

TSA

TOBACCO SETTLEMENT AUTHORITY

**Tobacco Settlement
Authority**

Special Meeting

June 24, 2024



TOBACCO SETTLEMENT AUTHORITY

Meeting Agenda – revised 6-20-24

YOU ARE HEREBY NOTIFIED that the Tobacco Settlement Authority will hold a Special Meeting at 1:00 p.m. prevailing Pacific Time on Monday, June 24, 2024, at Pacifica Law Group offices located at 1191 2nd Avenue, Suite 2000, Seattle, WA 98101, to consider the items in the agenda below.

Pursuant to RCW 42.30.030(2), which encourage public agencies to provide for public access to meetings, this meeting can also be viewed via Zoom or joined telephonically.

To join virtually, please go to www.zoom.us and enter:

Meeting ID: 854 3784 8822

Passcode: 623546

Participants using a computer without a microphone who wish to participate verbally, please dial: 1-(888) 788-0099 U.S. toll-free.

Please note that the line will be muted to the public except during the public comment portions of the meeting.

I. CALL TO ORDER: Chair, Carla DewBerry

II. APPROVAL OF THE AUGUST 1, 2023 SPECIAL MEETING

MINUTES: Chair 1

III. ACTION ITEMS:

A. Finance Report – Lucas Loranger

1. Review and consider acceptance of Fiscal Year 23 Financial Audit Report 2

a. Presentation of Independent Auditor’s Report – Eide Bailly

2. Review and consider acceptance of Fiscal Years 2020 to 2023 Accountability Audit Report



a. Presentation of State Auditor’s Report – State Auditor's Office

3. Review and consider acceptance of the current Financial Statement

3

4. Invoice for Services

4

B. Consider and Act on Resolution #24-01 concerning approval of the Sale,
Assumption and Dissolution Agreement and dissolution of the Tobacco Settlement

Authority – *Steve Walker*

5

IV. PUBLIC COMMENT: Chair

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

V. EXECUTIVE SESSION *(if necessary)*

VI. ADJOURNMENT

PUBLIC ENGAGEMENT AT AUTHORITY MEETINGS

All Board meetings of the Tobacco Settlement Authority are open to the public. Our intention is to welcome all members of the public and to provide a clear and reasonable process through which they can share their thoughts with us.

Different ways to Join the Authority Meetings:

1. Meeting link:
<https://us02web.zoom.us/j/85437848822?pwd=V2diV21TY2hycXRDWDJiRkYyMUtnQT09>
2. At www.zoom.us, go to “Join a Meeting,” and enter:
Meeting ID: 854 3784 8822
Passcode: 623546
3. To participate by phone, dial: 1-(888)-788-0099 or 1-(877)-853-5247
4. Members of the public can attend the 1:00 p.m. Special Meeting in-person at Pacifica Law Group offices located at 1191 2nd Avenue, Suite 2000, Seattle, WA 98101

During Meetings: During board meetings, attendees can see and hear all presentations and business taking place. Microphones will be turned off except to receive comment during public hearings and the public comment period.

Public Hearings: Public hearings are generally held separately from Authority board meetings, but there may be exceptions. Please limit comments to those directly related to the public hearing topic.

Public Comment:

- **Purpose of Public Comment** - During this period, the Board members listen to public concerns and comments but do not generally engage in dialogue. Staff will follow up with commenters who request assistance or answers to questions, providing that contact information is shared. Anyone who wishes to speak during the public comment period can take this opportunity.
- **When to Comment** - The public comment period takes place after the executive director’s report. Typically, the public comment period is reached after about an hour but may be sooner or later.
- **Raising Your Hand in Zoom or Through Phone Participation** - To give us a sense of the number of people wishing to speak and help us call on you in an orderly fashion, the meeting Chair will ask you to use the Zoom “raise hand” feature to indicate you would like to speak. People participating on the telephone can press *9 to virtually “raise a hand.” Whether or not you are able to virtually raise a hand, the Chair will provide time and opportunity for all to share their comments before closing the public comment period.
- **Timing of Comments** - We ask that speakers keep their comments brief (2 to 3 minutes). The Chair may ask you to begin bringing your statement to a close after that time, especially if others are waiting to speak. Our intention is not to impose a specific time limit unless it seems necessary to ensure that a sufficient number of speakers have an equal opportunity to express their thoughts.

TAB 1

TOBACCO SETTLEMENT AUTHORITY
Special Meeting

Minutes

August 1, 2023

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 11:03 a.m.

Board members present on the line were Mr. Wolf Opitz, Mr. Ken Vyhmeister, Mr. James Krejci, and Ms. Elya Prystowsky.

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

Also present were Ms. Faith Pettis of Pacifica Law Group; Ms. Christine Ok of U.S. Bank; and Mr. Dan Jensen from the Washington Attorney General’s Office.

Also present via Zoom were Mr. Nam Nguyen and Mr. Rene Tomisser from the Attorney General’s Office.

Approval of the minutes

The minutes of the February 3, 2023, special meeting were approved as mailed.

Status of Bond Payoff

Ms. Johnson gave details on the status of bond payoff. She summarized that the bonds would not pay off this year, but likely in 2024 instead.

Election of the Secretary and Treasurer

Ms. DewBerry introduced Ms. Carol Johnson to present staff recommendations for the election of Board Secretary and Treasurer.

Ms. Johnson stated that each year the Board elects a Secretary and Treasurer. She noted that in the past year, Mr. Vyhmeister served as Secretary and Mr. Opitz served as Treasurer.

Ms. Johnson stated that both Mr. Vyhmeister and Mr. Opitz agreed to continue in their roles as Secretary and Treasurer if the Board chooses to nominate and re-elect them.

Ms. Prystowsky made the motion to re-elect Mr. Vyhmeister as Secretary and Mr. Opitz as Treasurer. The motion was seconded by Mr. Krejci. The motion was approved unanimously, 5-0.

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

Ms. DewBerry introduced Ms. Fenice Taylor to present the proposed annual budget for the fiscal year beginning July 1, 2023, through June 30, 2024.

Ms. Taylor presented an overview of the expense budget for the fiscal year ending June 30, 2024. She said that a high Authority funding request from fiscal year 2022 strengthened the Authority's cash position which carried through fiscal year 2023. She expects that these funds will continue to support the Authority's operations for fiscal year 2024.

Ms. DewBerry asked for a motion to accept the budget for the fiscal year 2023-2024. Mr. Opitz made the motion, and it was seconded by Mr. Vyhmeister. The motion was accepted unanimously, 5-0.

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

Ms. Taylor presented the unaudited, current financial statement of the Authority's General Operating Fund. Ms. Taylor stated that the financial statements as of May 31, 2023 show assets of approximately \$267,000 with nearly \$22,000 in liabilities, leaving a net position of approximately \$246,000.

Ms. Taylor stated that the two invoices from the Housing Finance Commission covering October 2022 through March 2023, have been approved for payment by the 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 Ms. Prystowsky. The motion was approved unanimously, 5-0.

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 in April 2023, the annual Tobacco Settlement Revenue (TSR) received was \$24,767,983.90. She said that this sum is lower than what the Authority had been receiving in previous years.

Ms. Ok stated that the current total bond outstanding for Series 2013 and Series 2018 is \$33,340,000. She said that the current reserve balance is approximately \$29.7 million.

Ms. Ok stated that the required semi-annual report was submitted to the rating agency.

Mr. Vyhmeister inquired about when the reserve balance will be fully depleted. Ms. Ok said that the reserve balance will be used to pay off the bonds in June 2024, in addition to the TSR payment the Authority will receive in April 2024. Mr. Loranger said that the Authority is in no danger of depleting the reserve funds. He added that it will be used to pay down the bonds and that any excess could be retained to fund the wind down of the TSA, with any balance being transferred to the State.

Ms. DewBerry inquired about what the Authority will expect in the next TSR payment. Mr. Loranger said that the TSR received in April 2023 was reduced due to the 2004 arbitration ruling. He added that the next TSR payment should be back to the normal payment stream.

