

## PART VII

### ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS

Part VII of the 2017 Annual Report provides information about environmental improvement fund revenue bonds (**Bonds**) issued by the State of Wisconsin (**State**). Selected information is provided on this page for the convenience of the readers; however, all information presented in this Part VII of the 2017 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2017)	\$328,435,000
Amount Outstanding of Fixed-Rate Obligations	328,435,000
Amount Outstanding of Variable-Rate Obligations	0
Percentage of Outstanding Obligations in form of Variable-Rate Obligations	0.00%
Ratings (Fitch/S&P) Bonds	AAA/AAA
Authority	Amended and Restated Environmental Improvement Fund Revenue Obligations Program Resolution adopted by the Commission on February 15, 2017, and Subchapter II of Chapter 18 and Sections 281.58 and 281.59, Wisconsin Statutes.
Trustee/Paying Agent	U.S. Bank National Association serves as Trustee, Registrar, and Paying Agent.
Security	The Bonds are payable solely from Pledged Revenues, which include (1) Loan Repayments on Pledged Loans, (2) moneys received by the State upon any default under Municipal Obligations, and (3) any other moneys or revenues pledged in the Program Resolution to secure the Bonds, and from any amounts on deposit in the Loan Fund, Revenue Fund, Redemption Fund, and Supplemental Income Fund.
Audit Report and Financial Statements	<b>APPENDIX A</b> to this Part VII of the 2017 Annual Report includes the independent auditor's report and the financial statements for the State's Environmental Improvement Fund.
<p>(a) The ratings presented are the ratings assigned to the State's environmental improvement fund revenue bonds without regard to any bond insurance policy. No information is provided in the 2017 Annual Report about any rating assigned to any environmental improvement fund revenue bonds based on any bond insurance policy.</p>	

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The State of Wisconsin Building Commission (**Commission**) supervises all matters concerning the State's issuance of revenue obligations. The Capital Finance Office, which is part of the State of Wisconsin Department of Administration's Division of Executive Budget and Finance, is responsible for managing the State's borrowing programs. The law firm of Foley & Lardner LLP provided bond counsel services, and the firm of Public Financial Management, Inc. provided financial advisor services, in connection with

the issuance of environmental improvement fund revenue bonds. Requests for additional information about the Bonds or the Environmental Improvement Fund may be directed to the Capital Finance Office.

The State previously issued clean water revenue bonds (**Clean Water Revenue Bonds**) to finance the State’s Clean Water Fund Program pursuant to a General Resolution for Clean Water Fund Program (**Prior General Resolution**) that the Commission adopted in 1991 to establish a program for the issuance of revenue bonds to provide financing for the Clean Water Fund Program. In 2015 the Commission adopted, and in 2017 the Commission amended and restated, the Program Resolution for State of Wisconsin Environmental Improvement Fund Revenue Bonds (**Program Resolution**).

This Part VII of the 2017 Annual Report addresses the Bonds and [Part VI of the 2017 Annual Report](#) addresses the Clean Water Revenue Bonds. The pledged revenues for each revenue bond program are different and readers of the 2017 Annual Report are asked to use caution to ensure they are making reference to the appropriate part of the 2017 Annual Report. See **“FINANCING PLAN”**.

The 2017 Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of a term used in one part of the 2017 Annual Report may differ from that of the same term used in another part, and the total amount shown in a table may vary from the related sum due to rounding. See **“GLOSSARY”** for the definitions of capitalized terms used in this Part VII of the 2017 Annual Report. No information or resource referred to in the 2017 Annual Report is part of the report unless expressly incorporated by reference.

Certain statements in this Part VII of the 2017 Annual Report may be forward-looking statements that are based on expectations, estimates, projections, or assumptions. Any forward-looking statements are made as of the date of the 2017 Annual Report, and the State undertakes no obligation to update such statements to reflect subsequent events or circumstances. Actual results could differ materially from the anticipated results.

## OUTSTANDING BONDS

Table VII-1 shows the outstanding principal balances of Bonds as of December 15, 2017. The 2015 Series A Bonds, 2017 Series A Bonds, and 2017 Series B Bonds, and all other environmental improvement fund revenue bonds to be issued under the Program Resolution, are collectively referred to as the **Bonds**. The 2017 Series A Bonds and 2017 Series B Bonds are collectively referred to as the **2017 Bonds**. U.S. Bank National Association is the trustee for the Bonds (**Trustee**). In addition, the Trustee is the registrar (**Registrar**) and paying agent (**Paying Agent**) for the Bonds.

Table VII-1

### OUTSTANDING ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS BY ISSUE (As of December 15, 2017)

<u>Financing</u>	<u>Date of Financing</u>	<u>Maturity</u>	<u>Amount of Issuance</u>	<u>Amount Outstanding</u>
2015- Series A ( <b>2015 Series A Bonds</b> ) .....	12/3/15	2016-30	\$ 43,380,000	\$ 37,860,000
2017- Series A ( <b>2017 Series A Bonds</b> ) .....	6/6/17	2018-35	218,705,000	218,705,000
Series B (Taxable) ( <b>2017 Series B Bonds</b> ) .....	6/6/17	2018	71,870,000	<u>71,870,000</u>
<i>Total Outstanding Environmental Improvement Fund Revenue Bonds</i>				<u>\$328,435,000</u>

Table VII-2 provides a historical view of the amount of outstanding Bonds as of December 15<sup>th</sup> for prior years.

Table VII-2

**HISTORICAL OUTSTANDING ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS**

<u>Year</u> <u>(December 15)</u>	<u>Outstanding</u> <u>Bonds</u>
2015	\$43,380,000
2016	40,135,000

**STATE REVOLVING FUND PROGRAM**

The Federal Water Quality Act of 1987, as amended (**Water Quality Act**), established a joint federal and state program commonly referred to as the State Revolving Fund (**Federal SRF**) Program. Under the Federal SRF Program, the United States Environmental Protection Agency (**EPA**) is authorized to make grants (**Capitalization Grants**) to a state to assist in providing financial assistance to municipalities within the state for governmentally-owned water treatment projects and other water pollution abatement projects. As a condition to receipt of Capitalization Grants, a state is required to establish a perpetual Federal SRF into which each Capitalization Grant must be deposited and to provide state matching funds (**State Match**) equal to at least 20% of the Capitalization Grant for deposit in the Federal SRF.

**Capitalization Grants**

The federal government has authorized appropriations for Capitalization Grants for federal fiscal years 1989 through 2017. For the Clean Water Fund Program, the State has been awarded Capitalization Grants from EPA aggregating approximately \$1.148 billion for federal fiscal years 1989 through 2017. For the Safe Drinking Water Loan Program, the State has been awarded Capitalization Grants from EPA aggregating approximately \$379 million for federal fiscal years 1998 through 2017. The aggregate amounts of Capitalization Grants stated above also include funds awarded to the State pursuant to the American Recovery and Reinvestment Act of 2009, for which no State Match was required.

Prior to 2015, the State issued general obligations to provide the State Match required for the State to receive its Capitalization Grants. In 2015, the State issued its first Bonds under the Program Resolution to provide funds for the State Match required for the Clean Water Fund Program. A portion of the proceeds of the 2017 Series A Bonds also funded the State Match. The State expects to continue to fund future State Match requirements for the Clean Water Fund Program through the issuance of Bonds, while continuing to issue general obligations for the State Match required for the Safe Drinking Water Loan Program.

**State Revolving Fund**

In response to the Water Quality Act, the State created the Environmental Improvement Fund and the Clean Water Fund Program. Financial assistance is made available to Municipalities in the form of Loans from the Clean Water Fund Program. See **“ENVIRONMENTAL IMPROVEMENT FUND”** and **“CLEAN WATER FUND PROGRAM”**.

**ENVIRONMENTAL IMPROVEMENT FUND**

The State’s Environmental Improvement Fund currently provides for the following separate environmental financing programs:

- **Clean Water Fund Program.** Established in 1990, the Clean Water Fund Program is a municipal financial assistance program for water pollution control projects and includes the State’s implementation of a Federal SRF Program under the Water Quality Act. See **“CLEAN WATER FUND PROGRAM”**.
- **Safe Drinking Water Loan Program.** The Safe Drinking Water Loan Program is a municipal loan program for drinking water projects and includes the State’s implementation of the federal Safe Drinking Water Act Amendments of 1996. Loans from the Safe Drinking Water Loan Program are primarily funded from federal Capitalization Grants awarded for this purpose, the

required State Match for those Capitalization Grants, and recycled Safe Drinking Water Loan payments.

Although the Program Resolution establishes funds and accounts to accommodate financing for the Safe Drinking Water Loan Program, the Act does not currently authorize the issuance of State revenue obligations under the Revenue Obligations Act with respect to the Safe Drinking Water Loan Program. If changes were made to the Wisconsin Statutes, Bond proceeds could be used to make loans under the Safe Drinking Water Loan Program; however, no legislation is pending that would make such changes.

## FINANCING PLAN

In 2015, the Program Resolution established a new and separate program for the issuance of Bonds to provide financing for the Clean Water Fund Program. The 2015 Series A Bonds, a portion of the 2017 Bonds, and all or a portion of additional Bonds to be issued, are used to make Loans that are Pledged Loans under the Program Resolution.

In connection with the issuance of the 2017 Bonds, all outstanding Clean Water Revenue Bonds under the Prior General Resolution were either legally defeased (and no longer treated as outstanding under the Prior General Resolution) or economically defeased by the deposit of funds into the accounts held under the Prior General Resolution, and all loans previously pledged to secure the Clean Water Revenue Bonds were refinanced and became Pledged Loans under the Program Resolution. As a result, approximately \$543 million of Investment Loans were released from the Prior General Resolution and transferred to the Supplemental Income Fund created under the Program Resolution.

The economically defeased Clean Water Revenue Bonds will continue to be treated as outstanding under the Prior General Resolution until their maturity or redemption date (unless they are otherwise defeased in accordance with the Prior General Resolution). Upon the redemption of the economically defeased Clean Water Revenue Bonds on June 1, 2020, the Prior General Resolution will then be discharged. The State does not intend to issue any additional clean water revenue bonds under the Prior General Resolution.

## CLEAN WATER FUND PROGRAM

The Clean Water Fund Program is a single program that consists of three loan portfolios, based on the sources of funds:

- **Direct Portfolio**, consisting of Loans funded with Capitalization Grants, the required State Match, and the Bonds, together with repayments of the principal of, and interest on, those Loans. Upon the issuance of the 2015 Series A Bonds, all then-existing Loans under the Direct Portfolio were designated as Pledged Loans. In addition, all Loans made from the proceeds of the 2017 Bonds, and any additional Bonds, are Pledged Loans under the Program Resolution.
- **Leveraged Portfolio**, consisting of Loans that were funded with Clean Water Revenue Bond proceeds under the Prior General Resolution, together with repayments of the principal of, and interest on, those Loans (also referred to herein as **Investment Loans**). Upon the issuance of the 2017 Bonds, all Investment Loans in the Leveraged Portfolio were released from the Prior General Resolution and became Pledged Loans under the Program Resolution. See “**FINANCING PLAN**”.
- **Proprietary Portfolio**, consisting of Loans funded with State general obligation bond proceeds, together with repayments of the principal of, and interest on, those Loans. Proprietary Loans are used to fund projects that may not meet all the construction or financial criteria of the Direct Portfolio, and also include hardship low-interest loans funded with State general obligation proceeds.

Only Pledged Loans for purposes of the Program Resolution will be funded with Bond proceeds, and only repayments of Pledged Loans are pledged to the repayment of the Bonds. In other words, Bond proceeds will not fund Loans in the Proprietary Portfolio, and repayments of Loans in the Proprietary Portfolio will not be pledged to the repayment of the Bonds. See “**SECURITY**”.

Under EPA regulations, Capitalization Grant Proceeds and principal repayments of Pledged Loans are not permitted to be used to pay any amounts due with respect to debt incurred to finance the State Match. For that reason, the Bonds and the proceeds of the Bonds will be allocated to State Match Portions and Leveraged Portions, and the principal of, and interest on, the State Match Portions of the Bonds will be paid solely from interest receipts with respect to the Pledged Loans and investment earnings on the Funds and Accounts.

The Clean Water Fund Program receives applications for financial assistance and reviews and approves such applications prior to the award of any Loans. All Loans are made to Municipalities pursuant to Financial Assistance Agreements. As evidence of each Loan, the Municipality is required to issue and deliver to the State a bond or note of the Municipality (**Municipal Obligation**) obligating the Municipality to repay the Loan on the maturity schedule and at the interest rate set forth in the Financial Assistance Agreement (FAA). See “**LOANS**”.

### **Funding Levels**

**Table VII-3** presents the historical federal Capitalization Grants and required State Match funding sources for the Clean Water Fund Program’s Direct Portfolio.

The amount of federal funding available in the future may affect the amount of Loans to be made by the Clean Water Fund Program and the amount of Bonds to be issued by the State. However, any change in the amount and timing of future Capitalization Grants would not affect the Pledged Revenues available for payment of Debt Service on the Bonds.

The Legislature has authorized the issuance of \$2.527 billion of revenue bonds (not including refunding bonds) for the Clean Water Fund Program. Under this authority, the State has issued \$174 million of Bonds under the Program Resolution and \$1.570 billion of clean water revenue bonds under the Prior General Resolution. The remaining statutory revenue bond authorization is expected to be used for the issuance of additional Bonds under the Program Resolution. There is no statutory limitation on the amount of revenue bonds that may be issued for refunding purposes; the State has issued an additional \$160 of Bonds for refunding purposes issued under the Program Resolution and \$903 million of clean water revenue refunding bonds under the Prior General Resolution.

Table VII-3

## FUNDING SOURCES; CLEAN WATER FUND PROGRAM DIRECT PORTFOLIO

Fiscal Year		Federal Funding	State Match	Total
Federal	State			
Prior to 1995	Prior to 1996	\$244,352,400	\$ 48,870,400	\$ 293,222,800
1995	1996	33,298,900	6,659,800	39,958,700
1996	1997	54,544,500	10,908,900	65,453,400
1997	1998	16,849,000	3,369,800	20,218,800
1998	1999	36,404,000	7,280,800	43,684,800
1999	2000	39,981,800	7,996,400	47,978,200
2000	2001	36,283,600	7,256,700	43,540,300
2001	2002	35,960,900	7,192,200	43,153,100
2002	2003	36,123,400	7,224,700	43,348,100
2003 <sup>(a)</sup>	2004	37,162,600	7,229,200	44,391,800
2004	2005	35,828,500	7,165,700	42,994,200
2005	2006	29,132,000	5,826,400	34,958,400
2006	2007	23,673,900	4,734,800	28,408,700
2007	2008	28,934,800	5,787,000	34,721,800
2008	2009	18,396,600	3,679,300	22,075,900
2009 <sup>(b)</sup>	2010	124,344,800	3,679,300	128,024,100
2010	2011	55,083,000	11,016,600	66,099,600
2011	2012	39,920,900	7,984,200	47,905,100
2012	2013	38,208,000	7,641,600	45,849,600
2013	2014	36,093,000	7,218,600	43,311,600
2014	2015	37,905,000	7,581,000	45,486,000
2015	2016	37,711,000	7,542,200	45,253,200
2016	2017	36,121,000	7,224,200	43,345,200
2017	2018	35,843,000	7,168,600	43,011,600
<b>Total</b>		<b>\$1,148,156,485</b>	<b>\$208,238,267</b>	<b>\$1,356,394,752</b>

<sup>(a)</sup> Includes grant under the Federal Rural Communities Hardship Grants Program

<sup>(b)</sup> The American Recovery and Reinvestment Act of 2009 provided \$104 million for grants and \$2 million for administration and did not require a State Match

## Management

Management responsibilities for the Clean Water Fund Program are shared between two State agencies. The State of Wisconsin Department of Natural Resources (**DNR**) is responsible for the environmental and programmatic management of the Clean Water Fund Program. The State of Wisconsin Department of Administration (**DOA**) is responsible for the financial and investment management of the Clean Water Fund Program. DNR and DOA have agreed upon the division of responsibilities and joined in a memorandum of understanding that details their respective roles. Joint responsibilities between DNR and DOA include issuing notices of financial assistance commitment (**Commitments**) to Municipalities and entering into financial assistance agreements (**Financial Assistance Agreements**) with Municipalities to finance eligible wastewater projects. DOA and DNR also jointly prepare biennial finance plans which include the estimated wastewater facility needs of municipalities in the State, the amount of financial assistance projected to be provided, and the sources of the funding projected to be provided.

## Operating Agreement with EPA

In connection with receipt of Capitalization Grants, the State, acting through DNR and DOA, has entered into an Operating Agreement, as amended, with EPA. The Operating Agreement sets forth the objectives and structure of the Clean Water Fund Program and the responsibilities of DNR and DOA. Among these responsibilities are:

- Financial management
- Management of the environmental and project construction aspects
- Preparation of an intended use plan, setting forth the projects the State expects to finance under the Clean Water Fund Program.

## SECURITY

### General

Bonds issued under the Program Resolution include the 2015 Series A Bonds and the 2017 Bonds, all of which are Senior Bonds for purposes of the Program Resolution. Any other Bonds that may be issued under the Program Resolution in the future may be issued as Senior Bonds on a parity with the 2015 Series A Bonds and 2017 Bonds, or as Subordinate Bonds.

The Bonds are special obligations of the State of Wisconsin, payable from the revenues or receipts, funds or moneys pledged under the Program Resolution. It is anticipated that Loan Repayments on Pledged Loans pursuant to the Financial Assistance Agreements will be sufficient to pay principal or redemption price of, and interest on, the Bonds. In addition, the Bonds are further secured by other amounts and Funds and Accounts held under the Program Resolution. Debt Service on all Bonds is secured by a pledge of:

- Pledged Revenues, consisting of:
  - Loan Repayments made by Municipalities on Pledged Loans;
  - moneys received by the State upon a default under a Municipal Obligation (State payments intercepted by the DOA, and taxes collected by county treasurers);
  - any Counterparty Swap Payments under a Swap Agreement;
  - earnings or income from Funds and Accounts payable into the Revenue Fund;
  - other moneys held or received relating to any Municipal Obligation; and
  - any other revenues pledged to secure Bonds.
- Amounts in the Loan Fund, Cost of Issuance Fund, Revenue Fund, Redemption Fund, and Supplemental Income Fund, and to the extent available for particular Bonds pursuant to the Program Resolution, the Reserve Fund.

The Program Resolution also contains provisions for:

- The establishment and funding of an account within the Reserve Fund (or, in the case of Subordinate Bonds, within the Subordinate Reserve Fund) in connection with the issuance of a series of Bonds; and
- The State to obtain letters of credit, bond insurance policies, or other credit enhancement instruments (each, a **Credit Enhancement Facility**) to provide a source of payment or security for a particular series of Bonds.

No account within the Reserve Fund has been established, and no Credit Enhancement Facility has been obtained in connection with the issuance of the 2015 Series A Bonds or the 2017 Bonds, and the 2015 Series A Bonds and 2017 Bonds are not expected to be entitled to the benefit of any Account within the Reserve Fund that may be established, or Credit Enhancement Facility that may be obtained, in the future.

The Equity Fund and the Rebate Fund established by the Program Resolution are not pledged to the payment of the Bonds.

*The State is not obligated to pay the principal of, and interest on, the Bonds from any revenues or funds of the State other than those pledged pursuant to the Program Resolution, and neither the full faith and credit nor the taxing power of the State or any agency, instrumentality or political subdivision thereof is pledged to the payment of the principal of, or interest on, the Bonds.*

## **Pledged Loans**

Upon issuance of the 2015 Series A Bonds, all the then-existing Loans in the Direct Portfolio were designated as Pledged Loans under the Program Resolution. Upon issuance of the 2017 Bonds, all Loans in the Leveraged Portfolio were transferred to the Supplemental Income Fund created under the Program Resolution and become Pledged Loans (and constitute Investment Loans under the Program Resolution). The State may designate additional Loans which are not otherwise subject to the pledge of the Program Resolution as Pledged Loans, and thereby assign and grant to the Trustee a security interest in the related Loan Repayments and other related Pledged Revenues and subject the additional Loans to the lien of the Program Resolution.

Loan Repayments of Pledged Loans are the primary revenues available to pay debt service on the Bonds. The extent to which the failure of a particular Municipality to make its Loan Repayments of Pledged Loans affects the State's ability to pay principal and redemption price of, and interest on, the Bonds will vary based on the percentage of such payments on the Bonds to be paid from the Loan Repayments of Pledged Loans to that Municipality. The State believes that the security provisions of the Financial Assistance Agreements will limit the effect on Bondowners of a failure by one or more Municipalities to make Loan Repayments on their Pledged Loans. However, persistent failures by one or more Municipalities to make Loan Repayments on Pledged Loans may adversely affect the ability of the State to pay principal and redemption of, and interest on, the Bonds. See **"LOANS; Statutory Powers"**.

As discussed in more detail under **"LOANS; Statutory Powers"**, DOA may intercept State Aid payable to certain types of Municipalities if such a Municipality defaults on a Loan. As of December 15, 2017, 44% (by total outstanding principal amount) of Municipal Obligations that evidenced outstanding Pledged Loans represented Loans with such State Aid intercept provisions. These percentages will change as new Pledged Loans are made and existing Loans under the Direct Portfolio are repaid.

**Table VII-4** identifies all Municipalities that have received Pledged Loans and provides certain other information about the Pledged Loans made to these Municipalities. As of December 15, 2017, disbursements for Pledged Loans totaled \$3.9 billion, and the outstanding principal balance of the Pledged Loans was \$1.7 billion.

**Table VII-4** includes the outstanding Pledged Loan principal balance as of December 15, 2017 and the percentage of the Pledged Loan principal balance compared to the principal balances for all outstanding Pledged Loans. The table also includes the amount that remained to be disbursed pursuant to each Municipality's Financial Assistance Agreements as of the same date. The amounts included in this table only include information on Pledged Loans, and do not include amounts for any grants and other awards such as those made pursuant to the American Recovery and Reinvestment Act of 2009 and the grants awarded pursuant to the Capitalization Grant received for federal fiscal years 2010 and 2011.

The Milwaukee Metropolitan Sewerage District (MMSD) is currently the largest borrower with respect to Pledged Loans, with \$567 million in principal amount of Pledged Loans outstanding as of December 15, 2017. Other Municipalities had amounts ranging from \$9,000 to \$163 million in principal amount of Pledged Loans outstanding as of the same date.

As of December 15, 2017, the Municipal Obligations that evidenced outstanding Pledged Loans consisted of 59% (by total outstanding principal amount) general obligations and 41% (by total outstanding principal amount) revenue or special assessment obligations.



Table VII-4

**STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND  
OUTSTANDING PLEDGED LOAN PRINCIPAL BALANCES**

**December 15, 2017**

**(Amounts in Thousands)**

<b>Municipality</b>	<b>Total Outstanding Pledged Loan Balance</b>	<b>% of All Pledged Loan</b>	<b>Total FAA Amount Remaining To Be Drawn</b>
Milwaukee Metropolitan Sewerage District	\$ 566,780	32.69%	\$ 8,770
Green Bay Metropolitan Sewerage District	162,768	9.39%	29,441
Madison Metropolitan Sewerage District	134,573	7.76%	1,762
City of Milwaukee	114,308	6.59%	1,411
City of Waukesha	42,779	2.47%	2,216
City of Eau Claire	36,226	2.09%	1,629
City of Racine	31,387	1.81%	-
City of Fond du Lac	30,388	1.75%	-
City of Janesville	21,158	1.22%	-
City of Franklin	20,015	1.15%	-
City of Whitewater	19,935	1.15%	4,106
Heart of the Valley Metropolitan Sewerage District	19,769	1.14%	-
City of Monroe	19,230	1.11%	992
City of Wisconsin Rapids	18,191	1.05%	-
Neenah - Menasha Sewerage Commission	17,663	1.02%	218
Walworth County Metropolitan Sewerage District	15,805	0.91%	-
Village of Lake Delton	12,284	0.71%	2,724
Grand Chute - Menasha West Sewerage Commissio	11,099	0.64%	-
Village of Salem Lakes	11,005	0.63%	-
City of Reedsburg	10,878	0.63%	214
City of Rhinelander	10,414	0.60%	166
City of Sheboygan	10,159	0.59%	449
City of Burlington	9,465	0.55%	-
Ho-Chunk Nation	8,981	0.52%	-
City of Watertown	8,961	0.52%	-
Village of Caledonia	8,903	0.51%	-
City of Oconto Falls	7,724	0.45%	-
City of Sun Prairie	7,546	0.44%	-
City of Manitowoc	7,513	0.43%	4,919
City of Beaver Dam	7,405	0.43%	-
City of Oshkosh	6,964	0.40%	-
Village of Paddock Lake	6,878	0.40%	-
City of Weyauwega	6,078	0.35%	-
City of South Milwaukee	5,993	0.35%	-
Village of East Troy	5,771	0.33%	-
Village of Kewaskum	5,635	0.32%	-
City of Saint Croix Falls	5,392	0.31%	549
City of Two Rivers	5,379	0.31%	89
Village of Whitefish Bay	5,279	0.30%	-
City of Superior	5,136	0.30%	1,590
Village of Mount Horeb	5,136	0.30%	13,087
Village of Cross Plains	4,822	0.28%	-
City of Stoughton	4,745	0.27%	-
Town of Beloit	4,708	0.27%	-

Table VII-4 (Continued)

**STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND  
OUTSTANDING PLEDGED LOAN PRINCIPAL BALANCES  
December 15, 2017  
(Amount in Thousands)**

Municipality	Total Outstanding Pledged Loan Balance	% of All Pledged Loan	Total FAA Amount Remaining To Be Drawn
Town of Beloit	\$ 4,708	0.27%	-
Village of Plover	4,609	0.27%	-
Village of Sussex	4,468	0.26%	-
Village of New Glarus	4,466	0.26%	-
Western Racine County Sewerage District	4,465	0.26%	-
City of Chippewa Falls	4,416	0.25%	-
City of Platteville	4,298	0.25%	-
Village of Cottage Grove	3,991	0.23%	-
Village of Suamico	3,909	0.23%	-
Village of Hortonville	3,759	0.22%	-
Delafield - Hartland Pollution Control Commission	3,733	0.22%	-
Village of Belleville	3,573	0.21%	-
City of Menomonie	3,501	0.20%	-
Village of Hilbert	3,490	0.20%	\$ 337
City of Dodgeville	3,468	0.20%	283
Village of Slinger	3,273	0.19%	-
Village of Brooklyn	3,108	0.18%	-
Village of Cambridge	3,108	0.18%	-
Village of Wrightstown	3,105	0.18%	-
Village of Belmont	3,041	0.18%	-
City of Tomahawk	3,039	0.18%	-
City of Richland Center	3,010	0.17%	-
City of Evansville	2,972	0.17%	-
Village of Twin Lakes	2,936	0.17%	-
Village of Osceola	2,744	0.16%	-
Consolidated Koshkonong Sanitary Commission	2,731	0.16%	-
Ashippun Sanitary District	2,678	0.15%	-
City of Wisconsin Dells	2,619	0.15%	918
City of Columbus	2,565	0.15%	-
City of Beloit	2,545	0.15%	-
City of Brookfield	2,524	0.15%	-
Town of Oakland Sanitary District #1	2,516	0.15%	-
City of New Holstein	2,444	0.14%	-
Village of Ellsworth	2,413	0.14%	-
City of Darlington	2,356	0.14%	-
Village of Randolph	2,323	0.13%	196
City of Waupun	2,231	0.13%	-
City of Ladysmith	2,195	0.13%	-
Village of Dousman	2,173	0.13%	-
City of Gillett	2,140	0.12%	-
Village of Mishicot	2,128	0.12%	-
City of Green Lake	2,115	0.12%	-
Village of Union Grove	2,084	0.12%	-
City of Stevens Point	2,073	0.12%	-
City of Edgerton	2,041	0.12%	-
Village of Hammond	2,009	0.12%	177
City of Mineral Point	1,967	0.11%	-
City of New Lisbon	1,930	0.11%	-
City of Chilton	1,908	0.11%	-

Table VII-4 (Continued)

**STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND  
OUTSTANDING PLEDGED LOAN PRINCIPAL BALANCES  
December 15, 2017  
(Amount in Thousands)**

