statements



through October 31, 2017. Ms. Petersen Spawn made the motion and it was seconded by Mr. Kerr. 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 through September 30, 2017 totaling \$12,263.04 have been reviewed and approved by Board Treasurer, Ms. Petersen Spawn.

**Tobacco  
Securitization  
Market Update**

Ms. DewBerry introduced Ms. Arnone to present the tobacco securitization market update.

Ms. Arnone presented her report noting that the general bond market has been extremely busy and volatile with the recent tax reform legislation. She mentioned that the markets had over \$20 billion in issuance and that there were record amounts of bond activity. This is due to possible reduced bond activity in 2018 as a result of tax reform legislation that might affect the issuance of tax-exempt private activity bonds and advanced refundings.

Ms. Arnone stated that sometime in December, 2017, the Federal Reserve Bank is projected to raise interest rates by 25 basis points. She also mentioned that on July 28, 2017 that the Food and Drug Administration (FDA) announced a plan for tobacco and nicotine regulation, which is expected to take a number of years to implement. Finally, the FDA is looking to ban menthol, which constitutes approximately 30 percent of the market.

Ms. Arnone stated that for the nine month period, ending September 30, 2017, estimated total industry shipments by Altria, the parent company of Philip Morris USA, declined 3.5%, which is in line with the IHS Global forecast of -3.58% for 2017. She noted that Reynolds American no longer reports industry shipments as a result of being acquired by British American Tobacco.

Ms. DewBerry asked Ms. Arnone what might impact rates on tobacco bonds for 2018. Ms. Arnone replied that there could be a possible rally/net positive if the

tax reform legislation is passed. Investors may be looking for more high-yield bonds in the market.

Ms. DewBerry thanked Ms. Arnone for the report and her continued support of the Authority's activities.

## **Trustee Report**

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

Ms. Kuykendall stated the report was located under Tab 7 in the board packet. She reported that this was the time of the year where more compliance activities are occurring than cash movements.

She mentioned that on December 1, 2017, bondholders were paid \$5,342,837.50 in interest and that \$135,000 of bonds were redeemed, leaving an outstanding bond amount of \$208,610,000.

Ms. Kuykendall then stated that she submitted to the rating agencies the required semi-annual report on November 10, and posted to EMMA the audited financial statements that were just approved along with the annual disclosure statement. She concluded that reserves are still maintained at the required dollar amount.

Ms. DewBerry thanked Ms. Kuykendall for the Trustee's Report.

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

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

Mr. Fallis reported that there has been a little progress since he last reported to the Authority a few months ago. He reminded board members that there are 19 states participating in the NPM Adjustment Arbitration, with 26 states that have already settled under the term sheet. He noted that two states, Alaska and Massachusetts, were initially part of the arbitration, but have since been dismissed by the

participating manufacturers because of very small NPM markets.

Mr. Fallis said the evidentiary hearing began in June, with a joint presentation by the participating states. The state-specific hearings, where the individual state's due diligence is tested, began in the fall of 2017. Washington's hearing is scheduled for April 9, 2018 and is expected to last about one week. He added that the last state-specific hearing will be held sometime in November of 2018. He estimated the decision from the arbitration panel to be made in April of 2019.

Ms. DewBerry asked what the best and worst cases would be. Mr. Fallis replied that under the MSA, the worst case scenario would be that a state that is not diligent could lose up to a year's payment from the MSA for the 2004 sales year. The best case scenario is that a state is found diligent, there would be no NPM adjustment, and that the state would receive a return of some money that the participating manufacturers have withheld from the states pending the outcome of the arbitration. He added that in Washington's case, the amount could be up to \$15,000,000.

Ms. Petersen Spawn asked if this decision affects subsequent years after 2004. Mr. Fallis replied that there was no language in the MSA regarding this and that every arbitration would have a different arbitration panel.

Mr. Kerr asked how a state proves its diligence. Mr. Fallis replied that the underlying statute is an escrow statute that requires a state to collect money on a certain universe of cigarettes the NPMs sell. That determination is based on how much money the state has collected on those packs. This is a legal issue that includes determining what the universe for those cigarettes is. There will also be testimony from auditors, tax examiners from the state Department of Revenue, and AGO staff and lawyers. He mentioned that there were some NPMs in the early days of the MSA that manufactured many cartons of cigarettes and then abruptly disappeared and changed their corporate structure.

**Executive  
Director's  
Report**

Ms. DewBerry thanked Mr. Fallis for his report.

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

Mr. Herman gave an update on the proposed refunding that was planned this past fall. He stated that it was necessary to identify if any of the capital projects that the Authority paid to the State from the 2002 original bond issue had any useful life remaining. He stated that he consulted with both the Office of Financial Management (OFM) and the State Treasurer's Office. The records were found insufficient to determine how much useful life was remaining for those projects. He concluded that the Authority had paid off all the bonds related to the operating capital.

Mr. Herman mentioned that the current payoff date of 2023 would still occur as part of this refunding with net substantial savings. Now another complication has occurred with the proposed tax reform legislation.

Mr. Herman stated that under the proposed legislation by the Republican controlled House, tax-exempt private activity bonds including advance refundings would no longer be issued by bond issuers, effective January 1, 2018. He added that in addition to student loans, this affects activities of the Authority's two affiliate agencies, the Housing Finance Commission and the Higher Education Facilities Authority (WHEFA). This also impacts other issuers in the state such as the Health Care Facilities Authority (WHCFA) and the Economic Development Finance Authority (WEDFA). He mentioned that approximately 30% of the bond market is private activity bonds. He concluded that because of the flurry of bond issues and the inability of the ratings agencies to rate the proposed TSA refunding, it was prudent to postpone the bond refunding to a future date in early 2018.

Mr. Herman stated that the Authority's tobacco bonds were governmental bonds and should not be affected by the proposed tax reform legislation.

Mr. Herman then referenced articles featuring the Authority's affiliate agencies and the proposed tax reform legislation under Tab 8 of the board packet. He also mentioned that outreach has been done by all of the State's bond issuing agencies to Republican members of Congress through letters, meetings, and news articles.

Mr. Herman stated that the next scheduled Authority board meeting is Wednesday, June 6, 2018, but there is a good chance that an additional board meeting would occur before then. Board members, finance team, and interested parties will be notified well in advance.

**Public  
Comment**

Ms. DewBerry asked if there were any comments from the public. Hearing none, she then asked for those in the audience to introduce themselves.

Ms. Caitlin Caldwell & Mr. Odin Atkinson from KeyBanc Capital Markets introduced themselves. Ms. Johnson introduced Mr. Mike Gary who has been assisting the Authority since the departure of the previous Program Assistant, Mr. Cody Field.

**Adjournment**

Ms. DewBerry adjourned the meeting at 1:45 p.m.