Ms. Pettis stated that a small amount of funds should be retained after wind-down in the event of an IRS audit, and that the Authority will be able to wind down immediately after paying off the bonds.

**Status of
2004 NPM
Adjustment
Arbitration**

Ms. DewBerry introduced Mr. Rene Tomisser from the Attorney General’s Office to give a report on the status of the 2004 Nonparticipating Manufacturer (NPM) adjustment arbitration.

Mr. Tomisser shared that the 2004 NPM adjustment arbitration panel made a final ruling that the states deemed non diligent, including Washington, and all other term sheet states would share the adjustment burden. This ruling dramatically reduced the amount of loss suffered by Washington and the other two losing states.

Mr. Tomisser suggested that judging by the case's current speed, the chances of a status modification before April 2024 appeared slim. Therefore, we should expect a normal MSA payout in April 2024.

**Executive
Director’s
Report**

Mr. Walker expressed his appreciation to the board for conducting an efficient meeting.

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

Mr. Walker said that the next Authority board meeting will be on December 6, 2023.

**Public
Comment**

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

Adjournment

Ms. DewBerry adjourned the meeting at 11:37 a.m.

Ms. Carla DewBerry, Chair

TAB 2



December 15, 2023

To the Board of Directors
Tobacco Settlement Authority
Seattle, Washington

We have audited the financial statements of the Tobacco Settlement Authority (the Authority), as of and for the year ended June 30, 2023, and have issued our report thereon dated December 15, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated September 28, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor’s report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as “significant risks”. We have identified the following as significant risks.

Risk of Management Override of Internal Control

Professional standards require auditors to address the possibility of management overriding controls. Accordingly, we identified as a significant risk that management of the Authority may have the ability to override controls that the organization has implemented. Management may override the organization’s controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the Authority’s financial performance or with the intent of concealing fraudulent transactions.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments. No such significant accounting estimates were identified.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Authority's financial statements relate to:

The disclosure in Note 1 to the financial statements over tobacco settlement revenues

The disclosure in Note 1 to the financial statements over bonds payable

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modifications to our auditor's report:

As discussed in Notes 1 and 2 to the financial statements, the Authority's repayment of long-term debt is dependent on several factors, including the continued financial capability of participating cigarette manufactures to pay tobacco settlement revenues and future cigarette consumption. Our opinion is not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated December 15, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Authority's auditors.

This information is intended solely for the use of Board of Directors and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Eide Sully LLP".

Boise, Idaho



Financial Statements
June 30, 2023 and 2022

Tobacco Settlement Authority
(A Component Unit of the State of
Washington)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Table of Contents
June 30, 2023 and 2022

Independent Auditor’s Report	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	14
Supplemental Information	
Schedules of Program Net Position	21
Schedules of Program Revenues, Expenses, and Changes in Program Net Position.....	22
Schedules of Program Cash Flows	23



Independent Auditor's Report

To the Board of Directors
Tobacco Settlement Authority
Seattle, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Tobacco Settlement Authority (the Authority), a discretely presented component unit of the State of Washington, as of and for the years ended June 30, 2023 and 2022 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2023 and 2022, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Notes 1 and 2 to the financial statements, the Authority's repayment of long-term debt is dependent on several factors, including the continued financial capability of participating cigarette manufacturers to pay tobacco settlement revenues and future cigarette consumption. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental schedules of program net position, program revenues, expenses, changes in program net positions, and program cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplemental schedules of program net position, program revenues, expenses, changes in program net positions, and program cash flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
December 15, 2023

As management of the Tobacco Settlement Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended June 30, 2023 and 2022 (FY 2023 and FY 2022, respectively). This discussion and analysis is required by accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

Financial Highlights

Tobacco Settlement Revenues (TSRs) of \$29.9 million and \$36.9 million were recognized as revenue in the fiscal years ended June 30, 2023 and 2022, respectively. In accordance with GASB 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, TSRs of \$15.9 million and \$18.1 million were recorded as accrued TSR Receivable applicable to cigarette sales between January 1, 2023 and June 30, 2023 and January 1, 2022, and June 30, 2022, respectively.

Other significant changes as of June 30, 2023 or for the year then ended include:

- Funds requested for operations in the current fiscal year were \$254,400 in FY 2022. Sufficient funds were on hand to support operations for the coming fiscal year.
- A negative Non-Participating Manufacturer Adjustment stemming from calendar year 2004 was realized in FY 2023, and \$7,355,480 was applied against the allowance for uncollectible TSRs. No further negative adjustments are expected, and the remaining uncollectible allowance and corresponding expense were adjusted accordingly.
- Total bonds payable were \$35.5 million, net of premiums. This represents a decrease of \$27.8 million (43.9%) from the prior year resulting from principal payments on bonds from maturities and redemptions.
- Net position increased \$32.2 million (149.1%) over the prior year.
- Bond interest expense decreased \$1.7 million (41.6%) due to the continued decline in total bonds outstanding.
- Interest income increased by \$1.3 million (1,200.0%) as interest rates on deposited funds, which increased in the latter part of the prior fiscal year, continued to rise and remained high during the current fiscal year.

Overview of the Financial Statements

The financial statements consist of three parts: management's discussion and analysis, the basic financial statements and the notes to the financial statements. The financial statements are presented in a manner similar to that of a private business, using the economic resources measurement focus and the accrual basis of accounting. The financial statements report information for all Authority operations. The statement of net position includes all of the Authority's assets and liabilities. All revenues and expenses of the Authority are accounted for in the statements of revenues, expenses and changes in net position.

In addition, program financial statements are presented as supplemental information. These supplemental statements separate the financial statements into the Restricted Bond Fund and General Operating Fund.

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles and the Authority has applied all its applicable pronouncements. All program and general operating funds of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows associated with the operation of these funds are included on the statements of net position. The statements of revenue, expenses and changes in net position for all funds present increases (e.g., revenues) and decreases (e.g., expenses) in net fund position. These funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Economic Outlook

The volume of cigarette shipments is the major factor in determining the amount of TSRs received by the Authority. Authority staff consider the industry information available to them each year when accruing estimated TSRs to be received. Factors influencing demand since the Authority's bonds were issued in 2002 have been significant increases in state and federal tobacco excise taxes, greater restrictions on public smoking, and the rise in popularity of e-Cigarettes. According to data from industry sources, cigarette shipments during 2022 declined 9.7%. Authority staff consider the industry information available to them each year when accruing estimated TSRs to be received as revenue.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2023 and 2022

Financial Analysis of the Authority

Statements of Net Position

The following table summarizes the changes in assets and deferred outflows, liabilities and deferred inflows, and net position between FY 2023 and FY 2022 (in millions):

	2023	2022	Change	
Assets				
Cash and cash equivalents	\$ 30.0	\$ 33.9	\$ (3.9)	(11.5%)
Accrued TSR and other receivables	16.0	18.2	(2.2)	(12.1%)
Allowance for Uncollectible TRS	-	(10.2)	10.2	100.0%
Total assets	46.0	41.9	4.1	9.8%
Deferred outflow of resources	0.4	0.4	-	-%
Total Assets And Deferred Outflow Of Resources	<u>\$ 46.4</u>	<u>\$ 42.3</u>	<u>\$ 4.1</u>	9.7%
Liabilities				
Accrued interest payable and other liabilities	\$ 0.2	\$ 0.3	\$ (0.1)	(33.3%)
Bonds payable, net	35.5	63.3	(27.8)	(43.9%)
Total liabilities	35.7	63.6	(27.9)	(43.9%)
Deferred inflow of resources	0.1	0.3	(0.2)	(66.7%)
Net position (deficit)	<u>10.6</u>	<u>(21.6)</u>	<u>32.2</u>	149.1%
Total Liabilities And Net Position	<u>\$ 46.4</u>	<u>\$ 42.3</u>	<u>\$ 4.1</u>	9.7%