Municipality	Total Outstanding Pledged Loan Balance	% of All Pledged Loan	Total FAA Amount Remaining To Be Drawn
Village of Waldo	\$ 1,900	0.11%	-
Village of Saukville	1,889	0.11%	-
City of Ripon	1,818	0.10%	-
Lyons Sanitary District #2	1,811	0.10%	-
City of West Allis	1,808	0.10%	-
Village of Cedar Grove	1,756	0.10%	-
City of Owen	1,729	0.10%	\$ 133
City of Omro	1,724	0.10%	-
Village of Black Creek	1,675	0.10%	-
City of Hillsboro	1,660	0.10%	48
Village of Lomira	1,603	0.09%	-
Village of Denmark	1,596	0.09%	107
Village of Roberts	1,586	0.09%	-
City of River Falls	1,564	0.09%	-
Village of Belgium	1,534	0.09%	-
City of Baraboo	1,484	0.09%	-
Village of Black Earth	1,461	0.08%	43
Wolf Treatment Plant Commission	1,453	0.08%	-
Village of Deerfield	1,433	0.08%	-
Village of Sharon	1,423	0.08%	81
City of Menasha	1,414	0.08%	-
Village of Fontana	1,401	0.08%	-
Village of Port Edwards	1,397	0.08%	-
City of Marshfield	1,369	0.08%	-
Village of Lowell	1,359	0.08%	-
City of Peshtigo	1,325	0.08%	-
Greenville Sanitary District No. 1	1,310	0.08%	-
City of Milton	1,290	0.07%	-
Village of Genoa City	1,220	0.07%	-
City of Whitehall	1,215	0.07%	-
Village of Fox Crossing	1,200	0.07%	-
City of Black River Falls	1,173	0.07%	-
Village of Athens	1,172	0.07%	-
City of Montreal	1,161	0.07%	-
City of Waterloo	1,149	0.07%	-
City of Shawano	1,138	0.07%	-
Village of Campbellsport	1,132	0.07%	-
Village of Cassville	1,100	0.06%	-
Forest Junction Sanitary District	1,080	0.06%	141
City of Mayville	1,075	0.06%	-
City of Waupaca	1,062	0.06%	-
City of Park Falls	1,012	0.06%	197
Village of Bristol	991	0.06%	-
Village of Clinton	964	0.06%	-
City of Portage	956	0.06%	-
City of Sparta	948	0.05%	-
City of Pittsville	943	0.05%	-
Village of Rio	909	0.05%	-
Town of Oconomowoc	908	0.05%	-

Table VII-4 (Continued)

**STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND  
OUTSTANDING PLEDGED LOAN PRINCIPAL BALANCES  
December 15, 2017  
(Amount in Thousands)**

Municipality	Total Outstanding Pledged Loan Balance	% of All Pledged Loan	Total FAA Amount Remaining To Be Drawn
City of Ashland	\$ 883	0.05%	\$ 85
City of Prairie du Chien	878	0.05%	-
Village of Cascade	852	0.05%	-
Village of Plum City	835	0.05%	-
City of Bayfield	821	0.05%	-
St. Joseph's Sanitary District No. 1	797	0.05%	-
Village of Random Lake	791	0.05%	-
City of Hartford	755	0.04%	-
Village of Necedah	754	0.04%	-
Village of Waterford	743	0.04%	-
City of Marinette	709	0.04%	-
Harmony Grove - Okee Sewerage Commission	679	0.04%	-
Village of Ephraim	666	0.04%	-
City of Shell Lake	662	0.04%	61
City of Independence	655	0.04%	-
City of Juneau	648	0.04%	-
Village of Birchwood	637	0.04%	-
City of Viroqua	629	0.04%	2,285
City of Neenah	616	0.04%	-
City of New Richmond	596	0.03%	-
Norway Sanitary District #1	590	0.03%	-
Village of Mazomanie	586	0.03%	-
City of Mauston	580	0.03%	-
Village of Howards Grove	580	0.03%	-
Town of Dover	579	0.03%	-
City of Jefferson	577	0.03%	-
Village of Bayside	566	0.03%	-
City of Tomah	566	0.03%	-
City of Greenwood	556	0.03%	-
City of Phillips	554	0.03%	-
Village of Allouez	539	0.03%	-
City of Blair	537	0.03%	314
Village of Somerset	524	0.03%	-
Village of Rockdale	522	0.03%	-
Village of Vesper	514	0.03%	-
Mindoro Sanitary District #1	500	0.03%	-
Village of Luxemburg	496	0.03%	-
Little Suamico Sanitary District #1	476	0.03%	-
City of Delavan	459	0.03%	-
City of Cuba City	446	0.03%	-
Village of Albany	437	0.03%	-
Village of Coleman	430	0.02%	-
City of Galesville	430	0.02%	-
Village of Minong	425	0.02%	-
City of Brodhead	423	0.02%	105
Village of Jackson	407	0.02%	-
City of Delafield	400	0.02%	-
Town of Ixonia	399	0.02%	-
City of Osseo	389	0.02%	-

Table VII-4 (Continued)

**STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND  
OUTSTANDING PLEDGED LOAN PRINCIPAL BALANCES  
December 15, 2017  
(Amount in Thousands)**

Municipality	Total Outstanding Pledged Loan Balance	% of All Pledged Loan	Total FAA Amount Remaining To Be Drawn
Village of Rothschild	\$ 385	0.02%	\$ 43
Village of Junction City	379	0.02%	-
Village of Edgar	377	0.02%	-
Kelly Lake Sanitary District #1	376	0.02%	-
City of Markesan	374	0.02%	190
Village of Whitelaw	368	0.02%	-
Village of Saint Nazianz	349	0.02%	-
Village of Dallas	340	0.02%	-
Village of Stratford	333	0.02%	5
Village of Frederic	326	0.02%	-
Village of Orfordville	324	0.02%	-
O'Dell's Bay Sanitary District #1	322	0.02%	-
Madeline Sanitary District	321	0.02%	-
Village of North Fond du Lac	320	0.02%	-
Village of Footville	317	0.02%	-
Christmas Mountain Sanitary District	311	0.02%	-
City of Kenosha	306	0.02%	-
Village of Bangor	302	0.02%	-
Village of Little Chute	300	0.02%	-
City of Algoma	298	0.02%	44
Village of Boyceville	296	0.02%	-
City of Lake Mills	293	0.02%	-
City of Clintonville	291	0.02%	-
Krakow Sanitary District No. 1	287	0.02%	-
Pikes Bay Sanitary District	285	0.02%	-
Village of Grantsburg	283	0.02%	-
Village of Benton	270	0.02%	-
Village of Camp Douglas	256	0.01%	-
Village of Stoddard	253	0.01%	-
Village of Merrillan	251	0.01%	-
City of Princeton	245	0.01%	1
Wrightstown Sanitary District #1	243	0.01%	-
Village of Marathon City	239	0.01%	-
Village of Iron Ridge	237	0.01%	-
Lake Como Sanitary District #1	223	0.01%	-
City of Arcadia	217	0.01%	-
Village of Stetsonville	217	0.01%	-
City of Altoona	215	0.01%	-
Village of Arlington	209	0.01%	-
City of Hudson	209	0.01%	-
Village of Cambria	206	0.01%	-
Village of Rib Lake	205	0.01%	-
City of Brillion	203	0.01%	-
Village of Tennyson	185	0.01%	11
Village of Arena	176	0.01%	-
Village of Kendall	176	0.01%	-
City of Kewaunee	172	0.01%	-
Village of Walworth	166	0.01%	-
City of Fountain City	165	0.01%	-

Table VII-4 (Continued)

**STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND  
OUTSTANDING PLEDGED LOAN PRINCIPAL BALANCES  
December 15, 2017  
(Amount in Thousands)**

Municipality	Total Outstanding Pledged Loan Balance	% of All Pledged Loan	Total FAA Amount Remaining To Be Drawn
Rockland Sanitary District #1	\$ 160	0.01%	-
Village of Lena	159	0.01%	-
Village of New Auburn	149	0.01%	-
Village of Poplar	145	0.01%	-
Village of Butternut	138	0.01%	\$ 4
Roxbury Sanitary District #1	114	0.01%	-
Lake Tomahawk Sanitary District #1	102	0.01%	-
Village of Winneconne	100	0.01%	-
Village of Shorewood	95	0.01%	-
Village of Bloomfield	94	0.01%	-
Village of Brokaw	91	0.01%	-
Village of De Soto	89	0.01%	-
Village of Dane	79	0.00%	-
Village of Marshall	76	0.00%	-
City of Amery	73	0.00%	-
Village of Forestville	71	0.00%	-
City of Mellen	59	0.00%	18
Poy Sippi Sanitary District	55	0.00%	-
City of Cumberland	53	0.00%	-
Village of Linden	53	0.00%	-
Wisconsin Dells - Lake Delton Sewerage Commissi	52	0.00%	-
Village of Muscoda	51	0.00%	-
Village of Kohler	49	0.00%	-
Village of Sherwood	42	0.00%	-
City of Boscobel	40	0.00%	-
Winneconne Sanitary District #3	40	0.00%	-
City of Shullsburg	40	0.00%	-
Village of Haugen	38	0.00%	-
Village of Wyocena	37	0.00%	-
Village of Brownsville	34	0.00%	-
City of Montello	33	0.00%	-
City of Chetek	33	0.00%	-
City of Loyal	31	0.00%	-
Village of Bagley	28	0.00%	-
Village of Hancock	25	0.00%	-
City of Westby	25	0.00%	-
Village of Combined Locks	15	0.00%	-
Village of Cameron	9	0.00%	166
<b>Totals</b>	<b>\$ 1,733,766</b>	<b>100.00%</b>	<b>\$ 80,327</b>

**Lending Criteria and Conditions of Clean Water Fund Program**

The Act sets forth certain requirements for eligibility of a Municipality to receive financial assistance from the Clean Water Fund Program. Financial assistance can only be awarded to one of the types of governments specified by the Act. The Act provides that the Municipality must comply with a number of requirements, including establishing a dedicated source of revenue for the repayment of the financial

assistance, complying with the requirements of the Water Quality Act, developing a program of water conservation as required by DNR, and developing and adopting a system of equitable user charges.

Although the Act permits financial assistance to take forms other than Loans, such as guaranteeing or purchasing insurance for Municipal Obligations, awarding hardship grants to certain Municipalities, or subsidizing the interest cost on certain other loans, the State currently makes financial assistance available from the Clean Water Fund Program primarily by making Loans to Municipalities at interest rates that are at or below market rates, as specified in the Act.

The State currently determines the market interest rate based on a calculated cost of borrowing using various indices and taking into consideration other factors. A review is done quarterly to complete this determination. The following is a summary of recent market interest rate changes for the Clean Water Fund Program:

- Decreased from 3.50% to 3.00% on January 1, 2015,
- Increased from 3.00% to 3.25% on July 1, 2015,
- Decreased from 3.25% to 3.00% on April 1, 2016,
- Decreased from 3.00% to 2.80% on October 1, 2016,
- Increased from 2.80% to 3.40% on January 1, 2017, and
- Decreased from 3.40% to 3.20% on October 1, 2017.

The above market interest rate discussion is for the historical Loan terms not exceeding 20 years. Prior to adoption of the State's 2017-19 biennial budget (2017 Wisconsin Act 59), Loan terms could not exceed 20 years. 2017 Wisconsin Act 59 includes provisions that allow for Loan terms extending up to 30 years, and DNR and DOA are currently establishing criteria for approving Loan requests and establishing market interest rates for Loans with terms exceeding 20 years.

The rate in effect at the time the Municipality authorizes the execution of the Financial Assistance Agreement applies to all disbursements of the Loan. Proceeds of Loans are disbursed in installments pursuant to a Municipality's Financial Assistance Agreement, as project costs are incurred. As proceeds are disbursed, interest on the Loan accrues on the amount disbursed from the date of disbursement until the date such amount is repaid.

In most instances, the repayment schedule of each Loan is structured to provide level annual debt service from the disbursement dates until the final maturity specified in the respective Municipality's Financial Assistance Agreement. Upon project completion, a Municipality's Loan repayment schedule under its Financial Assistance Agreement will reflect the cumulative principal amortization of the disbursements to the Municipality.

If an audit of the project conducted after the final disbursement of a Loan reveals that the eligible project costs are less than the amount disbursed to the Municipality, the Municipality agrees to reimburse the State within 60 days after DNR or DOA provides a notice of overpayment.

If the Municipality fails to make any payment when due on the Municipal Obligation or fails to observe or perform any other covenant, condition or agreement on its part under the Financial Assistance Agreement for a period of 30 days after written notice specifying the default and requesting that it be remedied has been given to the Municipality by DNR, the State shall have all remedies provided by law and, to the extent permitted by law, the Financial Assistance Agreement.

Each Financial Assistance Agreement requires the Municipality to submit annual audited financial statements to the State, within 180 days after the end of the Municipality's fiscal year, for the State's review. DOA takes an active role in the collection of these documents with initial and follow-up requests to Municipalities that have not complied with this requirement. The State's review of these financial statements focuses on revenue sufficiency; if concerns about sufficient revenues are identified, the Municipality is notified and required, pursuant to the Financial Assistance Agreement, to take actions to address the concerns. In addition, each Municipality covenants in the Financial Assistance Agreement to review its user charge system every two years for the life of the Loan.

See “**MUNICIPALITIES**”, “**LOANS**”, and “**LENDING CRITERIA**” for additional information concerning the loan application process, lending criteria, levy limits for municipalities, and Financial Assistance Agreements.

As of December 15, 2017, no Municipality has been in default of any Municipal Obligations issued to evidence Pledged Loans.

### **Statutory Powers**

Sections 281.58 and 281.59 of the Wisconsin Statutes, as amended (**Act**), include several provisions that may provide additional security for payment of the principal or redemption price of, or interest on, the Bonds. These provisions include state aid intercept, collection through county treasurers, and state moral obligation, if designated. See “**LOANS; Statutory Powers**” for more information.

### **Milwaukee Metropolitan Sewerage District**

Based on balances as of December 15, 2017, Pledged Loans to the Milwaukee Metropolitan Sewerage District (**MMSD**) were outstanding in the principal amount of \$567 million, which is approximately 33% of the total principal amount of all outstanding Pledged Loans. This amount and percentage will change when changes occur in the origination and repayment of Pledged Loans.

MMSD has issued Municipal Obligations to evidence its obligation to repay its Pledged Loans. The Municipal Obligations issued by MMSD are general obligations; MMSD has made an irrevocable levy of ad valorem property taxes sufficient to pay debt service on its Pledged Loans when due.

This Part VII of the 2017 Annual Report incorporates by reference the MMSD Comprehensive Annual Financial Report (**MMSD CAFR**) for the period ending December 31, 2016. The MMSD CAFR has been filed with the Municipal Securities Rulemaking Board (**MSRB**) through its EMMA system and should be consulted only with respect to MMSD. No representation is made as to the accuracy or completeness of the information included in the MMSD CAFR, or that there has been no material change since its date.

Copies of the MMSD CAFR can be obtained from:

Milwaukee Metropolitan Sewerage District  
Attention: Mark T. Kaminski, Director of Finance/Treasurer  
260 West Seeboth Street  
Milwaukee, Wisconsin 53204-1446  
Telephone: (414) 225-2050  
Email: [mkaminski@mmsd.com](mailto:mkaminski@mmsd.com)  
Website: <http://mmsd.com/financial/financial-reports>

### **Additional Bonds**

The Program Resolution permits the issuance of additional Senior Bonds or Subordinate Bonds. Prior to the issuance any Bonds, the State must certify that the State is not in default in the performance of any of its covenants and agreements in the Program Resolution (unless, in the opinion of Independent Counsel, any such default does not deprive any Beneficiary in any material respect of the security afforded by the Program Resolution) and that after giving effect to the issuance of the Bonds and the pledge of any additional Pledged Loans to be financed with such Bonds or otherwise to be pledged, (i) the Aggregate Debt Service Coverage Ratio will be at least 1.0 to 1 for each future Fiscal Year, and (ii) if the Bonds to be issued are Senior Bonds, the Senior Debt Service Coverage Ratio will be at least 1.0 to 1 for each future Fiscal Year.

In connection with the issuance of Refunding Bonds, the State may instead certify that the issuance of the Refunding Bonds will not increase Debt Service in any Fiscal Year.

### **Disposition of Loans**

The State may sell, assign, transfer or otherwise dispose of any Pledged Loan and the Municipal Obligation(s) evidencing such Pledged Loan, free and clear of the pledge of the Program Resolution and



at such price as the Commission (or the Capital Finance Director, on behalf of the Commission) may determine. Prior to any such sale or disposition, the State must deliver a State Certificate to the effect that, immediately following such sale, assignment, transfer or disposition (and if applicable, giving effect to the deposit of the proceeds thereof into the applicable Fund or Account and the further application thereof), the State could issue at least \$1 of additional Bonds under the tests set forth in the Program Resolution and described above under “SECURITY; Additional Bonds”.

The State may also assign, transfer or otherwise dispose of any Pledged Loan and the Municipal Obligation evidencing such Pledged Loan and deposit the proceeds in the applicable Account of the Revenue Fund as specified in a State Certificate, if such Pledged Loan is delinquent in payments of principal or interest and if in the reasonable opinion of the State, as evidenced by a State Certificate, the proceeds of such sale, assignment, transfer or disposition are not less than the fair market value of such delinquent Pledged Loan and Municipal Obligation.

### **Amendment of Loan Terms**

The State may consent or agree to permit amendment or modification of any Financial Assistance Agreement or Municipal Obligation, including amendments and modifications made in connection with settlement of any delinquency or default on any Pledged Loan which settlement the State determines to be in the best interests of the State. However, an amendment or modification will be permitted only if the amended Financial Assistance Agreement or Municipal Obligation and the Pledged Loan thereunder satisfies the requirements of the Program Resolution for a Pledged Loan and the State determines that the modification will not have a material adverse effect, taking into account the reasonable expectations with respect to the Pledged Loan in question immediately prior to the modification, on the State’s ability to pay the principal of and interest on the Bonds and the Other Obligations. In addition, prior to any such amendment or modification that reduces the payments due under the Municipal Obligation securing any Pledged Loan, the State must file with the Trustee a State Certificate to the effect that, immediately following such amendment or modification, the State could issue at least \$1 of additional Bonds under the tests set forth in the Program Resolution and described under “SECURITY; Additional Bonds”.

### **Prepayment of Pledged Loans Limited**

The State may consent to prepayment of any Pledged Loan and the Municipal Obligation evidencing such Pledged Loan only if it delivers a State Certificate to the effect that, immediately following such prepayment (and giving effect to the deposit of the proceeds thereof into the applicable Fund or Account and the further application thereof), the State could issue at least \$1 of additional Bonds under the tests set forth in the Program Resolution and described above under “SECURITY; Additional Bonds”.

### **Flow of Funds**

Within the Revenue Fund there are a Clean Water Revenue Account and a Safe Drinking Water Revenue Account, within each of which Accounts there are a Principal Receipts Subaccount and an Interest Receipts Subaccount. Upon receipt, all Pledged Revenues (other than (i) payments under Credit Enhancement Facilities or for the payment of the purchase price of Bonds on a Tender Date and (ii) any proceeds of the sale or other disposition of Pledged Loans that the State directs to be deposited in the Loan Fund or another Fund) shall be deposited to the Revenue Fund. Revenue obligations for the Safe Drinking Water Program are not contemplated at this time and could only be issued after appropriate changes to the Act.

All Loan Repayments and other Pledged Revenues received with respect to Pledged Loans under the Clean Water Fund Program, and all Counterparty Swap Payments allocable to the Leveraged Clean Water Portion and the State Match Clean Water Portion, shall be credited to the Clean Water Revenue Account. No Swap Agreements were entered into in connection with the issuance of the 2015 Series A Bonds or the 2017 Bonds, or are otherwise contemplated at this time.

On each June 1 and December 1 (each a **Transfer Date**), amounts in the Revenue Fund will be transferred to the applicable accounts in the Redemption Fund and applied to pay the debt service on the

Bonds as described in “**SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION; Revenue Fund**”.

The Equity Fund is held and maintained by the State, and is not subject to the lien of the Program Resolution. There shall be deposited in the Equity Fund (i) all Fees and Charges, (ii) amounts transferred from the Revenue Fund on a Transfer Date, upon State Direction, following transfer to pay debt service on the Bonds and all other required transfers, and (iii) such additional funds that are not subject to the lien of the Program Resolution as may be directed by an Authorized Commission Representative. Moneys and securities may be transferred from the Equity Fund for any purpose authorized by the Act and deposited into other funds and accounts established by the Program Resolution at the written direction of an Authorized Commission Representative.

The **following diagram** is a detailed summary of the flow of funds under the Program Resolution. Further details of the flow of funds within the Program Resolution are outlined in “**SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION**”.

### **No Acceleration**

Upon the occurrence of an Event of Default under the Program Resolution, there is no remedy of acceleration available to the Trustee with respect to the Bonds.

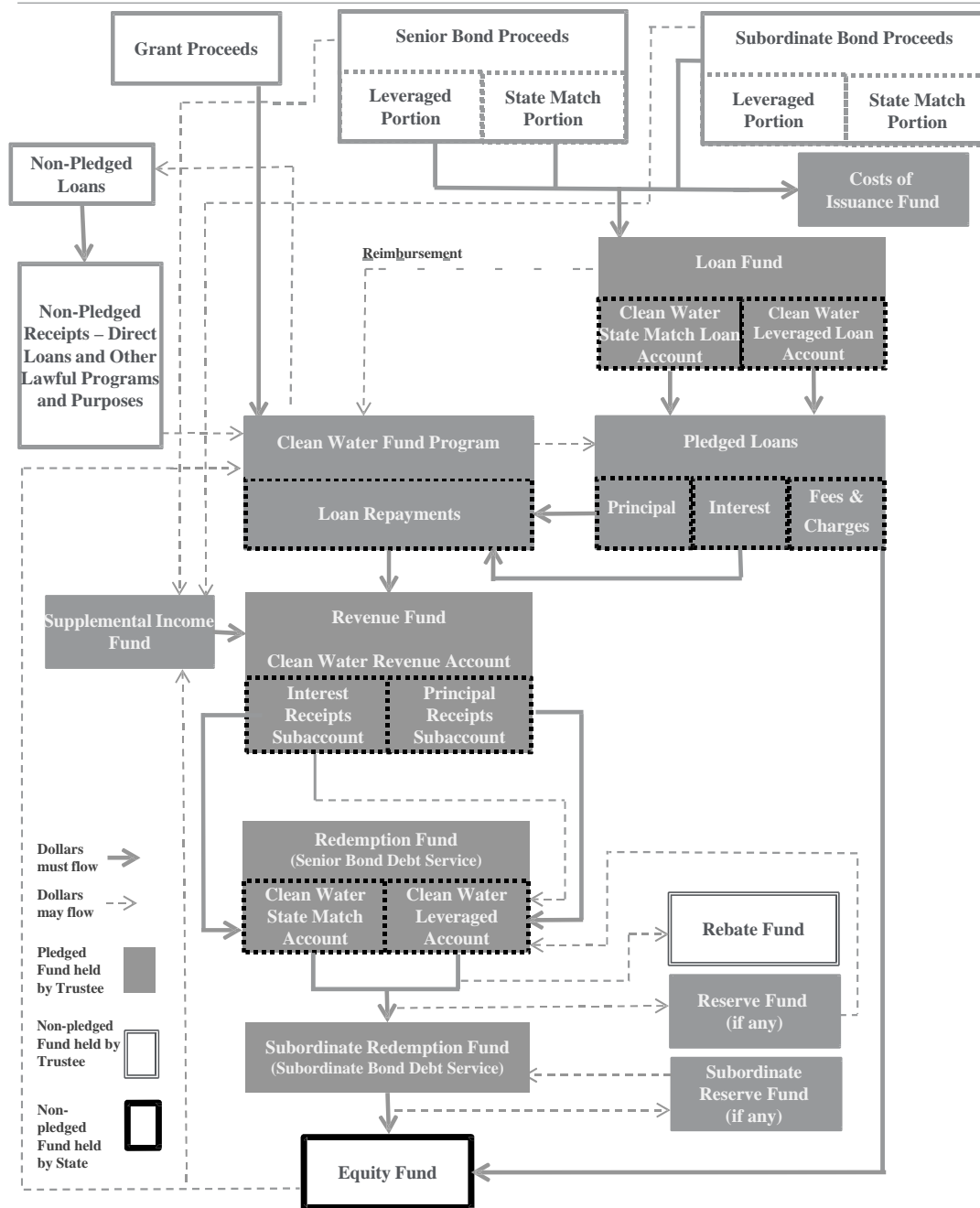
### **Investment of Funds**

Moneys held under the Program Resolution, including proceeds of the Bonds held in the Loan Fund pending disbursement under Financial Assistance Agreements, will be invested by the Trustee, at the direction of the State, in Permitted Investments.

### **Non-Impairment**

Under Section 18.61 (2), Wisconsin Statutes, the State pledges and agrees with the Holders of the Bonds that the State will not limit or alter its powers to fulfill the terms of any agreements made with the Holders of the Bonds or in any way impair the rights and remedies of the Holders of the Bonds until the Bonds, together with interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Holders of the Bonds are fully met and discharged.

## Detailed Program Resolution Flow of Funds\*



### PROJECTED CASH FLOW AND DEBT SERVICE TABLE

Table VII-5 sets forth projections of Projected Annual Revenues, Debt Service, and Aggregate Debt Service Coverage Ratio for each fiscal year, based upon assumptions that there are no defaults on the Pledged Loans. Actual events may vary from those assumptions and any variations may be material and adverse. The presentation of projected Aggregate Debt Service Coverage Ratios does not constitute a representation by the State that the Projected Annual Revenues will be realized or will be received at the times or in the amounts projected.

Table VII-5 also assumes that the 2015 Series A Bonds and 2017 Bonds continue to be the only Bonds outstanding under the Program Resolution. The future issuance of additional Bonds and the acquisition of additional Pledged Loans will affect the Projected Annual Revenues, the annual Debt Service amounts, and the Debt Service Coverage Ratios. See “**SECURITY; Additional Bonds**”.

Although satisfying certain projected Aggregate Debt Service Coverage Ratio tests is a condition to the issuance of additional Bonds under the Program Resolution, failure to maintain any level of coverage is not a default under the Program Resolution.

**TABLE VII-5  
PROJECTED DEBT SERVICE COVERAGE**

<b>Year (June 30)</b>	<b>Projected Annual</b>		<b>Aggregate Debt Service</b>	
	<b>Revenues</b>	<b>Debt Service</b>	<b>Coverage Ratio</b>	
2018	\$ 200,112,757	\$ 103,826,430	1.93x	
2019	193,709,943	95,974,250	2.02x	
2020	188,421,776	17,065,250	11.04x	
2021	181,321,943	16,011,500	11.32x	
2022	164,149,517	16,012,000	10.25x	
2023	151,335,716	16,010,500	9.45x	
2024	144,967,390	16,016,000	9.05x	
2025	139,254,182	14,617,000	9.53x	
2026	122,176,290	13,547,500	9.02x	
2027	111,347,937	16,073,250	6.93x	
2028	99,364,134	14,411,000	6.9x	
2029	79,483,039	14,417,750	5.51x	
2030	69,313,167	14,412,750	4.81x	
2031	56,895,137	10,070,250	5.65x	
2032	42,360,709	10,070,750	4.21x	
2033	37,132,067	10,071,500	3.69x	
2034	25,282,287	10,071,500	2.51x	
2035	18,153,455	10,074,750	1.8x	

## MUNICIPALITIES

Pursuant to the Act, the Clean Water Fund Program is authorized to provide financial assistance in the form of Loans to any Municipality. The following discussion applies to all Loans under the Clean Water Fund Program. A Municipality may be any city, town, village, county, town sanitary district, public inland lake protection and rehabilitation district, metropolitan sewerage district, or federally recognized American Indian tribe or band located in the State. Due to the diversity of the types of potential recipients of financial assistance, the manner in which the Municipalities raise revenues and issue and secure debt will vary. The Program Resolution provides for financial assistance to other Borrowers; however, amendments to the Act would be needed before any such financial assistance could occur.