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Ms. Carla DewBerry, Chair

TAB 2



## Memorandum

To: Tobacco Settlement Authority Board Members

From: Carol Johnson

RE: **Election of Secretary and Treasurer**

Date: May 15, 2018

CC: Kim Herman, Paul Edwards, Bob Cook

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### **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. Mike Roberts as Secretary and Ms. Marlis Petersen Spawn as Treasurer.

### **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 BDS SERIES 2013

## Trustee Update June 2018

### Structure:

Serial maturities from June 1, 2014 through 2033: \$334,700,000

Issuer directed redemptions from Surplus Account

Bond Debt Service Table			
Date	Interest Due	Bond Maturities	Optional Redemptions
6/1/2014	10,414,926.67	24,515,000	4,280,000
12/1/2014	7,771,837.50	-	-
6/1/2015	7,771,837.50	20,495,000	12,185,000
12/1/2015	6,954,837.50	-	225,000
6/1/2016	6,949,212.50	19,730,000	11,475,000
12/1/2016	6,165,087.50	-	395,000
6/1/2017	6,159,212.50	19,025,000	13,630,000
12/1/2017	5,342,837.50	-	545,000
6/1/2018	5,329,212.50	13,215,000	12,505,000
12/1/2018			
	62,859,001.67	96,980,000.00	55,240,000.00

Projected 6-1-18 Bonds Outstanding Amount: \$182,480,000

Date	Projected TSR Receipts (OS pg 139)	Actual TSR Receipts	Difference	Other Receipts
6/1/2014	53,909,330.00	48,124,397.28	(5,784,933)	
6/1/2015	49,384,635.00	42,725,069.51	(6,659,565)	5,042,653
12/1/2015				217,151
6/1/2016	49,186,159.00	44,639,587.77	(4,546,571)	44,833
12/1/2016				384,501
6/1/2017	48,974,367.00	44,145,484.29	(4,828,883)	92,207
12/1/2017			-	85,462
6/1/2018	40,834,487.00	35,253,912.55	(5,580,574)	279,726
12/1/2018			-	
	242,288,978.00	214,888,451.40	(27,400,527)	6,146,533

Note: Other receipts represents 4 amounts from December through April

### Compliance:

Report to Rating Agency on Debt Service Dates will be submitted 6-1-18

Disclosure Reporting:

Fiscal Year End 2017 Audited Financials – Posted to Emma 11-20-17

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



TAB 4

TOBACCO SETTLEMENT AUTHORITY

RESOLUTION NO. 18-01

A RESOLUTION of the Tobacco Settlement Authority authorizing the issuance of bonds by the Authority to refund a portion of its outstanding 2013 bonds; approving the forms of indenture, bond purchase agreement, bonds and related bond documents; delegating to certain authorized officers and the Executive Director the authority to execute such documents in final form subject to various limitations; deeming “final” the preliminary official statement; and authorizing the Chair and Executive Director to do all other things and execute all other certificates that are necessary or desirable to issue the bonds.

ADOPTED: MAY 15, 2018

PREPARED BY:

Pacifica Law Group LLP  
1191 Second Avenue, Suite 2100  
Seattle, Washington 98101

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• This table of contents is not part of the resolution; it is included for the convenience of the reader only.

## RESOLUTION NO. 18-01

A RESOLUTION of the Tobacco Settlement Authority authorizing the issuance of bonds by the Authority to refund a portion of its outstanding 2013 bonds; approving the forms of indenture, bond purchase agreement, bonds and related bond documents; delegating to certain authorized officers and the Executive Director the authority to execute such documents in final form subject to various limitations; deeming “final” the preliminary official statement; and authorizing the Chair and Executive Director to do all other things and execute all other certificates that are necessary or desirable to issue the bonds.

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, the Authority, pursuant to the Act, issued its Tobacco Settlement Asset-Backed Bonds, Series 2002 (the “Series 2002 Bonds”), to finance the costs of acquiring the right, title and interest of a portion of the payments to be received by the State of Washington (the “State”) under the Master Settlement Agreement (as defined herein) on and after the closing date on the Series 2002 Bonds and to fund reserves and pay costs; and

WHEREAS, the Authority issued its Tobacco Settlement Revenue Refunding Bonds, Series 2013 (the “Series 2013 Bonds”) to refund all of the outstanding Series 2002 Bonds; and

WHEREAS, the Authority desires to refund a portion of its outstanding Series 2013 Bonds, to reduce the amount of the tobacco settlement payments required to pay its outstanding indebtedness and thus, upon repayment of the refunding bonds, realize additional revenues for the State; and

WHEREAS, the proposed Tobacco Settlement Revenue Refunding Bonds, Series 2018 (the “Series 2018 Bonds”) are to be issued pursuant to an Indenture, dated as of October 1, 2002, as amended and restated on October 17, 2013, and a Series 2018 Supplement, dated as of the date of delivery of the Series 2018 Bonds (together, the “Indenture”), between the Authority and U.S. Bank National Association, as trustee thereunder (the “Indenture Trustee”); and

WHEREAS, the Authority wishes to approve the form and general content of and authorize the execution and delivery of the Indenture providing for the issuance of the Series 2018 Bonds and other matters; and

WHEREAS, Jefferies LLC, as the underwriter of the Series 2018 Bonds (the “Underwriter”), expects to submit an offer to purchase the Series 2018 Bonds, pursuant to a bond purchase agreement (the “Bond Purchase Agreement”); and

WHEREAS, the Authority wishes to authorize the preparation and distribution of a Preliminary Official Statement regarding the Series 2018 Bonds and to authorize the execution and delivery of a final Official Statement regarding the Series 2018 Bonds; and

WHEREAS, the Board desires to take certain other actions with respect to, and to make other authorizations related to, the issuance of the Series 2018 Bonds;

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

Section 1. Definitions. For purposes of this Resolution the term “Authorized Officer” shall mean the Chair, Secretary, Treasurer or the Executive Director (or in his absence, the Deputy Director) of the Authority. All other terms used herein and not otherwise defined shall have the respective meanings ascribed thereto or incorporated by reference in the Indenture.

Section 2. Findings. The Authority was created under the Act to acquire from the State a portion of the State's right, title and interest to the moneys due under and pursuant to (i) the Master Settlement Agreement, dated November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin

Islands, American Samoa and the Territory of the Northern Marianas and Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (the “Master Settlement Agreement”) and (ii) the Consent Decree and Final Judgment of the King County Superior Court, in the class action styled State of Washington v. American Tobacco Co., et. al. (Docket No. 96-2-15056-8SEA), including without limitation, the rights of the State to receive the moneys due to it thereunder. The Authority purchased the Pledged TSRs, as defined in and in accordance with the provisions of the Purchase and Sale Agreement. The Authority is authorized under the Act to issue bonds and refunding bonds and use the proceeds thereof, among other things, to finance or refinance the cost of the acquisition of the Pledged TSRs. It is advisable and desirable, and in the best interests of the Authority that the Series 2018 Bonds be authorized and issued (in an amount described hereinafter) to refund a portion of the outstanding Series 2013 Bonds to reduce the cost of its borrowing and thereby ultimately realize additional revenues for the State.