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2023 and 2022

Statements of Revenues, Expenses, and Changes in Net Position

The following table summarizes the activities in revenues and expenses between the years ended June 30, 2023 and 2022:

	2023	2022	Change	
Revenues				
Tobacco settlement revenues and other income	\$ 29.9	\$ 37.2	\$ (7.3)	(19.6%)
Interest income	1.3	0.1	1.2	1,200.0%
Total revenues	\$ 31.2	\$ 37.3	\$ (6.1)	(16.4%)
Expenses				
Bond program interest expense	\$ 2.8	\$ 4.5	\$ (1.7)	(37.8%)
Other bond program expenses (Recovery) uncollectible TSR	(1.1) (2.8)	(2.1) 10.2	1.0 (13.0)	(47.6%) (127.5%)
General and administrative	0.1	0.4	(0.3)	(75.0%)
Total expenses	\$ (1.0)	\$ 13.0	\$ (14.0)	(107.7%)
Change In Net Position	\$ 32.2	\$ 24.3	\$ 7.9	32.5%

TSRs of \$29.9 million, \$2.8 million of interest on debt, and a reversal of prior uncollectible TSR expense of \$2.9 million are the primary components of total revenues and expenses, respectively, for the Restricted Bond Program.

In the General Operating Fund FY 2023 revenue included other income of \$8.7 thousand. Expenses were \$74.7 thousand comprised of allocable salaries and wages, and other general and administrative expenses.

Debt Administration

At June 30, 2022, the Authority has long-term debt obligations of \$63.3 million, net of bond premium. The bond funds are held by a trustee who ensures that bond resolution requirements are met, including payments of debt service and funding of necessary reserves. Amounts held by the trustee and future receipts of TSRs represent full funding of these requirements.

At June 30, 2023, the Authority has long-term debt obligations of \$33.5 million, net of bond premium. The bond funds are held by a trustee who ensures that bond resolution requirements are met, including payments of debt service and funding of necessary reserves. Amounts held by the trustee and future receipts of TSRs represent full funding of these requirements.

In 2002, a Purchase and Sale Agreement between the Authority and the State of Washington was executed in which TSRs (\$30 million by July 1, 2003, and 29.2% of the TSRs thereafter) were purchased by the Authority for a one-time cash distribution of \$450 million to the State of Washington. The Authority issued its 2002 series bonds to fund this payment. During fiscal year 2014, the Series 2002 bonds were refunded by the Series 2013 Refunding Bonds under the existing Purchase and Sale Agreement with the State. On June 20, 2018, the Authority issued \$43,630,000 of Series 2018 Refunding Bonds whose proceeds (including bond premium) were used to refund \$47,645,000 of the Series 2013 Refunding Bonds. The Series 2013 and 2018 Refunding Bonds are solely secured by the "right to receive" TSRs from major tobacco companies under the Master Settlement Agreement. The Bonds consist of Serial Bonds. The Serial Bonds with maturity dates 2024-2033 include optional call provisions, allowing the application of TSRs received in excess of the required redemptions.

The Authority and the State of Washington covenanted to do and perform all acts and take all actions permitted by law and the Bond Indenture which are necessary or desirable in order to ensure that interest paid on the Tax-Exempt Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes.

The Authority has no general obligation bonds and does not currently have an issuer credit rating.

Additional information on the Authority's long-term liabilities can be found in Note 5 of the Authority's financial statements.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2023 and 2022

Comparison of Fiscal Years 2022 with 2021

Statements of Net Position

The following table summarizes the changes in assets and deferred outflows, liabilities and deferred inflows, and net position between FY 2022 and FY 2021 (in millions):

	2022	2021	Change	
Assets				
Cash and cash equivalents	\$ 33.9	\$ 34.5	\$ (0.6)	(1.7%)
Accrued TSR and other receivables	18.2	17.9	0.3	1.7%
Allowance for Uncollectible TSR	(10.2)	-	(10.2)	-
Total assets	41.9	52.4	(10.5)	(20.0%)
Deferred Outflow Of Resources	0.4	0.7	(0.3)	(42.9%)
Total Assets And Deferred Outflow Of Resources	<u>\$ 42.3</u>	<u>\$ 53.1</u>	<u>\$ (10.8)</u>	(20.3%)
Liabilities				
Accrued interest payable and other liabilities	\$ 0.3	\$ 0.4	\$ (0.1)	(25.0%)
Bonds payable, net	63.3	97.9	(34.6)	(35.3%)
Total liabilities	63.6	98.3	(34.7)	(35.3%)
Deferred Inflow Of Resources	0.3	0.6	(0.3)	(50.0%)
Net Deficit Position	(21.6)	(45.8)	24.2	(52.8%)
Total Liabilities And Net Position	<u>\$ 42.3</u>	<u>\$ 53.1</u>	<u>\$ (10.8)</u>	(20.3%)

During FY 2022, the Authority's combined total assets and deferred outflows of resources decreased by \$10.8 million partly due to the allowance for uncollectible TSRs from a negative ruling surrounding the Authority's 2004 Non-Participating Manufacturer adjustment. The Authority's total liabilities decreased by \$34.7 million, resulting from principal payments and maturities. The Authority's net position improved by \$24.2 million, primarily due to the decrease in total liabilities.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Management's Discussion and Analysis
June 30, 2023 and 2022

Statements of Revenues, Expenses and Changes in Net Position

The following table summarizes the activities in revenues and expenses between the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>	<u>Change</u>	
Revenues				
Tobacco settlement and other revenues	\$ 37.2	\$ 37.9	\$ (0.7)	(1.8%)
Interest and program revenue	<u>0.1</u>	<u>-</u>	<u>0.1</u>	--%
Total revenues	<u>\$ 37.3</u>	<u>\$ 37.9</u>	<u>\$ (0.6)</u>	(1.6%)
Expenses				
Bond program interest expense	\$ 4.5	\$ 6.3	\$ (1.8)	(28.6%)
Other bond program expenses	(2.1)	(2.9)	1	(27.6%)
Uncollectible TSR	10.2	-	10	--%
General and administrative	<u>0.4</u>	<u>0.2</u>	<u>0.2</u>	100.0%
Total expenses	<u>\$ 13.0</u>	<u>\$ 3.6</u>	<u>\$ 9.4</u>	261.1%
Change In Net Position	<u>\$ 24.3</u>	<u>\$ 34.3</u>	<u>\$ (10.0)</u>	(29.2%)

The change in net position of \$24.3 million for FY 2022 represents a decrease of \$10 million over the FY 2021 change of \$34.3 million. The increase is primarily attributable to aforementioned uncollectible TSR allowance.

Questions and inquiries may be directed to the Senior Director of Finance or the Senior Controller at Tobacco Settlement Authority, 1000 Second Avenue, Suite 2700, Seattle, WA 98104 or 206-464-7139.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Net Position
June 30, 2023 and 2022

	2023	2022
Assets and Deferred Outflow of Resources		
Cash and cash equivalents	\$ 29,994,191	\$ 33,890,116
TSR receivable	15,901,114	18,148,988
Allowance for Uncollectible TSR	-	(10,220,000)
Prepaid fees and interest receivable	131,449	35,684
Total assets	46,026,754	41,854,788
Deferred Outflow of Resources		
Unamortized loss on refunded debt	359,477	441,653
Total Assets and Deferred Outflow of Resources	\$ 46,386,231	\$ 42,296,441
Liabilities, Deferred Inflow of Resources, and Net Position		
Accrued interest payable	\$ 141,377	\$ 252,773
Accounts payable and other liabilities	11,024	6,542
Bonds payable		
Interest bonds	33,340,000	60,075,000
Unamortized bond premium	2,132,987	3,229,689
Total bonds payable	35,472,987	63,304,689
Total liabilities	35,625,388	63,564,004
Deferred Inflow of Resources		
Unamortized gain on refunded debt	116,811	306,634
Total Net Position (Deficit)	10,644,032	(21,574,197)
Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ 46,386,231	\$ 42,296,441

