

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

Minutes

December 7, 2016

Board Secretary, Mr. Mike Roberts, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:08 p.m. on Wednesday, December 7, 2016. Board Chair, Ms. Carla DewBerry arrived at 1:09 p.m.

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 Mr. Roberts and Ms. DewBerry, board members Ms. Marlis Petersen Spawn and Mr. Tim Kerr were present in the board room. Mr. Gavin Cooley was present by phone. Authority staff members present were Mr. Kim Herman, Mr. Paul Edwards, Mr. Bob Cook, Ms. Carol Johnson and Mr. Cody Field. Authority Senior Controller, Ms. Debra Stephenson, was present by phone. 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. 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 8, 2016
Minutes**

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on June 8, 2016. Mr. Roberts made the motion and it was seconded by Mr. Kerr. The minutes were approved unanimously.

**Request for
Quotations/
Qualifications
(RFQQ) Process
for Legal
Counsel**

Ms. DewBerry introduced Mr. Herman to present staff recommendations regarding selection of legal counsel. Mr. Herman stated that Staff conducted a thorough Request for Quotes and Qualifications (RFQQ) process for selection of legal services for an initial term of two years with annual options to extend for a total contract term of five years. The RFQQ was mailed to all firms on the TSA’s legal counsel roster, posted to the State General Administration Database System, and posted on the TSA website. All interested parties were given an opportunity

to ask questions and obtain clarification in writing. Mr. Herman noted that the Authority received six responses.

An evaluation team consisting of Ms. DewBerry and Authority staff thoroughly reviewed the submitted proposals and elected not to conduct formal interviews. All of the participants have been informed of the recommendations to the Board.

Mr. Herman stated that the recommendations are to keep Pacifica Law Group, represented by Faith Pettis, as co-bond counsel; Hawkins, Delafield, and Wood LLP, represented by Howard Zucker and Roger Bagley as co-bond counsel; and Nixon Peabody LLP, represented by Virginia Wong, as disclosure counsel.

Ms. Petersen Spawn asked what objectives were used to evaluate the proposals. Mr. Herman stated that the panel looked at professional experience in the area of tobacco and bond finance, the firm's reputation, and who will represent the firm on the Authority's behalf. Staff also checks references. Ms. Johnson noted that fees and office locations are also evaluated.

Ms. Dewberry asked for a motion to approve staff recommendations regarding selection of legal counsel. Mr. Roberts made the motion and it was seconded by Mr. Kerr. Mr. Cooley asked if there were any significant changes to costs or contract provisions between the proposals and prior contracts. Mr. Herman stated that there were no significant changes. The motion was approved unanimously.

Audit Report

Ms. DewBerry asked Mr. Cook to present the audit report. Mr. Cook stated that notes 1 through 4 provide a good description of the organization and its purpose. He noted that tobacco settlement revenues totaling \$44.6 million were received during the year. Bond principal of \$31,430,000 and \$13.9 million of interest were paid during the fiscal year. At the end of June 30, 2016, the Authority had \$241,795,000 left outstanding.

Mr. Cook introduced Ms. Sutherland, Engagement Manager from Moss Adams,

the Authority's audit firm, to present the auditor's required communications. Ms. Sutherland presented her report noting the audit was performed in accordance with the initial plan and issued on October 17, 2016. The audit is an unmodified opinion. No material misstatements or errors were identified within the financial statements. The auditors did not identify any material weakness or significant deficiencies.

Ms. Sutherland stated that most of the effort is spent on the TSR receivables and revenue, noting that the process for forecasting revenue put in place by management is very accurate. Moss Adams also confirms the balance of cash and investments.

Ms. Sutherland summarized the responsibilities under auditing standards. She noted that this year one new governmental accounting standard was implemented concerning fair value measurement and application, which resulted in additional disclosures but no change to actual accounting. There were no difficulties encountered during the audit and no disagreements with Management. No material misstatements or uncorrected items were identified. Management did not consult with other accounting firms and no significant issues were noted. Ms. Sutherland reaffirmed Moss Adams' independence with respect to the Authority.

Ms. DewBerry asked for a motion to accept the audit report. Ms. Petersen Spawn made the motion and it was seconded by Mr. Roberts. The motion was approved unanimously. Mr. Cook noted that with this audit cycle, the Authority has ended the current agreement with Moss Adams. The Authority has gone through its initial two-year agreement and three one year extensions. An RFP was issued on December 1st. Interviews are tentatively scheduled for January 17th. Authority Board Members are invited to participate.

Financial Statement

Ms. DewBerry introduced Mr. Cook to present the financial statement. Mr. Cook stated that the financial statement for the four-month period through October 31, 2016 shows assets of approximately \$171 thousand with \$18 thousand of payables leaving a net unrestricted position of \$153 thousand. There was \$180 of

interest earned and expenses of \$29.6 thousand leaving a deficit for the year, which was anticipated.

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

Invoice for Services

Mr. Cook stated that the invoice from the Housing Finance Commission for a six-month period totaling just over \$13 thousand has been 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 in June, the tobacco market was very strong; however, since the presidential election, the municipal market has sold off dramatically. Roughly \$5 billion has come out of the municipal bond fund, with more than half of that coming out of high yield bond funds. She stated that the market rallied roughly 10 basis points and is on track to rally another 16, reversing some of the trends that existed over the last couple of weeks.

Ms. Arnone stated that for the 9-month period, ending September 30, shipments declined 1.8%. This is a little bit higher than last year but well below historical averages.

The Authority's outstanding tobacco bonds totaling \$241.4 million are scheduled to repay by 2023.

Trustee Report

Ms. DewBerry introduced Ms. Kuykendall to present the Trustee's Report. Ms. Kuykendall stated that there are usually no redemptions to report in December, but because the Authority continues to receive payments from Lehman, over the past 6 months three optional redemptions of the turbo bonds occurred. She noted that the redemptions in August, September and December total \$395 thousand.

**Executive
Director's
Report**

The actual receipts totaled \$385 thousand, but the interest expense was leveraged to the Authority's advantage by calling the bonds early and the surplus was applied to the redemption.

Ms. Kuykendall noted that she submitted the semi-annual rating agency report on December 1 as required, the audited financials were posted to EMMA, and the reserve is still at its required level.

Ms. DewBerry introduced Mr. Herman to present the Executive Director's Report. Mr. Herman stated that the contract with PFM as financial advisor has been renewed for another year, noting that PFM is consistently rated among the top financial advisory firms in the U.S.

Mr. Herman summarized the articles in the meeting packet regarding cigarette taxes and "vape" bonds. The next meeting is scheduled for June 7, 2017 or as needed.

Mr. Herman noted that the Authority is still waiting to go through the second year of mediation regarding enforcement of the MSA. Because the Authority won its first year of mediation, there is a possibility that some of those withheld payments may be released earlier.

Ms. DewBerry asked Mr. Fallis to make a statement. Mr. Fallis provided an update on the NPM adjustment arbitration, noting that discovery is ongoing for 2004. The evidentiary hearing is scheduled to start in June of 2017. Washington likely will not get a free pass. State specific arbitrations will occur in the fall of 2017 and a decision is unlikely to be made until 2018.

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

Adjournment

Ms. DewBerry adjourned the meeting at 1:46 p.m.

Ms. Carla DewBerry, Chair