In accordance with the Act, the Series 2018 Bonds are not obligations of the State and are obligations only of the Authority, payable solely from the special fund or funds created by the Authority for their payment. Payment of the principal of, interest on, and redemption or prepayment premium, if any, on the Bonds shall be a valid claim only as against the special fund or funds relating thereto. Neither the faith and credit nor the taxing power of the State or any municipal corporation, subdivision, or agency of the State, other than the Authority as set forth in the Act, is pledged to the payment of the principal of, interest on, and redemption or prepayment premium, if any, on the Bonds.

The Series 2018 Bonds will not be issued until all conditions relating to the issuance of Series 2018 Bonds under the Indenture and the Bond Purchase Agreement have been met or waived by an Authorized Officer (as evidenced by an Officer's Certificate that shall also direct the Indenture Trustee to authenticate and deliver the Series 2018 Bonds).

Section 3. Authorization of Bonds. The Authority hereby authorizes the issuance and sale of its bonds to be designated “Tobacco Settlement Revenue Refunding Bonds, Series 2018” in the principal amount described below in Section 6, pursuant to and in accordance with the provisions of the Act, the Internal Revenue Code of 1986, as amended, and the Indenture.

Section 4. Approval of Documents. The Authority hereby approves the form and content of the Indenture in substantially the form on file with the Authority. An Authorized Officer of the Authority is authorized to execute such documents, the documents contemplated therein, and any other necessary documents or certificates on its behalf, and to do all things necessary on its behalf to proceed with the issuance, sale and delivery of the Series 2018 Bonds as authorized herein. Only one signature is required to bind the Authority. Such Authorized Officer is authorized to make such changes, insertions or deletions and such completion of blanks therein as the Authorized Officer executing the same, in his or her sole discretion (exercised in accordance with the parameters prescribed in this Resolution), shall approve, with the advice of Co-Bond Counsel to the Authority or as may be required by any rating agency, such execution to be conclusive evidence of such approval.

Section 5. Authorization of Official Statement. The Authority hereby authorizes the preparation of the Preliminary Official Statement and the distribution and use of the Preliminary Official Statement by the Underwriter in connection with the public offering for sale of the Series 2018 Bonds substantially in the form on file with the Authority, with such changes, insertions or deletions and such completion of blanks therein as an Authorized Officer, in his or her sole discretion, shall approve (such approval to be conclusively evidenced by the execution of the certificate mentioned in the following sentence), with the advice of Co-Bond Counsel, or as may be required by any rating agency. The Board further authorizes that the Preliminary Official Statement be deemed by an Authorized Officer of the Authority to be “final” within the meaning of Rule 15c2-12 under the Securities Exchange Act of 1934, in the form as distributed, and in furtherance thereof to execute a certificate evidencing the same.



The use and distribution of the final Official Statement in connection with the offering and sale of the Series 2018 Bonds by the Underwriter is hereby authorized. The Board hereby authorizes and directs the execution and delivery of the final Official Statement by an Authorized Officer, such final Official Statement being substantially in the form of the Preliminary Official Statement with such changes, insertions or deletions as such Authorized Officer executing the same, in his or her sole discretion, may approve, with the advice of Co-Bond Counsel, or as may be required by any rating agency, such execution to constitute conclusive evidence of such approval.

Section 6. Sale of the Bonds. The Authority hereby authorizes and approves the sale of the Series 2018 Bonds to the Underwriter, and in accordance with the terms and conditions set forth in the Bond Purchase Agreement. The Authority hereby delegates to an Authorized Officer the authority to execute the Bond Purchase Agreement on behalf of the Authority in substantially the form on file with the Authority, subject to the following limitations: (a) the aggregate principal amount of the Series 2018 Bonds shall not exceed \$50,000,000; (b) the true interest cost of the Series 2018 Bonds shall not exceed 4.50%; (c) the final stated maturity date for the Series 2018 Bonds is not later than June 1, 2025; (d) the Bond Purchase Agreement shall be executed prior to December 31, 2018; and (e) the final terms of the Bond Purchase Agreement shall otherwise be in furtherance of the Act, as conclusively evidenced by the execution of the Bond Purchase Agreement by an Authorized Officer.

Section 7. Authorization and Ratification. The Authority hereby authorizes all Authorized Officers to do all things, to take all actions, and to execute and deliver all agreements, certificates, instruments and other documents necessary, convenient or desirable in connection with the issuance of the Series 2018 Bonds, and the performance of all agreements and covenants on the part of the Authority contained therein without the need for further action by the Board of the Authority.

All acts heretofore performed on behalf of the Authority which are in conformity with the purposes and intents of this Resolution and in furtherance of the issuance of the Series 2018 Bonds and the execution, delivery and performance of the Indenture and the Bond Purchase Agreement and as contemplated by the Official Statement shall be, and the same hereby are in all respects, ratified, approved and confirmed.

Section 8. Effective Date. This resolution shall become effective immediately after its adoption and signature by the Chair and attestation by the Secretary of the Authority or his designee and when effective shall act to ratify and confirm all acts taken previously in furtherance of and consistent with this resolution.

ADOPTED at a special meeting duly noticed and called this 15<sup>th</sup> day of May, 2018.

TOBACCO SETTLEMENT AUTHORITY

By \_\_\_\_\_  
Chair

ATTEST:

\_\_\_\_\_  
Secretary

APPROVED AS TO FORM:

\_\_\_\_\_  
General Counsel

TAB 5

# TOBACCO SETTLEMENT AUTHORITY

April 30, 2018


Authority Directors  
Tobacco Settlement Authority  
Seattle, Washington

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


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

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

Prepared by:

  
Shirleen Noonan  
General Operations Manager

Approved by:

  
Debra L. Stephenson  
Senior Controller

TOBACCO SETTLEMENT AUTHORITY  
GENERAL OPERATING FUND

March 31, 2018  
Unaudited

CONTENTS

(See Accountant's Compilation Report)

Accountant's Report

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

	Current Year	Prior Year	Variance Amount	%
<b><i>ASSETS</i></b>				
Cash and Cash Equivalents:	\$ 158,987	\$ 139,375	\$ 19,612	14%
Prepaid Expenses & Other Receivable	1,621	1,749	(128)	-7%
<i>Total Assets</i>	<u>\$ 160,608</u>	<u>\$ 141,124</u>	<u>\$ 19,484</u>	<u>14%</u>
<b><i>LIABILITIES</i></b>				
Accounts Payable and Other Liabilities	\$ 6,109	\$ 6,166	\$ (57)	-1%
<i>Total Liabilities</i>	<u>6,109</u>	<u>6,166</u>	<u>(57)</u>	<u>-1%</u>
<b><i>NET POSITION</i></b>				
Unrestricted	154,499	134,958	19,541	14%
Total Net Position	<u>154,499</u>	<u>134,958</u>	<u>19,541</u>	<u>14%</u>
<i>Total Liabilities and Net Position</i>	<u>\$ 160,608</u>	<u>\$ 141,124</u>	<u>\$ 19,484</u>	<u>14%</u>