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
Revenues		
Tobacco settlement revenues and other income	\$ 29,877,431	\$ 37,196,646
Interest income	1,322,525	71,304
Total revenues	31,199,956	37,267,950
Expenses		
Interest on debt	2,814,234	4,537,027
Amortization of bond premium	(1,096,703)	(2,122,508)
(Recovery) uncollectible TSR	(2,864,520)	10,220,000
General and administrative	128,716	406,964
Total expenses	(1,018,273)	13,041,483
Change in Net Position	32,218,229	24,226,467
Net Position, Beginning of Year	(21,574,197)	(45,800,664)
Net Position, End of Year	\$ 10,644,032	\$ (21,574,197)

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Cash received from tobacco settlement and other revenues	\$ 24,769,824	\$ 36,925,448
Cash paid for bond program expenses	(54,000)	(308,400)
Cash paid for general and administrative expenses	(70,718)	(112,298)
Net Cash from Operating Activities	24,645,106	36,504,750
Investing Activities		
Cash received from interest income	1,227,242	46,100
Noncapital Financing Activities		
Principal repayment on bonds	(26,734,998)	(32,515,000)
Cash paid for bond interest expense	(3,033,275)	(4,677,538)
Net Cash used for Noncapital Financing Activities	(29,768,273)	(37,192,538)
Net Decrease In Cash And Cash Equivalents	(3,895,925)	(641,688)
Cash and Cash Equivalents, Beginning of Year	33,890,116	34,531,804
Cash and Cash Equivalents, End of Year	\$ 29,994,191	\$ 33,890,116
Reconciliation Of Changes In Net Position To Net Cash		
Cash from Operating Activities		
Excess (deficit) of revenues over expenses	\$ 32,218,229	\$ 24,226,467
Adjustments to reconcile operating income to net cash from operating activities		
Amortization of bond premium	(1,096,703)	(2,122,508)
Amortization of (gain) loss on refunded debt	(107,646)	(3,488)
Uncollectible TSR	(10,220,000)	10,220,000
Cash paid for bond interest expense	3,033,275	4,677,538
Cash received from interest income	(1,227,242)	(46,100)
Changes in assets and liabilities		
TSR receivable	2,247,874	(271,198)
Prepaid fees and other receivables	(95,767)	(26,083)
Accounts payable and other liabilities	4,482	(12,856)
Accrued interest payable	(111,396)	(137,022)
Net Cash from Operating Activities	\$ 24,645,106	\$ 36,504,750

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2023 and 2022

Note 1 - Principal Business Activity

The Tobacco Settlement Authority (the Authority) was formed in April 2002 pursuant to legislation enacted by the Washington State Legislature (RCW 43.340) and signed into law by Governor Gary Locke. It is a public instrumentality separate and distinct from the State. However, because the State appoints the governing body and is entitled to the resources of the Authority, the financial accountability criteria as defined by the Governmental Accounting Standards Board (GASB) have been met. As such, the Authority is presented as a blended component unit of the State in its Annual Comprehensive Financial Report.

The Authority board consists of five directors, each appointed by the governor. The chair of the Authority serves at the pleasure of the governor while the remaining directors serve terms of four years from the date of their appointment.

The Authority was created to generate a one-time payment of \$450 million for the State of Washington (the State) in the 2002-2004 biennium by issuing bonds securitizing a portion of the future revenue stream available under the Master Settlement Agreement (the "MSA") among participating cigarette manufacturers and Settling States. The Settling States included the State of Washington, 45 other states and six other U.S. jurisdictions. In November 2002, \$517 million of bonds were issued and \$450 million was deposited by the Authority into the State general fund in exchange for acquiring a one-time payment of \$30 million at bond closing and 29.2% of the State's Tobacco Settlement Revenues (TSRs) received on or after July 1, 2003. The final maturity of the Series 2002 Bonds was 2032. On October 17, 2013, \$334,700,000 in refunding bonds were issued. The bond proceeds were used to currently refund all 2002 bonds. The structure of the Series 2013 Refunding Bonds provided a reduced interest rate with a final scheduled maturity in 2033. On June 20, 2018, \$46,630,000 in refunding bonds were issued. The proceeds were used to partially refund the Series 2013 Refunding Bonds, providing a further reduction in interest rate. The expected maturity of both series of the 2013 Refunding Bonds is 2023. For further information on the MSA, see Note 6.

Payment on the bonds is a sole obligation of the Authority and not an obligation of the State of Washington. Neither the faith and credit nor the taxing power of the State or any municipal corporation, subdivision or agency of the State is pledged to the payment of the bonds.

The Authority's financial operations are accounted for in two funds, the Restricted Bond Fund and General Operating Fund. The Restricted Bond Fund accounts for the receipt of the Authority's TSRs and of the payments related to servicing the bonds. The General Operating Fund accounts for the fiscal activities of the ongoing program administration responsibilities of the Authority. It is funded by draws, as necessary, from the TSRs used to repay the debt. The Authority's fiscal year begins July 1 and ends June 30.

Administrative and technical support for the Authority is provided by the Washington State Housing Finance Commission, which is reimbursed for its costs from the Authority's operating fund. Accounting and staff services are to be provided until the bonds are retired, see Note 4.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has applied all applicable GASB pronouncements.

The most significant of the Authority's accounting policies are described below.

Measurement focus and basis of accounting – All program and general operating funds of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows and all liabilities and deferred inflows associated with the operation of these funds are included on the statements of net position. The statement of revenues, expenses and changes in net position for all funds present increases (e.g., revenues) and decreases (e.g., expenses) in net fund position. These funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities and deferred inflows are incurred.

Unclassified statement of net position – The Authority's business cycle is greater than one year. As such, all assets and liabilities as shown on the statement of net position are unclassified.

Cash and cash equivalents – Cash deposits held in the Restricted Bond Fund are held in the corporate trust department of a commercial bank (the Trustee) in the bond issue's name. Cash deposits held by the General Operating Fund are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. Cash and cash equivalents by fund as of June 30, 2023 and 2022, are:

	2023	2022
Cash and Cash Equivalents		
Restricted bond fund	\$ 29,753,075	\$ 33,586,996
General operating fund	241,116	303,120
Total Cash and Cash Equivalents	\$ 29,994,191	\$ 33,890,116

For purposes of the statement of cash flows, the Authority considers all highly liquid, interest-bearing instruments purchased with an original maturity of three months or less that are readily convertible to cash to be cash and cash equivalents.

Investments – The Authority's Trustee holds all investments in the name of the Authority, however, there were no investments outstanding at June 30, 2023 and 2022.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2023 and 2022

Deferred outflow and inflow of resources – In addition to assets and liabilities, the statement of net position, when applicable, will report a separate section for deferred outflow and inflow of resources. Deferred outflow of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Similarly, deferred inflows represent the expected savings of net position that apply to future period(s). The excess of costs and the excess of savings incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized, using the bonds outstanding method, over the shorter of the remaining life of the old bonds or the life of the new issue and recorded as a deferred outflow of resources.

Unamortized bond discounts and premium – Unamortized bond discounts and premiums are amortized using the bonds outstanding method over the expected life of the bonds.

Bond issuance costs – Bond issuance costs, including underwriter’s discounts are expensed at issuance.

Bonds payable – Serial Bonds are stated at their principal amount outstanding, net of unamortized bond premium.

Income taxes – The Authority is exempt from federal income taxes under Internal Revenue Code Section 115(a) and accordingly, no provision for income taxes was made for the years ended June 30, 2023 and 2022.

Tobacco settlement revenues – The purchase and sale agreement between the Authority and the State of Washington conveyed the right to the first \$30 million of the TSRs for the fiscal year ended June 30, 2003, and 29.2% of the TSRs thereafter until all of the bonds are redeemed. They are to be deposited with the Authority’s Bond Trustee and used in accordance with the bond indenture to redeem bonds and pay costs until such time as the bond and other obligations are fully paid.