Prospective municipal borrowers fall into one of several general categories:

- *General purpose Municipalities*, such as counties, cities, villages, and towns, may borrow for a variety of public purposes, including the construction or improvement of wastewater and water facilities. Such general purpose Municipalities may incur long-term obligations in the form of general obligation debt secured by property tax levies, revenue obligations secured by user fees and special assessments, or installment lease contracts.

- *Special purpose Municipalities*, such as town sanitary districts, public inland lake protection and rehabilitation districts, and metropolitan sewerage districts, may borrow for the purpose for which they are created, primarily wastewater and water facilities. Debt may be incurred by special purpose Municipalities in generally the same forms as may be incurred by general purpose Municipalities. Town utility districts may be utilized by towns to allocate tax levies, but the town is the actual borrower; and any general obligation issued for a town utility district is secured by the full faith and credit of the entire town.
- *Indian tribes and bands* are sovereign governments that may borrow for various purposes, including the construction or improvement of wastewater and water facilities.
- *Intergovernmental Cooperation Commissions (ICC)* are special purpose intergovernmental bodies formed by agreements authorized under State law between two or more Municipalities, some of which own and operate wastewater treatment facilities. Because an ICC does not have general taxing powers and typically depends upon its contracting members to collect revenues via user fees or tax levies from individual users of wastewater facilities, Loans are made only to the individual Municipalities that constitute the ICC.

### **Constitutional and Statutory Requirements**

Municipal powers are primarily statutory and in some instances established by the State Constitution. To the extent not inconsistent with the State Constitution and State law, Municipalities may adopt and amend local laws and ordinances relating to their property, affairs, or government.

In general, the State Constitution and State law limit the power of Municipalities to issue Municipal Obligations and otherwise to contract indebtedness. As a condition for making any loan, the State will require an opinion of counsel to the effect that (subject to certain exceptions for bankruptcy, insolvency, and similar laws affecting creditors' rights or remedies and equitable principles) the Financial Assistance Agreement and the Municipal Obligation evidencing the loan constitute legal, valid, and binding obligations of the Municipality, enforceable against the Municipality in accordance with their respective terms.

### **Limitations on Indebtedness**

Generally, the aggregate general obligation debt that may be incurred by a Municipality may not exceed 5% of the equalized value of all real estate in the Municipality. Municipalities are not limited as to the amount of revenue obligations that they may incur. However, as described under "**LENDING CRITERIA**", the Act requires that a Municipality must comply with a number of requirements, including establishing a dedicated source of revenue for the repayment of financial assistance and developing and adopting a system of equitable user charges.

### **Revenues**

Revenues of counties, cities, villages, and towns are principally derived from property taxes, state and federal aids, and fees and charges. Counties may levy a sales tax of up to a 0.5% rate. For a discussion of real property taxes and special assessments, see "**MUNICIPALITIES; Collection of Real Property Taxes and Assessments**".

Counties, cities, villages, and towns receive financial assistance from the State (**State Aid**). The State is not constitutionally obligated to maintain or continue State Aid. Accordingly, no assurance can be given that present State Aid levels will be maintained in the future. The payment of State Aid by the State is subject to appropriations being made by the Legislature. As discussed in more detail under "**LOANS; Statutory Powers**", DOA may intercept State Aid payable to certain types of Municipalities if such a Municipality defaults on a Loan.

### **Collection of Real Property Taxes and Assessments**

Real property taxes, special assessments, and special charges are collected by the county treasurer and remitted to the proper taxing authority. Special assessments may be levied generally by a taxing authority as an assessment against property to compensate for all, or part of, the costs of a public work or

improvement which benefits the property. The right to levy special assessments may be based upon the taxing power of the Municipality or the police power of the Municipality. The clearest difference between the two types of special assessments is that under the taxing power, the amount of the special assessment may not exceed the benefit conferred on the property, while under the police power, the amount of the special assessment need only be determined upon a reasonable basis as determined by the governing body of the Municipality. Costs of any public work or improvements that may be reflected in whole or in part by special assessments may include the direct and indirect costs thereof and the anticipated interest on a Municipal Obligation issued in anticipation of the collection of the assessments. Special assessments are collected by county treasurers along with general property taxes.

Although general property taxes may be paid in installments in the year following the levy thereof (so long as all installments are paid no later than July 31), special assessments and special charges that are included in the tax roll must be paid in full on or before January 31, and even though a person elects to pay general property taxes in installments, if any special assessment or special charge entered on the tax roll is delinquent because it is not paid by January 31, the entire annual amount of real property taxes on that parcel that is unpaid becomes delinquent as of February 1. If the county treasurer receives a payment that is not sufficient to pay all general property taxes, special assessments, and special charges, the county treasurer applies the payments to the amounts due, including interest and penalties, in the following order:

- Special charges
- Special assessments
- Special taxes
- General property taxes

The county treasurer settles with the appropriate taxation district on or before January 15 of each year for all payments received through the previous December 31, and on or before February 20 for all payments received through January 31, including all special assessments and special charges received.

On or before each August 20, the county treasurer must settle in full with the underlying taxing jurisdictions for all real estate and special taxes (except special assessments). Counties are authorized, but not required, to settle in full with all taxing jurisdictions for special assessments and special charges, and if so directed by the county board of supervisors, August 20 would be the date upon which the Municipality would receive the cash in settlement of unpaid special assessments and special charges.

As discussed under “**LOANS; Statutory Powers**”, if a Municipality is in default of payment on its Municipal Obligation, the State may, pursuant to the Act, add a special charge to the amount of State taxes levied upon the county. The enforceability of such a procedure has not been tested in court. Therefore, no assurance can be given as to the enforceability of this procedure.

A Municipality issuing a general obligation to the State must levy sufficient taxes, upon the adoption of the resolution authorizing the Municipal Obligation, to pay debt service on the Municipal Obligation, which tax levy will be collected along with other real estate taxes as discussed above. A Municipality may, however, abate such levy to the extent it deposits amounts in its statutorily required debt service fund before the date it carries the levy unto the tax roll. A Municipality issuing a revenue obligation may rely entirely upon sewer (or water) utility revenues to pay the Municipal Obligation or, alternatively, may in addition levy special assessments upon property within the boundaries of the Municipality in an amount sufficient to pay all or part of the Municipal Obligation.

### **Municipalities Exhibiting Financial Distress**

Certain State municipalities that are borrowers from the Environmental Improvement Fund loan programs have made prior disclosures relating to financial distress they were undergoing. These municipalities have previously made the Environmental Improvement Fund aware of such disclosures, and the disclosure made within the past five years is discussed below.

### *Village of Warrens*

The Village of Warrens had a Clean Water Fund loan, dated August 24, 2005, in an amount as of June 30, 2014, of nearly \$4 million. The Village of Warrens retired the outstanding Clean Water Fund loan in full on June 30, 2014.

The Municipal Obligation issued to the Environmental Improvement Fund to secure the loan was a revenue obligation, and the Village of Warrens planned to pay debt service with expected tax increment receipts from its Tax Increment District No. 1, established to capture tax increments from a residential and commercial real estate development. Coincidentally with a recent recession, property values for this development fell, resulting in a shortfall of tax increment receipts and other revenues, and the Village of Warrens failed to make full principal and interest payments on this loan when due. DOA entered into a Forbearance Agreement with the Village of Warrens on May 1, 2010, and amended such agreement on November 1, 2010, May 1, 2011, November 1, 2011, May 1, 2012, December 12, 2013 and May 1, 2014. Prior to the retirement on June 30, 2014, this Clean Water Fund Program loan was in the Environmental Improvement Fund's Direct Portfolio.

The Village of Warrens is current on its repayment obligations (principal and interest) for a Safe Drinking Water Loan Program loan, dated June 23, 2004, in the outstanding amount of \$233,610.

Further details of these and other matters relating to the Village of Warrens may be found in disclosure filings made by the Village of Warrens with the MSRB through its EMMA system at [www.emma.msrb.org](http://www.emma.msrb.org). The disclosure filings from the Village of Warrens are not part of this Part VII of the 2017 Annual Report.

## **LOANS**

### **Financial Assistance**

Projects are segregated into four different project-type categories and the interest rates for the project-type categories are determined pursuant to Wisconsin Statutes. Prior to July 1, 2011, the interest rate on each loan varied by project type and the Clean Water Fund Program's costs of borrowing; the differing interest rates were designed to provide greater incentives for compliance with environmental requirements than for new sewer systems or correcting discharge permit violations.

Loans made after July 1, 2011 and prior to July 13, 2015 to finance most project-type categories have the same interest rate, which is an annual rate equal to 75% of the Clean Water Fund Program's actual or calculated cost of borrowing. Loans made on or after July 13, 2015 and prior to September 21, 2017 have an interest rate equal to 70% of the actual or calculated cost of borrowing.

Pursuant to 2017 Wisconsin Act 59, Loans made on or after September 21, 2017 have an interest rate equal to 55% of the actual or calculated cost of borrowing, except that certain Loans may have interest rate equal to 33% of the actual or calculated cost of borrowing if the Municipality has a population less than 10,000 and a median household income equal to or less than 80% of the median household income of the State, and equal to 0% if the Municipality has a population less than 1,000 and a median household income equal to or less than 65% of the median household income of the State.

The four project types include the following:

- *Compliance Maintenance Projects*—Projects that are necessary to maintain compliance with permit requirements or to implement new or changed effluent limits required by DNR. If the project includes construction of a septage receiving and treatment facility, that portion of the project may be eligible for an interest rate of 0%.
- *Stormwater & Nonpoint Projects*—Projects pertaining to urban stormwater and nonpoint pollution sources.

- *Unsewered Projects*—Projects involving unsewered areas within Municipalities. More than two-thirds of the initial flow must be wastewater originating from residences in existence at least 20 years prior to the application date for this type of project to qualify for assistance.
- *Industrial, Violator, and Future Growth Projects*—Projects that address violations of a DNR discharge permit or that provide industrial or reserve capacity, or that involve certain other capital costs attributed to industrial or commercial needs, or involve unsewered areas where residences were not in existence at least 20 years prior to the application date. These projects were not affected by the 2011, 2015, and 2017 changes to interest rates, and these projects may receive Loans that bear interest at a per annum rate equal to 100% of the Clean Water Fund Program’s actual or calculated cost of borrowing.

If a Municipality undertakes a project that includes more than one of the above categories (or components within a category), the respective portions of the project may be allocated accordingly, resulting in a Loan with a blended interest rate.

In a limited number of cases, the Clean Water Fund Program and the Safe Drinking Water Loan Program may provide additional financial assistance in the form of grants or Loans with interest rates lower than those indicated above for qualifying projects. Under current law, the maximum amount of financial assistance that any Municipality may receive is a grant equal to 70% of project costs and an interest-free loan for the remaining 30% of project costs. State law establishes a program to provide additional assistance to municipalities qualified as “hardship”. In addition, financial assistance in the form of principal forgiveness has been a component of recent Capitalization Grants. Between October 1, 1989 and December 15, 2017, agreements have been made with municipalities to fund \$342 million in project costs with additional financial assistance.

In addition, the Clean Water Fund Program and the Safe Drinking Water Loan Program provided financial assistance using awards made to the State pursuant to the American Recovery and Reinvestment Act of 2009. This financial assistance funded \$145 million of projects, and the funds were committed between October 28, 2009 and February 17, 2010.

The majority of Loans have been made for compliance maintenance projects.

### **Requirements Under the Act**

The Act sets forth certain requirements for eligibility of a Municipality to receive financial assistance from the Clean Water Fund Program. Each Municipality must be one of the types of governments specified by the Act. The Act further requires that the Municipality comply with a number of other requirements, including establishing a dedicated source of revenue for the repayment of the financial assistance, complying with the requirements of the Water Quality Act, developing a program of water conservation as required by DNR, and developing and adopting a system of equitable user charges. While the Act permits financial assistance to take forms other than Loans, such as guaranteeing or purchasing insurance for Municipal Obligations, awarding grants to certain hardship Municipalities, or subsidizing the interest cost on certain other loans, the State currently makes financial assistance available from the Clean Water Fund Program primarily by making Loans to Municipalities at interest rates that are at or below market rates, as specified in the Act.

DNR is responsible for establishing eligibility criteria for determining applicants and projects that are eligible to receive financial assistance. Among the criteria DNR considers are water quality and public health. A Municipality is eligible for financial assistance from the Clean Water Fund Program for a wastewater project that corrects a DNR discharge violation.

### **Loan Application Process**

DOA and DNR have developed an application form for Municipalities to apply for financial assistance from the Clean Water Fund Program. The application form requires the Municipality to provide technical information regarding the proposed project and the existing wastewater system, a project schedule, financial information relating to the project, and financial and other information relating to the



Municipality. The application is reviewed by DNR for items pertaining to technical, administrative, and environmental matters, including project eligibility and determination of the interest rate category for which the project is eligible. The application is reviewed by DOA to determine, among other things:

- The financial capability of the applicant to repay its loan,
- The financial terms and conditions of the loan, and
- The security that will be required to be pledged by the Municipality for the loan.

A Loan is made only if DOA determines that the Municipality is likely to be able to repay the loan.

### **Commitments**

Upon a determination by DOA that the Municipality meets the financial criteria that DOA has established, DNR and DOA may approve an application and issue a Commitment to the Municipality to finance all, or part of, the project. The Commitment will include an estimated loan repayment schedule and other terms of the financial assistance. The Commitment may contain certain conditions that the Municipality must meet to secure a Financial Assistance Agreement.

### **Financial Assistance Agreements**

The Financial Assistance Agreement is the loan agreement by which the loan is made. The Financial Assistance Agreement contains the terms and conditions of the loan, including the final maturity, maximum principal amount, interest rate, procedures for disbursement of funds to the Municipality, agreements of the Municipality to construct the project, and covenants of the Municipality regarding proper use of loan proceeds and compliance with Clean Water Fund Program requirements.

#### *Certain Provisions of Financial Assistance Agreements*

Proceeds of Loans are disbursed in installments pursuant to a Municipality's Financial Assistance Agreement, as project costs are incurred. As proceeds are disbursed, interest on the Loan accrues on the amount disbursed from the date of disbursement until the date such amount is repaid.

In most instances, the repayment schedule of each Loan is structured to provide level annual debt service from the disbursement dates until the final maturity date specified in the respective Municipality's Financial Assistance Agreement. Upon project completion, a Municipality's loan repayment schedule under its Financial Assistance Agreement will reflect the cumulative principal amortization of the disbursements to the Municipality.

If the final audit of the project reveals that the eligible project costs are less than the amount disbursed to the Municipality, the Municipality agrees to reimburse the State within 60 days after DNR or DOA provides a notice of overpayment.

If the Municipality fails to make any payment when due on the Municipal Obligation or fails to observe or perform any other covenant, condition, or agreement on its part under the Financial Assistance Agreement for a period of 30 days after written notice specifying the default and requesting that it be remedied has been given to the Municipality by DNR, the State has all remedies provided by law and, to the extent permitted by law, the Financial Assistance Agreement.

The Financial Assistance Agreement may be modified or amended upon a written agreement between the State and the Municipality.

#### *Loans and Municipal Obligations*

Upon execution of a Financial Assistance Agreement, a Municipality is required to issue and deliver to the State one or more Municipal Obligations evidencing the obligation of the Municipality to repay the loan. The Municipal Obligations will reflect the terms of the loan set forth in the Financial Assistance Agreement. Upon execution of a Financial Assistance Agreement and issuance of one or more Municipal Obligations, a Municipality will be required to deliver an opinion of counsel concerning the validity and enforceability of its obligations under the agreement.

## **Statutory Powers**

The Act includes several provisions that may provide additional security in the event a Municipality does not make payment of principal of, or interest on, its Loan. These provisions include state aid intercept, collection through county treasurers, and, if designated, a State moral obligation.

### *State Aid Intercept*

The Act confers an “intercept power” upon DOA. If a Municipal Obligation to the State is in default, DOA, which is the paying agent for State moneys payable to Wisconsin municipalities, is required to place on file a certified statement of all amounts due under the loan. Thereafter, DOA is authorized to collect all amounts due under the loan by deducting those amounts from any State payments due the Municipality. The State has covenanted in the Program Resolution to exercise this intercept power with respect to Pledged Loans to the extent State payments are available. Certain Municipalities, including town sanitary districts, public inland lake protection and rehabilitation districts, metropolitan sewerage districts, and intergovernmental cooperation commissions, do not receive any State payments. The amount of money realized by the Clean Water Fund Program from the exercise of the intercept power will depend on the amount of State payments to the Municipality. The level of State payments to Municipalities may vary in the future. Although State payments can be intercepted by the State for certain other purposes, current administrative rules require DOA to exercise the Clean Water Fund Program intercept as a first charge against State payments due to a particular Municipality. As of December 15, 2017, DOA had not exercised this intercept power.

### *Collection Through County Treasurers*

If a Municipal Obligation to the State is in default, the Act gives DOA the authority, after placing on file the certified statement of amounts due under a loan, to add the amount due on the loan as a special charge to the amount of taxes levied upon the county in which the defaulting Municipality is located. In turn, the county treasurer is required to apportion the amount of such special charges to the underlying governmental entities, and the special charges are then collected with the annual property tax. The enforceability of this procedure for collection of special charges has not been tested in court. Accordingly, no assurance can be given as to the enforceability of this procedure. As of December 15, 2017, DOA had not taken any actions under this authorization.

### *Power to Designate a Loan as a State Moral Obligation*

At the time a loan is made, the Commission may by resolution designate the loan as one to which the State “moral obligation” applies. If a loan is so designated, the Act provides that, if at any time the payments received or expected to be received from a Municipality on any loan are insufficient to pay when due the principal of, and interest on, such loan, DOA shall certify the amount of such insufficiency to the Secretary of Administration, the Governor, and the Joint Committee on Finance. The Joint Committee on Finance is then required to introduce a bill appropriating the amount so requested for the purpose of payment of the designated loan. Recognizing its “moral obligation” to do so, the Legislature expressed in the Act its expectation and aspiration that, if ever called upon to do so, it would make the appropriation. The “moral obligation” does not apply to the Bonds; it applies only to the Loans that are specifically designated by the Commission at the time the loan is made.

In the opinion of Bond Counsel, the provisions of the Act relating to the State’s “moral obligation” do not violate the constitution of the State or any other law of the State, but such provisions do not constitute a legally enforceable obligation or create a debt on behalf of the State.

No Loan has been designated as a “moral obligation” loan, and no Loan is expected to be so designated.

## **Loan Terms**

### *Loan Size*

The size of each Loan is determined as follows:

- The principal amount of the loan will not exceed 100% of the estimated project costs, plus a contingency of up to 10% where applicable, plus any allowable amount of capitalized interest on the loan.
- A contingency amount may be allowed only if the project has not been completed.
- In general, capitalized interest is only allowed for unsewered municipalities that will not have revenues available for loan debt service until after the project is complete.

#### *Final Maturity and Amortization*

Pursuant to provisions of 2017 Wisconsin Act 59, the final maturity on a Loan may not exceed 30 years from the date of its origination. DOA requires principal amortization on a level-debt-service basis or, in certain cases, on a level-principal basis, with principal amortization beginning not later than 12 months after the expected date of substantial completion of the project (except in the case of a refinancing, in which case principal amortization generally begins immediately). Prior to 2017 Wisconsin Act 59, Loans had terms up to 20 years; DNR and DOA are currently establishing criteria for approving Loan requests with terms exceeding 20 years. As of December 15, 2017, no Loans have maturities that exceed 20 years.

#### *Debt Service Payment Dates*

Principal payments are required on May 1 and interest payments on May 1 and November 1. For Loans secured primarily by special assessments, an annual payment of principal and interest on May 1 may be allowed to align more closely with the date on which the Municipality's collection of the special assessments is deposited into its debt service fund.

#### *Special Provisions*

DOA requires that the Financial Assistance Agreement include certain provisions that apply if an event of default occurs. These provisions permit the State to intercept any State aids to the Municipality and to appoint a receiver to manage the Municipality's utility operations and require the Municipality, to the extent it has taxing power, to add delinquent user charges to the property tax bill of the user.

#### **Tax Levy Rate Limit for Counties**

Counties are subject to a tax levy rate limit. The tax levy of each county is limited, generally to the rate at which taxes were levied in 1992 or a higher rate approved by the voters at referendum. The tax rate limit excludes taxes levied for debt service on general obligations.

#### **Tax Levy Limit for Cities, Villages, Towns, and Counties**

Under current law and subject to certain exceptions and adjustments, no city, village, town, or county (**political subdivision**) may increase its property tax levy in any year by a percentage that exceeds its valuation factor. The valuation factor is the greater of zero percent and the percentage change in the political subdivision's January 1 equalized value due to new construction less improvements removed between January 1 of the previous year and the current year. However, the levy increase limit may be increased in either (but not both) of the following ways by action of the governing body:

- If a political subdivision's allowable levy in the prior year was greater than its actual levy, the levy increase limit otherwise applicable may be increased by the difference between the two amounts, up to a maximum increase of 1.5% of the actual levy in the prior year, or
- The levy increase limit may be increased by the total amount by which the valuation factor exceeded the actual percentage increase in the levy for each of the previous five years (beginning in 2014), up to a maximum increase of 5% of the actual levy in the prior year, to the extent such excess had not previously formed the basis for such an increase.

A political subdivision may also exceed the levy limit by action of its governing body that is approved by a referendum.

Exceptions apply to amounts levied to pay general obligation debt service. The levy increase limit otherwise applicable does not apply to property taxes levied to pay debt service on general obligations authorized on or after July 1, 2005. For general obligations authorized before July 1, 2005, if the amount of scheduled debt service in the preceding year is less than the amount of debt service needed in the current year, the levy increase limit otherwise applicable is increased by the difference in the two amounts. If the levy for debt service on general obligations issued before July 1, 2005 (and general obligations issued to fund or refund such general obligations) is less in the current year than it was in the previous year, the political subdivision shall reduce its levy increase limit in the current year by an amount equal to the amount that its levy was reduced.

The levy increase limit otherwise applicable does not apply to the amount that a political subdivision levies to make up any revenue shortfall for the debt service on a revenue bond issued under Section 66.0621 of the Wisconsin Statutes, which authorizes revenue obligations. Other exceptions or adjustments to the levy increase limit, which are not described in this summary, apply in specified situations.

### **Interest Rate Subsidies for Small Loans**

In addition to providing Loans to directly fund project costs, the Clean Water Fund Program is authorized to subsidize the interest cost on loans made by the State Board of Commissioners of Public Lands to municipalities for construction or improvement of their wastewater facilities. This subsidy is only available on loans of \$2,000,000 or less. The Clean Water Fund Program makes payments to municipalities in March of each year to reduce the municipalities' interest cost on their loans from the State Board of Commissioners of Public Lands. As of December 15, 2017, the Clean Water Fund Program had outstanding agreements with 32 municipalities to provide annual interest subsidies on 36 projects. Proceeds of the Bonds are not used for this purpose, and the subsidy payment is not paid from any funds pledged to the repayment of the Bonds.

## **LENDING CRITERIA**

The same general loan underwriting standards are generally applied to all Loans regardless of the Clean Water Fund Program loan portfolio to which they will be assigned.

DOA, in consultation with DNR, has the statutory responsibility to establish the financial terms and conditions of Loans, including what type of Municipal Obligation is required. In establishing these terms and conditions, DOA may consider factors that it finds relevant, including the type of Municipal Obligation and the Municipality's creditworthiness. DOA must be satisfied that the Municipality has the financial capacity to assure sufficient revenues to operate and maintain the project for its useful life and to pay debt service on the loan according to its terms.

The following is a summary of the current lending criteria of DOA. DOA may change its lending criteria from time to time.

DOA requires each loan to be evidenced by one of three types of Municipal Obligations:

- A revenue obligation secured by a covenant to assess user fees and a pledge of the utility's revenues,
- A revenue obligation secured by special assessments and other utility revenue and a pledge of the utility's revenues, or
- A general obligation secured by a tax levy and a pledge of the full faith and credit of the Municipality.

Some Loans may be evidenced by more than one type of Municipal Obligations.

### **Revenue Obligations**

When a local government issues a revenue obligation, the obligation is a limited obligation of the government. Only revenues that are specifically pledged are available to pay the principal of, and interest on, the revenue obligation. Sewer utility revenues typically include sewer user charges and investment

earnings but may also include impact fees, hook-up fees, and payments from tax incremental districts for their beneficial share of wastewater projects. Most of the Municipalities receiving financial assistance under the Clean Water Fund Program do not have sewer utilities regulated by the State of Wisconsin Public Service Commission.

So long as the following criteria can be met, DOA will accept revenue obligations from all types of Municipalities except counties and metropolitan sewerage districts. Under the State constitution, a county's issuance of revenue obligations is treated as public debt. A metropolitan sewerage district is required to provide general obligations as security for its loans.

#### *Coverage Ratio*

For a revenue obligation, DOA will require the Municipality to covenant to generate each year "net revenues" (that is, utility revenues after deducting operating and maintenance expenses but not deducting depreciation, debt service, tax equivalents, or capital expenditures) equal to at least 110% of the annual principal of and interest on the loan and other revenue obligations payable from the revenues of the utility (**110% Coverage**). The net revenues from the existing utility revenues or projected net revenues from a newly imposed user fee rate structure may establish the "net revenues". If the Municipality does not have outstanding any other obligations with a lien on pledged revenues, DOA will require the Municipality to covenant to generate "net revenues" sufficient to provide 110% Coverage. In the event the Municipality has other obligations outstanding with a lien on pledged revenues, DOA will require that the Municipality covenant to generate "net revenues" at least equal to the highest level of debt service coverage (but not less than 110% Coverage) then required under the Municipality's outstanding revenue obligations. In the event an outstanding obligation requires a debt service reserve fund for a parity obligation or requires payment dates that do not match the loan payment dates, or requires other conditions which prevent the loan from being a parity obligation, DOA will accept a subordinate obligation but will normally require any additional revenue obligations (whether senior, subordinate, or on a parity) to meet a coverage test equal to the highest ratio then in effect on any other obligations (including the loan). During construction periods when the annual principal and semiannual interest payments are based on cumulative amounts drawn under the Financial Assistance Agreement, user fees may be assessed such that the level of coverage available is estimated based on debt service projections.

In the event a Municipality were to breach any of the covenants described above, it would be subject to a suit for mandamus to compel performance of such covenants. However, enforcement of the covenants through a suit for mandamus would likely be subject to the delays and costs inherent in litigation.

#### *Collection of Delinquent Sewer User Charges*

The Clean Water Fund Program loan documents require that the Municipality take all actions permitted by law to certify any delinquent user fees to the County Treasurer so that such unpaid user fees will be added as a special charge to the property tax bill of the user.

#### *Senior Revenue Bonds*

In most instances the Clean Water Fund Program loan documents limit a Municipality's ability to issue additional bonds payable out of the revenues of the wastewater system that have payment priority over the bonds sold to the Clean Water Fund Program. In some situations this provision has been modified by the Clean Water Fund Program to allow additional senior bonds if the Municipality can demonstrate to the satisfaction of DOA that, following the issuance of the additional senior bonds, the rating of the Municipal Revenue Obligation evidencing the Clean Water Fund Program loan will be no lower than AA or Aa2 or equivalent.

#### *Service Contract*

DOA will also require the Municipality to agree to pay for the value of sewerage services provided to it and to stipulate that the value equals any unpaid debt service on the loan or debt coverage shortfall. Although such provisions are often used in revenue obligations from Wisconsin local governments, their enforceability has not been tested in court. Accordingly, no assurance can be given as to the

enforceability of such a service contract. Moreover, the Wisconsin Statutes or local law may limit the value of the sewerage service, and unless the Municipality has already appropriated money for such payment, it would be necessary for the Municipality to levy and collect a tax, which could result in some delay in payment.

#### *No Debt Service Reserve Fund or Mortgage*

Although Wisconsin municipalities issuing revenue obligations typically establish a debt service reserve fund and sometimes pledge a mortgage to secure the revenue obligations, the current policy of DOA does not permit a debt service reserve fund to be established with respect to Municipal Obligations, and DOA will not require a mortgage on the property the Municipality uses to operate its wastewater facilities.