**Tobacco Settlement Authority**  
**Statement of Activities and Changes in Net Position**  
**Fund: General Operating Fund**  
**Division: All**  
**For The Year To Date Ending: March 31, 2018**  
(See Accountant's Compilation Report)

	Current Period	Current Year to Date	Prior Year to Date	Variance Amount	%
<i>Revenues:</i>					
Interest Earned	\$ 154	\$ 1,546	\$ 514	\$ 1,032 (1)	201%
<i>Total Unadjusted Revenues</i>	<u>154</u>	<u>1,546</u>	<u>514</u>	<u>1,032</u>	<u>201%</u>
<i>Expenses:</i>					
Salaries, Wages, and Employee Benefits	2,266	13,833	17,536	(3,703) (2)	-21%
Travel & Conferences	-	311	500	(189)	-38%
Professional Fees	195	17,302	22,686	(5,384) (3)	-24%
Office Expense	671	7,076	7,386	(310)	-4%
<i>Total Expenses</i>	<u>3,132</u>	<u>38,522</u>	<u>48,107</u>	<u>(9,585)</u>	<u>-20%</u>
<i>Adjustments</i>					
Gains/(Loss) on Investments	(14)	(27)	58	(85)	-147%
<i>Total Adjustments</i>	<u>(14)</u>	<u>(27)</u>	<u>58</u>	<u>(85)</u>	<u>-147%</u>
(Deficit) Excess of Revenues over Expenses	<u>(2,992)</u>	<u>(37,003)</u>	<u>(47,535)</u>	<u>10,532</u>	<u>-22%</u>
<i>Net Position</i>					
Total net position, beginning of period	157,491	191,502	182,493	9,009	5%
Current Increase (Decrease) to Net Position	(2,992)	(37,003)	(47,535)	10,532	-22%
Total net position, end of year	<u>\$ 154,499</u>	<u>\$ 154,499</u>	<u>\$ 134,958</u>	<u>\$ 19,541</u>	<u>14%</u>

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

(2) The decrease in salaries and employment benefits is due to a position vacancy starting in August 2017 through February 15, 2018.

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

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

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

	Variance-YTD vs. PY Actuals		Prior YTD	YTD	YTD	Variance-YTD Budget to Actual	
	%	Amount	Actual	Actual	Budget	Amount	%
<b>Revenues:</b>							
Interest Revenue	200.8%	\$ 1,032	\$ 514	\$ 1,546	\$ 19	\$ 1,527	8036.8%
<b>Total Unadjusted Revenues</b>	<b>201%</b>	<b>1,032</b>	<b>514</b>	<b>1,546</b>	<b>19</b>	<b>1,527</b>	<b>8037%</b>
<b>Expenses:</b>							
Salaries & Wages - Staff & Temp. Svcs	-23.0%	(3,081)	13,373	10,292	35,213	(24,921)	-70.8%
Employee Benefits - Staff	-14.9%	(622)	4,163	3,541	10,503	(6,962)	-66.3%
Travel in state - Staff	-37.8%	(189)	500	311	825	(514)	-62.3%
Accounting Fees	-20.2%	(3,800)	18,800	15,000	12,000	3,000	25.0%
Legal Fees	-40.8%	(1,584)	3,886	2,302	5,625	(3,323)	-59.1%
Financial Advisor Fees	NA	-	-	-	1,125	(1,125)	-100.0%
Office Rent/Conf. Room Rentals	-9.3%	(69)	738	669	1,692	(1,023)	-60.5%
Advertising	NA	124	-	124	-	124	NA
Deliveries	41.9%	39	93	132	169	(37)	-21.9%
Insurance	0.0%	-	4,863	4,863	5,250	(387)	-7.4%
Meeting Expense	NA	-	-	-	189	(189)	-100.0%
Software Maint. Support & Other Info Svcs	-33.6%	(289)	861	572	1,437	(865)	-60.2%
Postage	204.2%	49	24	74	113	(39)	-34.5%
Printing	-37.3%	(84)	225	141	450	(309)	-68.7%
State Services	NA	25	-	25	-	25	NA
Supplies	52.6%	50	95	145	709	(564)	-79.5%
Telephone	-46.3%	(37)	80	43	123	(80)	-65.0%
Other Office Expenses	-28.7%	(117)	407	290	124	166	133.9%
<b>Total Expenses</b>	<b>-20%</b>	<b>(9,585)</b>	<b>48,108</b>	<b>38,524</b>	<b>75,547</b>	<b>(37,023)</b>	<b>-49%</b>
<b>Adjustments</b>							
Revenues:							
Investments Gain (Loss)	-146.6%	(85)	58	(27)	-	(27)	NA
<b>Total Adjustments</b>	<b>NA</b>	<b>(85)</b>	<b>58</b>	<b>(27)</b>	<b>-</b>	<b>(27)</b>	<b>NA</b>
<b>(Deficit) Excess of Revenues over Expenses</b>	<b>-22.2%</b>	<b>\$ 10,531</b>	<b>\$ (47,536)</b>	<b>\$ (37,005)</b>	<b>\$ (75,528)</b>	<b>\$ 38,523</b>	<b>-51.0%</b>



TAB 6

## Statement of Account

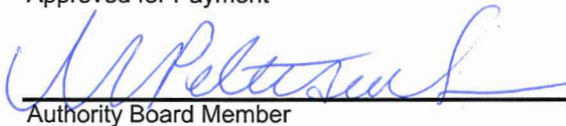
Tobacco Settlement Authority  
Proration of costs between TSA and WSHFC  
For the period October 1, 2017 through December 31, 2017

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
October	\$ 1,168.33	\$ 248.88	\$ 5.49	\$ 1,422.70
November	1,703.00	317.53	8.69	2,029.22
December	1,353.80	265.82	6.80	1,626.42
<hr/>				
Total Per Category	\$ 4,225.13	\$ 832.23	\$ 20.98	\$ 5,078.34
Due to WSHFC:				<u>\$ 5,078.34</u>

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

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

Approved for Payment

  
\_\_\_\_\_  
Authority Board Member

## Statement of Account

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

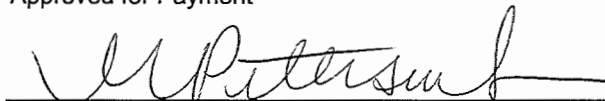
Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
January	\$ 1,365.18	\$ 261.16	\$ 3.33	\$ 1,629.67
February	1,316.61	173.00	5.00	1,494.61
March	2,216.32	152.16	4.18	2,372.66
<hr/>				
Total Per Category	\$ 4,898.11	\$ 586.32	\$ 12.51	\$ 5,496.94
Due to WSHFC:				<u>\$ 5,496.94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