The Authority has elected to continue recognition of its Purchase and Sale Agreement of Tobacco Assets on its previous transactions consistent with its treatment prior to the issuance of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* as allowed by the statement. Therefore, the Authority does not recognize a deferred inflow of resources related to the purchase of this future revenue stream from the State. The Authority recognizes TSRs as an asset and revenue based on the domestic shipment of cigarettes. The Authority estimates accrued TSRs that derive from sales of cigarettes from January 1 to June 30, according to the annual TSRs payment that are based on cigarette sales from the preceding calendar year and historical payment trends. TSRs recognized for 2022 and 2021 included an accrual of \$18,148,988 and \$17,877,790, respectively.

On August 1, 2022, the AG reported at the Authority’s board meeting that the estimated future potential impact of the 2004 NPM Adjustment to the State’s 2023 TSRs as approximately \$33.8 to \$34.3 million. As such, a proportional share has been recorded as an allowance against the Authority’s TSR receivable for Fiscal Year 2022 totaling \$10,220,000. In 2023, the TSA’s portion valued \$7.355 million. Because this was the only reduction expected, TSA needed to reverse the remaining \$2.864 million allowance.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2023 and 2022

Other fee income – The Authority is entitled to receive operating funds each year from TSRs as outlined in the bond indenture. However, the Authority has the option to deliver an officer’s certificate to the Trustee on or before April 15 of each year certifying changes to the amount of operating funds to be drawn. For fiscal years 2023 and 2022, the Authority delivered officer’s certificates to the Trustee requesting operating funds of \$0 and \$254,400, respectively, be disbursed which were received by the Authority prior to the fiscal years’ end.

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Net position – The net position balances of \$10,644,032 at June 30, 2023, and (\$21,574,197) at June 30, 2022, reflect unrestricted net positions as defined by GASB Statement No. 34. This balance is comprised of amounts from two funds. The general operating fund has a net position balance of \$240,489 at June 30, 2023, and \$306,492 at June 30, 2022. The restricted bond fund has a net position balance of \$10,403,543 at June 30, 2023, and \$21,880,689 at June 30, 2022. Management believes that the present value of future TSRs allocated to the Authority approximates the net deficit position.

Arbitrage rebate – No arbitrage rebate is owed to the United States Treasury for the years ended June 30, 2023 and 2022.

Note 3 - Investments

Bond issue investment policy – The trust indenture for the bond issue outlines the permitted investments. Although all of the program funds must be used for program purposes, certain funds have been restricted for payment of debt service as required by the indenture.

Operations investment policy – The Authority can invest in nongovernmental investments including certificates of deposit, banker’s acceptances and repurchase agreements.

In addition, the following governmental investments are eligible:

1. Treasury bills, notes and other obligations issued by the United States Department of the Treasury and backed by the full faith and credit of the U.S. government.
2. Federal Home Loan Bank notes and bonds.
3. Federal Land Bank bonds.
4. Federal National Mortgage Association notes, debentures and guaranteed certificates of participation.
5. The obligations of certain government-sponsored corporations whose obligations are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System.
6. Shares of mutual funds with portfolios consisting of only U.S. government bonds or U.S. government guaranteed bonds issued by federal agencies with average maturities less than four years.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2023 and 2022

The Authority measures investments at fair value on a reoccurring basis and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. However, as of the years ended June 30, 2023 and 2022, the Authority held no investments as all excess funds were held as cash and cash equivalents.

Note 4 - Contracted Staff Services

The Washington State Housing Finance Commission provides staff and other administrative services to the Authority. Total charges were \$31,808 and \$35,414 for the years ended June 30, 2023 and 2022, respectively. The Authority has no directly hired staff and as such has no pension obligations. The Authority had fees payable totaling \$7,722 and \$6,541 with the Washington State Housing Finance Commission at June 30, 2023 and 2022, respectively.

Note 5 - Bonds Payable

The bonds are limited obligations of the Authority, publicly traded, and payable solely from its TSRs received and due from the State secured by the purchase and sale agreement as described in Note 2, restricted investments, and undisbursed bond proceeds and the earnings thereon held under the indenture authorizing the bonds.

Events of default on the bonds include failure of the Authority to pay, when due, any interest on the bonds, principal maturity, or sinking fund installment, to observe or perform any other provision of the indenture not corrected within 60 days of written notice by the bond indenture Trustee, or a material breach by the State of its covenants. If any of these occur, the Trustee may, and upon written request of holders of at least 25% in the principal amount of the bonds outstanding shall, enforce the rights of the Bondholders and require the Issuer and the State to carry out their respective agreements with the Bondholders.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2023 and 2022

As of June 30, 2023, the Authority had outstanding bonds of approximately \$30.3 million. The bonds bear interest rates ranging from 5.00% to 5.25% and mature in varying amounts through 2033. Future principal and interest requirements are shown in the following table.

Years Ending June 30,	Principal Redemptions	Interest Requirements	Total
2024	\$ 21,530,000	\$ 1,696,525	\$ 23,226,525
2025	-	620,025	620,025
2026	-	620,025	620,025
2027	-	620,025	620,025
2028	-	620,025	620,025
2029–2033	11,810,000	2,871,225	14,681,225
	<u>\$ 33,340,000</u>	<u>\$ 7,047,850</u>	<u>\$ 40,387,850</u>

Changes in bonds outstanding during the fiscal year ended June 30, 2023 and 2022, are summarized in the following table:

<u>Balance at June 30, 2021</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance at June 30, 2022</u>
<u>\$ 92,590,000</u>	<u>\$ -</u>	<u>\$ 32,515,000</u>	<u>\$ 60,075,000</u>
<u>Balance at June 30, 2022</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance at June 30, 2023</u>
<u>\$ 60,075,000</u>	<u>\$ -</u>	<u>\$ 26,735,000</u>	<u>\$ 33,340,000</u>

Note 6 - Master Settlement Agreement and Tobacco Settlement Revenues

The Master Settlement Agreement is a tobacco industry-wide settlement of litigation between the Settling States and the Original Participating Manufacturers and was entered into by the parties on November 23, 1998. Tobacco Settlement Revenues consist of the amounts to be received under the terms of the Master Settlement Agreement.

The MSA requires annual payments by the four largest tobacco companies to the Settling States; up to \$206 billion was to be received during the first 25 years of the agreement. The State of Washington was initially scheduled to receive approximately \$4 billion during the first 25 years.

Tobacco Settlement Authority
(A Component Unit of the State of Washington)

Notes to Financial Statements
June 30, 2023 and 2022

Management believes that the present value of the amount of TSRs that will be collected by the Authority over time is \$10,644,032, an amount equal to the net position. However, prior to GASB 48, which was effective for years beginning on or after December 15, 2006, accounting principles generally accepted in the United States of America did not allow these future revenues to be recorded in the financial statements. As such, the only TSRs receivable recorded in the accompanying financial statements are those estimated to accrue due to cigarette shipments from January 1 to June 30, 2023, and January 1 to June 30, 2022.

Note 7 - Contingencies

Certain parties, including smokers, smokers' rights organizations, consumer groups, cigarette manufacturers, cigarette importers, cigarette distributors, Native American tribes, taxpayers, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA, alleging, among other things, that the MSA and related legislation including the Settling States' Qualifying Statutes, Allocable Share Release Amendments and Complementary Legislation as well as other legislation such as "Contraband Statutes" are void or unenforceable under certain provisions of law, such as the U.S. Constitution, state constitutions, federal antitrust laws, state consumer protection laws, bankruptcy laws, federal cigarette advertising and labeling law, and unfair competition laws. Certain of the lawsuits further sought, among other relief, an injunction against one or more of the Settling States from collecting any moneys under the MSA and barring the Participating Manufacturers from collecting cigarette price increases related to the MSA.