#### **Special Assessment-Secured Revenue Obligations**

Special assessments may be levied by a Municipality to pay the costs of a public improvement. Payments to the Municipality of such special assessments may be used to repay a revenue obligation. The special assessments are paid in annual installments as established by the Municipality. Because special assessments under State law may not exceed the cost of the project, the regularly scheduled special assessment revenue alone will typically not meet the 110% Coverage test. In the event the Municipality receives prepayments of its special assessment installments, or the term of the Clean Water Fund Program loan exceeds the term of the special assessments, or the interest rate on the special assessment exceeds the interest rate on the Clean Water Fund Program loan, the Municipality may have more special assessment revenue in a year than required for debt service on its Clean Water Fund Program loan. In general, excess special assessment revenue collected by the Municipality will be applied to reduce debt incurred for the public improvement project. If special assessments are levied to secure revenue obligations, payments on the special assessments are deposited in the funds and accounts of the revenue-generating enterprise.

#### *Collection of Delinquent Special Assessments*

A special assessment constitutes a lien on the property against which it is levied on behalf of the local government that levies it. Delinquent special assessment payments are entered on the tax roll as a delinquent tax on the property against which they are levied and are subject to the same proceedings for collection, return, and sale of property that apply to delinquent real estate taxes.

#### **General Obligations**

When a Municipality issues a general obligation, its full faith and credit are pledged to secure payment when due of the principal of, and interest on, the obligation. State law requires the Municipality to levy taxes that will be collected in amounts and at times sufficient to make these payments (or to appropriate available funds for payments that are required to be made before taxes can be levied and collected). If the Municipality fails to make a payment when due, the owner of a general obligation can bring a suit for mandamus to require the tax levy to be collected and applied to debt service. A suit for mandamus would likely be subject to the delays and costs inherent in litigation.

With respect to general obligations:

- The amount of the general obligation may not exceed the constitutional or statutory limits. For an American Indian tribe or band, the amount of the general obligation may not exceed the amount that would be permitted if the constitutional and statutory limits were to apply to the tribe or band.
- As required by law, the Municipality must levy taxes sufficient to pay when due the principal of, and interest on, the loan.

#### **Intergovernmental Cooperation Commissions**

The Clean Water Fund Program does not make Loans to intergovernmental cooperation commissions. Instead, DOA will analyze each member's credit, and separate Loans will be made to its members in proportion to their participation in the project.

## SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION

Through the Program Resolution, the State pledges revenues that secure the Bonds, establishes certain funds and accounts, specifies the conditions under which Bonds may be issued, and makes covenants and other provisions for the benefit of Holders of the Bonds. Certain capitalized terms are defined in “GLOSSARY”. A copy of the Program Resolution may be obtained by contacting the State at the address provided on the [first page of this Part VII](#) of the 2017 Annual Report.

The Program Resolution includes provisions permitting the financing of Loans to borrowers other than Municipalities, as well as Loans under the Safe Drinking Water Program and potentially, with the approval of the EPA, other similar programs. However, those provisions could become effective only if the Act were to be amended to permit the State to issue revenue bonds to finance those Loans or programs. Currently, the Act authorizes only Clean Water Fund Program loans made to Municipalities to be financed with revenue bonds issued by the State.

In addition, as indicated earlier in this Part VII of the 2017 Annual Report, this summary addresses Bonds issued under the Program Resolution to fund Loans under the Clean Water Fund Program. In 2015, the Commission adopted the Program Resolution, which was amended and restated in 2017, and which established a separate program for the issuance of environmental improvement fund revenue bonds to provide financing for the Clean Water Fund Program. Prior to the adoption of the Program Resolution, the State financed the Clean Water Fund Program, in part, with issuance of Clean Water Revenue Bonds under the Prior General Resolution adopted in 1991. The security for any outstanding Clean Water Revenue Bonds is described in [Part VI of the 2017 Annual Report](#).

### Resolution to Constitute a Contract

The provisions of the Program Resolution (including each Supplemental Resolution) constitute a contract with the Holders of the Bonds and the Other Beneficiaries.

### Pledge

Pursuant to its power under the Wisconsin Statutes, the Building Commission (jointly with DOA and DNR) pledges the Pledged Revenues to the payment of the Bonds and Other Obligations and directs the Trustee to deposit the Pledged Revenues into the Funds and Accounts in the order and amounts described under “[SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Establishment of Funds and Accounts](#)”, and determines that the amounts deposited in the Equity Fund may be made available for other purposes.

From time to time the State may, by State Certificate, designate additional Loans (which are not otherwise subject to the pledge of the Program Resolution) that meet the requirements set forth in the Program Resolution as “Pledged Loans,” and thereby assign and grant to the Trustee a security interest in the related Loan Repayments and other related Pledged Revenues. Upon receipt by the Trustee of such State Certificate, the Loans identified therein will become Pledged Loans under the Program Resolution, subject to the lien of the Program Resolution.

In accordance with Section 18.561 (2), Wisconsin Statutes, a security interest is created, for the benefit of the Holders of the Bonds and the Other Beneficiaries, in the Pledged Revenues and in the Loan Fund, the Costs of Issuance Fund, the Revenue Fund, the Redemption Fund, the Supplemental Income Fund, and any Reserve Fund, Subordinate Redemption Fund and Subordinate Reserve Fund that may be established under the Program Resolution. Such Pledged Revenues and the moneys in such Funds will remain subject to the security interest until the Bonds and the Other Obligations have been paid in full or provision for their payment in full has been made, as described under “[SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Defeasance](#)”. A Holder of the Bonds or any Other Beneficiary may (subject to the certain restrictions contained in the Program Resolution) either at law or in equity protect and enforce the security interest and compel performance of all duties required by Section 18.561, Wisconsin Statutes.

### *State Match Restriction.*

The establishment of the Funds and Accounts under the Program Resolution, and the deposit and disbursement of moneys held under the Program Resolution, are intended to ensure that Grant Proceeds and the principal repayments of Pledged Loans made under the Clean Water Fund Program and the Safe Drinking Water Loan Program will not be used to pay, or to reimburse any Credit Facility Provider for the payment of, amounts due on the State Match Clean Water Portion or the State Match Safe Drinking Water Portion of the Bonds or to make rebate payments from the Rebate Fund allocable to such State Match Portions. In light of the State Match Restriction, interest payments on Pledged Loans and other investment earnings will generally be used first to pay amounts due on the State Match Clean Water Portion and State Match Safe Drinking Water Portion of the Bonds, and then to pay any remaining amounts due on the Leveraged Clean Water Portion and the Leveraged Safe Drinking Water Portion of the Bonds, respectively.

### **Issuance of Bonds**

The Bonds will be issued, pursuant to one or more Supplemental Resolutions, at one time or from time to time, in one or more series, in principal amounts specified by the Building Commission in or pursuant to a Supplemental Resolution.

The aggregate principal amount of Bonds issued under the Program Resolution shall not be greater than the aggregate amount at the time authorized by the Legislature for the program(s) or purpose(s) for which Bonds are issued, when considered together with any other obligations issued pursuant to such authorization.

From time to time, the State may issue one or more series of Bonds, upon compliance with the following conditions and any additional conditions specified in a Supplemental Resolution. In the case of Bond Anticipation Notes, the following conditions need be met only on the first date of issuance of any of the Bond Anticipation Notes authorized under the Supplemental Resolution providing for such Bond Anticipation Notes:

(1) The Trustee shall have been provided with a State Certificate to the effect that the State is not in default in the performance of any of its covenants and agreements in the Program Resolution (unless, in the opinion of Independent Counsel, any such default does not deprive any Beneficiary in any material respect of the security afforded by the Program Resolution).

(2) Except with respect to the issuance of Refunding Bonds issued to fund Bond Anticipation Notes that are also Bonds, the Trustee shall have been provided with a State Certificate evidencing that, as of the date of issuance of the Bonds (and after giving effect to the issuance of the Bonds and the pledge of any additional Loans to be financed with such Bonds or otherwise to be pledged pursuant to the Program Resolution or the Supplemental Resolution authorizing the Bonds), (i) the Aggregate Debt Service Coverage Ratio will be at least 1.0 to 1 for each future Fiscal Year, and (ii) if the Bonds to be issued are Senior Bonds, the Senior Debt Service Coverage Ratio will be at least 1.0 to 1 for each future Fiscal Year. In connection with the issuance of Refunding Bonds, such State Certificate may instead evidence that the issuance of the Refunding Bonds will not increase Debt Service in any Fiscal Year.

(3) The Trustee, or another Fiduciary if directed by a Supplemental Resolution, shall have received the following:

- (a) A duly certified copy of the Program Resolution, as then in effect.
- (b) A duly certified copy of the particular Supplemental Resolution.
- (c) Original, fully-executed Bonds for the series or an original, fully-executed master Bond that includes the series.
- (d) An opinion of Bond Counsel to the effect that the Program Resolution and the particular Supplemental Resolution have each been duly adopted.



(e) An opinion of Bond Counsel to the effect that the Bonds of that series have been duly and validly authorized and, when duly executed in the form and manner provided in the Program Resolution and the particular Supplemental Resolution, duly authenticated by the Registrar or Issuing Agent, delivered, and paid for, will constitute valid and binding enterprise revenue obligations of the State.

(f) Such ancillary agreements or other documents as the Supplemental Resolution for such series shall specify.

Each Supplemental Resolution authorizing a series of Bonds shall designate the Bonds of such series as Senior Bonds or Subordinate Bonds; however, a Supplemental Resolution may provide that certain of the State's obligations with respect to such Bonds are Senior and its other obligations with respect to such Bonds are Subordinate.

### **Credit Enhancement Facilities and Swap Agreements**

The State may from time to time, pursuant to a Supplemental Resolution and upon compliance with Section 18.55 (6) of the Wisconsin Statutes, enter into or obtain the benefit of any Credit Enhancement Facility with respect to Bonds of any series, or any Swap Agreement with respect to its Debt Service obligations relating to Bonds of any series. Any such Credit Enhancement Facility or Swap Agreement must satisfy any conditions specified in a Supplemental Resolution.

In connection with any Swap Agreement either a Supplemental Resolution or a State Direction provided to the Trustee shall set forth assumptions regarding State Swap Payments and Counterparty Swap Payments to be made thereunder for purposes of the definition of Debt Service in the "GLOSSARY".

Notwithstanding anything in the Program Resolution to the contrary, (1) any Supplemental Resolution authorizing the execution by the State of a Swap Agreement or Credit Enhancement Facility may include provisions with respect to the application and use of all amounts to be paid thereunder, (2) amounts paid under any such Credit Enhancement Facility with respect to the Bonds secured thereby shall be applied and used only as specifically provided in such Supplemental Resolution and no Beneficiaries shall have any rights with respect to any such amounts so paid except as may be specifically provided in such Supplemental Resolution, (3) Bonds of one or more series or any portions thereof may be secured by a pledge of any or all amounts payable pursuant to such Credit Enhancement Facility, in the manner and to the extent provided in such Supplemental Resolution, and (4) except as otherwise provided in the Supplemental Resolution pursuant to which such Credit Enhancement Facility is obtained or such Swap Agreement is entered into, the State's obligations under any such Credit Enhancement Facility or Swap Agreement shall be limited obligations, payable solely from the revenues and assets of the State pledged therefor under the Program Resolution.

Each Supplemental Resolution authorizing any Swap Agreement or Credit Enhancement Facility shall designate the State's obligations under such Swap Agreement or Credit Enhancement Facility, as the case may be, as Senior Other Obligations or Subordinate Other Obligations. A Supplemental Resolution authorizing any Swap Agreement or Credit Enhancement Agreement may provide that certain of the State's obligations with respect thereto are Senior and its other obligations with respect thereto are Subordinate, except that all State Swap Payments in respect of the early termination of a Swap Agreement shall be designated as Subordinate.

### **Establishment of Funds and Accounts**

The following funds (and within certain of the funds, the following accounts and subaccounts) are established and required to be maintained pursuant to the provisions of the Program Resolution:

- (1) Loan Fund
  - (a) Clean Water State Match Loan Account
  - (b) Clean Water Leveraged Loan Account
  - (c) Safe Drinking Water State Match Loan Account

- (d) Safe Drinking Water Leveraged Loan Account
- (2) Revenue Fund
  - (a) Clean Water Revenue Account
    - (i) Principal Receipts Subaccount
    - (ii) Interest Receipts Subaccount
  - (b) Safe Drinking Water Revenue Account
    - (i) Principal Receipts Subaccount
    - (ii) Interest Receipts Subaccount
- (3) Rebate Fund
  - (a) Separate Account for each series of Tax-Exempt Bonds
    - (i) Clean Water State Match Subaccount
    - (ii) Clean Water Leveraged Subaccount
    - (iii) Safe Drinking Water State Match Subaccount
    - (iv) Safe Drinking Water Leveraged Subaccount
- (4) Redemption Fund
  - (a) Clean Water State Match Redemption Account
  - (b) Clean Water Leveraged Redemption Account
  - (c) Safe Drinking Water State Match Redemption Account
  - (d) Safe Drinking Water Leveraged Redemption Account
- (5) Supplemental Income Fund
- (6) Reserve Fund
  - (a) Separate Account for each series of Bonds to be secured by the Reserve Fund
    - (i) Clean Water State Match Subaccount
    - (ii) Clean Water Leveraged Subaccount
    - (iii) Safe Drinking Water State Match Subaccount
    - (iv) Safe Drinking Water Leveraged Subaccount
- (7) Subordinate Redemption Fund
  - (a) Clean Water State Match Subordinate Redemption Account
  - (b) Clean Water Leveraged Subordinate Redemption Account
  - (c) Safe Drinking Water State Match Subordinate Redemption Account
  - (d) Safe Drinking Water Leveraged Subordinate Redemption Account
- (8) Subordinate Reserve Fund
  - (a) Separate Account for each series of Subordinate Bonds to be secured by the Subordinate Reserve Fund
    - (i) Clean Water State Match Subaccount
    - (ii) Clean Water Leveraged Subaccount

- (iii) Safe Drinking Water State Match Subaccount
- (iv) Safe Drinking Water Leveraged Subaccount
- (9) Cost of Issuance Fund
- (10) Equity Fund

Each of the funds and accounts, or assets for each of the funds and accounts, are deposited with, and held by the Trustee (or such other Fiduciary as the State may designate) pursuant to the provisions of the Program Resolution, except for the Equity Fund, which is held and maintained by the State. Amounts held in the Equity Fund and (except in certain limited circumstances) in the Rebate Fund are not available to pay debt service on the Bonds.

### **Loan Fund**

Each Supplemental Resolution authorizing a series of Bonds will specify the amount of the proceeds of the Bonds of the series and any other State moneys that are required to be deposited in the Loan Fund. Proceeds of the disposition of Pledged Loans may also be deposited in the Loan Fund if so directed by the State. Amounts in the Loan Fund will be applied by the State from time to time as follows:

- (1) For disbursing Loans to Borrowers under the Program, including transfers of Loan Capitalized Interest to the Revenue Fund; and
- (2) For reimbursing the State for the application of other funds to the prior origination of Loans.

Moneys may be withdrawn from the Loan Fund for financing a Pledged Loan upon a requisition of an Authorized Commission Representative containing certifications as to the use of the amounts to be disbursed.

Prior to the initial transfer of amounts to a Municipality with respect to a Pledged Loan, the State will deliver to the Trustee:

- (1) a copy of the original executed Financial Assistance Agreement evidencing the Loan to be so made and
- (2) a copy of the original executed Debt Obligation evidencing and securing such Loan in an aggregate principal amount equal to the maximum permissible Loan amount.

### **Supplemental Income Fund**

A Supplemental Resolution authorizing a series of Bonds may specify the amount of the proceeds of the Bonds of the series and any other State moneys that are required to be deposited in the Supplemental Income Fund. Amounts in the Supplemental Income Fund shall be applied to reimburse the State for the application of other funds to the prior origination of Investment Loans or otherwise refinancing Investment Loans, including by the defeasance of the bonds issued pursuant to the Prior General Resolution or by depositing amounts in the appropriate funds or accounts established pursuant to the Prior General Resolution to obtain the release of Loans financed thereunder. *A portion of the proceeds of the 2017 Bonds was applied as described in the immediately preceding sentence to refinance the Investment Loans.*

### **Revenue Fund**

#### *Deposit of Pledged Revenues*

The Trustee will credit all Pledged Revenues (other than (i) payments under Credit Enhancement Facilities for the payment of the principal of, and premium, if any, and interest on Bonds or for the payment of the purchase price of Bonds on a Tender Date and (ii) any proceeds of the sale or other disposition of Pledged Loans, to the extent directed to be applied in some other manner pursuant to the Program Resolution), upon receipt thereof, to the Revenue Fund. In accordance with the direction of an Authorized Commission Representative:

(1) all Loan Repayments and other Pledged Revenues received with respect to Pledged Loans under the Clean Water Fund Program, and all Counterparty Swap Payments allocable to the Leveraged Clean Water Portion and the State Match Clean Water Portion, will be credited to the Clean Water Revenue Account;

(2) all Loan Repayments and other Pledged Revenues received with respect to Pledged Loans under the Safe Drinking Water Loan Program, and all Counterparty Swap Payments allocable to the Leveraged Safe Drinking Water Portion and the State Match Safe Drinking Water Portion, will be credited to the Safe Drinking Water Revenue Account;

(3) all Loan Repayments and other Pledged Revenues allocable to the payment of principal of or prepayment fees or premiums, if any, with respect to the Pledged Loans will be credited to the Principal Receipts Subaccount of the applicable Account; and

(4) all Loan Repayments and other Pledged Revenues allocable to interest on the Pledged Loans (including Loan Capitalized Interest transferred from the Loan Account pursuant to the Program Resolution), all Counterparty Swap Payments, and all investment earnings on amounts in the Funds and Accounts (other than the Rebate Fund) will be credited to the Interest Receipts Subaccount of the applicable Account.

If all Bonds and Other Obligations of a particular class (that is, Senior Bonds and Other Obligations or Subordinate Bonds and Other Obligations) have been paid, or payment has been provided for, and no Bonds or Other Obligations of that class are Outstanding, money remaining in any Fund or Account established for the payment of principal of or interest on Bonds or Other Obligations of that class, or any reserve fund established with respect thereto, will be transferred to the corresponding Account(s) within the Revenue Fund.

*Application of Revenues in the Clean Water Revenue Account*

On each Transfer Date, the Trustee will transfer the moneys received in the Clean Water Revenue Account as follows:

*First*, amounts in the Interest Receipts Subaccount within such Account will be transferred to the Clean Water State Match Redemption Account, until it is funded up to the amount necessary to pay Debt Service on the State Match Clean Water Portion of the Senior Bonds prior to the next Transfer Date;

*Second*, amounts in the Principal Receipts Subaccount within such Account will be transferred to the Clean Water Leveraged Redemption Account, until it is funded up to the amount necessary to pay Debt Service on the Leveraged Clean Water Portion of the Senior Bonds prior to the next Transfer Date;

*Third*, any remaining amounts in the Interest Receipts Subaccount within such Account will be transferred to the Clean Water Leveraged Redemption Account, to the extent of any shortfall under clause *Second* above;

*Fourth*, any remaining amounts in the Interest Receipts Subaccount within such Account will be transferred to the Safe Drinking Water State Match Redemption Account, to the extent of any shortfall under clause *First* under “**SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Revenue Fund; Application of Revenues in the Safe Drinking Water Revenue Account**” below;

*Fifth*, any remaining amounts in the Principal Receipts Subaccount within such Account will be transferred to the Safe Drinking Water Leveraged Redemption Account, to the extent of any shortfall under clause *Third* under “**SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Revenue Fund; Application of Revenues in the Safe Drinking Water Revenue Account**” below;

*Sixth*, any remaining amounts in the Interest Receipts Subaccount within such Account will be transferred to the Safe Drinking Water Leveraged Account, to the extent of any shortfall under clause *Fifth* above; and

*Seventh*, any excess amounts in the Principal Receipts Subaccount or the Interest Receipts Subaccount will (subject to the State Match Restriction) be transferred:

*First*, to the credit of the corresponding Account(s) or subaccount(s) within the Rebate Fund to the extent provided in the Program Resolution;

*Second*, to the credit of the corresponding Account(s) or subaccount(s) within the Reserve Fund to the extent provided in the Program Resolution;

*Third*, to the extent provided in a Supplemental Resolution, to the credit of the corresponding Account(s) or subaccount(s) within the Subordinate Redemption Fund or any Subordinate Reserve Fund established with respect thereto;

*Fourth*, (a) on the Transfer Date occurring in June of each year, remaining amounts in the Principal Receipts Subaccount will be transferred to the Clean Water Leveraged Redemption Account in an amount up to the amount necessary to cause the balance of such Account to equal the Debt Service to come due on the Leveraged Clean Water Portion of the Senior Bonds prior to the next June Transfer Date, and (b) on the Transfer Date occurring in December of each year, remaining amounts in the Interest Receipts Subaccount will be transferred to the Clean Water State Match Redemption Account in an amount up to the amount necessary to cause the balance of such Account to equal the Debt Service to come due on the State Match Clean Water Portion of the Senior Bonds prior to the next December Transfer Date; and

*Fifth*, pursuant to State Direction, to the credit of the Equity Fund.

*Application of Revenues in the Safe Drinking Water Revenue Account*

On each Transfer Date, the Trustee will transfer the moneys received in the Safe Drinking Water Revenue Account as follows:

*First*, amounts in the Interest Receipts Subaccount within such Account will be transferred to the Safe Drinking Water State Match Redemption Account, until it is funded up to the amount necessary to pay Debt Service on the State Match Safe Drinking Water Portion of the Senior Bonds prior to the next Transfer Date;

*Second*, amounts in the Principal Receipts Subaccount within such Account will be transferred to the Safe Drinking Water Leveraged Redemption Account, until it is funded up to the amount necessary to pay Debt Service on the Leveraged Safe Drinking Water Portion of the Senior Bonds prior to the next Transfer Date;

*Third*, any remaining amounts in the Interest Receipts Subaccount within such Account will be transferred to the Safe Drinking Water Leveraged Redemption Account, to the extent of any shortfall under clause *Second* above;

*Fourth*, any remaining amounts in the Interest Receipts Subaccount within such Account will be transferred to the Clean Water State Match Redemption Account, to the extent of any shortfall under clause *First* under “**SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Revenue Fund; Application of Revenues in the Clean Water Revenue Account**” below;

*Fifth*, any remaining amounts in the Principal Receipts Subaccount within such Account will be transferred to the Clean Water Leveraged Redemption Account, to the extent of any shortfall under clause *Third* under “**SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Revenue Fund; Application of Revenues in the Clean Water Revenue Account**” below;

*Sixth*, any remaining amounts in the Interest Receipts Subaccount within such Account will be transferred to the Clean Water Leveraged Redemption Account, to the extent of any shortfall under clause *Fifth* above; and

*Seventh*, any excess amounts in the Principal Receipts Subaccount or the Interest Receipts Subaccount will (subject to the State Match Restriction) be transferred:

*First*, to the credit of the corresponding Account(s) or subaccount(s) within the Rebate Fund to the extent provided in the Program Resolution;

*Second*, to the credit of the corresponding Account(s) or subaccount(s) within the Reserve Fund to the extent provided in the Program Resolution;

*Third*, to the extent provided in a Supplemental Resolution, to the credit of the corresponding Account(s) or subaccount(s) within the Subordinate Redemption Fund or any Subordinate Reserve Fund established with respect thereto; and

*Fourth*, (a) on the Transfer Date occurring in June of each year, remaining amounts in the Principal Receipts Subaccount will be transferred to the Safe Drinking Water Leveraged Redemption Account in an amount up to the amount necessary to cause the balance of such Account to equal the Debt Service to come due on the Leveraged Safe Drinking Water Portion of the Senior Bonds prior to the next June Transfer Date, and (b) on the Transfer Date occurring in December of each year, remaining amounts in the Interest Receipts Subaccount will be transferred to the Safe Drinking Water State Match Redemption Account in an amount up to the amount necessary to cause the balance of such Account to equal the Debt Service to come due on the State Match Safe Drinking Water Portion of the Senior Bonds prior to the next December Transfer Date; and

*Fifth*, pursuant to State Direction, to the credit of the Equity Fund.

#### *Investment*

Pending transfers from the Revenue Fund, the moneys in either Account therein will be invested in Permitted Investments as provided in the Program Resolution, and any earnings on or income from said investments will be deposited in the Interest Receipts Subaccount of such Account.

#### **Redemption Fund**

The Redemption Fund will be used only for the payment when due of principal of, and premium, if any, and interest on, the Senior Bonds and Senior Other Obligations, as provided in the Program Resolution.

With respect to each series of Senior Bonds, the Trustee will, upon delivery to the original purchasers thereof and from the proceeds thereof, credit to each Account within the Redemption Fund the allocable portions of the amount, if any, so designated in any Supplemental Resolution for the issuance of Refunding Bonds. The Trustee will also deposit in each such Account (1) the allocable portions of the proceeds from the sale of the State's bonds, notes, or other evidences of indebtedness (including Refunding Bonds), if any, to be used to pay principal of the Senior Bonds or interest on the Senior Bonds (except to the extent a Supplemental Resolution or State Direction directs that such proceeds be deposited into an Escrow Account), (2) all amounts required to be transferred thereto from the Revenue Fund and the Reserve Fund as described in the following paragraph, and (3) all amounts required under the Program Resolution to be transferred thereto from the Loan Fund or the Supplemental Income Fund.

To provide for the payment of (1) each installment of interest which falls due upon Outstanding Senior Bonds on each regularly scheduled Interest Payment Date, (2) each installment of principal which falls due upon Senior Serial Bonds (other than Bond Anticipation Notes which are also Senior Bonds, the payment of which will be paid from Refunding Bonds) at the stated maturity thereof or Senior Term Bonds on a Sinking Fund Payment Date therefor and (3) the reimbursement to all Credit Facility Providers for payments of principal of and interest on the Bonds pursuant to Senior Credit Enhancement Facilities, the Trustee will make deposits to the credit of each applicable Account within the Redemption Fund on each Transfer Date, (a) to aggregate the full amount of such principal coming due on any Principal Payment Date prior to the next Transfer Date and such interest coming due on any Interest Payment Date prior to the next Transfer Date, and (b) to the extent of available moneys in applicable Accounts within the Revenue Fund, to aggregate the respective amounts referred to in subclause *Fourth*

of clause *Seventh* of each of the paragraphs describing payments from the Revenue Fund above under “SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Revenue Fund; Application of Revenues in the Clean Water Revenue Account” and “Application of Revenues in the Safe Drinking Water Revenue Account”. Each deposit provided for in the foregoing clauses (a) and (b) will be the amount allocable to the applicable Account, in proportion to the State Match Clean Water Portion, the State Match Safe Drinking Water Portion, the Leveraged Clean Water Portion and the Leveraged Safe Drinking Water Portion applicable to each applicable series of Bonds. To provide for the payment of all State Swap Payments and fees to a Credit Facility Provider, deposits will be made to each applicable Account in amounts determined as provided in the Supplemental Resolutions authorizing such Senior Swap Agreements or Senior Credit Enhancement Facilities, as the case may be.

Each deposit required by the immediately preceding paragraph will be made by transfer from the following Funds, in the following order of priority: the Revenue Fund (to the extent described above) and the Reserve Fund (but only from the Account therein, if any, established with respect to the series of Bonds for the payment of which such transfer is made, only with respect to the payments to come due prior to the next Transfer Date, and only to the extent authorized by the Supplemental Resolution pursuant to which such Account was established).

To provide for the payment of the redemption price of Senior Bonds to be redeemed on any Redemption Date, other than a Sinking Fund Payment Date for Term Bonds, the Trustee will make deposits to the applicable Accounts within the Redemption Fund from the proceeds of Refunding Bonds, excess amounts in the Loan Fund or the Costs of Issuance Fund, or such other source as may be provided in the Supplemental Resolution authorizing the issuance or redemption of such Senior Bonds.

The moneys in the Accounts within the Redemption Fund required for the payment of principal of and premium, if any, and interest on the Senior Bonds of any series, or for the reimbursement of amounts paid under a Senior Credit Enhancement Facility to pay principal of and premium, if any, and interest on the Bonds, will be applied by the Trustee to the payment of the allocable portions of such amounts when due without further authorization or direction and may be transferred to a Paying Agent, pursuant to State Direction.