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

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

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

Approved for Payment



Authority Board Member

**TAB 7**

**From:** Comfort, Cam (ATG)  
**To:** [Bridges, Matt](#); [Bob Cook](#); [Davidson, Pam \(OFM\)](#); [Paul Edwards](#); [Fraser, Kristen](#); [Gavigan, Charlie](#); [Kim Herman](#); [Hertle, Mark](#); [Howdeshell, Toni \(TRE\)](#); [Carol Johnson](#); [Johnson, Dave](#); [Keegan, Kellee](#); [Leathers, Kathryn \(GOV\)](#); [Limtiaco, Frances \(DOH\)](#); [Lund, Linda \(TRE\)](#); [Marcus, Roselyn \(OFM\)](#); [Myhre, Les \(OFM\)](#); [TRE MI A8 Mailbox](#); [Palmer, Melissa \(LEG\)](#); [Pannkuk, Richard \(OFM\)](#); [Penley, Sue \(TRE\)](#); [Smith, Vikki \(DOR\)](#); [Stamey, Gwen \(OFM\)](#); [Stav, Brenda \(LSDFA\)](#); [Debra L. Stephenson](#); [Swenson, Eric \(ERFC\)](#); [Thronson, Stuart \(DOR\)](#); [Andy Toulon](#); [TRE MI Investment Team Mailbox](#); [Williams, Lesa \(TRE\)](#)  
**Subject:** April 19, 2018 MSA Disbursement to State and TSA  
**Date:** Thursday, April 19, 2018 2:10:17 PM

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I received notice a short while ago that the State has received a disbursement under the MSA of \$85,478,664.66. That means the total disbursement to Washington under the MSA should be \$120,732,577.20 and the Tobacco Settlement Authority's share is \$35,253,912.54.

The \$120,732,577.20 received by Washington is about \$1.6 million less than the amount reported on Monday as Washington's expected disbursement amount. I have not received a detailed explanation for the lower amount. It is my understanding, however, that NAAG and others identified a number of errors in the independent auditor's calculations (which are extremely complicated) and changes were made between Monday and today. The independent auditor will providing additional information about today's disbursements, but that information isn't expected until the first week of May.

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

Cam

***Cameron G. Comfort***

Sr. Assistant Attorney General  
Revenue and Finance Division  
PO Box 40123  
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(360) 664-9429

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**To:** [Bridges, Matt](#); [Bob Cook](#); [Davidson, Pam \(OFM\)](#); [Paul Edwards](#); [Fraser, Kristen](#); [Gavigan, Charlie](#); [Kim Herman](#); [Hertle, Mark](#); [Howdeshell, Toni \(TRE\)](#); [Carol Johnson](#); [Johnson, Dave](#); [Keegan, Kellee](#); [Leathers, Kathryn \(GOV\)](#); [Limtiaco, Frances \(DOH\)](#); [Lund, Linda \(TRE\)](#); [Marcus, Roselyn \(OFM\)](#); [Myhre, Les \(OFM\)](#); [TRE MI A8 Mailbox](#); [Palmer, Melissa \(LEG\)](#); [Pannkuk, Richard \(OFM\)](#); [Penley, Sue \(TRE\)](#); [Smith, Vikki \(DOR\)](#); [Stamey, Gwen \(OFM\)](#); [Stav, Brenda \(LSDFA\)](#); [Debra L. Stephenson](#); [Swenson, Eric \(ERFC\)](#); [Thronson, Stuart \(DOR\)](#); [Andy Toulon](#); [TRE MI Investment Team Mailbox](#); [Williams, Lesa \(TRE\)](#)  
**Cc:** [Aho, Brionna \(ATG\)](#); [Esquibel, Shane \(ATG\)](#); [Fallis, Rusty \(ATG\)](#); [Feinstein, Deborah \(ATG\)](#); [Fraser, Betty \(ATG\)](#); [Gagnon-Bailey, Chantel \(ATG\)](#); [Gaul, Judy \(ATG\)](#); [Giger, Edward \(ATG\)](#); [Hankins, David \(ATG\)](#); [Hoosier, Diane \(ATG\)](#); [Melroy, Mark \(ATG\)](#); [Nevares, Melanie \(ATG\)](#); [Parker, Carrie \(ATG\)](#); [Poulin, Raelynn G \(ATG\)](#); [Snoey, Janis \(ATG\)](#); [Tomisser, Rene \(ATG\)](#); [Uhl, Erika \(ATG\)](#); [Webb, Mike \(ATG\)](#); [Young, Alicia \(ATG\)](#)  
**Subject:** Independent Auditor's Summary of Expected Amounts to be Disbursed under the MSA on April 19, 2018  
**Date:** Monday, April 16, 2018 4:24:19 PM

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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 19, 2018. According to the summary, the independent auditor expects \$122,394,334.28 to be disbursed to Washington. If that amount is disbursed, the State's share will be \$86,655,188.67 (70.8%) and the Tobacco Settlement Authority's share will be \$35,739,145.61 (29.2%).

The amount expected to be disbursed is about \$20.9 million less than the amount calculated to be due. Almost all, or about \$20.8 million, is attributable to withheld payments by participating manufacturers claiming a non-participating manufacturer (NPM) adjustment. The withheld amount is about 14.5 percent of amount calculated as due to Washington, which is higher than anticipated.

Finally, for your information, last week (April 9-12) an arbitration panel held Washington's state-specific hearing regarding whether an NPM adjustment is required with respect to 2004 calendar-year data. We do not know when the arbitration panel will issue its decision. It could be later this year, but Missouri's state-specific hearing with respect to 2004 calendar-year data is not scheduled until early 2019 so the arbitration panel may delay issuing any decisions until after that hearing.

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

Cam

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**From:** Comfort, Cam (ATG)  
**Sent:** Wednesday, April 11, 2018 8:49 AM  
**To:** 'Bridges, Matt' <Matt.bridges@leg.wa.gov>; Cook, Bob <bcook@wshfc.org>; Davidson, Pam (OFM) <Pam.Davidson@ofm.wa.gov>; Edwards, Paul <paul.r.edwards@wshfc.org>; 'Fraser, Kristen' <Fraser.Kristen@leg.wa.gov>; Gavigan, Charlie <charlie.gavigan@leg.wa.gov>; Glasper, Marcus (DOR) <MarcusG@DOR.WA.GOV>; 'Herman, Kim' <Kim.Herman@wshfc.org>; 'Hertle, Mark'

