



# **STATE OF WISCONSIN CONTINUING DISCLOSURE ANNUAL REPORT**

FILED PURSUANT TO UNDERTAKINGS PROVIDED TO PERMIT COMPLIANCE WITH  
SECURITIES EXCHANGE COMMISSION RULE 15c2-12

## **GENERAL OBLIGATIONS**

(Base CUSIPs 977055, 977056, 97705L, and 97705M)

## **MASTER LEASE CERTIFICATES OF PARTICIPATION**

(Base CUSIP 977087)

## **TRANSPORTATION REVENUE OBLIGATIONS**

(Base CUSIP 977123)

## **CLEAN WATER REVENUE BONDS**

(Base CUSIP 977092)

## **ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS**

(Base CUSIP 97709T)

## **PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS**

(Base CUSIP 977109)

## **GENERAL FUND ANNUAL APPROPRIATION BONDS**

(Base CUSIP 977100)

**DECEMBER 22, 2017**



SCOTT WALKER  
GOVERNOR

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SECRETARY

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December 22, 2017

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2017 (**2017 Annual Report**).

The 2017 Annual Report provides information on different securities that the State issues and is provided under the State's continuing disclosure undertakings. These undertakings of the State are intended to help dealers and brokers comply with Rule 15c2-12 under the Securities Exchange Act of 1934. As of this date, the State has filed the 2017 Annual Report with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system. EMMA receives, and makes available to the public, continuing disclosure documents and related information that is provided by issuers and obligated persons.

Official Statements for securities that the State issues during calendar year 2018 may incorporate parts of this 2017 Annual Report by reference.

### **Organization of the 2017 Annual Report**

The 2017 Annual Report is divided into nine parts. The first two parts present general information.

- **Part I** presents the **State's continuing disclosure undertakings**. A Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010) establishes a general framework. Separate addenda describe the information to be provided for specific types of securities.
- **Part II** presents **general information about the State**, including its operations and financial results. This part also provides information on the 2017-19 biennial budget and the results of the 2016-17 fiscal year.

*The State's audited general purpose external financial statements and independent auditor's report for the fiscal year ended June 30, 2017 are not available as of the date of the 2017 Annual Report. When available, the State's Comprehensive Annual Financial Report (**CAFR**) and the audited general purpose external financial statements section of the CAFR for the fiscal year ended June 30, 2017 will be filed within 10 business days with the MSRB through its EMMA system, and will be made a part of APPENDIX A to Part II of the 2017 Annual Report.*

The remaining parts present information about different types of securities that the State issues.

- **Part III – General obligations (including bonds, commercial paper, and extendible municipal commercial paper)**
- **Part IV – Master lease certificates of participation**
- **Part V – Transportation revenue obligations (including bonds and commercial paper)**
- **Part VI – Clean water revenue bonds**
- **Part VII – Environmental improvement revenue bonds**
- **Part VIII – Petroleum inspection fee revenue obligations (including bonds and extendible municipal commercial paper)**
- **Part IX – General fund annual appropriation bonds (including bonds and variable rate notes)**

### **Ratings on the State's Securities**

The following chart presents a summary of the long-term ratings currently assigned to different types of securities that the State issues.

<u>Security</u>	<u>Fitch Ratings<sup>(a)</sup></u>	<u>Kroll Bond Rating Agency, Inc.<sup>(b)</sup></u>	<u>Moody's Investors Service, Inc.<sup>(c)</sup></u>	<u>S&amp;P Global Ratings</u>
General Obligations	AA+	AA+	Aa1	AA
Master Lease Certificates of Participation	AA	AA	Aa2	AA-
Transportation Revenue Bonds	AA+	AAA	Aa2	AA+
Clean Water Revenue Bonds	AA+	—	Aa1	AA+
Environmental Improvement Revenue Bonds	AAA	—	—	AAA
Petroleum Inspection Fee Revenue Bonds	AA	—	Aa2	AA
General Fund Annual Appropriation Bonds	AA	—	Aa2	AA-

(a) On October 19, 2017, Fitch Ratings upgraded its rating on the State's general obligations, master lease certificates of participation, and general fund annual appropriation bonds.

(b) On October 18, 2017, Kroll Bond Rating Agency, Inc. upgraded its rating on the State's general obligations and master lease certifications of participation.

(c) On August 4, 2017, Moody's Investors Service, Inc. upgraded its rating on the State's general obligations, master lease certificates of participation, and general fund annual appropriation bonds.