Subject to the State Match Restriction and the provisions of the Program Resolution described below under “SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Remedies”, when applicable, amounts on deposit in the Accounts within the Redemption Fund required to be applied on any date on which the balance in such Accounts (giving effect to the State Match Restriction) is not sufficient to pay all amounts payable therefrom on such date will be applied

*first*, to the payment of interest on all Senior Bonds, State Swap Payments under Senior Swap Agreements, and fees and reimbursements, allocable to interest payments, payable to Credit Facility Providers under Senior Credit Enhancement Facilities, *pro rata*, among such obligations based upon such amounts then owing to Beneficiaries and

*second*, to the payment of Senior Bonds at their stated maturity or on a Redemption Date or the reimbursements, allocable to principal and premium payments, payable to Credit Facility Providers under Senior Credit Enhancement Facilities, *pro rata*, among such obligations based upon such amounts then owing to Beneficiaries.

Moneys in the Redemption Fund may also be applied to the purchase of Senior Bonds at a purchase price (including any brokerage or other charges) not to exceed the principal amount thereof plus accrued interest thereon, as determined by the State at such time, provided the Trustee will have first certified that no deficiencies exist at such time in the Redemption Fund or the Rebate Fund. Any such purchase will be limited to those Senior Bonds whose stated maturity or Sinking Fund Payment Date is the next succeeding Principal Payment Date. Any such purchase of Senior Bonds may be made with or without tenders of Bonds and at either public or private sale.

The moneys in the Redemption Fund will be invested in Permitted Investments as provided in the Program Resolution, and any earnings on or income from such investments in each Account will be transferred to the Interest Receipts Subaccount of the corresponding Account in the Revenue Fund.

### **Reserve Fund**

Upon the delivery of any series of Bonds, and from the proceeds thereof or, at the option of the State, from any other available moneys under the Program Resolution, the Trustee will credit to the Reserve Fund the amount, if any, specified in the Supplemental Resolution authorizing the issuance of that series of Bonds. From time to time, additional amounts will be deposited in the respective Accounts in the Reserve Fund as provided in the Supplemental Resolutions authorizing the series of Bonds secured thereby, to the extent such amounts are available pursuant to the Program Resolution. *No deposit to the Reserve Fund has been made with the proceeds of the 2015 Series A Bonds or the 2017 Bonds, and neither the 2015 Series A Bonds nor the 2017 Bonds are expected to be entitled to the benefit of any amount that may be deposited in the Reserve Fund.*

Moneys in each Account of the Reserve Fund will be used and applied solely for the payment when due of principal of and interest on the Bonds of the corresponding series and amounts owing under Senior Other Obligations to the extent provided in the Supplemental Resolution that established such Account, or for the other purposes specified in such Supplemental Resolution, and (in the case of application to pay principal of and interest on the Bonds) will be so used and applied by transfer by the Trustee to the credit of the Redemption Fund, at any time and to the extent that the amount therein and the amounts available for deposit to the credit thereof from the Revenue Fund are insufficient to meet the requirements specified in the Program Resolution for deposit to the credit of the Redemption Fund at such time. Such amounts will be applied, subject to the State Match Restriction, to the payment of principal of and premium, if any, and interest on the Bonds of such series and the payment of Other Obligations related to such series in the order described above under “**SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Redemption Fund**”. However, on the stated maturity date or any Redemption Date of any Bonds secured by an Account within the Reserve Fund, amounts in such Account will, upon State Direction and subject to the State Match Restriction, be applied to the payment at maturity or redemption of all Outstanding Bonds of the corresponding series, to the extent that such application, and payment of all deposits to be made to the credit of the Rebate Fund required by the Program Resolution upon such redemption, will not reduce the balance of such Account below the applicable Reserve Fund Requirement (calculated as though the Bonds to be retired on such stated maturity date or Redemption Date were not Outstanding as of the date of such calculation).

Pending transfers from the Reserve Fund, the moneys in each Account therein will be invested in Permitted Investments as provided in the Program Resolution, and any earnings on or income from such investments will be transferred to the Interest Receipts Subaccount of the corresponding Account in the Revenue Fund.

### **Subordinate Redemption Fund**

At the time of the initial issuance of any Subordinate Bonds or incurrence of Subordinate Other Obligations, there will be established a Subordinate Redemption Fund and, within such Fund, Accounts that correspond to those within the Redemption Fund, to the extent applicable. The Subordinate Redemption Fund will only be used for the payment when due of principal of and premium, if any, and interest on the Subordinate Bonds and Subordinate Other Obligations.

### **Rebate Fund**

For each issue of Tax Exempt Bonds, a separate Account shall be established in the Rebate Fund. The State shall determine the rebate amount for each issue of Tax Exempt Bonds at the times and in the manner required by the Program Resolution and the Code. Upon each such determination, the Trustee shall transfer the rebate amount to the Account in the Rebate Fund relating to the Bonds of that issue. Moneys in an Account in the Rebate Fund shall be paid by the Trustee to the United States at such times and in such amounts as are necessary to comply with the provisions of the Code relating to arbitrage rebate.



## **Subordinate Reserve Fund**

At the time of the initial issuance of any Subordinate Bonds there may be established a Subordinate Reserve Fund, and within such Fund, Accounts and subaccounts that correspond to those within the Reserve Fund, to the extent applicable, to be funded and applied as provided in the Supplemental Resolution authorizing such Subordinate Bonds.

## **Payment of Bonds**

Each Bond certificate will contain on its face a statement to the effect that the State will not be generally liable on the Bonds, that the Bonds will not be a public debt of the State for any purpose whatsoever, and that each Bond will be payable only out of the redemption fund established for such payment.

## **Covenants**

*Authority; Due Execution.* The State represents that it is duly authorized under the Constitution and laws of the State, including particularly the Revenue Obligations Act, to issue the Bonds, and to adopt the Program Resolution. The State further represents that all action on its part for the issuance of the Bonds and the adoption of the Program Resolution has been duly and effectively taken, and that the Bonds when issued and delivered in accordance with the provisions of the Program Resolution are and will be valid and enforceable enterprise revenue obligations of the State according to the terms thereof and of the Program Resolution.

*Agreement of the State.* The State pledges and agrees with the Holders of the Bonds and the Other Beneficiaries that the State will not limit or alter its powers to fulfill the terms of any agreements made with the Holders of the Bonds and the Other Beneficiaries or in any way impair the rights and remedies of the Holders of the Bonds or the Other Beneficiaries until the Bonds, together with interest (including interest on any unpaid installments of interest) and all costs and expenses in connection with any action or proceeding by or on behalf of the Holders of the Bonds are fully met and discharged and the Other Beneficiaries are fully discharged or provided for.

*Arbitrage and Tax Covenants.* The State agrees that it will, to the extent that it may lawfully do so, comply with all requirements of the Code that must be satisfied in order that interest on the Tax-Exempt Bonds be (or continue to be) excluded from gross income for federal income tax purposes.

The State agrees that it will not take any action or fail to take any action with respect to the investment of the proceeds of, or amounts pledged to the payment of, Tax-Exempt Bonds or in any other manner which would result in constituting such Tax-Exempt Bonds “arbitrage bonds” within the meaning of such term as used in Section 148 of the Code. The federal tax covenants contained in the Program Resolution will not apply to Taxable Bonds.

*Accounts and Reports.* The State will keep, or cause to be kept, proper books of record and account in which complete and correct entries will be made of its transactions relating to all Loan Repayments, Debt Obligations, and Fees and Charges, if any, and all Funds and Accounts established by the Program Resolution.

The State will annually, within 180 days after the end of each Fiscal Year, file with the Trustee and with the Rating Agencies a copy of the audited financial report for the preceding Fiscal Year with respect to each Program.

A copy of the independent auditor’s report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2017 and 2016 is set forth as **Appendix A** to this Part VII of the 2017 Annual Report.

*Covenants Relating to Loans.* The State covenants to (i) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the State for the enforcement of, all terms, covenants and conditions of all Financial Assistance Agreements and the Debt Obligations evidencing the Pledged Loans, and (ii) at all times defend, enforce, preserve and protect the rights and privileges of the State under or with respect to each Pledged Loan and the Financial Assistance Agreements and Debt Obligations evidencing and securing the same. The State will have the power and authority to settle a

default on any Pledged Loan on such terms as the State will determine to be in the best interests of the State and the Beneficiaries and to forbear from taking action with respect to enforcement of a Pledged Loan if it determines such forbearance to be in the best interests of the State and the Beneficiaries. The State also has the authority to modify the terms and conditions of the Financial Assistance Agreements or Debt Obligations, subject to the limitations in the Program Resolution.

### **Events of Default**

Each of the following events constitutes an “Event of Default”:

- (1) The State defaults in the due and punctual payment of any interest on any Bond of the most senior class then Outstanding; or
- (2) The State defaults in the due and punctual payment of the principal of, or premium, if any, on, any Bond of the most senior class then Outstanding, whether at the stated maturity thereof, at the date fixed for redemption thereof (including, but not limited to, Sinking Fund Payment Dates) or otherwise upon the maturity thereof; or
- (3) The State defaults in its obligation to purchase any Bond of the most senior class then Outstanding (or Beneficial Ownership Interests therein) on a Tender Date therefor; or
- (4) The State defaults in the due and punctual payment of any amount owed by the State under a Swap Agreement or Credit Enhancement Facility to any Other Beneficiary the State’s obligation to which is senior to or on a parity with Bonds of the most senior class then Outstanding; or
- (5) The State defaults in the performance of any of the State’s obligations with respect to the transmittal of moneys to be credited to the Revenue Fund, the Rebate Fund, or the redemption fund established for payment of Bonds of the most senior class then Outstanding (which, in the case of the Senior Bonds, will be the Redemption Fund and, in the case of the Subordinate Bonds, will be the Subordinate Redemption Fund) under the provisions of the Program Resolution and such default continues for a period of 30 days; or
- (6) The State defaults in the performance or observance of any other of the covenants, agreements, or conditions on the part of the State in the Program Resolution or in the Bonds of the most senior class then Outstanding, and such default continues for a period of 45 days after written notice thereof, specifying such default, has been given by the Trustee to the State, which may give such notice in its discretion and is required to give such notice at the written request of the Acting Beneficiaries Upon Default (and for this purpose the specified percentage will be 25% in aggregate Principal Amount of the Outstanding Bonds of the most senior class) to the State and the Trustee. Except with respect to the State’s arbitrage and tax covenants under the Program Resolution, if the default is such that it can be corrected, but not within such 45 days, it will not constitute an Event of Default if corrective action is instituted by the State within such 45 days and is diligently pursued until the default is corrected.

### **Remedies**

If an Event of Default has occurred and is continuing, the Trustee may (1) institute judicial proceedings in its own name and as or on behalf of a trustee of an express trust for the collection of all amounts then payable on the Bonds and any Other Obligations or under the Program Resolution with respect thereto, enforce any judgment obtained, and collect from the State and any other obligor upon such Bonds and Other Obligations moneys adjudged due, and (2) pursue any other available remedy by suit at law or in equity to enforce the covenants of the State in the Program Resolution, including, without limitation, any remedy of a secured party under the Uniform Commercial Code, foreclosure, and mandamus, and may pursue such appropriate judicial proceedings as the Trustee will deem most effective to protect and enforce, or aid in the protection and enforcement of, the covenants and agreements in the Program Resolution.

If an Event of Default has occurred and is continuing, and if it has been requested so to do by the Acting Beneficiaries Upon Default (and for this purpose the specified percentage will be a majority of the aggregate Principal Amount of Outstanding Bonds) and has been indemnified as provided in the Program

Resolution, the Trustee will be obliged to exercise such one or more of the rights and powers conferred by the Program Resolution as the Trustee, being advised by its counsel, deems most expedient in the interests of the Beneficiaries. However, the Trustee will have the right to decline to comply with any such request if the Trustee is advised by counsel that the action so requested may not lawfully be taken or if the Trustee receives, before exercising such right or power, contrary instructions from the Holders of not less than a majority in aggregate Principal Amount of the Bonds then Outstanding or from any Other Beneficiary.

Notwithstanding any other default and remedy provisions of the Program Resolution, if a default occurs under a Swap Agreement or a Credit Enhancement Facility and, as a result, the Other Beneficiary that is a party thereto is entitled to exercise one or more remedies thereunder, such Other Beneficiary may exercise such remedies, including, without limitation, the termination of such agreement, as provided therein, in its own discretion so long as the exercise of any such remedy will not adversely affect the legal ability of the Trustee or Acting Beneficiaries Upon Default to exercise any remedy available under the Program Resolution.

No remedy conferred upon or reserved to the Trustee or to the Beneficiaries under the Program Resolution is intended to be exclusive of any other remedy, but each and every such remedy is intended to be cumulative and to be in addition to any other remedy given to the Trustee or to the Beneficiaries under the Program Resolution or now or hereafter existing at law or in equity or by statute.

All moneys received by the Trustee pursuant to the default and remedy provisions of the Program Resolution shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities, and advances incurred or made by the Trustee with respect thereto, be applied as follows, subject to the State Match Restriction (except that moneys received under Credit Enhancement Facilities shall be applied only to the purposes for which such Credit Enhancement Facilities were provided):

- The Trustee shall apply the amounts to each class in order of priority, namely, Senior Bonds and Senior Other Obligations shall be paid in full before any payment shall be made with respect to Subordinate Bonds and Subordinate Other Obligations.

- Unless the principal of all the Outstanding Bonds of a particular class shall have become due and payable, all such moneys shall be applied to the payment of all principal and interest then due on the Bonds and all amounts due under Other Obligations, as follows:

*First*, (i) to the Holders of the Bonds, all installments of interest (other than interest on overdue principal) then due and payable, (ii) to the Beneficiaries of Other Obligations, all periodic fees for Credit Enhancement Facilities and reimbursement payments for interest payments advanced under Credit Enhancement Facilities, to the extent provided in the Supplemental Resolutions authorizing such Credit Enhancement Facilities, and (iii) to the appropriate Swap Counterparties, State Swap Payments to the extent provided in the Supplemental Resolutions authorizing the related Swap Agreements, in the order in which such installments of interest or such Other Obligations became due and payable, and if the amount available is not sufficient to pay in full the amounts due on any date, then to the payment, ratably, according to the amounts due on such date; and

*Second*, (i) to the Holders of the Bonds, the unpaid principal of any of the Bonds which shall have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Program Resolution), with interest on the principal amount of such Bonds at the respective rates specified therein

from the respective dates upon which such Bonds became due and payable, (ii) to the Beneficiaries of Other Obligations, reimbursement payments for principal payments advanced under Credit Enhancement Facilities, to the extent provided in the Supplemental Resolutions authorizing such Credit Enhancement Facilities, and (iii) to the appropriate Swap Counterparties, State Swap Payments not paid in clause “*First*” above, in the order of their stated payment dates, and if the amount available is not sufficient to pay in full the amounts due on any date, then to the payment, ratably, according to the amounts due on such date.

If the principal of all Outstanding Bonds of a particular class shall have become due and payable, all such moneys shall be applied to the payment to the Beneficiaries of the principal and interest then due and unpaid upon the Bonds and all Other Obligations that are on a parity with such class of Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Beneficiary over any Other Beneficiary, ratably, according to the amounts due.

### **Supplemental Resolutions**

The Program Resolution may not be modified or amended in any respect subsequent to the delivery of fully executed and authenticated Bonds except as provided in and in accordance with and subject to the provisions thereof.

*Supplemental Resolutions Without Holder Consent.* Subject to such additional provisions as a Supplemental Resolution may provide, the Building Commission may, from time to time and at any time, without the consent of or notice to the Beneficiaries, adopt Supplemental Resolutions for any of the following purposes:

- (i) to cure any formal defect, omission, inconsistency, or ambiguity in the Program Resolution; however no such action may adversely affect the interests of the Beneficiaries who have not consented thereto;
- (ii) to add to the covenants and agreements of the State in the Program Resolution other covenants or agreements, or to surrender any right or power reserved or conferred upon the State, which does not adversely affect the interests of the Beneficiaries who have not consented thereto;
- (iii) to issue a particular series of Bonds as permitted by the Program Resolution or enter into a Swap Agreement or obtain a Credit Enhancement Facility as permitted by the Program Resolution and, in connection therewith, to establish provisions for making deposits to the Redemption Fund to provide for the payment of any Bonds or Other Obligations and to establish assumptions for computing the Debt Service with respect thereto;
- (iv) to cause the Program Resolution to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;
- (v) to provide for the removal of a Fiduciary or the Securities Depository, or the appointment of an additional or successor Fiduciary or a successor Securities Depository;
- (vi) to make any change in the Program Resolution required by any Rating Agency in order to maintain the current, or restore the previous, rating by such Rating Agency on the Bonds, which does not adversely affect the interests of the Beneficiaries who have not consented thereto;
- (vii) to provide for the creation of Funds or Accounts, to which amounts in the Revenue Fund may be credited on any Transfer Date prior to transfer of such amounts to the Subordinate Redemption Fund, or after the transfer of such amounts to such Fund but prior to the transfer of such amounts to the Equity Fund, but in either case only after all transfers therefrom to the Rebate Fund, the Redemption Fund, and (if applicable) the Reserve Fund, or the creation of one

or more subordinate classes of Bonds payable from Funds and Accounts created under that or another Supplemental Resolution; however, no such subordinate class of Bonds or Other Obligations may be senior in any respect to any previously created class of Bonds or Other Obligations any of which are then Outstanding, except to the extent specifically authorized or permitted by the Supplemental Resolution authorizing such previously created class or except to the extent consented to by each Beneficiary who would be adversely affected thereby;

- (viii) to pledge additional revenues of the Program(s) to secure the payment of the Bonds or Other Obligations under the Program Resolution;
- (ix) to modify, alter, amend, or supplement the Program Resolution in any other respect which is not materially adverse to the Beneficiaries who have not consented thereto or which is permitted for Bonds of one or more particular series, as provided in the Supplemental Resolution for Bonds of those series, and affects only (1) the Holders of such Bonds and (2) any Other Beneficiaries who have consented thereto;
- (x) to provide for the financing of Loans under the Safe Drinking Water Loan Program, Loans to Borrowers other than Municipalities, and/or obligations incurred under such additional programs from time to time under the Water Pollution Control Act, the Safe Drinking Water Act, or any other similar State or federally-supported financing program as may be approved by the EPA, to the extent such Loans or other obligations are then authorized to be financed with enterprise revenue obligations under the Revenue Obligations Act;
- (xi) to modify, alter, amend or supplement the provisions of the Program Resolution related to the establishment of the Rebate Fund or arbitrage and tax covenants to reflect or conform to amendments made to the Code as it applies to Bonds issued under the Program Resolution; or
- (xii) to modify, alter, amend, or supplement the Program Resolution in any other respect so long as the State has determined that the adoption of such Supplemental Resolution will not result in the withdrawal or downgrade of any rating of the Bonds then maintained by any Rating Agency.

In connection with the adoption of any such Supplemental Resolution, there must be delivered to the Trustee an opinion of Bond Counsel to the effect that such Supplemental Resolution is authorized or permitted by the Program Resolution and the Revenue Obligations Act, complies with their respective terms, will, upon the adoption thereof, be valid and binding upon the State in accordance with its terms, and will not adversely affect the exclusion of the interest payable on any outstanding Tax-Exempt Bonds from gross income of the Holders of the Bonds for federal income tax purposes pursuant to the Code.

*Supplemental Resolutions With Holder Consent.* Subject to such additional provisions as a Supplemental Resolution may provide, the Building Commission may, from time to time and at any time, with the prior written consent of the Holders of a majority of the principal amount of each class of Bonds Outstanding affected by such Supplemental Resolution, and with the prior written consent of the Other Beneficiaries, adopt a Supplemental Resolution to modify, alter, amend, or supplement the Program Resolution in any respect. However, no Supplemental Resolution may permit (1) an extension of the stated maturity or reduction in the principal amount of, a reduction in the rate or extension of the time for paying interest on, a reduction of any premium payable on the redemption of, a reduction in the purchase price payable on a Tender Date for, or a reduction in the amount or extension of the time for any principal payment required for any sinking fund or otherwise applicable to, any of the Bonds without the consent of the Holders of all the Bonds and Other Beneficiaries which would be affected by the action to be taken, (2) except as expressly permitted under the Program Resolution, the creation of any security interest prior to or on a parity with the security interest in the Funds and Accounts for the benefit of the Holders of the Bonds and the Other Beneficiaries without the consent of the Holders of all the Bonds Outstanding and the Other Beneficiaries which would be adversely affected by such creation, (3) a reduction in the aggregate principal amounts of Bonds the Holders of which are required to consent to any Supplemental Resolution, without the consent of the Holders of all Bonds at the time Outstanding, or the elimination of a

requirement that any Other Beneficiary consent to any Supplemental Resolution, without the consent of any Other Beneficiary which would be affected by the action to be taken, (4) a modification of the rights, duties, or immunities of the Trustee or any Fiduciary without the written consent of the Trustee or such Fiduciary, or (5) the creation of a privilege or priority of any Obligation of one class over any other Obligation of the same class, or of any other class except as provided in the Program Resolution, or the surrender of a privilege or a priority granted by the Program Resolution, to the detriment of another Beneficiary under the Program Resolution.

### **Redemption and Purchase of Bonds**

*Right of Redemption.* The Bonds of any series are subject to redemption as provided in the Program Resolution and in the Supplemental Resolution creating such series.

*Purchase of Bonds.* The State may at any time authorize and direct the Trustee to purchase Bonds in the open market out of any funds available for such purpose (subject to the State Match Restriction), such purchases to be made at a price not in excess of the amount specified in the Program Resolution. In addition, the State may, from time to time, direct the Trustee to request the submission of tenders following published notice requesting such submission prior to making the purchases authorized pursuant to the Program Resolution. All Bonds so purchased by the Trustee will be canceled and not reissued.

### **Defeasance**

Any Outstanding Bond (or any portion thereof) will be deemed to have been paid for the purposes of the Program Resolution, and will no longer be entitled to the benefit of the Program Resolution, if there are deposited in an Escrow Account either moneys in an amount sufficient, or Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys in an amount sufficient, to pay when due the principal of and premium, if any, and interest due and to become due on said Bond (or portion thereof) at or prior to the stated maturity thereof.

The moneys and Defeasance Securities deposited in an Escrow Account held by an escrow agent pursuant to the defeasance provisions of the Program Resolution shall be held in trust and shall not be withdrawn or used for any purpose other than the payment of the principal of and premium, if any, and interest on said Bonds (or portions thereof) deemed to have been paid in accordance with the defeasance provisions of the Program Resolution.

## **GLOSSARY**

The following definitions apply to capitalized terms used in this Part VII of the 2017 Annual Report:

**Account** means any of the accounts in the Funds created by or pursuant to the Program Resolution.

**Act** means Sections 281.58 and 281.59 of the Wisconsin Statutes, as amended from time to time.

**Acting Beneficiaries Upon Default** means:

- (1) for purposes of the direction of proceedings by the Trustee, the Holders of not less than the specified percentage (as set forth in the applicable provisions of the Program Resolution) of the aggregate Principal Amount of Senior Bonds Outstanding if Senior Bonds are Outstanding and otherwise the Holders of not less than the specified percentage of the most senior class of Bonds Outstanding, and
- (2) for all other purposes under the Program Resolution, any Senior Other Beneficiary or the Holders of not less than the specified percentage of the aggregate Principal Amount of Senior Bonds Outstanding if Senior Bonds or Senior Other Obligations are Outstanding and otherwise the Holders of not less than the specified percentage of Bonds the most senior class any Bonds or Other Obligations of which are Outstanding and any Other Beneficiary of such class.

**Aggregate Debt Service Coverage Ratio** means, for any Fiscal Year, the ratio of Projected Annual Revenues to Debt Service.

**Authorized Commission Representative** means any person at the time designated to act on behalf of the State by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the State by the Capital Finance Director, and also includes the Capital Finance Director.

**Balloon Bonds** means any series of Bonds, 25% or more of the aggregate principal amount of which mature in a single year.

**Balloon Payments** means regularly scheduled principal payments with respect to a series of Balloon Bonds that are due in any year in which 25% or more of the aggregate principal amount of such series of Balloon Bonds matures.

**Beneficial Owner** means the Person in whose name a Bond is recorded as beneficial owner of such Bond by the Securities Depository, Participant, or Indirect Participant, as the case may be.

**Beneficial Ownership Interest** means the right to receive payments and notices with respect to Bonds which are held by the Securities Depository under a Book-Entry System and for which the Securities Depository does not act on behalf of the Beneficial Owners in connection with the optional or mandatory tender of Bonds on a Tender Date.

**Beneficiary** means any Holder of Bonds and, to the extent provided in a Supplemental Resolution, any Swap Counterparty and any Credit Facility Provider.

**Bond Anticipation Notes** means obligations for the funding of which the Building Commission has authorized the issuance of Bonds in a Supplemental Resolution.

**Bond Counsel** means any Independent Counsel selected by the State and nationally recognized as an attorney or firm of attorneys whose opinions are generally accepted in the municipal bond market and who is familiar with the transactions contemplated under the Program Resolution. Any opinion of Bond Counsel required by the Program Resolution shall be in writing.

**Bonds** means revenue obligations of the State, however designated and whether Senior or Subordinate, that are issued pursuant to the Program Resolution and payable, in whole or in part, from the Pledged Revenues but does not include Bond Anticipation Notes that are payable solely from the proceeds of Bonds authorized in a Supplemental Resolution.

**Book-Entry System** means a book-entry system established and operated for the recordation of Beneficial Owners of Bonds pursuant to the Program Resolution and the Supplemental Resolution providing for the issuance of such Bonds.

**Borrower** means any Person authorized to obtain a Loan under the Act pursuant to a Program.

**Building Commission** means the State of Wisconsin Building Commission or any successor body having the power under subchapter II of Chapter 18 of the Wisconsin Statutes (or any successor provision) to authorize and direct the issuance of Bonds.

**Capitalization Grant** means grants that EPA is authorized to make, pursuant to the Water Pollution Control Act or the Safe Drinking Water Act, to a state to assist in providing financial assistance to municipalities within the state for governmentally-owned water treatment projects and other water pollution abatement projects.

**Capitalization Grant Agreement** means the agreement the State has entered into with EPA for receipt of the Capitalization Grant.

**Clean Water Fund Program** means the Clean Water Fund Program as defined in and established by the Act.

**Clean Water Revenue Bonds** means the State's clean water revenue bonds previously issued under the Prior General Resolution.

**Code** means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code in the Program Resolution shall be deemed to include the United States Treasury Regulations in effect or proposed from time to time with respect thereto and applicable to the Bonds or the use of the proceeds thereof.

**Commission** means the State of Wisconsin Building Commission.

**Costs of Issuance** means, except as limited in any Supplemental Resolution, any items of expense directly or indirectly payable by or reimbursable to the State and related to the authorization, sale and issuance of Bonds and the investment of the proceeds thereof, including, but not limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of Fiduciaries, fees, costs and expenses of underwriters, purchasers and placement agents, legal fees and charges, professional consultants' fees, costs of credit ratings, premiums for insurance of the payment of Bonds or any fees and expenses payable in connection with any Credit Enhancement Facilities or Swap Agreements, costs and expenses of refunding of Bonds or any fees and expenses payable in connection with any remarketing agreements, tender agent agreements or interest rate indexing agreements and other costs, charges and fees in connection with the original issuance of Bonds.

**Costs of Issuance Fund** means the Costs of Issuance Fund established by the Program Resolution.

**Counterparty Swap Payment** means a payment due to or received by the State from or for the account of a Swap Counterparty pursuant to a Swap Agreement (including payments in respect of any early termination of such Swap Agreement), including amounts received by the State under any related guaranty or other credit support in favor of the State given in connection with such Swap Agreement.

**Credit Enhancement Facility** means, if and to the extent provided for in a Supplemental Resolution, with respect to Bonds of one or more series, (1) an insurance policy insuring, or a letter of credit, surety bond, or other guaranty providing a direct or indirect source of funds for, the payment of principal of and interest on such Bonds or (2) a letter of credit, standby purchase agreement, line of credit, or similar instrument or facility, providing for the purchase of such Bonds (or the Beneficial Ownership Interests therein) on a Tender Date, and in either case, all agreements entered into by the State or the Trustee and the Credit Facility Provider with respect thereto.