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**Cc:** Aho, Brionna (ATG) <BrionnaF@ATG.WA.GOV>; Esquibel, Shane (ATG) <ShaneE@ATG.WA.GOV>; Fallis, Rusty (ATG) <RustyF@ATG.WA.GOV>; Feinstein, Deborah (ATG) <DeborahF1@ATG.WA.GOV>; Fraser, Betty (ATG) <BettyF@ATG.WA.GOV>; Gagnon-Bailey, Chantel (ATG) <ChantelG@ATG.WA.GOV>; Gaul, Judy (ATG) <JudyG@ATG.WA.GOV>; Giger, Edward (ATG) <EdwardG@ATG.WA.GOV>; Hankins, David (ATG) <DavidH1@ATG.WA.GOV>; Hoosier, Diane (ATG) <DianeP1@ATG.WA.GOV>; Melroy, Mark (ATG) <MarkM4@atg.wa.gov>; Nevares, Melanie (ATG) <MelanieN@ATG.WA.GOV>; Parker, Carrie (ATG) <CarrieP@ATG.WA.GOV>; Poulin, Raelynn G (ATG) <RaelynnP@ATG.WA.GOV>; Snoey, Janis (ATG) <JanisS@ATG.WA.GOV>; 'Tomisser, Rene' <rene.tomisser@atg.wa.gov>; Uhl, Erika (ATG) <ErikaS@ATG.WA.GOV>; Webb, Mike (ATG) <MikeW@ATG.WA.GOV>; Young, Alicia (ATG) <AliciaO@ATG.WA.GOV>

**Subject:** Independent Auditor's Second Revised MSA Payment Calculation

Dear MSA Contacts:

The independent auditor has provided a second and final revised calculation of the annual payment amounts that are due to the states in 2018 under the Master Settlement Agreement (MSA). The annual payment due to Washington has been nominally decreased to \$143,334,882.69 (from a revised calculation of \$143,335,818.64 and an initial calculation of \$143,334,911.15). Similar to last year, distributions will be wired just once, likely on April 19, rather than an initial distribution on April 16 and a second distribution several days later.

As a result of the second and final revised calculation, the State's share of the amounts calculated by the independent auditor to be due is \$101,481,096.94 (70.8%) and the Tobacco Settlement Authority's share is \$41,853,785.75 (29.2%). Based on prior years, however, some or most of the 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 (NPM) 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 independent auditor has not provided information on how much it expects participating manufacturers will withheld or place into the disputed payments account. The amounts withheld or deposited into the disputed payments account in prior years have been in the range of 11-13 percent.

If you have any questions, please feel free to contact me.

Cam

***Cameron G. Comfort***

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**From:** Comfort, Cam (ATG)  
**To:** [Bridges, Matt](#); [Bob Cook](#); [Davidson, Pam \(OFM\)](#); [Paul Edwards](#); [Fraser, Kristen](#); [Gavigan, Charlie](#); [Glasper, Marcus \(DOR\)](#); [Kim Herman](#); [Hertle, Mark](#); [Howdeshell, Toni \(TRE\)](#); [Carol Johnson](#); [Johnson, Dave](#); [Keegan, Kellee](#); [Leathers, Kathryn \(GOV\)](#); [Limtiaco, Frances \(DOH\)](#); [Lund, Linda \(TRE\)](#); [Myhre, Les \(OFM\)](#); [TRE MI A8 Mailbox](#); [Palmer, Melissa \(LEG\)](#); [Pannkuk, Richard \(OFM\)](#); [Penley, Sue \(TRE\)](#); [Smith, Vikki \(DOR\)](#); [Stamey, Gwen \(OFM\)](#); [Stav, Brenda \(LSDFA\)](#); [Debra L. Stephenson](#); [Swenson, Eric \(ERFC\)](#); [Thronson, Stuart \(DOR\)](#); [Andy Toulon](#); [TRE MI Investment Team Mailbox](#); [Williams, Lesa \(TRE\)](#)  
**Cc:** [Aho, Brionna \(ATG\)](#); [Esquibel, Shane \(ATG\)](#); [Fallis, Rusty \(ATG\)](#); [Feinstein, Deborah \(ATG\)](#); [Fraser, Betty \(ATG\)](#); [Gagnon-Bailey, Chantel \(ATG\)](#); [Gaul, Judy \(ATG\)](#); [Giger, Edward \(ATG\)](#); [Hankins, David \(ATG\)](#); [Hoosier, Diane \(ATG\)](#); [Melroy, Mark \(ATG\)](#); [Nevares, Melanie \(ATG\)](#); [Parker, Carrie \(ATG\)](#); [Poulin, Raelynn G \(ATG\)](#); [Snoey, Janis \(ATG\)](#); [Tomisser, Rene \(ATG\)](#); [Uhl, Erika \(ATG\)](#); [Webb, Mike \(ATG\)](#); [Young, Alicia \(ATG\)](#)  
**Subject:** Independent Auditor's Revised MSA Payment Calculations for April 2018  
**Date:** Tuesday, April 03, 2018 1:46:00 PM

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Dear MSA Contacts:

Based on updated information and making a few corrections, the independent auditor has provided revised calculations of the annual payment amounts that are due to the states in 2018 under the Master Settlement Agreement. The annual payment due to Washington has been nominally increased to \$143,335,818.64 (from an initial calculation of \$143,334,911.15). Similar to last year, distributions will be wired just once, likely on April 19, rather than an initial distribution around April 15 and a second distribution several days later.

As a result of the revised calculation, the State's share of the amount calculated by the independent auditor to be due is \$101,481,759.60 (70.8%) and the Tobacco Settlement Authority's share is \$41,854,059.04 (29.2%). Based on prior years, however, some or most of the 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 independent auditor has not provided information on how much it expects participating manufacturers will withhold or place into the disputed payments account. The amounts withheld or deposited into the disputed payments account in prior years have been in the range of 11-13 percent.

If you have any questions, please feel free to contact me.

Cam

***Cameron G. Comfort***

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**Subject:** Independent Auditor's Initial Estimates Regarding April 2018 MSA Payments  
**Date:** Wednesday, March 07, 2018 2:50:19 PM

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Dear MSA Contacts:

The independent auditor has provided an initial calculation of the payment amounts under the Master Settlement Agreement (MSA) that are due to the states on or about April 16, 2018. Based on its calculations, the independent auditor initial estimate is that the annual payment due to Washington next month is \$143,334,911.15. This is an increase from last year's initial estimate of \$130,246,427.67. The increase is largely due to the change this year in the annual base payment to \$9,000,000 compared to the previous annual base payment amount of \$8,139,000,000. The states, however, will not receive a strategic contribution payment because 2017 was the last year for that payment. The initial estimate is based on 2017 data available to the independent auditor through early March 2017 and is subject to change based on additional information that it receives before April 16. Of the amounts ultimately paid to Washington, the State's share will be 70.8 percent and the Tobacco Settlement Authority's share will be 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 2018, the volume adjustment will be based on the total number of cigarettes sold nationwide in 2017 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, the annual base payment and strategic contribution base payment amounts were \$8,139,000,000,000 and \$861,000,000 respectively. Beginning this year, the strategic contribution base payment amount has been added to the annual base payment amount resulting in an increased annual base payment amount of \$9,000,000,000. This change will adversely impact Washington's MSA payment in 2018 and thereafter compared to 2008-2017 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 in 2018 is 1.7901766 (or 79.01766 percent). During 2017, the change in “inflation” as defined under the MSA was 2.10908 percent. Since the annual inflation adjustment under the MSA is the greater of inflation as defined or three percent, the independent auditor used a three percent increase to determine the cumulative inflation adjustment percentage.

