

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

Minutes

June 8, 2016

The Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:02 p.m. on Wednesday, June 8, 2016.

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 and Mr. Tim Kerr were present in the board room. Board members Ms. Marlis Petersen Spawn and Mr. Gavin Cooley were present by telephone. 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, and Assistant Attorney General, Mr. Rusty Fallis. Joining via teleconference was Ms. Kym Arnone of Jefferies LLC; Mr. Roger Bagley of Hawkins, Delafield and Wood, Mr. Fred Eoff of Public Financial Management, and Mr. Tom Green and Mr. Paul Creedon of Citigroup Global Markets.

**Approval of the
February 26,
2016 Minutes**

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on February 26, 2016. Mr. Kerr moved approval of the minutes. Mr. Roberts seconded the motion. The motion was approved unanimously.

**Election of
Secretary and
Treasurer**

Ms. DewBerry introduced Mr. Herman to present the election of Board Secretary and Treasurer. Mr. Herman stated that each year, the Board elects a Secretary and a Treasurer. He noted that the past year, Mr. Roberts served as Secretary and Ms. Petersen Spawn served as Treasurer. Mr. Roberts and Ms. Petersen Spawn have volunteered to continue in their respective roles if the Board chooses to nominate and elect them.

Ms. DewBerry asked for a motion to elect Mr. Roberts as Secretary. Mr. Kerr

made the motion and it was seconded by Ms. Petersen Spawn. The motion was approved unanimously.

Ms. DewBerry asked for a motion to elect Ms. Petersen Spawn as Treasurer. Mr. Kerr made the motion and it was seconded by Mr. Roberts. The motion was approved unanimously.

**Annual Budget
for the Period
July 1, 2016 –
June 30, 2017**

Ms. DewBerry introduced Ms. Stephenson to present the annual budget for the fiscal year ending June 30, 2017. Ms. Stephenson stated that the Authority requested an Officer's Certificate totaling \$141,000 in the current fiscal year, eliminating the need to budget additional revenue. Budgeted expenses totaling \$120,389 represent a 3% reduction from the prior year's budget. This is due to reductions in allocated Commission expenses from delayed software implementation.

Mr. Cooley asked about the variance between the projected actual in fiscal year 2016 and the amount proposed for fiscal year 2017 with regard to employee expenses. Ms. Stephenson stated that this difference is related to the time spent by Commission staff on Authority activities. Specific budgeted amounts are allocated in order to meet the needs of the Authority, however if they are not used, the Authority is not charged. Staff continues to budget just under .5 FTEs in order to accommodate the needs of the Authority.

Ms. DewBerry asked if the employee expenses were higher than budgeted in 2015 when the Authority had unresolved legal issues. Ms. Stephenson stated that employee expenses were budgeted about 5 to 10 percent higher.

Ms. DewBerry asked for a motion to approve the annual budget. 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 as of April 30, 2016 shows assets just under \$85 thousand and \$9 thousand of liabilities for a net position of just under \$76 thousand. She noted a total of \$5 interest earned with expenses just over \$47 thousand for an excess of expenses over revenues totaling just over \$47 thousand.

Ms. DewBerry asked for a motion to accept the Financial Statement. Mr. Roberts made the motion and it was seconded by Mr. Kerr. 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 period January 1, 2016 through April 30, 2016 totaling \$9,087.37 has been approved by the Board Treasurer. She noted that this invoice is considerably lower than prior years.

Tobacco Securitization Market Update

Ms. DewBerry introduced Ms. Arnone to present the Tobacco Securitization Market Update. Ms. Arnone presented her report noting that Tobacco has been one of the true bright spots in the municipal high yield sector in 2016, continuing the trend initiated in 2015. Over the last 6 months the tobacco market has improved dramatically.

Trustee Report

Ms. DewBerry introduced Ms. Kuykendall to present the Trustee report. Ms. Kuykendall stated that TSRs were used to pay the interest due on June 1, 2016. There were also enough funds held back to pay the interest due on December 1, 2016. Next, funds were applied to pay the maturities for June 1, 2016 totaling \$19,730,000. With the funds remaining, bonds were called ahead of their maturity in the amount of \$11,475,000. The term bond due in 2024 has been completely paid down at this point and \$11,475,000 was applied to the 2025 maturity.

Ms. Kukendall stated that the actual TSR receipts for June 1, 2016 totaled just

**Executive
Director's
Report**

over \$44 million and noted that Lehman funds continue to trickle in. The reserve is fully funded at this time. At this time, all required compliance reporting is up to date, including the rating agency report, which was mailed on June 1, 2016.

Ms. DewBerry introduced Mr. Herman to present the Executive Director's report. Mr. Herman stated that according to emails from Senior Assistant Attorney General Cam Comfort, the MSA payment of \$44,639,587.77, is approximately \$1.9 million more than last year's adjusted payment. MSA payments to Washington are still subject to funds being withheld based on claims related to the non-participating manufacturer's ("NPM") adjustment. The 2003 adjustment has been resolved for Washington. The adjustments continue to be an issue each year and are addressed via a lengthy mediation process. Mr. Comfort also noted in his emails that the NPM adjustment for the State of Washington is more than \$18 million this year.

Ms. Herman noted that two weeks ago, Authority staff met with Mr. Comfort and Mr. Fallis. They provided more detail on the non-participating manufacturer adjustments and what they anticipate regarding future mediations in Washington going forward. Washington was determined to have diligently enforced the provisions of the MSA in 2003. They fully expect the same outcome for 2004. They are hoping that another positive outcome will result in Washington being exempted from withholding at some point in the near future. Funds withheld are typically in the 10-12% range which adds up to a significant amount over time.

Mr. Herman stated that last week staff met with Mr. Fallis to provide an overview of the Tobacco Settlement Authority. Mr. Fallis was the Authority's Assistant Attorney General a few years back. Prior to this appointment as the Authority's AAG he was instrumental in securing the positive outcome for the TSA's 2003 NPM holdback.

Mr. Herman summarized the articles provided in the Board meeting packet. He noted that the next Authority meeting is scheduled for Wednesday, December 7,

2016 or as needed.

Mr. Kerr asked about the balance of the NPM dispute account. Mr. Herman stated that staff would send an inquiry to the Attorney General's office to get an accurate total. Mr. Herman noted that this is one of the reasons the Authority has fallen behind in its expected payments. The other reason is consumption declines. Mr. Kerr asked if the disputed funds are held by a trustee. Mr. Herman stated that the money is held in an adjustment account.

Mr. Roberts asked if there is a scenario in which the Authority pays off its bonds and still is owed money from the dispute account. Mr. Herman stated that there could be money in the account after the Authority pays off its bonds. Mr. Roberts asked if the State of Washington would take an interest at that point. Mr. Herman stated that the State of Washington would probably benefit from any money left in the dispute account.

Ms. Petersen Spawn asked about the status of the 2004 mediation. Mr. Herman stated that selecting judges for mediation is a long process. Mr. Fallis stated that the panel of judges has been seated for the 2004 mediation. Given the milestones built into the first pretrial order, he guessed that the evidentiary hearing would begin in the summer of 2017, with the decision following a few months after that. It is theoretically possible that Washington could get a free pass, in which its diligence would not be contested. He noted that this isn't likely and it will probably be about a year or more until a decision is made.

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

Adjournment

Ms. DewBerry adjourned the meeting at 1:34 p.m.

Ms. Carla DewBerry, Chair

June 8, 2016