**Credit Facility Provider** means any Person or Persons engaged by the State, pursuant to a Credit Enhancement Facility, to provide credit enhancement or liquidity for the payment of the principal of and interest on Bonds or the State's obligation to purchase Bonds (or the Beneficial Ownership Interests therein) on a Tender Date.

**Debt Obligation** means an evidence of indebtedness issued by a Borrower evidencing and securing a Loan to such Borrower, which in the case of a Municipality shall be a Municipal Obligation.

**Debt Service** means the aggregate regularly scheduled principal payments (whether at stated maturity or pursuant to sinking fund redemption requirements), interest payments, and other payments of the State on all Outstanding Bonds and Other Obligations for any Fiscal Year (including any State Swap Payments, less any Counterparty Swap Payments unless the Swap Counterparty is in default with respect to its payment obligations under the related Swap Agreement, and including any fees with respect to Credit Enhancement Facilities). For purposes of calculating such amount:

- (a) Any Variable Rate Bonds shall, for any future period for which the actual interest rate is not known on the date of determination (that is, on the date on which Debt Service is being calculated), be assumed to bear interest at a rate equal, as applicable, to: (i) if such Variable Rate Bonds bear interest based on a stated index or benchmark rate (including at a stated margin above or below such index or benchmark or a percentage thereof), the rate that would apply based on the daily average of such index or benchmark during the five years preceding the date of such calculation (or if such index or benchmark has not been available for five years, such shorter period during which it has been available) or (ii) if such Variable Rate Bonds do not bear interest based on a stated index or benchmark rate, (A) if such Variable Rate Bonds have been or are to be



issued as Tax-Exempt Bonds, the daily average SIFMA Municipal Swap Index during the five years preceding the date of such calculation, or (B) if such Variable Rate Bonds have been or are to be issued as Taxable Bonds, the daily average LIBOR during the five years preceding the date of such calculation. A Supplemental Resolution that contains a determination by the Building Commission that another generally available index or benchmark more closely corresponds to the actual or expected interest rate on any such Variable Rate Bonds may substitute such index or benchmark for the SIFMA Municipal Swap Index or LIBOR, as applicable.

- (b) All Outstanding Bond Anticipation Notes shall be assumed to be funded at or before the stated maturity thereof, and all Bond Anticipation Notes which have been authorized by a Supplemental Resolution but not yet issued shall be assumed to be issued and immediately funded on the date of determination, in each case by the issuance of Senior Refunding Bonds in the full amount authorized with respect to such Bond Anticipation Notes, maturing according to such amortization schedule as the State may determine (however, the final maturity must not be later than 30 years from the original issuance of the Bond Anticipation Notes), and bearing interest at rates based on the then-applicable rates for comparable maturities of municipal bonds of comparable credit rating, as set forth in such nationally recognized municipal market publication as the State may select (including interest rate scales published by Municipal Market Data, a divisions of Thompson Reuters).
- (c) All Balloon Payments shall be assumed to be funded or refunded at or before the stated maturity thereof, by the issuance of Senior Refunding Bonds in the full amount of such Balloon Payment, maturing according to such amortization schedule as the State may determine (however, the final maturity must not be later than 30 years from the original issuance of the related Balloon Bonds), and bearing interest at rates based on the then-applicable rates for comparable maturities of municipal bonds of comparable credit rating, as set forth in such nationally recognized municipal market publication as the State may select (including interest rate scales published by Municipal Market Data, a divisions of Thompson Reuters).
- (d) Amounts of principal or interest due on a particular date shall be excluded from the determination of Debt Service to the extent that such amounts are payable from amounts deposited in trust, escrowed, or otherwise set aside for the payment thereof with the Trustee or another Person approved by the State or the Trustee (including amounts in an Escrow Account established in the Redemption Fund pursuant to the Program Resolution).
- (e) State Swap Payments, Counterparty Swap Payments, and payments with respect to Credit Enhancement Facilities shall be determined based upon such assumptions as may be set forth in the Supplemental Resolution authorizing the related Swap Agreement or the Credit Enhancement Facility, as the case may be, or in a State Direction provided to the Trustee with respect to such Swap Agreement or Credit Enhancement Facility, as provided in the Program Resolution.
- (f) For purposes of applying the test set forth in the Program Resolution in connection with the issuance of Refunding Bonds, the proceeds of such Refunding Bonds shall be assumed to have been applied on their issuance date for the purposes provided in the Supplemental Resolution authorizing such Refunding Bonds.

**Defeasance Securities** means, subject to any applicable restrictions relating to investment of Funds or Accounts in the Revenue Obligations Act or otherwise applicable to the Environmental Improvement Fund, and except as limited with respect to any series of Bonds as provided in the Supplemental Resolution authorizing such series:

- (a) any direct and general obligations of, or any obligations unconditionally guaranteed by, the United States of America, which obligations are not redeemable prior to maturity other than at the option of the holder thereof;
- (b) obligations of, or unconditionally guaranteed as to payment of principal and interest by, the Federal National Mortgage Association, the Government National Mortgage Association, the

Federal Financing Bank, the Federal Intermediate Credit Bank, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, the Farmers Home Administration or the Federal Home Loan Mortgage Corporation, or any other agency or corporation created pursuant to an act of the Congress of the United States as an agency or instrumentality thereof, which obligations are not redeemable prior to maturity other than at the option of the holder thereof;

- (c) any obligations of any state or political subdivision of a state (“Municipal Bonds”) that are rated at least the rating then assigned to the Senior Bonds by each Rating Agency and that (a) are fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the owners of the Municipal Bonds, and (b) are not redeemable prior to maturity other than at the option of the holder thereof;
- (d) certificates of ownership of the principal of or interest on direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System, which certificates of ownership are not redeemable prior to maturity other than at the option of the holder thereof;
- (e) the interest component of obligations issued by the Resolution Trust Corporation, which are not redeemable prior to maturity other than at the option of the holder thereof; and
- (f) securities evidencing ownership interests in open-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, whose investments are limited to the obligations described in clauses (a) and (b) of the definition of “Permitted Investments” and to repurchase agreements fully collateralized by such obligations, the average maturity of which obligations does not exceed 90 days.

**DNR** means the State of Wisconsin Department of Natural Resources or any other body succeeding to the authority and responsibilities of the State of Wisconsin Department of Natural Resources under the Act.

**DOA** means the State of Wisconsin Department of Administration or any other body succeeding to the authority and responsibilities of the State of Wisconsin Department of Administration under the Act.

**Environmental Improvement Fund** means the separate nonlapsible trust fund created under Section 25.43, Wisconsin Statutes, which includes all the Funds and Accounts created under the Program Resolution and which is a separate fund held in the State treasury.

**EPA** means the United States Environmental Protection Agency or any successor entity which may succeed to the administration of the programs established by the Water Pollution Control Act or the Safe Drinking Water Act.

**Escrow Account** means a separate and distinct Account created within the Redemption Fund or the Subordinate Redemption Fund pursuant to the Program Resolution in connection with the defeasance of any Bonds pursuant to the Program Resolution.

**Event of Default** means one of the events described as such under the heading “**SUMMARY OF CERTAIN PROVISIONS OF PROGRAM RESOLUTION; Events of Default**”.

**Equity Fund** means the Equity Fund created in the Program Resolution.

**Fees and Charges** means all fees and charges, if any, charged by the State to Borrowers pursuant to the terms and provisions of Pledged Loans or Financial Assistance Agreements but does not include principal of and interest on, or any prepayment fee or premium with respect to, such Pledged Loans.

**Fiduciary** means each of the Trustee and any co-trustee, Registrar, Issuing Agent, Paying Agent, or other fiscal agent and includes any agent designated by or on behalf of the Building Commission or a Fiduciary

to perform the functions of a Fiduciary. One entity may perform multiple Fiduciary functions, and multiple entities may perform a particular Fiduciary function.

**Financial Assistance Agreement** means any agreement entered into between DNR and a Borrower for financial assistance.

**Fiscal Year** means the annual period beginning on July 1 of each year and ending on June 30 of the following year.

**Fund** means any of the funds created by the Program Resolution.

**Grant Proceeds** means the funds received under a capitalization grant award made to the DNR by the EPA under the terms of a Capitalization Grant Agreement.

**Holder** means the registered owner of any Bond (which shall be the Securities Depository Nominee so long as a Book-Entry System is being used), as shown on the registration books of the State maintained by the Registrar, *except* that to the extent and for the purposes provided in a Supplemental Resolution for a series of Bonds (including for purposes of the definition of “Acting Beneficiaries Upon Default”), a Credit Facility Provider that has delivered a Credit Enhancement Facility with respect to such series of Bonds may instead be treated as the Holder of the Bonds of such series.

**Independent Counsel** means an Independent Person duly admitted to practice law before the highest court of any state of the United States of America or the highest court of the District of Columbia. Any opinion of Independent Counsel required by the Program Resolution shall be in writing.

**Independent Person** means a Person designated by the State and not an employee of the State.

**Indirect Participant** means a broker-dealer, bank, or other financial institution for which the Securities Depository holds Bonds as a securities depository through a Participant.

**Interest Payment Date** means any date on which interest is due on any Bond pursuant to the Program Resolution and the applicable Supplemental Resolution.

**Investment Loans** means any Loans that meet the definition of “Permitted Investments” pursuant to clause (o) of that definition below, financed through the application of amounts in the Supplemental Income Fund as provided in the Program Resolution, except that Investment Loans shall not include Loans released from the pledge of the Program Resolution.

**Issuing Agent** means an entity designated by or on behalf of the Building Commission to perform such duties as may be required of the Issuing Agent under the Program Resolution or any Supplemental Resolution.

**Legislature** means the legislature of the State.

**Leveraged Clean Water Portion** means that portion of a series of Bonds designated as such in the applicable Supplemental Resolution, as adjusted pursuant to a State Direction, if applicable.

**Leveraged Portion** means the Leveraged Clean Water Portion and/or the Leveraged Safe Drinking Water Portion of a series of Bonds.

**Leveraged Safe Drinking Water Portion** means that portion of a series of Bonds designated as such in the applicable Supplemental Resolution, as adjusted pursuant to a State Direction, if applicable.

**LIBOR** means, for any date of determination, a rate of interest equal to the rate per annum (rounded to the nearest one-hundred thousandth percent) at which United States dollar deposits having a maturity of one month are offered to prime banks in the London interbank market which appears on Reuters Page LIBOR01 as of approximately 11:00 a.m., London time, on such date. If such rate does not appear on Reuters Page LIBOR01, the rate shall be determined from such other source in general use in the financial service industry as may be designated in a State Direction. For this purpose, “Reuters Page LIBOR01” means the display page so designated on the Reuters Money 3000 Service (or such other page as may replace that page on that service or such other service as may be nominated by ICE Benchmark

Administration Limited or a successor organization for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

**Loan** means any form of financial assistance subject to repayment, whether or not interest bearing, provided by the State to a Borrower in accordance with a Financial Assistance Agreement for all or any part of the cost of a Project, made pursuant to the Act.

**Loan Capitalized Interest** means, for any Loan financed in whole or in part by disbursement of amounts in the Loan Fund, the amount, if any, that the State agrees in a Financial Assistance Agreement shall be advanced on behalf of a Borrower as capitalized interest on such Loan, which amount shall be transferred by the Trustee from the Loan Fund to the Interest Receipts Subaccount(s) of the appropriate Account(s) in the Revenue Fund as provided in the Program Resolution, and which amount shall, when transferred, be deemed to be a Loan disbursement from the Loan Fund to such Borrower.

**Loan Fund** means the Loan Fund established by the Program Resolution.

**Loan Repayment** means any payment on a Pledged Loan pursuant to a Financial Assistance Agreement, or on the Debt Obligation evidencing and securing such Pledged Loan, on account of the principal, interest and premium, if any, due on such Pledged Loan, including scheduled payments of principal and interest on such Pledged Loan or Debt Obligation, any payment made to cure a default, prepayments of principal or interest and any additional amounts payable upon prepayment of such Pledged Loan or Debt Obligation, and any amounts paid with respect to such Pledged Loan or Debt Obligation on account of (i) acceleration of the due date of such Pledged Loan or such Debt Obligation, (ii) the sale or other disposition of such Pledged Loan or Debt Obligation and other collateral securing such Pledged Loan, (iii) the receipt of proceeds of any insurance, letter of credit or other guaranty of such Pledged Loan or Debt Obligation, (iv) payments with respect to such Pledged Loan pursuant to Section 281.59 (13m) of the Wisconsin Statutes (that is, the State moral obligation), and (v) the exercise or any right or remedy granted to the State and available under law or the applicable Financial Assistance Agreement or Debt Obligation upon default on such Pledged Loan or Debt Obligation (including by recourse to collateral and security devices under the Debt Obligations), but specifically excluding Fees and Charges.

**Municipal Obligation** means the Debt Obligation, in the form of a bond, note or other evidence of debt issued by any Municipality and authorized by law, which has been or shall be acquired by the State as evidence of indebtedness of a Loan to the Municipality pursuant to the Act.

**Municipality** means a political subdivision of the State or a federally recognized American Indian tribe or band located within the State, in either case constituting a “municipality” within the meaning of the Act.

**Other Beneficiary** means a Person who is a Beneficiary of an Other Obligation.

**Other Obligation** means, to the extent provided in a Supplemental Resolution, the State’s obligations to pay any amounts under any Swap Agreements and any Credit Enhancement Facilities.

**Outstanding** means, (1) when used in reference to the Bonds as of any given date, all Bonds which have been duly authenticated and delivered by the Registrar or Issuing Agent under the Program Resolution *except:*

- (a) Bonds which have been canceled by the Registrar at or before such date or which have been delivered to the Registrar at or before such date for cancellation;
- (b) Bonds deemed to be paid in accordance with Article VI of the Program Resolution (relating to defeasance);
- (c) Bonds in lieu of which other Bonds have been authenticated under the Program Resolution;
- (d) Bonds not surrendered for payment when due (unless the State shall default in the payment thereof); and

(e) Bonds which are otherwise not treated as Outstanding pursuant to the terms of the Supplemental Resolution providing for their issuance; and

(2) when used with respect to Other Obligations, means any Other Obligations which have become, or may in the future become, due and payable and which have not been paid or otherwise satisfied.

**Participant** means a broker-dealer, bank, or other financial institution for which the Securities Depository holds Bonds as a securities depository.

**Paying Agent** means the Trustee or another agent of the State designated by or on behalf of the Building Commission to process payments to Holders of the Bonds.

**Permitted Investments** means, subject to any applicable restrictions relating to investment of Funds or Accounts in the Revenue Obligations Act (including particularly Sections 18.561 (5) and 18.57 (3), Wisconsin Statutes) or otherwise applicable to the Environmental Improvement Fund, any of the following:

- (a) Any bonds or other obligations which the timely payment of principal and interest constitutes direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies set forth in clause (c) of this definition to the extent unconditionally guaranteed by the United States of America.
- (b) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (ii) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) of this definition, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this clause (b), as appropriate, and (iii) as to which the principal of and interest on bonds or other obligations of the character described in clause (a) of this definition which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (b) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this clause (b), as appropriate; and that are rated at the date of purchase at least the Required Rating for Permitted Investments.
- (c) Bonds, debentures or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America.
- (d) The interest component of obligations issued by the Resolution Trust Corporation, which are not redeemable prior to maturity other than at the option of the holder thereof.
- (e) Obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any such state or political subdivision which are rated at least the Required Rating for Permitted Investments.
- (f) Certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, if (i) such obligations are held in trust by a commercial bank which is a member of the Federal Reserve System and meets the eligibility requirements for a Trustee under the Program Resolution, and (ii) payment of all principal of and interest on such certificates or such obligations is fully insured or unconditionally guaranteed by, or unconditionally payable pursuant to a credit support

arrangement provided by, one or more financial institutions or insurance companies or associations the debt of which is rated at least the Required Rating for Permitted Investments, or, in the case of an insurer providing municipal bond insurance policies insuring the payment when due of the principal of and interest on municipal bonds, such insurance policy results in such municipal bonds being rated at least the Required Rating for Permitted Investments.

- (g) Certificates that evidence ownership of the right to payments of principal of or interest on obligations described in clause (a) of this definition, provided that such obligations are held in trust by a commercial bank which is a member of the Federal Reserve System and meets the eligibility requirements for a Trustee under the Program Resolution.
- (h) Certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of any bank in the United States of America which is rated at least the Required Rating for Permitted Investments.
- (i) Commercial paper, other than that issued by bank holding companies, the debt of which is rated at least the Required Rating for Permitted Investments.
- (j) Written repurchase contracts, reverse repurchase contracts or securities lending agreements (collateralized by cash or securities) that satisfy the criteria for being rated at least the Required Rating for Permitted Investments.
- (k) Shares of an investment company organized under or a money market fund regulated under the Investment Company Act of 1940, as amended, or units of a common trust fund, which satisfies the criteria for being rated at least the Required Rating for Permitted Investments.
- (l) Any agreement for an investment of money with a Qualified Institution, provided that such agreement (or the debt of the Qualified Institution) must (i) be rated at least the Required Rating for Permitted Investments at the time such agreement is entered into or (ii) be collateralized with cash or securities in such manner as required for a Required Rating for Permitted Investments. "**Qualified Institution**" means any entity, the unsecured long-term debt obligations of which are rated at least the Required Rating for Permitted Investments.
- (m) obligations secured or supported by a letter of credit, contract, guaranty, agreement or surety bond issued by an entity the obligations of which are rated at least the Required Rating for Permitted Investments.
- (n) any investment agreements or debt obligations rated at least the Required Rating for Permitted Investments.
- (o) Loans or other obligations incurred under the Clean Water Fund Program or the Safe Drinking Water Loan Program (including Loans made with bonds issued pursuant to the Prior General Resolution).
- (p) The local government pooled-investment fund managed by the State of Wisconsin Investment Board pursuant to Section 25.50 of the Wisconsin Statutes.
- (q) Any other investment that the State is authorized to make pursuant to the Act and the Revenue Obligations Act and that is rated at least the Required Rating for Permitted Investments.

**Person** means any natural person, firm, association, corporation, company, trust, partnership, public body, or other entity.

**Pledged Loans** means (i) all Loans financed through the application of amounts in the Loan Fund as provided in the Program Resolution, (ii) all Investment Loans, and (iii) any other Loans designated as such by the State under the Program Resolution pursuant to the provisions thereof, except that "Pledged Loans" shall not include Loans released from the pledge of the Program Resolution as described under "**SECURITY; Disposition of Loans**".

**Pledged Revenues** means (i) all Loan Repayments, including both timely and delinquent payments; (ii) any moneys received by the State under Section 281.59 (11) (b) of the Wisconsin Statutes (that is, State payments intercepted by DOA, and taxes collected by county treasurers) upon a default under a Municipal Obligation that evidences and secures a Pledged Loan; (iii) all Counterparty Swap Payments; (iv) except as limited as provided in the Supplemental Resolution authorizing such Credit Enhancement Facility, all amounts received with respect to the payment of Bonds pursuant to a Credit Enhancement Facility; (v) earnings or income from investments of moneys in the Funds and Accounts that are payable into the Revenue Fund (without double-counting any earnings on or income from Investment Loans), (vi) any other moneys held or received by the State or the Trustee relating to any Debt Obligation that evidences and secures a Pledged Loan; and (vii) any other revenues of the Program(s) pledged to secure Bonds by a Supplemental Resolution adopted pursuant to the Program Resolution.

**Principal Amount** when used with respect to a Bond, means the then outstanding principal amount of such Bond. To the extent provided in the Supplemental Resolution for Bonds of a series that pay interest less frequently than semiannually, accrued interest or amortized original issue discount with respect to such Bond shall be treated as principal, and to the extent provided in the Supplemental Resolution for Bonds of a series that bear no interest, only the purchase price plus amortized original issue discount shall be treated as principal.

**Principal Payment Date** means the stated maturity date of principal of any Serial Bond, the Sinking Fund Payment Date for any Term Bond, and any other Redemption Date for any Bond.

**Prior General Resolution** means 1991 State of Wisconsin Building Commission Resolution 5, entitled “State of Wisconsin Clean Water Revenue Bond General Resolution,” as amended.

**Program** means the Clean Water Fund Program or the Safe Drinking Water Loan Program. However, until such time, if any, as the Act is amended to provide for the issuance of revenue obligations under the Revenue Obligations Act with respect to the Safe Drinking Water Loan Program, “**Program**” shall refer only to the Clean Water Fund Program.

**Program Resolution** means the 2015 State of Wisconsin Building Commission Resolution 10, entitled “Program Resolution for State of Wisconsin Environmental Improvement Fund Revenue Obligations”, adopted by the Building Commission on October 7, 2015, as amended and restated by 2017 State of Wisconsin Building Commission Resolution 2, entitled “Amended and Restated Program Resolution for State of Wisconsin Environmental Improvement Fund Revenue Obligations”, adopted by the Building Commission on February 15, 2017, as it may be supplemented and amended from time to time by Supplemental Resolutions.

**Project** means any project for the planning, design, acquisition, construction, improvement, repair, reconstruction, modification, renovation or expansion of any wastewater collection or treatment system or water supply system that is eligible for financing by the State pursuant to the Act.

**Projected Annual Revenues** means, for any Fiscal Year, the sum of (i) the aggregate amount of Loan Repayments scheduled to come due during such Fiscal Year (based on the State’s estimated schedule for disbursement of Loans), excluding any such payments with respect to Pledged Loans that are in default, and (ii) the aggregate amount that the State estimates will be received during such Fiscal Year as earnings or income from investments of moneys in the Funds and Accounts that are payable into the Revenue Fund (without double-counting any earnings on or income from Investment Loans).

**Rating Agency** means, at any time, any nationally recognized securities rating agency which then provides a rating on the Bonds at the request of the State (which request may be withdrawn) and includes the successors and assigns of any such agency.

**Rebate Fund** means the Rebate Fund created in the Program Resolution.

**Redemption Date** means the date fixed for redemption of any Bond pursuant to the Program Resolution and the applicable Supplemental Resolution.

**Redemption Fund** means the Redemption Fund created in the Program Resolution.

**Refunding Bonds** means Bonds issued or to be issued to provide for the payment of principal of (and, to the extent provided by the Supplemental Resolution authorizing the issuance thereof, premium, if any, and interest on) Bonds previously issued under the Program Resolution or to fund Bond Anticipation Notes.

**Registrar** means the Trustee or any other agent of the State designated by or on behalf of the Secretary of DOA to maintain the registration books for the Bonds.

**Required Rating for Permitted Investments** means:

- (a) in the case of investment securities or debt obligations to which long-term debt ratings apply, that such securities or obligations (or where applicable, other securities or obligations of the issuer thereof) are rated by each Rating Agency at least “AA-,” “Aa3” or their equivalent, and
- (b) in the case of investment securities or debt obligations to which short-term debt ratings apply, that such securities or obligations (or where applicable, other securities or obligations of the issuer thereof) are rated by each Rating Agency in its highest applicable rating category,

in each case, without regard to numerical or other modifiers of such rating categories.

**Reserve Fund** means the Reserve Fund, if any, created in the Program Resolution.

**Reserve Fund Requirement** means, with respect to any Account within the Reserve Fund, the amount established as such in the Supplemental Resolution pursuant to which such Account is established, which may be expressed as a percentage of the Outstanding Bonds secured by such Account, as a stated dollar amount, or in any other manner. In calculating the Reserve Fund Requirement, all Bonds to be redeemed or defeased by a series of Refunding Bonds shall be deemed not Outstanding as of the date of calculation.

**Revenue Fund** means the Revenue Fund created in the Program Resolution.

**Revenue Obligations Act** means Subchapter II of Chapter 18 of the Wisconsin Statutes and any other enactment by the Legislature that shall authorize the issuance of revenue obligations of the nature of the Bonds on behalf of the State.

**Safe Drinking Water Act** means the federal Safe Drinking Water Act, 42 U.S.C. Section 300f *et seq.*, as amended from time to time, or any successor provisions.

**Safe Drinking Water Loan Program** means the Safe Drinking Water Loan Program as defined in and established by the Act.

**Securities Depository** means the securities depository and any substitute for or successor to such securities depository that shall, at the request of the Building Commission, maintain a Book-Entry System with respect to the Bonds.

**Securities Depository Nominee** means the Securities Depository or the nominee of the Securities Depository in whose name the Bonds are registered during the continuation with such Securities Depository of participation in its Book-Entry System.

**Senior** means, (1) when used with respect to a Bond, a Bond of a series designated (or deemed to have been designated) as such pursuant to the Program Resolution and the Supplemental Resolution pursuant to which such series of Bonds is issued, (2) when used with respect to a Credit Enhancement Facility, a Credit Enhancement Facility designated (or deemed to have been designated) as such pursuant to the Program Resolution and the Supplemental Resolution pursuant to which such Credit Enhancement Facility is obtained by the State, and (3) when used with respect to a Swap Agreement, a Swap Agreement designated (or deemed to have been designated) as such pursuant to the Program Resolution and the Supplemental Resolution pursuant to which such Swap Agreement is obtained by the State. A Supplemental Resolution may provide that only certain obligations with respect to Bonds, Credit



Enhancement Facilities or Swap Agreements are Senior. Payments in respect of any early termination of a Swap Agreement may not be designated as Senior.

**Senior Debt Service** means Debt Service, computed without taking into account Subordinate Bonds and Other Subordinate Obligations.

**Senior Debt Service Coverage Ratio** means, for any Fiscal Year, the ratio of Projected Annual Revenues to Senior Debt Service.

**Serial Bonds** means all Bonds other than Term Bonds.

**Sinking Fund Payment Date** means the date on which any Term Bond is to be called for redemption pursuant to the sinking fund requirements of the Supplemental Resolution providing for the issuance thereof or, if not redeemed, the stated maturity date thereof.

**State** means the State of Wisconsin.

**State Certificate** means a certificate signed by an Authorized Commission Representative and delivered to the Trustee or, if required by the context in which such term is used, to any other Fiduciary.

**State Direction** means a direction to the Trustee or, if required by the context in which such term is used, to any other Fiduciary and signed by an Authorized Commission Representative.

**State Match** means the amount of matching State funds required under the Water Pollution Control Act or the Safe Drinking Water Act, which presently equals not less than 20% of the amount of funds available under the applicable Capitalization Grant Agreement.

**State Match Clean Water Portion** means that portion of a series of Bonds designated as such in the applicable Supplemental Resolution, as adjusted pursuant to a State Direction, if applicable.

**State Match Portion** means the State Match Clean Water Portion and/or the State Match Safe Drinking Water Portion of a series of Bonds.

**State Match Restriction** means the prohibition set forth in the Program Resolution against using Grant Proceeds and principal repayments of Pledged Loans to pay amounts due with respect to State Match Portions.

**State Match Safe Drinking Water Portion** means that portion of a series of Bonds designated as such in the applicable Supplemental Resolution, as adjusted pursuant to a State Direction, if applicable.

**State Swap Payment** means a payment due to a Swap Counterparty from the State pursuant to the applicable Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement).

**Subordinate** means, after the adoption of a Supplemental Resolution pursuant to the Program Resolution to provide for the creation of a class of Bonds or Other Obligations that is subordinate to Senior Bonds, (1) when used with respect to a Bond, a Bond of a series designated as such pursuant the Program Resolution and the Supplemental Resolution pursuant to which such series of Bonds is issued, (2) when used with respect to a Credit Enhancement Facility, a Credit Enhancement Facility designated as such pursuant to the Program Resolution and the Supplemental Resolution pursuant to which such Credit Enhancement Facility is obtained by the State, and (3) when used with respect to a Swap Agreement, a Swap Agreement designated as such pursuant to the Program Resolution and the Supplemental Resolution pursuant to which such Swap Agreement is obtained by the State. A Supplemental Resolution may provide that only certain obligations with respect to Bonds, Credit Enhancement Facilities or Swap Agreements are Subordinate.

**Subordinate Redemption Fund** means the Subordinate Redemption Fund created in the Program Resolution.

**Supplemental Income Fund** means the Supplemental Income Fund created in the Program Resolution.

**Supplemental Resolution** means a resolution adopted by the Building Commission in accordance with the Program Resolution to supplement or amend the Program Resolution.