### **How to Get Additional Information**

If you are interested in information about securities that the State issues, please contact the Capital Finance Office; *the Capital Finance Office is the only party authorized to speak on the State's behalf about the State's securities.*

December 22, 2017

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The Capital Finance Office maintains a web site that provides access to both disclosure and non-disclosure information. The Capital Finance Office posts to this web site general fund cash flow reports and all event and additional (voluntary) filings that it makes through MSRB's EMMA system.

[doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

We welcome your comments or suggestions about the 2017 Annual Report. I can be reached at (608) 267-0374 or [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov).



David R. Erdman  
Capital Finance Director

**SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS  
AS OF DECEMBER 15, 2017**

	<u>Principal Balance 12/15/2016</u>	<u>Principal Issued 12/15/2016 - 12/15/17</u>	<u>Principal Matured, Redeemed, or Defeased 12/15/2016 - 12/15/17</u>	<u>Principal Balance 12/15/2017</u>
<b><u>GENERAL OBLIGATIONS<sup>(a)</sup></u></b>				
<b>Total</b>	<b>\$8,071,307,580</b>	<b>\$1,335,930,000</b>	<b>\$1,558,284,692</b>	<b>\$7,848,952,888</b>
General Purpose Revenue (GPR)	4,780,879,167	717,375,561	1,064,876,723	4,433,378,005
Self-Amortizing: Veterans	42,970,000	—	8,965,000	34,005,000
Self-Amortizing: Other	3,247,458,413	618,554,439	484,442,969	3,381,569,883
<b><u>MASTER LEASE CERTIFICATES OF PARTICIPATION</u></b>				
<b>Total</b>	<b>\$116,238,338</b>	<b>\$23,502,497</b>	<b>\$28,367,287</b>	<b>\$111,373,548</b>
<b><u>TRANSPORTATION REVENUE OBLIGATIONS<sup>(a)</sup></u></b>				
<b>Total</b>	<b>\$1,976,123,000</b>	<b>\$284,520,000</b>	<b>\$335,570,000</b>	<b>\$1,925,073,000</b>
<b><u>CLEAN WATER REVENUE BONDS</u></b>				
<b>Total</b>	<b>\$634,815,000</b>	<b>\$0</b>	<b>\$589,735,000</b>	<b>\$45,080,000</b>
<b><u>ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS</u></b>				
<b>Total</b>	<b>\$40,135,000</b>	<b>\$290,575,000</b>	<b>\$2,275,000</b>	<b>\$328,435,000</b>
<b><u>PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS<sup>(a)</sup></u></b>				
<b>Total</b>	<b>\$76,055,000</b>	<b>\$0</b>	<b>\$20,925,000</b>	<b>\$55,130,000</b>
<b><u>GENERAL FUND ANNUAL APPROPRIATION BONDS<sup>(a)</sup></u></b>				
<b>Total</b>	<b>\$3,101,760,000</b>	<b>\$932,015,000</b>	<b>\$936,780,000</b>	<b>\$3,096,995,000</b>

(a) This table also includes variable rate obligations that have been issued by the State, but does not include, or reflect the refunding resulting from, the State's \$368,595,000 Transportation Revenue Refunding Bonds, 2017 Series 2, issued on December 21, 2017 or the State's \$347,030,000 General Obligation Refunding Bonds of 2017, Series3, expected to be issued on December 28, 2017.