In addition, class action lawsuits have been filed in several federal and state courts alleging that under the federal Medicaid law, any amount of tobacco settlement funds that the Settling States receive in excess of what they paid through the Medicaid program to treat tobacco-related diseases should be paid directly to Medicaid recipients. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may, however, continue to be challenged in the future. In the event of an adverse court ruling, the Authority may not have adequate financial resources to make payment on its outstanding bonds.

Members of the Authority's board of directors and persons acting on the Authority's behalf, while acting within the scope of their duties or employment, shall not be subject to any personal liability resulting from carrying out the powers and duties conferred on them, and shall have the indemnification rights under the provisions of the Authority's Public Officials and Employees Liability insurance policy.



June 30, 2023

Supplementary Information Tobacco Settlement Authority

**(A Component Unit of the State of
Washington)**

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedules of Program Net Position
June 30, 2023 and 2022

	Restricted Bond Fund	General Operating Fund	2023	2022
Assets and Deferred Outflow of Resources of Resources				
Cash and cash equivalents	\$ 29,753,075	\$ 241,116	\$ 29,994,191	\$ 33,890,116
TSR receivable	15,901,114	-	15,901,114	18,148,988
Allowance for uncollectible accounts	-	-	-	(10,220,000)
Prepaid fees and interest receivable	121,052	10,397	131,449	35,684
Total assets	45,775,241	251,513	46,026,754	41,854,788
Deferred Outflow of Resources				
Unamortized loss on refunded debt	359,477	-	359,477	441,653
Total Assets and Deferred Outflow of Resources	\$ 46,134,718	\$ 251,513	\$ 46,386,231	\$ 42,296,441
Liabilities, Deferred Inflow Of Resources, And Net Position				
Accrued interest payable	\$ 141,377	\$ -	\$ 141,377	\$ 252,773
Accounts payable and other liabilities	-	11,024	11,024	6,542
Bonds payable				
Interest bonds	33,340,000	-	33,340,000	60,075,000
Unamortized bond premium	2,132,987	-	2,132,987	3,229,689
Total bonds payable	35,472,987	-	35,472,987	63,304,689
Total liabilities	35,614,364	11,024	35,625,388	63,564,004
Deferred Inflow Of Resources				
Unamortized gain on refunded debt	116,811	-	116,811	306,634
Total Net Position (Deficit)	10,403,543	240,489	10,644,032	(21,574,197)
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 46,134,718	\$ 251,513	\$ 46,386,231	\$ 42,296,441

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedules of Program Revenues, Expenses, and Changes in Program Net Position
Years Ended June 30, 2023 and 2022

	Restricted Bond Fund	General Operating Fund	2023	2022
Revenues				
Tobacco settlement revenues and other income	\$ 29,877,431	\$ -	\$ 29,877,431	\$ 37,196,646
Interest income	1,313,812	8,713	1,322,525	71,304
Total revenues	<u>31,191,243</u>	<u>8,713</u>	<u>31,199,956</u>	<u>37,267,950</u>
Expenses				
Interest on debt	2,814,234	-	2,814,234	4,537,027
Amortization of bond premium	(1,096,703)	-	(1,096,703)	(2,122,508)
(Recovery) uncollectible TSR	(2,864,520)	-	(2,864,520)	10,220,000
General and administrative	54,000	74,716	128,716	406,964
Total expenses	<u>(1,092,989)</u>	<u>74,716</u>	<u>(1,018,273)</u>	<u>13,041,483</u>
Change in Net Position	<u>32,284,232</u>	<u>(66,003)</u>	<u>32,218,229</u>	<u>24,226,467</u>
Net Position, Beginning of Year	<u>(21,880,689)</u>	<u>306,492</u>	<u>(21,574,197)</u>	<u>(45,800,664)</u>
Net Position, End of Year	<u>\$ 10,403,543</u>	<u>\$ 240,489</u>	<u>\$ 10,644,032</u>	<u>\$ (21,574,197)</u>

Tobacco Settlement Authority
(A Component Unit of the State of Washington)
Schedules of Program Cash Flows
Years Ended June 30, 2023 and 2022

	Restricted Bond Fund	General Operating Fund	2023	2022
Operating Activities				
Cash received from tobacco settlement and other revenues	\$ 24,769,824	\$ -	\$ 24,769,824	\$ 36,925,448
Cash paid for bond program expenses	(54,000)	-	(54,000)	(308,400)
Cash paid general and administrative expenses	-	(70,718)	(70,718)	(112,298)
Net Cash from (used for) Operating Activities	24,715,824	(70,718)	24,645,106	36,504,750
Investing Activities				
Cash received from interest income	1,218,529	8,713	1,227,242	46,100
Noncapital Financing Activities				
Principal repayment on bonds	(26,734,998)	-	(26,734,998)	(32,515,000)
Cash paid for bond interest expense	(3,033,275)	-	(3,033,275)	(4,677,538)
Net Cash used for Noncapital Financing Activities	(29,768,273)	-	(29,768,273)	(37,192,538)
Net (Decrease) Increase In Cash and Cash Equivalents	(3,833,920)	(62,005)	(3,895,925)	(641,688)
Cash and Cash Equivalents, Beginning of Year	33,586,995	303,121	33,890,116	34,531,804
Cash and Cash Equivalents, End of Year	<u>\$ 29,753,075</u>	<u>\$ 241,116</u>	<u>\$ 29,994,191</u>	<u>\$ 33,890,116</u>
Reconciliation of Changes in Net Position to Net Cash from (used for) Operating Activities				
Excess of revenues over expenses	\$ 32,284,232	\$ (66,003)	\$ 32,218,229	\$ 24,226,467
Adjustments to reconcile operating income to net cash from (used for) operating activities				
Amortization of bond premium	(1,096,703)	-	(1,096,703)	(2,122,508)
Amortization of loss on refunded debt	(107,646)	-	(107,646)	(3,488)
Uncollectible TSR	(10,220,000)	-	(10,220,000)	10,220,000
Cash paid for bond interest expense	3,033,275	-	3,033,275	4,677,538
Cash received from interest income	(1,218,529)	(8,713)	(1,227,242)	(46,100)
Changes in assets and liabilities				
TSR receivable	2,247,874	-	2,247,874	(271,198)
Prepaid fees and other receivables	(95,283)	(484)	(95,767)	(26,083)
Accounts payable and other liabilities	-	4,482	4,482	(12,856)
Accrued interest payable	(111,396)	-	(111,396)	(137,022)
Net Cash from (used for) Operating Activities	\$ 24,715,824	\$ (70,718)	\$ 24,645,106	\$ 36,504,750

TAB 3

TOBACCO SETTLEMENT AUTHORITY

June 13, 2024

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 May 31, 2024, 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
Shirleen Noonan
General Operations Manager

Approved by: Lucas Loranger
Lucas Loranger
Senior Finance Director

TOBACCO SETTLEMENT AUTHORITY
GENERAL OPERATING FUND

May 31, 2024
Unaudited

CONTENTS

(See Accountant's Compilation Report)

Accountant's Report

Financial Statements:

Statement of Net Position	3
Statement of Activities & Changes in Net Position	4
Detailed Statement of Activities	5

Tobacco Settlement Authority
Statement of Net Position
Fund: General Operating Fund
Division: All
May 31, 2024
(See Accountant's Compilation Report)

	Current Year	Prior Year	Variance	
			Amount	%
<i>ASSETS</i>				
Cash and Cash Equivalents:	\$ 197,253	\$ 266,672	\$ (69,419)	(1) -26%
Prepaid Expenses & Other Receivable	785	827	(42)	-5%
<i>Total Assets</i>	\$ 198,038	\$ 267,499	\$ (69,461)	-26%
<i>LIABILITIES</i>				
Accounts Payable and Other Liabilities	\$ 32,877	\$ 21,564	\$ 11,313	(2) 52%
<i>Total Liabilities</i>	32,877	21,564	11,313	52%
<i>NET POSITION</i>				
Unrestricted	165,161	245,935	(80,774)	-33%
Total Net Position	165,161	245,935	(80,774)	-33%
<i>Total Liabilities and Net Position</i>	\$ 198,038	\$ 267,499	\$ (69,461)	-26%

- (1) The balances reflect the operational expenditures incurred in the prior year without receipt of Officer's Certificate funds.
(2) The increase in accounts payable and other liabilities is primarily due to payables of professional legal fees.

