

TOBACCO SETTLEMENT AUTHORITY
Special Meeting

Minutes

July 11, 2019

Board Chair, Ms. Carla DewBerry, called the meeting of the Tobacco Settlement Authority (the “Authority”) to order at 1:03 p.m. on Thursday, July 11, 2019.

The Special Meeting was held in the Board Room of the Washington State Housing Finance Commission located on the 28th floor of 1000 Second Avenue, Seattle, Washington 98104.

Board members Ms. Carla DewBerry, Mr. Tim Kerr, and Mr. Wolfgang Opitz were present. Mr. Gavin Cooley was present by telephone. Authority staff members present were Mr. Kim Herman, Executive Director; Mr. Paul Edwards, Deputy Director; Mr. Bob Cook, Senior Finance Director; Ms. Debra Stephenson, Senior Controller; Ms. Carol Johnson, Affiliates Manager; and Ms. Rona Monillas, Affiliates Program Assistant.

Finance team members present were Ms. Faith Pettis of Pacifica Law Group; Ms. Debbie Kuykendall and Ms. Christine Ok of U.S. Bank. Joining via teleconference were Ms. Kym Arnone of Jefferies LLC; Mr. Howard Zucker and Mr. Roger Bagley of Hawkins, Delafield and Wood; and Mr. Michael Jang and Mr. Jigar Bhakta of Citigroup.

**Approval of the
Dec. 18, 2018
Special Meeting
Minutes**

Ms. DewBerry asked for a motion to approve the minutes of the meeting held on December 18, 2018. Mr. Kerr made the motion and it was seconded by Mr. Opitz. The minutes were approved unanimously, 4-0.

Mr. Herman announced that Mr. Cooley will be retiring as CFO for the City of Spokane in January. In addition, his four-year term on the board officially ended last month and he will not request renewal for a second term. Mr. Cooley has agreed to continue serving on the board until the Governor appoints a replacement.

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Mr. Herman thanked Mr. Cooley for his service to the citizens of Washington State and to the TSA Board.

Election of Secretary and Treasurer

Ms. DewBerry introduced Mr. Herman to present the election of Board Secretary and Treasurer. Mr. Herman stated that each year the Board elects a Secretary and a Treasurer. He noted that the past year Mr. Kerr served as Secretary and Ms. Petersen-Spawm served as Treasurer. He added that both agreed to continue in their roles if the Board chooses to nominate and re-elect them.

Mr. Kerr made the motion to elect himself as Secretary and Ms. Petersen-Spawm as Treasurer. Mr. Opitz seconded the motion. The motion to re-elect Mr. Kerr as Secretary and Ms. Petersen-Spawm as Treasurer was approved unanimously, 4-0.

Action Item: Approval of the Annual Budget

Ms. DewBerry introduced Mr. Cook to present the proposed annual budget for the fiscal year beginning July 1, 2019 thru June 30, 2020 (“FY20”).

Mr. Cook stated that the Authority is projecting .42 FTEs for FY20 compared to .47 FTEs budgeted for FY19. He added that as of the end of the FY19, the Authority is projecting to bill about .35 FTEs.

Mr. Cook said that the Authority is budgeting \$70,000 from the Tobacco Settlement Revenues (TSR) to cover about \$108,000 in expenses. An Officer’s Certification for the funds will be processed in April 2020. He added that the Authority is expecting to have some reserves at the end of the year. He then called the Board’s attention to a detailed breakdown of the expenses.

Mr. Cooley inquired about the varying significance between the adopted budget for Employee Expenses for fiscal year 2019 (\$76,000) and the actual budget projected (\$29,000). Mr. Cook responded that it is due to the amount of time the staff spent on Authority work.

Mr. Cooley asked if the \$35,000 budget shortfall would come from the \$167,000 unrestricted net position shown in the unaudited financial statement or from the TSRs. Mr. Cook said that it will come from both.

Ms. DewBerry asked for a motion to accept the budget for FY20. Mr. Cooley made the motion and it was seconded by Mr. Opitz. The motion was approved unanimously, 4-0.

**Review &
Consider
Approval of
Financial
Statement**

Mr. Cook presented the unaudited, current financial statement of the Authority's General Operating Fund. Mr. Cook stated that the financial statement as of May 31, 2019 shows assets of approximately \$180,000 with \$12,000 of expenditures, leaving a net unrestricted position of around \$167,000. He referred to the detailed breakdown of the expenses on the last page of the unaudited financial statement.

Ms. DewBerry asked for a motion to approve the unaudited financial statement. Mr. Kerr made the motion and it was seconded by Mr. Opitz. The motion was approved unanimously, 4-0.