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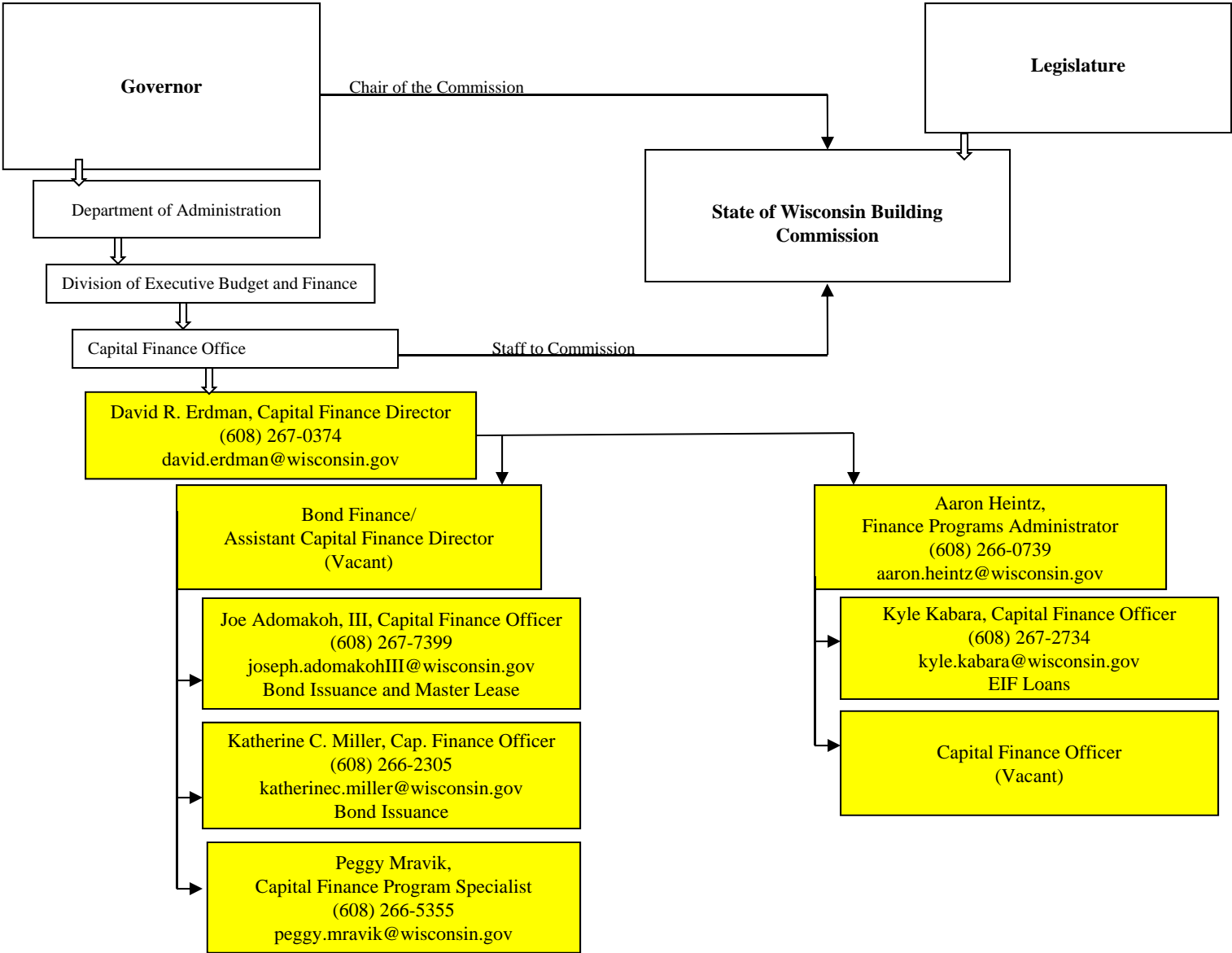
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### Capital Finance Office Staff (December 15, 2017)



# STATE OFFICIALS PARTICIPATING IN ISSUANCE AND SALE OF BONDS AND OTHER OBLIGATIONS

## BUILDING COMMISSION MEMBERS\*

### Voting Members

Governor Scott Walker, Chairperson	January 7, 2019
Senator Terry Moulton, Vice Chairperson	January 7, 2019
Senator Jerry Petrowski	January 7, 2019
Senator Janis Ringhand	January 7, 2019
Representative Jill Billings	January 7, 2019
Representative Terry Katsma	January 7, 2019
Representative Rob Swearingen	January 7, 2019
Mr. Robert Brandherm, Citizen Member	At the pleasure of the Governor

### Term of Office Expires

### Nonvoting, Advisory Member

Mr. Kevin Trinastic, State Ranking Architect Department of Administration	—
--	---

### Building Commission Secretary

Mr. John L. Klenke, Administrator Division of Facilities Development & Management Department of Administration	At the pleasure of the Building Commission and the Secretary Administration
--	---

## OTHER PARTICIPANTS

Mr. Brad D. Schimel State Attorney General	January 7, 2019
Mr. Scott A. Neitzel, Secretary Department of Administration	At the pleasure of the Governor

## DEBT MANAGEMENT AND DISCLOSURE

Department of Administration  
Capital Finance Office  
P.O. Box 7864  
101 E. Wilson Street, FLR 10  
Madison, WI 53707-7864  
Telefax (608) 266-7645

[DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)

Mr. David Erdman  
Capital Finance Director  
(608) 267-0374

Mr. Joseph S. Adomakoh III  
Capital Finance Officer  
(608) 267-7399

Ms. Katherine C. Miller  
Capital Finance Officer  
(608) 266-2305

\* The Building Commission is composed of eight voting members. The Governor serves as the chairperson. Each house of the Wisconsin State Legislature appoints three members. State law provides for the two major political parties to be represented in the membership from each house. One citizen member is appointed by the Governor and serves at the Governor's pleasure.

