

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

Minutes

December 15, 2015

The Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:00 p.m. on Tuesday, December 15, 2015.

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. Board members Mr. Mike Roberts, Ms. Marlis Petersen Spawn, Mr. Tim Kerr and Mr. Gavin Cooley were present in the board room. Authority staff members present were Mr. Kim Herman, Mr. Paul Edwards, Ms. Debra Stephenson, Ms. Carol Johnson and Mr. Cody Field. Finance team members present were Ms. Faith Pettis of Pacifica Law Group, Ms. Debbie Kuykendall of U.S. Bank, Mr. Fred Eoff of Public Financial Management, and Assistant Attorney General, Mr. Rusty Fallis. Also present were Ms. Amy Sutherland and Ms. Alexa Parker of Moss Adams. Joining via teleconference was Mr. Roger Bagley of Hawkins, Delafield and Wood, and Mr. Paul Creedon of Citigroup Global Markets.

Introductions

Ms. Dewberry introduced the Authority’s newest Board member, Mr. Gavin Cooley. Mr. Cooley is the CFO for the City of Spokane. He became the City’s first CFO in 2003 under the new ‘Strong Mayor’ form of government. He has since served five Mayors. Before joining the City of Spokane he was the CFO for North Coast Life Insurance Company and CFO for R.J. Martin Mortgage Co. Earlier, he was with Coopers & Lybrand in Spokane and Price Waterhouse in Seattle. Prior to his career in finance, he was a wine steward with Rosellini’s in Seattle, then Washington’s only four-star restaurant. He is also involved with numerous community activities.

Ms. Dewberry introduced the Authority’s new Assistant Attorney General, Mr.

Rusty Fallis. Mr. Fallis has represented the Authority in the past, specifically regarding the nonparticipating manufacturer's dispute and arbitration hearings. He is replacing John Ryan who was the TSA's previous AAG. Ms. DewBerry thanked Mr. Ryan for his service to the Authority.

**Approval of the
June 9, 2015
Minutes**

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on June 9, 2015. Mr. Kerr made the motion and it was seconded by Mr. Roberts. The minutes were approved unanimously.

**Request for
Proposal (RFP)
Process for
Investment
Banking Services**

Ms. DewBerry introduced Mr. Herman to lead a discussion regarding running a request for proposal (RFP) process for updated investment banking services. Mr. Herman stated that under a competitive RFP process in 2011, the Authority engaged Barclays Capital as Book-Running Senior Manager and Citigroup Global Markets as Co-Senior Manager. Contract terms were for 2 years with options to extend for one year for up to 5 years. On November 30 these contracts were up for extension for an additional year. This would have been the third of 5 potential options to extend the investment banking contract.

Mr. Herman stated that Kym Arnone has been the Authority's investment banker, first with Bear Sterns and then with Barclays Capital, since 2002. Ms. Arnone left Barclays Capital this past summer. She just recently joined Jeffries LLC as the joint head of its municipal investment banking business unit. He noted that the remaining members of the tobacco team at Barclays Capital have also left to join Jeffries LLC. Leadership at Barclays contacted the Authority to inform staff that they no longer had a team with tobacco expertise and that they could not satisfy the terms of the Authority's contract with them if asked. Authority staff and Barclays jointly decided to let the Barclay's contract expire based upon this disclosure.

Mr. Herman stated that at this time, the Authority does not have a Book-Running Senior Manager in place. Staff has extended the contract with the Citigroup, the Authority's Co-Senior Manager, for three months thru the end of February. The

reasoning for the 3 month extension was to give the Authority time to run a competitive RFP process to establish a full investment banking team with the necessary expertise and experience in the tobacco market.

At this time, staff is seeking approval to run a RFP process for updated investment banking services. Staff feels that it is imperative that the Authority has knowledgeable and experienced professionals on the TSA finance team.

Mr. Roberts asked about the anticipated lengths of terms of service. Mr. Herman stated that state guidelines and the practice the Authority usually follows is to sign a two year contract with the possibility of extending the contract for three one year terms. Mr. Roberts asked if there would be any changes to the contract. Mr. Herman stated that upon approval to move forward, staff would review the current RFP and consider the current bond issue and market to determine whether changes are necessary.

Mr. Cooley asked who usually sits on the RFP selection team. Mr. Herman stated that the Board is invited to join staff on the interview panel.

Mr. Kerr asked if the RFP will be circulated to the Board for review. Mr. Herman stated that staff would be happy to circulate a draft of the RFP for review.

Ms. DewBerry asked for a motion to authorize the staff to prepare an RFP for investment banking services and to provide a copy in advance to the Board members, giving them an opportunity to comment; in addition to working with interested Board members to make a recommendation about the engagement of a team to provide investment banking services. Mr. Roberts made the motion and it was seconded by Ms. Petersen Spawn. The motion was approved unanimously.