**Swap Agreement** means an interest rate exchange agreement or other interest rate hedge agreement between the State and a Swap Counterparty, for the purpose of (1) converting, in whole or in part, (a) the State's fixed interest rate liability on all or a portion of any Bonds to a variable interest rate liability, (b) the State's variable interest rate liability on all or a portion of any Bonds to a fixed interest rate liability, or (c) the State's variable interest rate liability on all or a portion of any Bonds to a different variable interest rate liability, or (2) providing a maximum or minimum with respect to the State's variable interest rate liability on all or a portion of any Bonds.

**Swap Counterparty** means any Person with whom the State shall, from time to time, enter into a Swap Agreement.

**Taxable Bonds** means Bonds of a series that are not offered on the basis that interest on the Bonds of that series is excluded from gross income of the Beneficial Owners for federal income tax purposes pursuant to the Code, as designated in the Supplemental Resolution authorizing such Bonds.

**Tax-Exempt Bonds** means Bonds of a series are offered on the basis that interest on the Bonds of that series is excluded from gross income of the Beneficial Owners for federal income tax purposes pursuant to the Code, as designated in the Supplemental Resolution authorizing such Bonds.

**Tender Date** means, with respect to any Bond or Beneficial Ownership Interest, a date on which such Bond or Beneficial Ownership Interest is required to be tendered for purchase by or on behalf of the State, or has been tendered for purchase by or on behalf of the State pursuant to a right given the Holder or Beneficial Owner of such Bond, in accordance with the provisions in the Supplemental Resolution providing for the issuance thereof.

**Term Bonds** means Bonds which are subject to mandatory redemption on Sinking Fund Payment Dates according to a schedule provided in or pursuant to the Supplemental Resolution providing for the issuance of such Bonds.

**Transfer Date** means each June 1 and December 1, commencing June 1, 2016.

**Trustee** means U.S. Bank National Association or any successor entity designated by or on behalf of the Building Commission to have custody of the Funds and Accounts and to perform such other duties as may be required of the Trustee under the Program Resolution or any Supplemental Resolution.

**Variable Rate Bonds** means Bonds whose interest rate is not fixed for the entire remaining term of such Bonds, but varies on a periodic basis as specified in the Supplemental Resolution providing for the issuance thereof.

**Water Pollution Control Act** means subchapter VI of the federal Water Pollution Control Act of 1987, 33 U.S.C. Section 1381 *et seq.*, as amended from time to time, or any successor provisions.

## **APPENDIX A**

### **AUDITED FINANCIAL STATEMENTS**

The following are the independent auditor's report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2017 and 2016, along with supplemental information as of June 30, 2017.

Financial statements present the financial position, results of operations, and cash flows of the Environmental Improvement Fund for the fiscal years ended June 30, 2017 and 2016. These financial statements are not intended to predict future cash flows that will be available for the benefit of bondholders pursuant to the bond resolutions.

Baker Tilly Virchow Krause, LLP, the independent auditor of the Environmental Improvement Fund, has not been engaged to perform and has not performed, since the date of its reports included on the following pages, any procedures on the financial statements addressed in those reports. Baker Tilly Virchow Krause, LLP also has not performed any procedures related to this Part VII of the 2017 Annual Report.

{This page number is the last sequential page number of the 2017 Annual Report to be used in Part VII of the 2017 Annual Report. The following uses page numbers from the financial statements and independent auditor's report. The sequential page numbers for the 2017 Annual Report continue in Part VIII.}

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2017 and 2016

AND

SUPPLEMENTAL INFORMATION

As of and for the Year Ended June 30, 2017

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

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## INDEPENDENT AUDITORS' REPORT

To the Secretary of the Department of Administration and the  
Secretary of the Department of Natural Resources of the State of Wisconsin  
State of Wisconsin Environmental Improvement Fund  
Madison, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the State of Wisconsin Environmental Improvement Fund's preparation and fair presentation of the financial statements 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 State of Wisconsin Environmental Improvement Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Secretary of the Department of Administration and the  
Secretary of the Department of Natural Resources of the State of Wisconsin  
State of Wisconsin Environmental Improvement Fund

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement Fund, as an enterprise fund of the State of Wisconsin, as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin, as of June 30, 2017 and 2016, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Net Position by Program, Statement of Revenues, Expenses, and Changes in Net Position by Program, and the Statement of Cash Flows by Program as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Net Position by Program, Statement of Revenues, Expenses, and Changes in Net Position by Program, and the Statement of Cash Flows by Program are fairly stated in all material respects, in relation to the financial statements as a whole.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of Wisconsin Environmental Improvement Fund's financial statements. The "Other Information" listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

To the Secretary of the Department of Administration and the  
Secretary of the Department of Natural Resources of the State of Wisconsin  
State of Wisconsin Environmental Improvement Fund

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017 on our consideration of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
November 6, 2017



**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET POSITION  
As of June 30, 2017 and 2016

	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets		
Unrestricted cash and cash equivalents	\$ 243,585,734	\$ 473,557,839
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	45,669,251
Receivables		
Loans to local governments - current portion	184,398,752	176,314,894
Due from other funds	213,665	111,248
Due from other governmental entities	19,576,253	10,637,631
Accrued investment income	76,956	190,009
Other	50,490	-
Prepaid items	16,908	16,912
Total Current Assets	447,918,758	706,497,784
Noncurrent Assets		
Restricted assets - cash equivalents	-	93,918,196
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	187,049,829
Loans to local governments	1,814,630,149	1,794,103,762
Advances to other funds	6,270,618	6,238,282
Prepaid items	99,914	116,802
Total Noncurrent Assets	1,821,000,681	2,081,426,871
Total Assets	2,268,919,439	2,787,924,655
Deferred Outflows of Resources		
Pension related amounts	104,795	174,945
Unamortized charges	4,292,133	30,433,129
Total Deferred Outflows of Resources	4,396,928	30,608,074
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,273,316,367</b>	<b>\$ 2,818,532,729</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
Current Liabilities		
Accrued expenses	\$ 124,283	\$ 220,052
Accrued interest on bonds	1,093,008	2,743,258
Due to other funds	2,627,774	3,960,037
Due to other governmental entities	727	3,226
Unearned revenue	-	171,448
Compensated absences - current portion	142,836	143,259
Revenue obligation bonds - current maturities	90,550,000	54,105,000
Total Current Liabilities	94,538,628	61,346,280
Noncurrent Liabilities		
Accrued expenses	34,687	29,225
Net pension liability	11,134	30,126
Due to other governmental entities	552,308	622,846
Compensated absences	426,910	412,116
Revenue obligation bonds (including unamortized premium)	271,470,288	705,383,205
Total Noncurrent Liabilities	272,495,327	706,477,518
Total Liabilities	367,033,955	767,823,798
Deferred Inflows of Resources		
Pension related amounts	44,908	64,249
Net Position		
Restricted for environmental improvement	1,898,511,439	2,035,171,238
Unrestricted	7,726,065	15,473,444
Total Net Position	1,906,237,504	2,050,644,682
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 2,273,316,367</b>	<b>\$ 2,818,532,729</b>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>OPERATING REVENUES</b>		
Loan interest	\$ 34,498,166	\$ 34,343,107
Interest income used as security for revenue bonds	15,299,980	17,054,674
Miscellaneous other	22,131	25,416
<b>Total Operating Revenues</b>	<b>49,820,277</b>	<b>51,423,197</b>
 <b>OPERATING EXPENSES</b>		
Interest	50,480,172	29,538,619
Salaries and benefits	5,145,146	5,179,700
Contractual services and other	3,296,912	3,081,795
<b>Total Operating Expenses</b>	<b>58,922,230</b>	<b>37,800,114</b>
 Operating Income (loss)	<b>(9,101,953)</b>	<b>13,623,083</b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	2,399,296	1,792,399
Investment income used as security for revenue bonds	1,654,203	27,126,574
Other revenues	5,448,000	-
Intergovernmental grants	56,723,191	42,986,116
Grants awarded	(15,166,572)	(7,095,325)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>51,058,118</b>	<b>64,809,764</b>
 <b>INCOME BEFORE TRANSFERS</b>	<b>41,956,165</b>	<b>78,432,847</b>
Transfers in	8,214,266	3,123,935
Transfers out	(25,213,157)	(22,153,141)
 <b>INCOME (LOSS) BEFORE SPECIAL ITEM</b>	<b>24,957,274</b>	<b>59,403,641</b>
Special item - Forgiven Global Certificates	(169,364,452)	-
<b>Increase (Decrease) in Net Position</b>	<b>(144,407,178)</b>	<b>59,403,641</b>
 TOTAL NET POSITION - Beginning of Year	<b>2,050,644,682</b>	<b>1,991,241,041</b>
 <b>TOTAL NET POSITION - END OF YEAR</b>	<b>\$ 1,906,237,504</b>	<b>\$ 2,050,644,682</b>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collection of loans	\$ 181,880,004	\$ 180,499,126
Interest received on loans	49,848,722	51,776,085
Origination of loans	(210,490,248)	(112,052,909)
Payments to employees for services	(6,365,325)	(1,832,792)
Payments to suppliers and other	(3,750,192)	(3,533,714)
Other operating revenues	22,131	25,416
Net Cash Flows From Operating Activities	<u>11,145,092</u>	<u>114,881,212</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Intergovernmental grants received	47,562,546	40,457,398
Grants paid	(15,166,572)	(7,095,325)
Transfers in	8,214,266	3,123,935
Transfers out	(25,213,157)	(22,153,141)
Proceeds from issuance of long-term debt	290,575,000	50,849,745
Debt premium received	28,543,314	-
Debt issuance costs	(1,045,176)	-
Retirement of long-term debt	(54,105,000)	(63,180,000)
Payment to escrow agent	(608,841,405)	-
Interest payments	(32,919,096)	(32,031,579)
Advances to other funds	(33,336)	(15,133)
Other cash flows from noncapital financing activities	5,450,132	-
Net Cash Flows From Noncapital Financing Activities	<u>(356,978,484)</u>	<u>(30,044,100)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Arbitrage rebate	(569,322)	-
Liquidation of investments	12,069,803	8,291,809
Investment and interest income	10,442,610	10,162,398
Net Cash Flows From Investing Activities	<u>21,943,091</u>	<u>18,454,207</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(323,890,301)</b>	<b>103,291,319</b>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>567,476,035</u>	<u>464,184,716</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 243,585,734</u></b>	<b><u>\$ 567,476,035</u></b>

	<u>2017</u>	<u>2016</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (9,101,953)	\$ 13,623,083
Adjustments to Reconcile Operating Income (loss) to Net Cash Flows From Operating Activities		
Interest expense classified as noncapital financing activity	50,283,194	28,968,085
Changes in assets and liabilities		
Receivables	(50,490)	-
Loans to other governments	(28,610,244)	68,446,219
Due from other funds	(103,653)	(377,091)
Proportionate share of contributions	50,809	(63,111)
Prepaid items	16,891	20,156
Compensated absences	14,372	469,575
Other assets	-	81,886
Other post employment benefits	5,460	400
Accrued expenses	(77,343)	100,463
Accrued interest on bonds	50,575	378,302
Due to other funds	(1,330,027)	3,453,922
Due to other governmental entities	(2,499)	(220,677)
Total Adjustments	<u>20,247,045</u>	<u>101,258,129</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 11,145,092</u>	<u>\$ 114,881,212</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>		
Unrestricted cash and cash equivalents - statement of net position	\$ 243,585,734	\$ 473,557,839
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	-	45,669,251
Investments in State of Wisconsin general obligation clean water bonds	-	187,049,829
Restricted cash and cash equivalents - statement of net position	-	93,918,196
Total Cash and Investments	<u>243,585,734</u>	<u>800,195,115</u>
Less: Noncash equivalents	-	<u>(232,719,080)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 243,585,734</u>	<u>\$ 567,476,035</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>		
Net change in unrealized gains and losses	<u>\$ (5,660,028)</u>	<u>\$ 18,729,948</u>
Bond premium amortization	<u>\$ 1,409,486</u>	<u>\$ 22,841,572</u>

See accompanying notes to financial statements.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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### NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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**Reporting Entity** – The State of Wisconsin Environmental Improvement Fund (the “Fund”) is an enterprise fund of the State of Wisconsin (the “State”) administered by the State of Wisconsin Department of Natural Resources (the “DNR”) and the State of Wisconsin Department of Administration (the “DOA”).

The Fund was established with the adoption of the 1997-1999 State of Wisconsin budget. The Fund replaced the Clean Water Fund Program and expanded loan activity to include drinking water system loans and brownfield loans. The Fund provides for three separate environmental financing programs: the Clean Water Fund Program, the Safe Drinking Water Loan Program, and the Land Recycling Loan Program.

The Clean Water Fund Program was established in 1990 and provides financial assistance to municipalities at subsidized interest rates for the purpose of constructing or improving municipal wastewater facilities. The Safe Drinking Water Loan Program was established in 1997 and provides municipal loans for the construction or repair of municipal drinking water facilities. The following four loan portfolios comprise the Environmental Improvement Fund:

- > **Leveraged Loan Portfolio** – This portfolio is funded by proceeds of Clean Water Revenue Bonds and operating transfers from the State. Assets in this portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements of the Clean Water Fund Program. During fiscal 2017, all of the Clean Water Revenue Bonds were defeased and the municipal loans were sold to and purchased by the Direct Loan Portfolio (see Notes 6 and 9).
- > **Direct Loan Portfolio** – This portfolio is funded by the U.S. Environmental Protection Agency (the “EPA”) grants and proceeds from the issuance of Environmental Improvement Fund Revenue Bonds (i.e., a minimum 20% match of EPA capitalization grant). Repayments from loans in this portfolio and proceeds from the issuance of Environmental Improvement Fund Revenue Bonds (i.e., in addition to the amount needed for match requirements of EPA capitalization grants) are used to fund new loans. Loans in this portfolio are made for wastewater projects that comply with EPA eligibility and reporting requirements of the Clean Water Fund Program.
- > **Proprietary Loan/Grant Portfolio** – This portfolio is funded by operating transfers from the State. Assets of this portfolio are used to fund both loans and hardship grants for qualifying wastewater projects. Repayments from loans in this portfolio may be used to fund new loans or hardship grants under the Clean Water Fund Program.
- > **Drinking Water Loan Portfolio** – This portfolio is funded by the EPA grants and operating transfers from the State (the State is required to match a minimum of 20% of EPA grants). Repayments from loans in this portfolio may be used to fund new loans. Loans in this portfolio are made for drinking water projects that comply with EPA eligibility and reporting requirements under the Safe Drinking Water Loan Program.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. As of June 30, 2017 and 2016, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2017 and 2016, the total amount drawn on these loans was \$13,500,343. The Land Recycling Program loans are included in the Clean Water Fund Program – Direct Loan Portfolio for reporting purposes.

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented July 1, 2015.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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### **NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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**Net Operating Income/Loss** – The Fund incurred net operating loss of \$9.1 million and net operating income of \$13.6 million in 2017 and 2016, respectively. Management anticipates the Fund will periodically incur net operating losses. As explained in Note 2, a loss will generally result from the Fund's statutory mission to provide loans to municipalities at interest rates below the Fund's own cost of funds. Previous losses have historically been funded by EPA grants and operating transfers from the State of Wisconsin. EPA grants were approximately \$56.7 million and \$43.0 million in 2017 and 2016, respectively, and are classified as intergovernmental grants. Transfers from the State of Wisconsin were approximately \$8.2 million and \$3.1 million in 2017 and 2016, respectively, and are classified as transfers in. Management expects the grants and transfers will continue for the foreseeable future sufficient to fund both the anticipated future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

**Loans Receivable** – Loans receivable are recorded at cost. Direct costs to originate loans are not material and are expensed as incurred. Fees received to originate loans are not material and are recorded as income when received.

**Interest on Loans Receivable** – Interest on loans receivable is recognized on an accrual basis and recorded within Due from Other Governmental Entities on the statements of net position.

**Investments** – The Fund may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States, and solvent financial institutions in the State, commercial paper and nonsecured corporation notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 3).

Investments that are stated at fair value include the State of Wisconsin Investment Board Local Government Investment Pool (see Note 3) and the State of Wisconsin General Obligation Clean Water Bonds (see Note 8). The Fund has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the internal Revenue Code; the amount that must be rebated ("estimated arbitrage") to the U.S. Treasury is recorded as a reduction of investment income (see Note 9). Investment transactions are recorded on the trade date.

**United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements**—The Fund held United States Treasury Notes as investments at June 30, 2016 and recorded the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4). During the most recent fiscal year under audit the Fund used these investments for the redemption of the outstanding Clean Water Bonds.

Accounting standards require that investments in participating interest-earning investment contracts be reported at fair value. The four forward delivery agreements with Wells Fargo (formerly Wachovia) and two forward delivery agreements with JP Morgan Chase Bank described in Note 4 would be considered participating investment contracts under current accounting standards. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 30, 2017, the fair value of the Fund's interest in these agreements was \$0. At June 30, 2016, the fair value of the Fund's interest in these agreements was above the cost of the treasury securities owned by \$935,503.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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### NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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**Comparative Data** – Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

**Revenue Obligation Bonds** – Interest expense on revenue obligation bonds is recognized on an accrual basis.

**Debt Defeasance** – Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 7).

**Deferred Outflows of Resources** – A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

The Fund defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a deferred outflow of resources.

**Cash Equivalents** – The Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Cash and cash equivalents in the Direct Loan Portfolio and Leveraged Loan Portfolio, while classified as unrestricted assets under accounting principles generally accepted in the United States ("GAAP"), are restricted as to use under federal statute and code and under the Clean Water Revenue Bond covenants and indenture. Those federal restrictions require that, with few exceptions, the funds can only be used for purposes of making loans to municipalities for program purposes, and that the funds must be kept available "in perpetuity" for such purposes. Likewise, the Clean Water Revenue Bond indenture specifies the use of bond proceeds, proceeds from loan repayments, and money in other accounts created under the bond indenture.

**Restricted Assets** – Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

**Deferred Inflows of Resources** – A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

**Net Position** – Net position is classified as either restricted or unrestricted based on the presence or absence of restrictions, including federal laws, the Cleanwater Act of 1987, resolutions, state statutes, and Title XIV of the 1996 Safe Drinking Water Act, as amended. When both restricted and unrestricted resources are available for use, restricted resources are used first, then unrestricted as they are needed.

**Revenue Recognition** – Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expense occurs and include \$56.7 million and \$43.0 million of EPA contributions in 2017 and 2016, respectively.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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### NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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**Hardship Grants** – Hardship grants are recognized as an expense when the funds are disbursed.

**Transfers In/ (Out)** – Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received. Transfers out consist of items related to debt service.

**Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Claims and Judgments** – Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred. Refer to Note 12 on commitments and contingencies.

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### NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS

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Loans to local governments at June 30, 2017 and 2016 represent loans for wastewater treatment projects or drinking water projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, virtually all of the loans issued by the Clean Water Fund Program, Safe Drinking Water Loan Program and Land Recycling Loan Program are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State transfers. Interest rates on loans receivable ranged from 0% to 4.95% in both 2017 and 2016. The weighted average interest rate was 2.559% and 2.468% at June 30, 2017 and 2016, respectively. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment.

In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary. At June 30, 2017 and 2016, all loan repayments were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2017 and 2016, \$558,783,122 and \$600,582,530 (28% and 30%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program, Safe Drinking Water Loan Program, and Land Recycling Loan Program entered into \$114,315,408 of new loans and \$38,285,883 of new grants during fiscal year 2017. For fiscal year 2016, these same programs entered into \$230,887,026 of new loans and \$9,499,885 of new grants. As of June 30, 2017, they had undisbursed commitments of \$120,155,336 relating to loans and \$26,948,248 relating to grants. For fiscal year 2016, they had undisbursed commitments of \$226,576,537 relating to loans and \$3,705,271 relating to grants. From July 1, 2017 to August 9, 2017, the Fund made additional loan disbursements of \$14,637,328 for financial assistance agreements that were outstanding prior to June 30, 2017. \$0 of additional loans were executed between July 1, 2017 and August 9, 2017. These funding commitments are generally met through the proceeds from additional Federal grants, recycled loan payments, and from the issuance of additional revenue obligation bonds (Note 6).



# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

### NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2017 and 2016, cash and cash equivalents consisted of the following:

	2017	2016
Money market mutual funds	\$ 131,941,799	\$ 142,900,034
Local Government Investment Pool (“LGIP”), at fair value	111,617,714	424,575,519
Cash held by custodian	25,846	-
Miscellaneous cash	375	482
	243,585,734	567,476,035
Less: Amounts classified as restricted assets (see Note 6)	-	(93,918,196)
Total Unrestricted Cash and Cash Equivalents	\$ 243,585,734	\$ 473,557,839

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal and liquidity while earning a competitive money market rate of return. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is not a Securities and Exchange Commission (“SEC”) registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2017, the current yield on the LGIP was 0.77%, compared to 0.42% as of June 30, 2016. The LGIP investment is stated at fair value.

As of June 30, 2017	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 111,617,714	N/A	Not rated	N/A	N/A	N/A	45.8%
Money market mutual funds	131,941,799	N/A	AAA	Weighted avg. maturity 60 days or less	Within 397 days	N/A	54.2

As of June 30, 2016	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 424,575,519	N/A	Not rated	N/A	N/A	N/A	53.1%
Treasury notes – Forward delivery	45,669,251	\$0	N/A	See Note 4	N/A	N/A	5.6
GO Bonds-WI	187,049,829	\$0	Aa2	5-1-33 final maturity	N/A	N/A	23.4
Money market mutual funds	142,900,034	N/A	AAA	Weighted avg. maturity 60 days or less	Within 397 days	N/A	17.9

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

### **NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)**

The Environmental Improvement Fund 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; and Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- > State of WI General Obligation Bonds – The fair value calculation used a present value approach and utilized known market spreads.

Investment Type	June 30, 2016			Total
	Level 1	Level 2	Level 3	
State of WI General Obligation Bonds	\$ -	\$ 187,049,829	\$ -	\$ 187,049,829

### **NOTE 4 – FORWARD DELIVERY AGREEMENTS**

The Fund has entered into multiple agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Clean Water Revenue Bonds (see Note 6). Four of the agreements are with Wells Fargo (formerly Wachovia) and two are with JP Morgan and each provides for the delivery to, and purchase by, the Fund, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, 2006 Series 2, and 2008 Series 1 Clean Water Revenue Bonds.

Every six months during the term of the agreements, Wells Fargo and JP Morgan are required to deliver United States Treasury securities (“Treasury securities”) to the Fund for purchase. The Treasury securities are held as investments by the Fund. The price paid by the Fund for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The agreements may be terminated at the option of the Fund and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination.

By GASB definition, these securities are classified as having no exposure to custodial credit risk. As of June 30, 2017, the Forward Delivery Agreements had no value as they were terminated during the year due to and used for the redemption of Clean Water Revenue Bonds.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

### NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2016, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,169,000	0.500%	\$ 6,992,075	5.58%	June 1, 2017	\$ 7,174,601
Series 1998-1 Agreement	7,456,000	0.500	7,292,832	5.01	June 1, 2018	7,461,825
Series 1999-1 Agreement	7,119,000	0.500	6,918,903	6.32	June 1, 2020	7,124,562
Series 2006-1 Agreement	6,539,000	0.875	6,422,000	4.56	June 1, 2027	6,554,070
Series 2006-2 Agreement	8,158,000	0.875	8,000,000	4.84	June 1, 2027	8,178,802
Series 2008-1 Agreement	10,105,000	0.500	9,927,500	4.10	June 1, 2028	10,112,895

### NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfunds resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The following is a schedule of transfers between the loan portfolios and/or other funds at the State of Wisconsin at June 30, 2017 and 2016:

Transferred To	Transferred From	June 30, 2017 Amount	June 30, 2016 Amount	Principal Purpose
Proprietary Portfolio	Capital Improvement	\$ 5,315,066	\$ 59,335	Future debt service
Safe Drinking Water Loan Program	Capital Improvement	2,899,200	3,064,600	State match
Bond Security and Redemption Debt Service Fund Program	Direct Loan Portfolio	8,000,000	8,000,000	G.O. bond debt service
Debt Service Fund Program	Proprietary Portfolio	11,600	9,148	Personal services
Debt Service Fund Program	Leveraged Loan Portfolio	17,201,557	14,143,993	Excess subsidy return
Direct Loan Portfolio	Leveraged Loan Portfolio	47,665,457	-	Defeasance of Clean Water Revenue bonds
Subtotal		81,092,880	25,277,076	
Less: Eliminations		(47,665,457)	(6,247,870)	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Position		<u>\$ 33,427,423</u>	<u>\$ 19,029,206</u>	

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

### *REVENUE OBLIGATION BONDS*

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

Clean Water Revenue Bonds activity as of June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 634,815,000	\$ -	\$ 634,815,000	\$ -	\$ -
Add:					
Unamortized premiums	<u>78,086,745</u>	<u>-</u>	<u>78,086,745</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 712,901,745</u>	<u>\$ -</u>	<u>\$ 712,901,745</u>	<u>\$ -</u>	<u>\$ -</u>

Clean Water Revenue Bonds activity as of June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 706,345,000	\$ 254,125,000	\$ 325,655,000	\$ 634,815,000	\$ 51,830,000
Add:					
Unamortized premiums	<u>52,370,909</u>	<u>47,969,199</u>	<u>22,253,363</u>	<u>78,086,745</u>	<u>-</u>
Totals	<u>\$ 758,715,909</u>	<u>\$ 302,094,199</u>	<u>\$ 347,908,363</u>	<u>\$ 712,901,745</u>	<u>\$ 51,830,000</u>

Environmental Improvement Fund Revenue Bonds activity as of June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 40,135,000	\$ 290,575,000	\$ 2,275,000	\$ 328,435,000	\$ 90,550,000
Add:					
Unamortized premiums	<u>6,451,460</u>	<u>28,543,314</u>	<u>1,409,486</u>	<u>33,585,288</u>	<u>-</u>
Totals	<u>\$ 46,586,460</u>	<u>\$ 319,118,314</u>	<u>\$ 3,684,486</u>	<u>\$ 362,020,288</u>	<u>\$ 90,550,000</u>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

### *REVENUE OBLIGATION BONDS* (cont.)

Clean Water revenue obligation serial and term bonds as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
1998 Series 2:		
Serial Bonds, no optional redemption, June 1, 2017	\$ -	\$ 5,665,000
Unamortized premium on bonds	-	32,959
	-	5,697,959
2008 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018 (refunded July 15, 2015)	-	8,855,000
Unamortized premium on bonds	-	181,865
	-	9,036,865
2008 Series 2:		
Serial Bonds, no optional redemption, June 1, 2018	-	21,965,000
Unamortized premium on bonds	-	451,100
	-	22,416,100
2008 Series 3:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018 (refunded July 15, 2015)	-	13,685,000
Unamortized premium on bonds	-	107,003
	-	13,792,003
2010 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	-	14,070,000
Unamortized premium on bonds	-	874,962
	-	14,944,962
2010 Series 3:		
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	-	49,690,000

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

### REVENUE OBLIGATION BONDS (cont.)

	2017	2016
2010 Series 4:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031 (refunded April 12, 2016)	\$ -	\$ 19,250,000
Unamortized premium on bonds	-	1,048,837
	-	20,298,837
2010 Series 5:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	-	36,760,000
Unamortized premium on bonds	-	2,675,141
	-	39,435,141
2012 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2033	-	49,035,000
Unamortized premium on bonds	-	6,259,189
	-	55,294,189
2012 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2024	-	83,220,000
Unamortized premium on bonds	-	9,952,628
	-	93,172,628
2013 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2027	-	78,495,000
Unamortized premium on bonds	-	10,482,746
	-	88,977,746
2015 Series 1:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2028	-	133,235,000
Unamortized premium on bonds	-	20,656,447
	-	153,891,447
2016 Series 1:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2031	-	120,890,000
Unamortized premium on bonds	-	25,363,868
	-	146,253,868
Total of Clean Water Revenue Series	\$ -	\$ 712,901,745

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

### REVENUE OBLIGATION BONDS (cont.)

Environmental Improvement Fund revenue obligation serial and term bonds as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
2015 Series A:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2030	\$ 37,860,000	\$ 40,135,000
Unamortized premium on bonds	5,496,768	6,451,460
	43,356,768	46,586,460
2017 Series A:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2035	218,705,000	-
Unamortized premium on bonds	28,088,520	-
	246,793,520	-
2017 Series B:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	71,870,000	-
	71,870,000	-
Total Environmental Improvement Fund Revenue Series	362,020,288	46,586,460
Total of All Series	\$ 362,020,288	\$ 759,488,205

The original premium at issuance and the interest rates for Clean Water Revenue Bonds outstanding at June 30, 2016, were the following:

Series	Original Issue (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%
2008 Series 3	(2,764,120)	3.00 – 5.50%
2010 Series 2	(2,065,947)	5.00%
2010 Series 3	-	3.957 – 5.441%*
2010 Series 4	(13,528,717)	3.00 – 5.00%
2010 Series 5	(5,845,742)	5.00%
2012 Series 1	(9,195,497)	2.00 – 5.00%
2012 Series 2	(20,160,489)	3.96 – 5.00%
2013 Series 1	(16,100,626)	4.50 – 5.00%
2015 Series 1	(23,504,408)	3.75 – 5.00%
2016 Series 1	(24,464,791)	2.00 – 5.00%

\* - The effect of the interest rate subsidy on the 2010 Series 3 Revenue Bonds through June 1, 2025 is \$3,784,152.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

### REVENUE OBLIGATION BONDS (cont.)

The original premium at issuance and the interest rates for Environmental Improvement Fund Revenue Bonds outstanding at June 30, 2017, was the following:

Series	Original Issue (Premium)	Interest Rates
2015 Series A	\$ (7,039,669)	3.00 – 5.00%
2017 Series A	(28,543,314)	3.00 – 5.00%
2017 Series B	-	1.30%

Principal and interest due on the Clean Water Revenue Bonds, net of advance refundings, as of June 30, 2016, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2017	\$ 51,830,000	\$ 30,912,345	\$ 82,742,345
2018	60,615,000	28,455,053	89,070,053
2019	55,425,000	25,481,914	80,906,914
2020	54,895,000	22,763,614	77,658,614
2021	51,080,000	20,068,834	71,148,834
2022-2026	230,620,000	64,961,311	295,581,311
2027-2031	124,200,000	18,055,812	142,255,812
2032-2033	6,150,000	410,750	6,560,750
Totals	\$ 634,815,000	\$ 211,109,633	\$ 845,924,633

Principal and interest due on the Environmental Improvement Fund Revenue Bonds as of June 30, 2017, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2018	\$ 90,550,000	\$ 13,276,430	\$ 103,826,430
2019	84,080,000	11,894,250	95,974,250
2020	9,375,000	7,690,250	17,065,250
2021	8,790,000	7,221,500	16,011,500
2022	9,230,000	6,782,000	16,012,000
2023-2027	49,490,000	26,774,250	76,264,250
2028-2032	49,490,000	13,892,500	63,382,500
2033-2035	27,430,000	2,787,750	30,217,750
Totals	\$ 328,435,000	\$ 90,318,930	\$ 418,753,930



# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

### REVENUE OBLIGATION BONDS (cont.)

Principal and interest due on the Environmental Improvement Fund Revenue Bonds as of June 30, 2016, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2017	\$ 2,275,000	\$ 2,006,750	\$ 4,281,750
2018	2,390,000	1,893,000	4,283,000
2019	2,510,000	1,773,500	4,283,500
2020	2,640,000	1,648,000	4,288,000
2021	2,770,000	1,516,000	4,286,000
2022-2026	12,150,000	5,427,500	17,577,500
2027-2030	15,400,000	1,971,750	17,371,750
Totals	<u>\$ 40,135,000</u>	<u>\$ 16,236,500</u>	<u>\$ 56,371,500</u>

The Clean Water Revenue Bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2016, the total assets of the Leveraged Loan Portfolio was \$923,853,799. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Clean Water Revenue Bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Clean Water Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

Clean Water Revenue Bonds are payable only from revenues derived from 1) pledged loan repayments, 2) amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, and 3) all other pledged receipts. Environmental Improvement Fund Revenue Bonds are payable only from revenues derived from 1) pledged loan amounts, 2) amounts in the Loan Fund, Reserve Fund (if any), and 3) all other pledged receipts.