(c) VOLUME ADJUSTMENT

Absent a revision, the downward volume adjustment applying in 2018 will be .559379. That figure indicates that in 2017 the total number of cigarettes sold nationwide was 44.0621 percent of the total number sold in 1996. For comparison purposes, the volume adjustment in 2016 was .5337611. This means that the decrease in the number of cigarettes sold nationwide in 2017 compared to 2016 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 2018. Among other reasons, the independent auditor’s initial estimates do 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. We expect most participating manufacturers will do so again in 2018. In prior years, the amounts withheld and placed into the disputed payments account typically have been in the range of 12-13 percent.

When I receive additional information regarding this April’s MSA payments I 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 contact list or know of anyone who should be added.

Thanks, Cam

***Cameron G. Comfort***

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This e-mail may contain attorney work-product and confidential information subject to the attorney-client privilege. Please do not distribute this e-mail without my permission.

If it appears from the context or otherwise that you have received this e-mail in error, please notify me immediately by reply e-mail, keep the contents confidential, and immediately delete the message and any attachments from your system.

**From:** Creedon, Paul T  
**Cc:** [Green, Thomas H.](#); [Leffler, Mike.](#); [Jang, Michael.](#); [Larr, Allison.](#); [Keca, Dashmir](#)  
**Subject:** Tobacco Securitization Market Update - Altria Q1 Results and Additional NAAG Data  
**Date:** Monday, April 30, 2018 12:39:07 PM

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All,

On Thursday, April 26<sup>th</sup>, Altria (Philip Morris USA's Parent) reported in its 10-Q filing for the three months ended March 31, 2018 that its domestic cigarette shipment volume declined by 4.2%. When adjusted for trade inventories, Altria estimates that its first quarter 2018 domestic cigarette volume declined by 7% and total cigarette industry volume declined by 5.5%. Altria cited several causes for first quarter volume weakness including for the first time the migration of adult smokers to e-vapor products as a factor.

Also on Thursday, the National Association of Attorneys General ("NAAG") released MSA data related to 2017 cigarette shipments and market share. According to NAAG, sales year 2017 OPM domestic cigarette shipments as reported to MSAI declined by 5.1% from the prior to approximately 209.6 billion (RYO @ 0.0325 ounces per cigarette conversion rate) and total industry domestic shipments for 2017 were 248.5 billion cigarettes, a decline of 4.4% compared to 2016. The NAAG data also indicates a continued decline in OPM market share which dropped from 84.42% in 2016 to 83.99% in 2017. Both SPMs and NPMs gained market share with NAAG reporting SPM and NPM market share at 9.32% and 6.69%, respectively. According to NAAG the Potential NPM Adjustment percentage for sales year 2017 is 12.83%.

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

**Paul Creedon**

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**From:** Creedon, Paul T  
**Cc:** [Green, Thomas H.](#); [Leffler, Mike.](#); [Jang, Michael.](#); [Larr, Allison.](#); [Jang, Michael.](#); [Keca, Dashmir.](#); [Perkons, Rainer](#)  
**Subject:** Tobacco Securitization Market Update - NAAG 2018 MSA Payments  
**Date:** Monday, April 23, 2018 10:34:06 AM

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All,

On Friday, April 20<sup>th</sup>, the National Association of Attorneys Generals (“NAAG”) released the MSA payments to the states information for 2018. The data indicates that overall 2018 MSA payments to the states and territories through April 20<sup>th</sup> rose by 8.06% compared to 2017 payments with 2018’s payments totaling over \$6.69 billion. The NAAG information indicates that MSA payments to the states to dates total approximately \$126.21 billion. The overall increase was a function of a number of factors including an increase in the Base Amount used to calculate the Annual Payment from \$8.139 billion to \$9.0 billion and nine states joining the NPM Adjustment Settlement in 2018. There were differences in the percentage increase or decrease in 2018 MSA payments experienced by the individual states and territories based on the relationship of their Strategic Fund Payment Allocable Share (the last Strategic Fund Payment was made in April 2017) and Annual Payment Allocable Share as well as whether the state or territory is a signatory to the NPM Adjustment Settlement.

NAAG has not yet provided 2017 cigarette shipment, market share or potential NPM Adjustment information. We will provide such information to you when it becomes available.

In the interim, if you have any questions regarding this email, do not hesitate to contact any member of the Citi Tobacco Team

**Paul Creedon**

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**From:** Creedon, Paul T  
**Cc:** [\\*MSD US PFD Tobacco](#)  
**Subject:** Tobacco Securitization Market Update - CY End Cigarette Shipment Data from TTB and Altria  
**Date:** Wednesday, March 07, 2018 2:37:06 PM

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All,

Yesterday, March 6th, the U.S. Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau ("TTB") released its statistical report on tobacco for the December 2017 reporting period including cumulative CY 2017 domestic cigarette shipment data. The TTB report indicates that cumulative domestic cigarette shipments for CY end December 2017 totaled approximately 248.5 billion (measuring Roll-Your-Own tobacco at 0.0325 ounces per cigarette), a decline of approximately 4.07% compared to TTB's reported CY 2016 cigarette shipments of approximately 259.0 billion.

In addition, on February 28th, Altria, the parent of PM USA (the largest domestic cigarette manufacturer), reported in its 10-K for calendar year 2017 that PM USA's domestic cigarettes shipment volume decreased an estimated 5.0%. PM USA estimates that total cigarette industry volumes declined by approximately 4%.

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

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# THE BOND BUYER

## First-quarter shuffle: plunging supply shakes up underwriter, advisor league tables

By Aaron Weitzman

Published April 04 2018, 3:21pm EDT

Some top municipal underwriters and financial advisors slipped from their accustomed places in the quarterly rankings, as a drought in deals left firms scrapping for slices of a smaller pie.

