

District of Columbia Tobacco Settlement Financing Corporation (TSFC)

Meeting of the Board of Directors

September 29, 2022

10:00am – 11:00am

Board Members Present

- Carmen Pigler (Treasurer and Deputy Chief Financial Officer)
- Betsy Cavendish (General Counsel, Executive Office of the Mayor)
- Jen Budoff (Budget Director for DC Council)
- Johnnie Rice (Mayor's Independent Board Appointee)

Other Attendees/Invitees:

- Glen Lee (Chief Financial Officer)
- David Tseng (Office of the Chief Financial Officer, Office of the General Counsel)
- Paula Keys (Office of the Chief Financial Officer, Office of Finance and Treasury)
- Tracy Ferguson (Office of the Chief Financial Officer, Office of the General Counsel)
- Erin Law (Office of the Chief Financial Officer, Office of the General Counsel)
- Brian Caldwell (Office of the Attorney General)
- Debra Taylor (Office of the Chief Financial Officer, Office of Finance and Treasury)
- Darryl Street (Office of the Chief Financial Officer, Office of Finance and Treasury)

- I. The meeting was called to order by Ms. Cavendish, followed by announcement of new TSFC board members: new Chief Financial Officer (CFO), Mr. Glen Lee, and new Mayoral citizen appointee to the Board of Directors, Ms. Johnnie Rice (to serve through September 17, 2022). Ms. Cavendish asked the Office of the Chief Financial Officer (OCFO) to explain the TSFC Settlement with the tobacco companies. **Answer:** The District sold its right to receive future tobacco settlement revenue (TSR) to the TSFC. The TSFC issued Series 2001 and 2006 bonds that are leveraged against future revenue streams derived primarily from the sale of cigarettes to make debt service payments to investors.
- II. The TSFC Board reviewed the 2021 Annual Board of Director Meeting minutes. **Ms. Cavendish moved to accept the minutes. Ms. Pigler seconded acceptance.**
- III. Ms. Pigler presented the 2021 Audited Financials highlighting assets totaling \$73.5 million of which \$40 million was in a debt service reserve fund and \$150,000 was for operating expenses. Ms. Cavendish asked how much money went to the Department of Health? **Answer:** The OCFO team clarified that proceeds from the sale of the Tobacco bonds were used to either defease District Bonds or transferred to the Health Department.
- IV. Mr. Caldwell stated the District receives millions of dollars in revenue each April under the Master Settlement Agreement (MSA). Revenues are largely driven by annual nationwide cigarette sales, which have declined over time. This reduction in sales is likely to continue in

part by a national ban on menthol cigarettes. However, the net reduction in annual MSA payments to the states has been tempered in recent years due to the high inflation rate, which is accounted for under the MSA. Settlement of National Participating Manufacturer (NPM) Adjustment Disputes (2004 – 2022) are in their last year of coverage -- DC and the other states' payments may become subject to new challenges from the tobacco companies starting with cigarette sales in 2023. As part of that settlement, most states, including DC, agreed to split the amount the NPM Adjustment – typically about 20% of the overall payment – with 75% going to the states and 25% going to the tobacco manufacturers. National Association of Attorneys General (NAAG) projections for April 2023 range between \$32 million and \$41 million (includes 3% – 7 % inflation). Ms. Rice inquired how these proceeds assist the residents of the District? Ms. Pigler stated that health programs and PSAs were funded upfront by bond issuances. Mr. Caldwell noted that the Tobacco Bonds allowed the District to leverage the funds for about a billion dollars upfront. Mr. Caldwell reported that NAAG projects the April 2024 MSA payments will range between \$30 – 39 million. Mr. Tseng suggested a separate breakout session ahead of the board meeting to discuss revenues and expenditures at length going forward.

- V. Ms. Pigler highlighted that revenue receipts were \$47.1 million in 2021 and \$36.9 million in 2020. **Ms. Cavendish moved to accept the financials. The motion was seconded and passed.**
- VI. Ms. Pigler announced a Moody's rating upgrade of the TSFC bonds to A2 from A3. The upgrade was attributable to deleveraging and paying down debt and availability of reserves to pay debt service.
- VII. Ms. Rice asked how often the board meets? Ms. Cavendish replied annually; Mr. Tseng added that such frequency is pursuant to the corporate bylaws noting also that the board members may call a board meeting as needed.
- VIII. Ms. Cavendish asked for Ms. Budoff's feedback. Ms. Budoff requested emails and invitations go to her DC Council email address and *not* dc.gov.
- IX. **Ms. Rice moved to adjourn the meeting. Ms. Budoff seconded the motion. The Meeting was adjourned.**