**Invoice for
Services**

Mr. Cook stated that the invoices from the Housing Finance Commission for a six-month period from October 1, 2018 through March 31, 2019 totaled just over \$15 thousand. The invoice was previously approved by Board Treasurer, Ms. Petersen-Spawn.

**Tobacco
Securitization
Market Update**

Ms. DewBerry introduced Ms. Kym Arnone to present the Tobacco Securitization Market update.

Ms. Arnone stated that during the first six months of 2019, volume has been significantly lighter than last year. She said that \$100 million of taxable Turbo Current Interest Bonds were issued by an entity in California called the Inland Empire Tobacco Securitization Authority in order to forestall a default in 2021 on the outstanding 2007 bonds.

Ms. Arnone reported that the market is being driven by technical factors such as limited supply and historic fund inflows. She added that as of June 2019, aggregate fund flows totaled \$40.1 billion with \$9.4 billion going into high yield funds. Last year as of June 20th, aggregate fund flows totaled \$9.8 billion with \$2.3 billion going into high yield funds.

Ms. Arnone said that the ban on menthol cigarettes is still possible but that there has been no real activity since the FDA's proposal in November. She also mentioned that the acting FDA Commissioner issued a notice on how he plans to regulate e-cigarettes by restricting youth access to Electronic Nicotine Delivery Systems (ENDS).

Ms. Arnone stated that Altria purchased a 35% stake in JUUL. She added that following this announcement, S&P lowered Altria's credit rating from A- to BBB and subsequently placed 32 tobacco bonds on negative credit watch.

Ms. Arnone said that since May of this year, S&P has placed 240 tobacco revenue bonds on credit watch with negative implications including the 2018 and 2013 TSA tobacco bonds. She mentioned that this is because of the slight update on S&P's criteria in response to the decline in cigarette volume.

Mr. Herman mentioned that when the Authority did the 2013 refunding, it was refunded in a manner that would protect the Authority up to an approximate 10 percent reduction in cigarette shipments nationally. Ms. Arnone added that even with a very steep consumption decline, the Authority's bonds are in good shape based on their healthy break evens.

Trustee Report

Ms. DewBerry introduced Ms. Kuykendall to present the Trustee's Report.

Ms. Kuykendall reported that the annual receipts from the TSR were received and applied to the upcoming principal and interest payments in June. She mentioned that since funds only come once a year, a portion was reserved for the payments due

in December. She added that in June the Authority was able to optionally redeem \$12,750,000 of bonds which was applied only to the 2013 bonds since 2018 bonds are not optionally callable until 2023.

Ms. Kuykendall said that payments continue to come in from the Lehman bankruptcy. She received checks totaling \$12,277 in June.

Ms. Kuykendall stated that the required semi-annual report was submitted to the rating agency in May and that the Issuer's Annual Certification letter was received. She also reported that the total reserve was maintained at \$31,997,719.44.

Status of Non-participating Manufacturer (NPM) Adjustment Arbitration

Mr. Herman gave the status report on the Nonparticipating Manufacturer (NPM) adjustment arbitration on behalf of Mr. Rusty Fallis, Assistant Attorney General.

Mr. Herman stated that the 2004 arbitration was set on July 8, 2019. He mentioned that the parties to all other cases have agreed to a 95-day post-hearing briefing schedule and added that it may be November before the arbitration panel issues its decision.

Mr. Herman said that there could be additional hearings relating to the allocation and reallocation of the NPM Adjustment for any states that the panel found to be non-diligent in the enforcement of those states' escrow laws. Given the expense and delays associated with the NPM Adjustment arbitration process, the non-settling states and the participating manufacturers have begun discussions regarding the possibility of resolving multiple years in dispute in the next arbitration, although no agreement has been reached.

Executive Director's Report

Mr. Herman gave an update about his retirement and the search for the new Executive Director for the Washington State Housing Finance Commission. He thanked everyone for their partnership and support over the last three decades.

Mr. Herman reported that Washington was the 10th state to pass a Tobacco 21

policy statewide. The Law, Engrossed House Bill 1074, was signed by the Governor on April 5, 2019 and is effective on January 1, 2020.

Mr. Herman presented an article and relevant correspondence regarding the updates on Tobacco Securitization Market and Master Settlement Agreement (MSA) payments.

Mr. Herman stated that if there is no change in the schedule, the next Authority board meeting will be on December 4, 2019.

**Public
Comment**

Ms. DewBerry asked if there were any comments from the public.

Adjournment

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

Ms. Carla DewBerry, Chair