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay outstanding revenue bonds. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues. Specifics of these requirements are as follows:

Type of Revenue Bonds	Outstanding	Issuance Dates	Maturity Through	Percentage of Revenues to Pay Principal and Interest	Principal and Interest Outstanding	Principal and Interest Paid In Current Year	Total Net Revenues
Environmental Improvement Fund	\$ 328.4 M	2015 - 2017	2035	19%	\$ 418.75 M	\$ 4.28 M	\$ 122 M

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

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### *ADVANCE REFUNDINGS*

In 2017, the Fund legally defeased the following Clean Water Revenue Bonds:

Series	Amounts
2008-1	\$ 4,540,000
2008-2	11,260,000
2008-3	8,450,000
2010-2	14,070,000
2010-4	14,770,000
2010-5	36,760,000
2012-1	46,930,000
2012-2	73,915,000
2013-1	74,815,000
2015-1	131,505,000
2016-1	120,890,000
Total	<u>\$ 537,905,000</u>

In addition, \$45,080,000 of 2010 Series 3 Clean Water Revenue Bonds were economically defeased.

These advance refundings were from the issuance of \$218,705,000 of 2017 Series A Environmental Improvement Fund Revenue Bonds, of which \$88,115,000 was used for the defeasance, with an average coupon rate of 4.87% and refunded bonds with an average coupon rate of 4.97%. The second issuance was for \$71,870,000 of 2017 Series B (Taxable) Environmental Improvement Fund Revenue Bonds with an average coupon rate of 1.30% and refunded bonds with an average coupon rate of 4.88%. The proceeds, along with \$488,887,709 of funds on hand, were used to purchase the U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2017, there was \$537,905,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2017 advance refunding was \$759,659,242 from 2017 through 2033. The cash flow requirements on the 2017 Series A refunding bonds are \$96,148,365 from 2017 through 2035 and the cash flow requirements on the 2017 Series B refunding bonds are \$72,791,333 from 2017 through 2018. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$4,906,529 for the 2017 Series A refunding bonds and \$84,820,684 for the 2017 Series B refunding bonds.

### *RESTRICTED ASSETS*

Among other restrictions under the revenue obligation bond agreements are provisions that require a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net position at June 30, 2016 consist of \$93.9 million of the LGIP balance held as a credit reserve. This amount is required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## NOTE 7 – DEBT REFUNDING

### *PRIOR-YEAR DEFEASANCE OF DEBT*

In prior years, the Fund defeased certain Clean Water Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2017, \$820,665,000 of bonds outstanding are considered defeased. At June 30, 2016, \$237,680,000 of bonds outstanding are considered defeased. The bonds are callable as follows:

<u>Call Date</u>	<u>Amount as of June 30, 2017</u>	<u>Amount as of June 30, 2016</u>
6/1/2018	\$ 173,995,000	\$ 113,380,000
6/1/2019	55,425,000	-
6/1/2020	234,215,000	124,300,000
6/1/2021	29,125,000	-
6/1/2022	76,140,000	-
6/1/2023	85,900,000	-
6/1/2024	165,865,000	-

## NOTE 8 – GLOBAL CERTIFICATE AND STATE OF WISCONSIN GENERAL OBLIGATION BONDS

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for a State of Wisconsin General Obligation Bond as part of the Clean Water Program ("Global Certificate"). Subsequent to the Global Certificate, additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program with the purpose to provide sufficient revenue to make all payments on debt service on the Clean Water Revenue Bonds. In connection with the refunding of all outstanding Clean Water Revenue Bonds, the value of the Global Certificate and State of Wisconsin General Obligation bonds is \$0 as of June 30, 2017.

The details of the investments as of June 30, 2016 are as follows:

<u>Series</u>	<u>Par Value</u>	<u>Weighted Average Coupon Interest Rate</u>	<u>Market Value</u>
2004	\$ 52,867,890	0.00%	\$ 49,590,988
2007A	8,129,971	5.54	9,860,266
2007B	6,851,446	5.76	9,238,820
2008A	10,300,000	Less than 1%	10,300,000
2008B	16,600,000	6.16	23,465,906
2009A	15,500,000	5.90	19,327,406
2010A	15,243,000	5.47	20,611,113
2010B	15,000,000	5.96	21,416,898
2012A	11,100,000	3.10	12,375,611
2014A	9,300,000	3.56	10,862,821
Totals	<u>\$ 160,892,307</u>		<u>\$ 187,049,829</u>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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### NOTE 8 – GLOBAL CERTIFICATE AND STATE OF WISCONSIN GENERAL OBLIGATION BONDS (cont.)

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The Global Certificate and bonds listed above are all registered in the name of the Fund and held by an independent trustee.

Par value of the principal maturities of the Global Certificate and State of Wisconsin General Obligation bonds as of June 30 excluding the 2008A issue which does not have a repayment schedule are as follows:

Years Ending June 30,	2017	2016
2017	\$ -	\$ 12,025,350
2018	-	13,424,630
2019	-	11,522,163
2020	-	10,887,904
2021	-	8,723,476
2022-2026	-	43,317,960
2027-2031	-	46,990,824
2032-2033	-	3,700,000
Totals	<u>\$ -</u>	<u>\$ 150,592,307</u>

On June 6, 2017, the Global Certificate and the State of Wisconsin General Obligation Bonds were no longer required under the Clean Water Fund Program because all of the outstanding Clean Water Revenue Bonds were either legally or economically defeased. See Note 9.

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### NOTE 9 – SPECIAL ITEM

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The State of Wisconsin has issued to the Environmental Improvement Fund (“Fund”) general obligation bonds (“Subsidy Bonds”) from time to time to provide the necessary subsidy and other support for the State’s Clean Water Revenue Bonds issued under the Clean Water Bond General Resolution adopted by the State of Wisconsin’s Building Commission on March 7, 1991, as amended by resolutions adopted by the Commission on July 30, 2003 and June 28, 2006. These Subsidy Bonds have been reported in the Fund’s financial statements as an investment in the State of Wisconsin General Obligation Bonds (see Note 8). The purpose of the issuance of the Subsidy Bonds to the Fund, as specifically authorized by Section 18.06(9) of the Wisconsin Statutes, was to satisfy the General Resolution’s “Subsidy Fund Requirement” and its “Loan Credit Reserve Fund Requirement.” The Subsidy Fund Requirement is stated as the amount necessary, together with certain other projected revenues, including scheduled payments on clean water fund loans to Wisconsin municipalities, to provide sufficient revenues to make all payments of debt service on the Revenue Bonds. The Loan Credit Reserve Requirement is established based on various criteria relating to the Clean Water Fund Program Loans held under the General Resolution.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

### **NOTE 9 – SPECIAL ITEM (cont.)**

On June 6, 2017, all of the Clean Water Revenue Bonds were legally defeased, with the exception of \$45,080,000 in Clean Water Revenue Bonds 2010 Series 3 which were economically defeased. As part of this refunding, all of the loans made from Clean Water Revenue Bond Proceeds were released from the lien of the General Resolution, and sold to and purchased by the Direct Loan Portfolio. Therefore, the Loan Credit Reserve Fund requirement is now zero, and the Subsidy Bonds previously held in the Loan Credit Reserve Fund are likewise no longer required.

As a consequence, none of the Subsidy Bonds continue to be required under the terms of the General Resolution. The Fund, as registered owner of the Subsidy Bonds, surrendered the Subsidy Bonds for cancellation. The market value of the Subsidy Bonds on June 6, 2017 was \$169,364,452 and is reported as a special item in the Leveraged Loan Portfolio.

### **NOTE 10 – INVESTMENT INCOME**

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2017 and 2016:

	2017	2016
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 2,054,934	\$ 1,176,419
United States Treasury Notes	2,089,894	2,280,105
State of Wisconsin General Obligation Bonds	5,293,473	5,908,737
Federal Interest on Build America Bonds	774,010	872,026
Total Interest	10,212,311	10,237,287
Changes in Realized and Unrealized Gains (Losses)		
State of Wisconsin General Obligation Bonds	(5,660,028)	18,729,948
Total Interest and Changes in Unrealized Gains	4,552,283	28,967,235
Change in Estimated Rebatable Arbitrage Liability	(498,784)	(48,262)
<b>TOTAL INVESTMENT INCOME</b>	<b>\$ 4,053,499</b>	<b>\$ 28,918,973</b>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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## **NOTE 11 – OPERATING GRANTS AND HARDSHIP ASSISTANCE**

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***EPA Operating Grants for Wastewater Projects***—The Federal Water Quality Act of 1987 (the “Water Quality Act”) established a joint Federal and State program with the EPA to assist in providing financial assistance to municipalities within the states for governmentally owned wastewater treatment projects. Under the terms of the EPA grant, the State was required (1) to establish the Clean Water Fund Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmental owned wastewater treatment projects in a number of ways, provided that such assistance is not in the form of a grant. Reauthorization of the Water Quality Act of 1987 is expected to result in the allocation of capitalization grants to Wisconsin of approximately \$35.8 million for federal fiscal year 2017. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2017 are unknown at this time.

***EPA Operating Grants for Drinking Water Projects***—The Federal Safe Drinking Water Act Amendment of 1996 (the “Safe Drinking Water Act”) established a joint Federal and State program with the EPA to assist in providing financial assistance to municipal and community water system projects. Under the terms of the EPA grant, the State was required (1) to establish the Safe Drinking Water Loan Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipal and community water system projects. The Safe Drinking Water Act was authorized through federal fiscal year 2017 and a grant to Wisconsin of approximately \$14.4 million is expected for federal fiscal year 2017.

Reauthorization of the Safe Drinking Water Act may not be acted upon by the present Congress of the United States, although the Fund expects EPA capitalization grants to states to continue into the future. Four percent of the EPA grant amount may be used for water program administrative expenses plus a portion of the grant may be used by DNR for various water-related issues and initiatives.

***Hardship Assistance***—Wisconsin statutes require that the Fund provide financial hardship assistance to communities that qualify under Wisconsin Statute 281.58(13). This assistance may come in the form of reduced interest rates (as low as 0%) or grants for wastewater projects subject to limitations prescribed by the statute. At both June 30, 2017 and 2016, the Fund was committed to award \$0 of additional hardship grants. At June 30, 2017 and 2016, the Fund had projected additional hardship grants of \$0 for both years. In addition to hardship grants, the Fund was committed to award \$32,285,883 and \$9,499,885, respectively, of reduced interest rate loans. At June 30, 2017 and 2016, the Fund had projected additional reduced interest rate loans of \$15,157,970 and \$15,187,392, respectively.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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## **NOTE 12 – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS**

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The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > Statement No. 81, *Irrevocable Split-Interest Agreements*
- > Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*
- > Statement No. 83, *Certain Asset Retirement Obligations*
- > Statement No. 84, *Fiduciary Activities*
- > Statement No. 85, *Omnibus 2017*
- > Statement No. 86, *Certain Debt Extinguishment Issues*
- > Statement No. 87, *Leases*

When they become effective, application of these standards may restate portions of these financial statements.

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## **NOTE 13 – COMMITMENTS AND CONTINGENCIES**

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Occasionally the Fund is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the state legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Fund's financial position or results of operations.

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## **NOTE 14 – RISK MANAGEMENT**

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The State of Wisconsin's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, risks are managed internally through self-insurance accounted for in an internal service fund. No separate policies exist for the Fund itself.

**SUPPLEMENTAL INFORMATION**



**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Current Assets</b>			
Unrestricted cash and cash equivalents	\$ 128,710,363	\$ 8,467,928	\$ 169,714
Receivables			
Loans to local governments - current portion	156,539,367	853,628	-
Due from other funds	6,006	1,746,973	-
Due from other governmental entities	10,013,244	28,004	-
Accrued investment income	-	76,956	-
Other receivables	16,764	11,885	-
Prepaid items	-	21	16,887
Total Current Assets	<u>295,285,744</u>	<u>11,185,395</u>	<u>186,601</u>
<b>Noncurrent Assets</b>			
Loans to local governments	1,531,702,843	5,280,178	-
Advances to other funds	6,270,618	-	-
Prepaid items	-	-	99,914
Total Noncurrent Assets	<u>1,537,973,461</u>	<u>5,280,178</u>	<u>99,914</u>
 Total Assets	 <u>1,833,259,205</u>	 <u>16,465,573</u>	 <u>286,515</u>
<b>Deferred Outflows of Resources</b>			
Pension related amounts	-	104,795	-
Unamortized charges	4,292,133	-	-
Total Deferred Outflows of Resources	<u>4,292,133</u>	<u>104,795</u>	<u>-</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 1,837,551,338</u>	 <u>\$ 16,570,368</u>	 <u>\$ 286,515</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 106,237,729	\$ -	\$ 243,585,734
27,005,757	-	184,398,752
433,346	(1,972,660)	213,665
9,535,005	-	19,576,253
-	-	76,956
21,841	-	50,490
-	-	16,908
<u>143,233,678</u>	<u>(1,972,660)</u>	<u>447,918,758</u>
277,647,128	-	1,814,630,149
-	-	6,270,618
-	-	99,914
<u>277,647,128</u>	<u>-</u>	<u>1,821,000,681</u>
<u>420,880,806</u>	<u>(1,972,660)</u>	<u>2,268,919,439</u>
-	-	104,795
-	-	4,292,133
-	-	4,396,928
<u>\$ 420,880,806</u>	<u>\$ (1,972,660)</u>	<u>\$ 2,273,316,367</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Accrued expenses	\$ 463	\$ 26,021	\$ 1,000
Accrued interest on bonds	1,093,008	-	-
Due to other funds	2,237,815	486,688	-
Due to other governmental entities	-	-	-
Compensated absences - current portion	-	142,836	-
Revenue obligation bonds - current maturities	90,550,000	-	-
<b>Total Current Liabilities</b>	<u>93,881,286</u>	<u>655,545</u>	<u>1,000</u>
<b>Noncurrent Liabilities</b>			
Accrued expenses	-	34,687	-
Net pension liability	-	11,134	-
Due to other governmental entities	552,308	-	-
Compensated absences	-	426,910	-
Revenue obligation bonds (including unamortized premium)	271,470,288	-	-
<b>Total Noncurrent Liabilities</b>	<u>272,022,596</u>	<u>472,731</u>	<u>-</u>
<b>Total Liabilities</b>	<u>365,903,882</u>	<u>1,128,276</u>	<u>1,000</u>
<b>Deferred Inflows of Resources</b>			
Pension related amounts	-	44,908	-
<b>Net Position</b>			
Restricted for environmental improvement	1,471,647,456	7,671,119	285,515
Unrestricted	-	7,726,065	-
<b>Total Net Position</b>	<u>1,471,647,456</u>	<u>15,397,184</u>	<u>285,515</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 1,837,551,338</u>	<u>\$ 16,570,368</u>	<u>\$ 286,515</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 96,799	\$ -	\$ 124,283
-	-	1,093,008
1,875,931	(1,972,660)	2,627,774
727	-	727
-	-	142,836
-	-	90,550,000
<u>1,973,457</u>	<u>(1,972,660)</u>	<u>94,538,628</u>
-	-	34,687
-	-	11,134
-	-	552,308
-	-	426,910
-	-	271,470,288
-	-	<u>272,495,327</u>
<u>1,973,457</u>	<u>(1,972,660)</u>	<u>367,033,955</u>
-	-	44,908
418,907,349	-	1,898,511,439
-	-	7,726,065
<u>418,907,349</u>	-	<u>1,906,237,504</u>
<u>\$ 420,880,806</u>	<u>\$ (1,972,660)</u>	<u>\$ 2,273,316,367</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY PROGRAM  
For the Year Ended June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>OPERATING REVENUES</b>			
Loan interest	\$ 28,323,260	\$ 191,628	\$ -
Interest income used as security for revenue bonds	2,275,608	-	13,024,372
Miscellaneous other	-	22,131	-
Total Operating Revenues	<u>30,598,868</u>	<u>213,759</u>	<u>13,024,372</u>
<b>OPERATING EXPENSES</b>			
Interest	28,272,222	-	22,207,950
Salaries and benefits	2,371,409	736,779	-
Contractual services and other	565,628	106,363	191,356
Total Operating Expenses	<u>31,209,259</u>	<u>843,142</u>	<u>22,399,306</u>
Operating Income (Loss)	<u>(610,391)</u>	<u>(629,383)</u>	<u>(9,374,934)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	992,167	38,960	774,011
Investment income used as security for revenue bonds	70,538	-	1,583,665
Other revenues	-	-	5,448,000
Intergovernmental grants	39,561,483	-	-
Grants awarded	(7,058,253)	(5,300,893)	-
Total Nonoperating Revenues (Expenses)	<u>33,565,935</u>	<u>(5,261,933)</u>	<u>7,805,676</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	32,955,544	(5,891,316)	(1,569,258)
Transfers in	47,665,457	5,315,066	-
Transfers out	<u>(8,000,000)</u>	<u>(11,600)</u>	<u>(64,867,014)</u>
<b>INCOME (LOSS) BEFORE SPECIAL ITEM</b>	72,621,001	(587,850)	(66,436,272)
Special item - Forgiven Global Certificates	-	-	<u>(169,364,452)</u>
<b>Change in Net Position</b>	72,621,001	(587,850)	(235,800,724)
TOTAL NET POSITION - Beginning of Year	<u>1,399,026,455</u>	<u>15,985,034</u>	<u>236,086,239</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,471,647,456</u>	<u>\$ 15,397,184</u>	<u>\$ 285,515</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 5,983,278	\$ -	\$ 34,498,166
-	-	15,299,980
-	-	22,131
<u>5,983,278</u>	<u>-</u>	<u>49,820,277</u>
-	-	50,480,172
2,036,958	-	5,145,146
<u>2,433,565</u>	<u>-</u>	<u>3,296,912</u>
<u>4,470,523</u>	<u>-</u>	<u>58,922,230</u>
<u>1,512,755</u>	<u>-</u>	<u>(9,101,953)</u>
594,158	-	2,399,296
-	-	1,654,203
-	-	5,448,000
17,161,708	-	56,723,191
<u>(2,807,426)</u>	<u>-</u>	<u>(15,166,572)</u>
<u>14,948,440</u>	<u>-</u>	<u>51,058,118</u>
16,461,195	-	41,956,165
2,899,200	(47,665,457)	8,214,266
<u>-</u>	<u>47,665,457</u>	<u>(25,213,157)</u>
19,360,395	-	24,957,274
<u>-</u>	<u>-</u>	<u>(169,364,452)</u>
19,360,395	-	(144,407,178)
<u>399,546,954</u>	<u>-</u>	<u>2,050,644,682</u>
<u>\$ 418,907,349</u>	<u>\$ -</u>	<u>\$ 1,906,237,504</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection of loans	\$ 91,849,663	\$ 926,137	\$ 63,431,270
Interest received on loans	28,111,949	194,032	15,578,500
Origination of loans	(163,532,203)	-	-
Payments to employees for services	(2,299,109)	(610,651)	(1,125,440)
Payments to suppliers and other	(280,155)	(168,813)	(797,551)
Other operating revenues	-	22,131	-
Net Cash Flows From Operating Activities	<u>(46,149,855)</u>	<u>362,836</u>	<u>77,086,779</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental grants received	36,851,221	-	-
Grants paid	(7,058,253)	(5,300,893)	-
Transfers in	47,665,457	5,315,066	-
Transfers out	(8,000,000)	(11,600)	(64,867,014)
Proceeds from issuance of long-term debt	290,575,000	-	-
Debt premium received	28,543,314	-	-
Debt issuance costs	(1,045,176)	-	-
Retirement of long-term debt	(2,275,000)	-	(51,830,000)
Residual amount provided from defeasance of clean water revenue bonds	37,478,946	-	(37,478,946)
Payment to escrow agent	(608,841,405)	-	-
Interest payments	(2,006,750)	-	(30,912,346)
Advances to other funds	(33,336)	-	-
Other cash flows from noncapital financing activities	-	-	5,450,132
Net Cash Flows From Noncapital Financing Activities	<u>(188,145,982)</u>	<u>2,573</u>	<u>(179,638,174)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Arbitrage rebate	-	-	(569,322)
Liquidation of investments	-	-	12,069,803
Investment and interest income	992,166	81,177	8,775,109
Net Cash Flows From Investing Activities	<u>992,166</u>	<u>81,177</u>	<u>20,275,590</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(233,303,671)	446,586	(82,275,805)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>362,014,034</u>	<u>8,021,342</u>	<u>82,445,519</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 128,710,363</u>	<u>\$ 8,467,928</u>	<u>\$ 169,714</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 25,672,934	\$ -	\$ 181,880,004
5,964,241	-	49,848,722
(46,958,045)	-	(210,490,248)
(2,330,125)	-	(6,365,325)
(2,503,673)	-	(3,750,192)
-	-	22,131
<u>(20,154,668)</u>	<u>-</u>	<u>11,145,092</u>
10,711,325	-	47,562,546
(2,807,426)	-	(15,166,572)
2,899,200	(47,665,457)	8,214,266
-	47,665,457	(25,213,157)
-	-	290,575,000
-	-	28,543,314
-	-	(1,045,176)
-	-	(54,105,000)
-	-	-
-	-	(608,841,405)
-	-	(32,919,096)
-	-	(33,336)
-	-	5,450,132
<u>10,803,099</u>	<u>-</u>	<u>(356,978,484)</u>
-	-	(569,322)
-	-	12,069,803
594,158	-	10,442,610
<u>594,158</u>	<u>-</u>	<u>21,943,091</u>
(8,757,411)	-	(323,890,301)
<u>114,995,140</u>	<u>-</u>	<u>567,476,035</u>
<u>\$ 106,237,729</u>	<u>\$ -</u>	<u>\$ 243,585,734</u>



**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (610,391)	\$ (629,383)	\$ (9,374,934)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities			
Interest expense classified as noncapital financing activity	28,132,479	-	22,150,715
Changes in assets and liabilities:			
Receivables	(16,764)	(11,885)	-
Loans to other governments	(71,682,540)	926,137	63,431,270
Due from other funds	2,030	321,125	-
Proportionate share of contributions	-	50,809	-
Prepaid items	-	4	16,887
Compensated absences	-	14,372	-
Other postemployment benefits	-	5,460	-
Accrued expenses	5,319	(15,509)	(134,565)
Accrued interest on bonds	(2,486,920)	2,404	2,554,128
Due to other funds	506,932	(300,698)	(1,556,722)
Due to other governmental entities	-	-	-
Total Adjustments	<u>(45,539,464)</u>	<u>992,219</u>	<u>86,461,713</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (46,149,855)</u>	<u>\$ 362,836</u>	<u>\$ 77,086,779</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>			
Net change in unrealized gains and losses	\$ -	\$ -	\$ (5,660,028)
Bond premium amortization	<u>\$ 1,409,486</u>	<u>\$ -</u>	<u>\$ -</u>

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Safe Drinking Water Loan Program	Totals
<u>\$ 1,512,755</u>	<u>\$ (9,101,953)</u>
-	50,283,194
(21,841)	(50,490)
(21,285,111)	(28,610,244)
(426,808)	(103,653)
-	50,809
-	16,891
-	14,372
-	5,460
67,412	(77,343)
(19,037)	50,575
20,461	(1,330,027)
(2,499)	(2,499)
<u>(21,667,423)</u>	<u>20,247,045</u>
<u>\$ (20,154,668)</u>	<u>\$ 11,145,092</u>
<u>\$ -</u>	<u>\$ (5,660,028)</u>
<u>\$ -</u>	<u>\$ 1,409,486</u>

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)  
For the Years Ended June 30, 2017 and 2016

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In management's opinion, the Governmental Accounting Standards Board (GASB) does not require an MD&A for individual fund reports under GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Therefore, the State has not prepared an MD&A for the State of Wisconsin Environmental Improvement Fund. An MD&A is included in the Comprehensive Annual Financial Report for the State of Wisconsin, which includes all funds and component units.

REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Secretary of the Department of Administration and the Secretary  
of the Department of Natural Resources of the State of Wisconsin  
State of Wisconsin Environmental Improvement Fund  
Madison, Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State of Wisconsin Environmental Improvement Fund's financial statements, and have issued our report thereon dated November 6, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Secretary of the Department of Administration and the Secretary  
of the Department of Natural Resources of the State of Wisconsin  
State of Wisconsin Environmental Improvement Fund

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the State of Wisconsin Environmental Improvement Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
November 6, 2017