Audit Report

Ms. DewBerry asked Ms. Stephenson to present the financial report. Ms. Stephenson introduced Ms. Sutherland, the Authority's auditor from Moss Adams, to discuss the 2015 Audit Report.

Ms. Sutherland summarized the audit process, stating that no material weaknesses in internal controls were noted. The audit focused on the bond fund, including investments, TSR receivables, bonds payable, tobacco settlement revenues, interest income and interest expense; and the operating fund. Additionally, the auditors look at and confirm outstanding balances for cash and investments as well as the internal control structure.

Ms. Sutherland presented the required communications to the Board noting that there were no changes in the Authority's accounting practices or policies, no difficulties were encountered and there were no disagreements with management. There were no known instances of fraud during the year.

Ms. Sutherland reported that there were no material misstatements or uncorrected misstatements. There was no consultation with other accountants by management. There were no significant issues encountered during the audit. Moss Adams affirms that they are independent with respect to the Tobacco Settlement Authority.

Ms. Petersen Spawn asked about the references to lawsuits in the Contingency footnote and whether there were any lawsuits relevant to Washington State. Ms. Stephenson stated that the only material issue from the Authority's perspective is MSA enforcement issues and the release of additional funds.

Mr. Kerr asked where the settlement funds received by the Authority were recorded in the audit report. Ms. Sutherland stated that the settlement funds are included on page 20, under Tobacco Settlement Revenues and Other Income.

Ms. DewBerry asked for a motion to accept the audit report. Mr. Cooley made the motion and it was seconded by Mr. Roberts. The motion was approved unanimously.

Financial Statement

Ms. DewBerry introduced Ms. Stephenson to present the financial statement. Ms. Stephenson stated that the financial statement represents the year to date activities through October 31st. The balance sheet shows total assets of \$115.2 thousand and total liabilities just over \$17 thousand bringing the net position to \$97.6 thousand. Interest revenue of \$1 and expenses of \$25,300 brings the Authority's net position to \$97,657.

Mr. Cooley asked how the interest income is generated. Ms. Stephenson stated that the investments are in a money market at this point. Ms. Stephenson noted that the Authority receives its money through the bond fund by providing an Officer's Certificate, as outlined in the Bond Indenture.

Ms. DewBerry asked for a motion to accept the financial statement. Mr. Kerr made the motion and it was seconded by Mr. Roberts. The motion was approved unanimously.

Invoice for Services

Ms. DewBerry introduced Ms. Stephenson to present the Invoice for Services. Ms. Stephenson stated that the invoice from the Housing Finance Commission for the services rendered for August, September, and October has been approved by the Board Treasurer.

Tobacco Securitization Market Update

Ms. DewBerry introduced Mr. Eoff to present the tobacco securitization market update. Mr. Eoff presented the market update, commenting on interest rates in the general market and the Federal Reserve. He noted that the tobacco sector of the market has been quite robust in the last short term period of time. Investor interest in tobacco bonds has been quite strong. Tobacco product shipment is on track to show its first increase since 2006.

Trustee Report

Ms. DewBerry introduced Ms. Kuykendall to present the Trustee's Report. Ms. Kuykendall stated that there was a bond redemption on December 1 for \$225 thousand. The primary source of this redemption was Lehman settlement receipts. There normally is no excess cash for redemptions in December. She noted that the

Officer's Certificate is also recorded in this report. The rating agency report was submitted on December 1st. The audited financials were posted to EMMA on November 3rd. The Authority's reserves continue to be held at the required balance.

**Executive
Director's
Report**

Ms. DewBerry introduced Mr. Herman to present the Executive Director's Report. Mr. Herman summarized the articles available in the Board meeting packet. He noted that Nat Singer has been elected as MSRB Chair and will be replacing Kym Arnone. Mr. Singer is the Managing Director of Swap Financial Group, who was the Authority's advisor during the Lehman Brothers lawsuit and quantitative consultant during mediation.

Mr. Cooley asked about the approximately 12% discrepancy in projections of TSR receipts. Mr. Herman stated that two things affect TSR receipts: sales and money placed in the NPM mediation accounts. The Authority has calculated a non-payment rate of up to 10% for the estimated decline in sales.

Ms. Petersen Spawn asked if there are any options for investing the Authority's reserves. Mr. Herman stated that there aren't many options. Ms. Stephenson noted that the structure is very limiting and the funds need to be available every six months.

Mr. Herman noted that the next scheduled meeting is June 8, 2016.

Ms. DewBerry asked if there were any comments from the public. There were no comments.

Adjournment

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

Ms. Carla DewBerry, Chair