Tobacco Settlement Authority
Statement of Activities and Changes in Net Position
Fund: General Operating Fund

Division: All

For The Year To Date Ending: May 31, 2024

(See Accountant's Compilation Report)

	<u>Current Period</u>	<u>Current Year to Date</u>	<u>Prior Year to Date</u>	<u>Variance</u>	
				Amount	%
<i>Revenues:</i>					
Interest Earned and Realized Gain	\$ 728	\$ 9,750	\$ 7,667	\$ 2,083	(1) 27%
<i>Total Unadjusted Revenues</i>	<u>728</u>	<u>9,750</u>	<u>7,667</u>	<u>2,083</u>	<u>27%</u>
<i>Expenses:</i>					
Salaries, Wages, and Employee Benefits	3,275	29,127	27,326	1,801	7%
Professional Fees	2,390	44,083	29,354	14,729	(2) 50%
Office Expense	1,037	11,869	11,546	323	3%
<i>Total Expenses</i>	<u>6,702</u>	<u>85,079</u>	<u>68,225</u>	<u>16,854</u>	<u>25%</u>
<i>Adjustments</i>					
(Deficit) Excess of Revenues over Expenses	<u>(5,974)</u>	<u>(75,329)</u>	<u>(60,558)</u>	<u>(14,771)</u>	<u>24%</u>
<i>Net Position</i>					
Total net position, beginning of period	171,135	240,490	306,493	(66,003)	-22%
Current Increase (Decrease) to Net Position	<u>(5,974)</u>	<u>(75,329)</u>	<u>(60,558)</u>	<u>(14,771)</u>	<u>24%</u>
Total net position, end of year	<u>\$ 165,161</u>	<u>\$ 165,161</u>	<u>\$ 245,935</u>	<u>\$ (80,774)</u>	<u>-33%</u>

(1) The interest income increase is primarily due to a greater market yield of 5.17% in the current period, compared to the same period in the prior year (with a market yield of 4.95%).

(2) The increase in professional fees is primarily due to greater legal expenses.

Tobacco Settlement Authority
Detailed Statement of Activities
Fund: General Operating Fund
Division: All
For The Year To Date Ending: May 31, 2024
(See Accountant's Compilation Report)

	Variance-YTD vs. PY Actuals		Prior YTD	YTD	YTD	Variance-YTD Budget to Actual	
	%	Amount	Actual	Actual	Budget	Amount	%
Revenues:							
Interest Earned and Realized Gain	27.2%	\$ 2,083	\$ 7,667	\$ 9,750	\$ 3,896	\$ 5,854	150.3%
Total Unadjusted Revenues	27%	2,083	7,667	9,750	3,896	5,854	150%
Expenses:							
Salaries & Wages - Staff & Temp. Svcs	8.9%	1,854	20,718	22,572	54,938	(32,366)	-58.9%
Employee Benefits - Staff	-0.8%	(52)	6,608	6,556	14,350	(7,794)	-54.3%
Travel in state - Staff	NA	-	-	-	458	(458)	-100.0%
Accounting Fees	13.4%	2,115	15,750	17,865	16,271	1,594	9.8%
Legal Fees	92.7%	12,614	13,604	26,218	36,667	(10,449)	-28.5%
Financial Advisor Fees	NA	-	-	-	917	(917)	-100.0%
Office Rent/Conf. Room Rentals	-17.4%	(140)	804	664	2,298	(1,634)	-71.1%
Deliveries	-100.0%	(19)	19	-	275	(275)	-100.0%
Insurance	4.9%	442	9,088	9,530	9,167	363	4.0%
Meeting Expense	NA	-	-	-	963	(963)	-100.0%
Software Maint. Support & Other Info Svcs	32.8%	316	962	1,278	1,799	(521)	-29.0%
Postage	-69.0%	(80)	116	37	92	(55)	-59.8%
Printing	-100.0%	(163)	163	-	825	(825)	-100.0%
Supplies	-48.7%	(55)	113	58	2,690	(2,632)	-97.8%
Telephone	155.0%	93	60	153	257	(104)	-40.5%
Other Office Expenses	-32.7%	(72)	220	148	651	(503)	-77.3%
Total Expenses	25%	16,853	68,225	85,079	142,618	(57,539)	-40%
Adjustments							
Revenues:							
Gains/(Loss) on Investments-Unrealized	NA	-	-	-	-	-	NA
Total Adjustments	NA	-	-	-	-	-	NA
(Deficit) Excess of Revenues over Expenses	24.4%	\$ (14,771)	\$ (60,558)	\$ (75,329)	\$ (138,722)	\$ 63,393	-45.7%

TAB 4

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period Oct 1, 2023 - Mar 31, 2024

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
October	\$ 2,808.14	\$ 175.25	\$ 6.21	\$ 2,989.60
November	2,148.72	185.99	8.59	2,343.30
December	2,469.80	651.63	7.82	3,129.25
January	2,274.27	301.94	11.19	2,587.40
February	2,187.13	118.24	5.80	2,311.17
March	2,199.90	72.73	2.17	2,274.80
Total Per Category	\$ 14,087.96	\$ 1,505.78	\$ 41.78	\$ 15,635.52
Previous Balance at September 30, 2023				9,028.72
Payments & Credit Memos (through March 31, 2024)				(9,028.72)
Due to WSHFC:				<u>\$ 15,635.52</u>


Please make checks payable to:

Washington State Housing Finance Commission
1000 Second Avenue, Suite 2700
Seattle, Washington 98104-1046

(1) Office Expenses are expenses paid by WSHFC on behalf of TSA and allocation of certain HFC expenses based on TSA salary hours as a percentage of total HFC salary hours.

(2) Overhead is the allocation of HFC's depreciation expense based on TSA salary hours as a percentage of total HFC salary hours.

Approval for Payment

DocuSigned by:

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Authority Board Member

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period July 1, 2023 - September 30, 2023

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
July	\$ 2,974.43	\$ 244.86	\$ 7.94	\$ 3,227.23
August	2,561.07	201.81	7.32	2,770.20
September	2,882.72	142.95	5.62	3,031.29
Total Per Category	\$ 8,418.22	\$ 589.62	\$ 20.88	\$ 9,028.72

Previous Balance at June 30, 2023	7,722.46
Payments & Credit Memos (through September 30, 2023)	(7,722.46)

Due to WSHFC:	<u><u>\$ 9,028.72</u></u>
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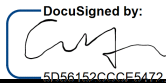
Please make checks payable to:

Washington State Housing Finance Commission
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(2) Overhead is the allocation of HFC's depreciation expense based on TSA salary hours as a percentage of total HFC salary hours.

Approval for Payment

DocuSigned by:

5D56152CCCE5472

Authority Board Member

Statement of Account

Tobacco Settlement Authority
Proration of costs between TSA and WSHFC
For the period April 2023 - June 2023

Month	Salaries & Benefits	Office Expenses (1)	Overhead (2)	Invoice Amount
April	\$ 2,556.08	\$ 65.88	\$ 3.78	\$ 2,625.74
May	2,563.38	171.36	4.64	2,739.38
June	2,151.92	198.90	6.52	2,357.34
Total Per Category	\$ 7,271.38	\$ 436.14	\$ 14.94	\$ 7,722.46
Previous Balance at March 31, 2023				16,198.52
Payments & Credit Memos (through June 30, 2023)				(16,198.52)
Due to WSHFC:				\$ 7,722.46

Please make checks payable to:

Washington State Housing Finance Commission
1000 Second Avenue, Suite 2700
Seattle, Washington 98104-1046

(1) Office Expenses are expenses paid by WSHFC on behalf of TSA and allocation of certain HFC expenses based on TSA salary hours as a percentage of total HFC salary hours.

