

TOBACCO SETTLEMENT AUTHORITY
Special Meeting

Minutes

August 2, 2022

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:32 p.m.

All board members participated remotely. Board member, Mr. Wolfgang Opitz, was on the line. Board member, Mr. Ken Vyhmeister, joined the meeting at 1:50 p.m.

Authority staff joining via Zoom were Mr. Steve Walker, Executive Director; Ms. Carol Johnson, Assistant Director; and Ms. Fenice Taylor, Senior Finance Director. Staff present in-person were Mr. Lucas Loranger, Senior Controller; and Ms. Rona Monillas, Program Coordinator.

Also present on the line were Ms. Faith Pettis of Pacifica Law Group; Ms. Christine Ok of U.S. Bank; Mr. Nam Nguyen, Mr. Josh Weissman, and Mr. Scott Forbes from the Washington Attorney General’s Office; and Ms. Kym Arnone and Mr. Bill Bloom of Jefferies LLC.

Informational items were covered at the start of the meeting because there was no quorum. Discussion of action items began at 2:00 p.m. when a quorum was secured.

Introductions and Acknowledgements

Mr. Walker introduced and welcomed the Authority’s new Assistant Attorney General, Nam Nguyen.

Mr. Walker introduced and welcomed the new Senior Finance Director, Ms. Fenice Taylor. He thanked Mr. Loranger for taking on the role while the Authority was searching for a new senior finance director.

**Executive
Director's
Report**

Mr. Walker gave a summary of relevant articles and correspondence in the board meeting packet.

**Tobacco
Securitization
Market Update**

Ms. DewBerry introduced Ms. Kym Arnone to present the Tobacco Securitization Market update, who asked Mr. Bloom to present the report.

Mr. Bloom reported a decrease in the domestic cigarette shipment volume. He stated that 2021 was a good year from a payment perspective.

Mr. Bloom discussed some regulatory developments, including the ban on menthol flavored cigarettes, nicotine reduction, and JUUL.

Trustee Report

Ms. DewBerry introduced Ms. Christine Ok, from U.S. Bank Trust Company, National Association, the Bond Trustee, to present the Trustee's Report.

Ms. Ok reported that annual receipts from the TSRs were received and applied to the upcoming principal and interest payment in June.

Ms. Ok reported that payments for interest due for both the 2013 series and 2018 series were received and will be paid to bond holders in December. Series 2013 bonds are outstanding in the amount of \$27,045,000 and Series 2018 bonds are outstanding in the amount of \$33,030,000, totaling \$60,075,000 in total bonds outstanding.

Ms. Ok said that payments continue to come in from the Lehman bankruptcy. She received a check totaling \$2,836 in June.

Ms. Ok stated that the required semi-annual report was submitted to the rating agency. She also reported that the total reserve was maintained at \$31,997,719.44.

**Status of
2004 NPM
Adjustment
Arbitration**

Ms. DewBerry introduced Mr. Josh Weissman from the Attorney General's Office to give a report on the status of the 2004 Nonparticipating Manufacturer (NPM)

adjustment arbitration.

Mr. Weissman stated that Washington State will be subject to the NPM adjustment for 2004 after being found to be non-diligent in September 2021. He said that Washington State has challenged the decision in court as well as other matters associated with that arbitration. He added that those issues are currently on appeal in the Washington State Court of Appeals. They are not expected to be resolved this year.

Mr. Weissman reported that the 2004 NPM adjustment hit to Washington State in April 2023 is estimated to be between \$33.8 and \$34.3 million.

Mr. Weissman stated that 2005-2007 arbitration has started, with nine states taking part. The hearings for these states are scheduled to occur in 2023 and 2024. He said that Washington State's hearing is tentatively scheduled for April and May 2023.

Approval of the Minutes

The minutes of the November 16, 2021, special meeting were approved as distributed.

Election of Secretary and Treasurer

Ms. DewBerry introduced Mr. Steve Walker to present staff recommendations for the election of Board Secretary and Treasurer.

Mr. Walker stated that each year the Board elects a Secretary and a Treasurer. He noted that the past year, Mr. Kerr served as Secretary and Mr. Opitz served as Treasurer. He added that Mr. Kerr served as Secretary until the end of his term in June.

Mr. Walker stated that Mr. Vyhmeister has offered to serve as Secretary and Mr. Opitz has offered to continue in the position of Treasurer if the board chooses to nominate and elect them.

The motion to elect Mr. Vyhmeister and Mr. Opitz as Secretary and Treasurer,

respectively, was made by Mr. Opitz. The motion was seconded by Ms. DewBerry. The motion was approved unanimously, 3-0.

**Action Item:
Approval of
the Annual
Budget**

Ms. DewBerry introduced Mr. Loranger to present the proposed annual budget for the fiscal year beginning July 1, 2022 thru June 30, 2023.

Mr. Loranger presented an overview of the expense budget for the fiscal year ending June 30, 2023. He stated that staff budgeted for two years' worth of operating expenses in order to account for a potential MSA revenue reduction in 2023 associated with the 2004 NPM arbitration ruling.

Mr. Loranger reminded the board that the Authority does not have direct employees and only contracts for staffing through the Washington State Housing Finance Commission. He added that the Authority is no longer contracting for a deputy director position. Mr. Walker described how staff arrived at that decision.

Mr. Vyhmeister said that the proposed budget is neutral from the previous budget. He asked if this is because of additional IT staff. Mr. Loranger confirmed that it was.

Mr. Loranger called the Board's attention to a more detailed breakdown of the expenses.

Ms. DewBerry asked for a motion to accept the budget for fiscal year 2022-2023. Mr. Opitz made the motion, and it was seconded by Mr. Vyhmeister. The motion was accepted unanimously, 3-0.

**Action Item:
Approval of
Current
Financial
Statement**

Mr. Loranger presented the unaudited, current financial statement of the Authority's General Operating Fund.

Mr. Loranger stated that the financial statements as of May 31, 2022, indicate assets of about \$330,000 and liabilities of \$21,000. To date, revenue has exceeded

expenses, leaving \$309,000 in net assets. He then referred to the detailed breakdown of expenses on the last page.

Mr. Vyhmeister asked the reason behind the 24% increase in insurance. Mr. Loranger said that insurance policy rates increase yearly. Mr. Opitz confirmed that their agency's insurance costs, which also cover liability and cyber security, increased by two digits.

Mr. Loranger stated that the invoice from the Housing Finance Commission covering October 2021 through March 2022, totaling over \$21,000, has been approved for payment by Board Treasurer, Mr. Opitz.

Ms. DewBerry asked for a motion to approve the current financial statement. Mr. Opitz made the motion, and it was seconded by Mr. Vyhmeister. The motion was approved unanimously, 3-0.

Mr. Walker said that the next Authority board meeting will be on December 7, 2022.

**Public
Comment**

Ms. DewBerry asked if there were any comments from the public. There were none.

Adjournment

Ms. DewBerry adjourned the meeting at 2:15 p.m.

Ms. Carla DewBerry, Chair