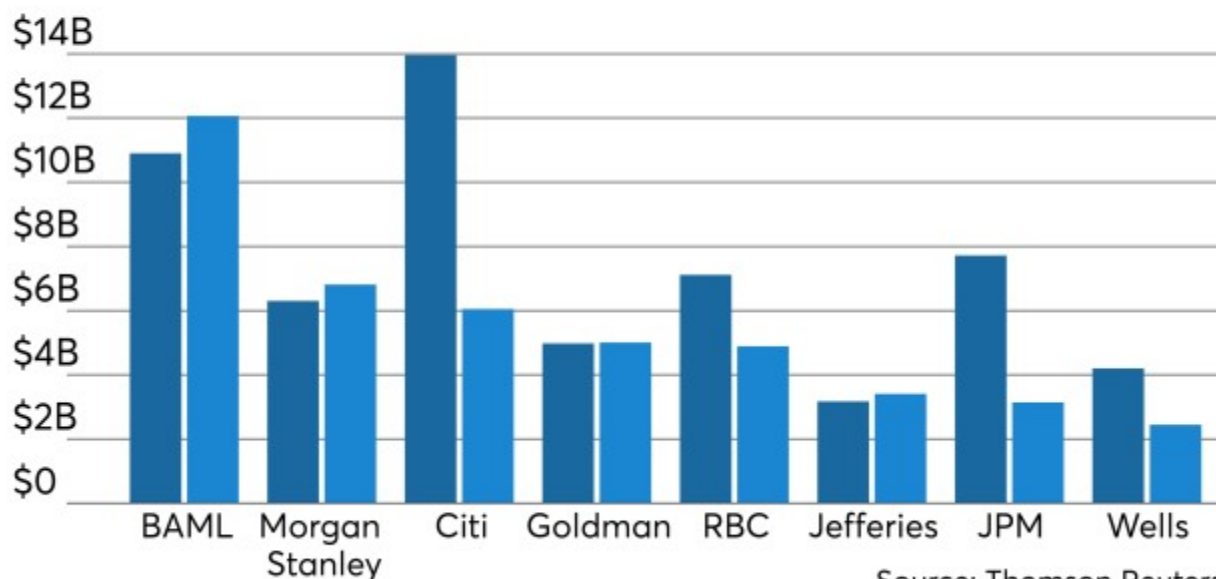
While Bank of America Merrill Lynch picked up where it left off to end 2017 -- leading the municipal bond underwriter rankings for the first quarter of 2018 -- Morgan Stanley rose past Citi into to second place and JPMorgan fell to seventh from fourth in the first quarter last year, according to Thomson Reuters data.

Public Resources Advisory Group overtook **Public Financial Management Inc.**, atop the financial advisor league table.

### Changes at the top

First-quarter par amount underwritten

● 2017 ● 2018



The well of municipal bonds deals dried up, after back-to-back years of issuance exceeding \$440 billion -- including record issuance year of \$444 billion in 2016 -- and a rush to market at the end of 2017, when issuers clamored to close both private activity bonds and advance refunding deals ahead of the new tax laws.

**"The chaos and uncertainty during the latter part of the fourth quarter in 2017 led many of our clients who are regular borrowers with sufficient transaction flexibility to accelerate planned issuances, especially advance refundings, to November and December of last year," said John Bonow, chief executive officer and managing director for the PFM Group. "That resulted, as expected, in some of the larger issues being moved out of the first quarter of 2018 even as the number of transactions remained robust."**

Volume for the top 12 underwriters dropped 28% to \$61.874 billion in 1,669 transactions for the quarter, from the \$86.489 billion in 2,263 deals in the first three months of 2017. BAML, Morgan Stanley, Goldman Sachs and **Jefferies** were the only underwriters credited with a higher par amount than in the first quarter of 2017.

BAML underwrote \$12.06 billion in 93 issues for the quarter or 19.5% market share, compared to \$10.89 billion or 119 transactions and 12.6% market share. The largest deals it ran the books on in the first quarter included: the Los Angeles Unified School District's \$1.2 billion, the Oklahoma Development Finance Authority's \$1.16 billion and Port Authority of New York and New Jersey's \$832 million. In total, the firm was lead manager on 19 deals with a par amount of \$100 million or larger.

Morgan Stanley climbed into second place, accounting for \$6.81 billion or 11% market share, up from \$6.29 billion or 7.3% market share. The firm was lead-manager on the state of California's \$2.18 billion, the Public Energy Authority of Kentucky's \$816 million and California Health Facilities Financing Authority's \$619 million.

"We're pleased with the results for the first quarter," said Brian Wynne, head of public finance at Morgan Stanley. "It was a combination of strong infrastructure and healthcare mandates from longstanding clients."

**Citi dropped to third place, ending the first three months of the year with \$6.04 billion or 9.8% market share, down from the \$13.95 billion it underwrote during the same period of the previous year, when it was in first place.**

Goldman Sachs moved up to the fourth spot with \$4.99 billion or 8.1% market share, up from the \$4.97 billion or 5.8% market share during the first quarter of 2017.

RBC was fifth for the quarter with \$4.88 billion, down from \$7.11 billion. The firm dropped a notch, as its market share dipped to 7.9% from 8.2%.

**Jefferies made the biggest leap, rising to sixth place with \$3.40 billion from 10th place with \$3.17 billion. The firm's market share rose to 5.5% from 3.7% during the same period. The firm was on 15 deals in total, including three big ones: it ran the books on the Commonwealth Financing Authority's \$1.49 billion, New York City Transitional Finance Authority's \$1 billion and New York City's \$700 million.**



**"We are pleased that the momentum we enjoyed in 2017 has continued into 2018," said Kym Arnone, managing director and joint-head of municipal investment banking at Jefferies. "We have been fortunate to lead high profile transactions for New York City, TFA, UConn and several tobacco issuers."**

**The firm is picking up where it left off so far with the second quarter underway.**

**"We are also pricing \$3.2 billion for New Jersey's Tobacco Settlement Financing Corporation this week," she said. "In the last three months we have also continued to make a number of strategic hires with Simon Wirecki on the west coast, Jaimie Scranton in Boston and Ryan Donovan in New York. Again we are grateful for the support of our clients and look forward to continuing this success for the balance of 2018 and beyond."**

JPMorgan slid to seventh place with \$3.13 billion or 5.1% market share, compared with \$7.71 billion or 8.9% market share a year earlier.

Wells Fargo is next with \$2.44 billion, followed by Stifel, responsible for the most transactions with 115, and a par amount of 2.16 billion. Rounding out the list was Raymond James with \$1.79 billion, followed by Piper Jaffray with \$1.65 billion and Barclays with \$893 million.

### **Financial Advisors**

PRAG finished the quarter with \$10.38 billion or 19.3% market share, compared with \$11.27 billion or 15.3% market share a year earlier.

**Public Financial Management finished second with a par amount of \$9.27 billion in 156 deals, good for a 17.2% market share. That compares with \$15.35 billion in 269 deals or 20.9% market share.**

**"PFM clearly values the trust placed in our financial and pricing advisory services by all types of issuer clients across the country," said Bonow. "The remainder of 2018 will likely be marked by continuous market upheaval across many markets and we will continue working closely with all clients to help them navigate the municipal market changes, federal funding uncertainty, balance sheet pressures, and systemic challenges in operations, funding needs and credit profiles."**

Hilltop Securities ranked third with \$3.81 billion, followed by Municipal Capital Markets Group Inc., with \$2.54 billion and then Acacia Financial Group rounding out the top five with \$2.17 billion.