(2) Overhead is the allocation of HFC's depreciation expense based on TSA salary hours as a percentage of total HFC salary hours.

Approval for Payment

DocuSigned by:

5D56152CCCE5472

Authority Board Member

TAB 5



Memorandum

To: Tobacco Settlement Authority Board Members

From: Steve Walker, Carol Johnson

RE: **Dissolution of the Tobacco Settlement Authority**

Date: June 17, 2024

CC: Lucas Loranger, Rona Monillas, Faith Pettis

BACKGROUND:

As you know, the Tobacco Settlement Authority (TSA) bonds were paid off on May 15, 2024.

The legislation establishing the TSA states that the TSA “shall dissolve no later than two years from the date of final payment of all of its outstanding bonds and the satisfaction of all outstanding obligations, except to the extent necessary to remain in existence to fulfill any outstanding covenants or provisions with bondholders or third parties.”

PROCESS:

With the assistance of the Attorney General’s Office and Pacifica Law Group, the State, the Washington State Housing Finance Commission (the Commission) and the TSA staff have come to an agreement regarding dissolution of the TSA.

You will find Resolution #24-01 and the Sale, Assumption and Dissolution Agreement under Tab 6.

Through the Agreement and Resolution #24-01, the TSA will dissolve and return the annual Master Settlement Agreement (MSA) income stream dedicated to paying off the bonds (29.2%) to the State beginning in 2025.

The State will be responsible for any IRS audit liability for up to six years from the date of the Agreement. The TSA will transfer any remaining funds currently retained to the State, excluding any funds set aside for ongoing administration by the Commission as noted below.

The Commission will be responsible for administration of remaining TSA tasks and responsibilities for specified periods, depending on the task, including but not limited to the following:

- Paying outstanding invoices
- Administration of Final FY 23/24 Financial Audit
- Administration of any public information requests
- Record retention
- Administration of any potential IRS audit
- Unwinding/Closing out WACs (Rules)
- Receiving and forwarding Lehman settlement amounts to the State

The Commission will be given funds sufficient to cover the cost of this administrative work. Currently the TSA holds approximately \$175,000 for that purpose. As noted above, should an IRS audit result in a liability, the State will agree in the Sale, Assumption and Dissolution Agreement to pay any liability associated with the IRS audit. Staff expects that after 6 years, all of the listed tasks should be complete and the balance remaining can be transferred by the Commission to the State.

The Commission will be asked to consider and approve the Sale, Assumption and Dissolution Agreement at its board meeting on June 27, 2024.

RECOMMENDATION:

Staff recommends that the TSA Board consider and act on Resolution #24-01 concerning approval of the Sale, Assumption and Dissolution Agreement and dissolution of the Tobacco Settlement Authority.

TOBACCO SETTLEMENT AUTHORITY

RESOLUTION NO. 24-01

A RESOLUTION of the Tobacco Settlement Authority authorizing the execution of a Sale, Assumption and Dissolution Agreement; authorizing the dissolution of the Authority; and delegating to the Executive Director the authority to do all other things necessary, including the execution of any other documents and agreements, to dissolve the Authority.

ADOPTED: JUNE 24, 2024

PREPARED BY:

PACIFICA LAW GROUP LLP
1191 Second Avenue, Suite 2000
Seattle, Washington 98101-3404

RESOLUTION NO. 24-01

A RESOLUTION of the Tobacco Settlement Authority authorizing the execution of a Sale, Assumption and Dissolution Agreement; authorizing the dissolution of the Authority; and delegating to the Chair and Executive Director the authority to do all other things necessary, including the execution of any other documents and agreements, to dissolve the Authority.

WHEREAS, the Tobacco Settlement Authority, a public body corporate and politic of the State of Washington (the “Authority”) was 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”), with the “power to purchase certain rights of the state under the master settlement agreement and to issue nonrecourse revenue bonds to pay outstanding obligations of the state in order to make funds available for increased costs of health care, long-term care, and other programs of the state”; and

WHEREAS, the Authority entered into a Purchase and Sale Agreement between the Authority and the State of Washington (the “State”), dated October 1, 2002 (the “Sale Agreement”), pursuant to which the Authority purchased certain Tobacco Assets from the State, which purchase was financed through the sale of the Authority’s Tobacco Settlement Asset-Backed Bonds, Series 2002 (the “Series 2002 Bonds”); and

WHEREAS, the Authority fulfilled the Legislative directive in RCW 43.34.080(1) to deliver \$450 million to the State upon the issuance of the Series 2002 Bonds; and

WHEREAS, in order to achieve savings to the Authority and ultimately to the State, the Authority subsequently refunded the Series 2002 Bonds through the issuance of its Tobacco Settlement Authority Revenue Refunding Bonds, Series 2013 on October 17, 2013 and its Tobacco Settlement Authority Revenue Refunding Bonds, Series 2018 on June 20, 2018 (together, the “Bonds”); and

WHEREAS, on May 15, 2024, the Authority effected the mandatory redemption in whole of all of its outstanding Bonds from Tobacco Assets and amounts held in the reserve funds for the Bonds; and

WHEREAS, pursuant to RCW 43.340.110 and Section 3.01(h) of the Sale Agreement, the Authority is required to dissolve no later than two years from the date of final payment of all of its outstanding bonds; and

WHEREAS, the Authority, State and the Washington State Housing Finance Commission (the “WSHFC”) have negotiated a Sale, Assumption and Dissolution Agreement (the “Agreement”) setting forth the terms and consideration upon which the Authority will sell and assign the Tobacco Assets and other Authority assets to the State and upon which the WSHFC will provide limited administrative assistance following the dissolution of the Authority; and

WHEREAS, the Board has determined to dissolve the Authority and desires to delegate the authority to take all other actions necessary to wind up and dissolve the Authority;

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

Section 1. Approval of Sale, Assumption and Dissolution Agreement. The Authority hereby approves the form and content of the Sale, Assumption and Dissolution Agreement, in substantially the form attached hereto as Attachment A and authorizes the Chair of the Authority to execute such Agreement. The Chair or Executive Director of the Authority are authorized to execute the documents contemplated by such Agreement, and any other documents or certificates on behalf of the Authority necessary to carry out such Agreement. The Chair and Executive Director are further authorized to do all things necessary on behalf of the Authority to execute the terms of the Agreement, including (1) the sale and transfer to the State of the Tobacco Assets and remaining unused funds and assets held by the Authority, after payment of all remaining expenses of the Authority, including payments owed to the WSHFC, as required by

RCW 43.340.110 and Section 3.01(h) of the Sale Agreement, (2) the transfer to the WSHFC of all Authority files and records; and (3) the payment to the WSHFC of the specified fee for the services set forth in the Agreement.

Section 2. Delegation of Authority to Accept Audit Report. The Authority hereby delegates staff of the WSHFC the authority to accept and transmit the 2023-2024 audit report prepared by Eide Bailly to the Washington State Office of Financial Management. The WSHFC shall be compensated for such actions from the fee set forth in the Agreement.

Section 3. Authorization of Dissolution. The Authority hereby authorizes the dissolution and winding down of the Authority as required by RCW 43.340.110 and Section 3.01(h) of the Sale Agreement. The Chair or Executive Director of the Authority are authorized to execute all necessary agreements, documents, and certificates, and to take all necessary actions, including the giving of notices, to effect the dissolution of the Authority.

Section 4. 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 24th day of June, 2024.

TOBACCO SETTLEMENT AUTHORITY

By _____
Chair

ATTEST:

Secretary

APPROVED AS TO FORM:

General Counsel

ATTACHMENT A

FORM OF SALE, ASSUMPTION AND DISSOLUTION AGREEMENT

Not yet available.

To be distributed to the Board members prior to the meeting.