# PART I

## STATE'S CONTINUING DISCLOSURE UNDERTAKINGS

Part I of the State of Wisconsin Continuing Disclosure Annual Report, dated December 22, 2017 (**2017 Annual Report**) provides information on the undertakings the State of Wisconsin (**State**) has made to enable brokers, dealers, and municipal securities dealers, in connection with their participation in the offerings of securities issued by the State, to comply with Rule 15c2-12(b)(5) adopted by the U.S. Securities and Exchange Commission (**SEC**) under the Securities Exchange Act of 1934 (**Rule 15c2-12**).

Part I of the 2017 Annual Report includes the State's Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010) (**Master Agreement**), which establishes a general framework under which the State will provide continuing disclosure on various types of securities the State has issued, and also includes six addenda that describe information to be provided in an annual report about the following types of securities:

- General Obligations
- Master Lease Certificates of Participation
- Transportation Revenue Bonds
- Clean Water Revenue Bonds
- Environmental Improvement Fund Revenue Bonds
- Petroleum Inspection Fee Revenue Obligations
- General Fund Annual Appropriation Bonds

The State currently provides annual reports and notices required under its Master Agreement to the Municipal Securities Rulemaking Board (**MSRB**) through the MSRB's Electronic Municipal Market Access (**EMMA**) system, with the understanding that EMMA will make that information available to the public.

Requests for additional information about the State's undertakings may be directed as follows:

*Contact:* Capital Finance Office  
Attn: Capital Finance Director  
*Phone:* (608) 267-0374  
*Mail:* State of Wisconsin Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
*E-mail:* [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
*Web site:* [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

Pursuant to action of the State of Wisconsin Building Commission (**Commission**), the State's Capital Finance Office is responsible for establishing procedures to provide continuing disclosure with respect to the State's obligations in fulfillment of its undertakings. The Master Agreement provides that, if the State fails to make a required filing, the State must report the failure to the MSRB. In the last five years, the State has not failed to comply in any material respect with its Master Agreement, or any similar, undertaking.

The following is a summary of the filings that the State has made under its Master Agreement over the past five years. The State also filed numerous other additional (voluntary) filings.

**Calendar**

<u>Year</u>	<u>Date</u>	<u>Type or Filing (Summary of Filings)</u>
2017 <sup>(a)</sup>	Various	22 Notices of Listed Events (Bond Call, Defeasance, Rating Changes, Annual Financial Information and Operating Data)
	March 31, 2017	CAFR and Audited Financial Statements for fiscal year ended June 30, 2016
2016	December 23, 2016	Annual Report (As of December 23, 2016, did not include the Audited Financial Statements for fiscal year ended June 30, 2016; subsequently filed on March 31, 2017)
	Various	21 Notices of Listed Events (Bond Call, Defeasance, Annual Financial Information and Operating Data, CAFR, and Audited Financial Statements)
2015	December 23, 2015	Annual Report
	Various	25 Notices of Listed Events (Bond Call, Defeasance, Annual Financial Information and Operating Data, CAFR, and Audited Financial Statements)
2014	December 26, 2014	Annual Report
	Various	29 Notices of Listed Events (Bond Call, Defeasance, Annual Financial Information and Operating Data, CAFR, and Audited Financial Statements)
2013	December 27, 2013	Annual Report
	Various	25 Notices of Listed Events (Bond Call, Defeasance, Annual Financial Information and Operating Data, CAFR, and Audited Financial Statements)
2012	December 26, 2012	Annual Report
	Various	50 Notices of Listed Events (Bond Call, Defeasance, Annual Financial Information and Operating Data, CAFR, and Audited Financial Statements)

<sup>(a)</sup> As of December 22, 2017, and does not include this 2017 Annual Report.

The 2017 Annual Report includes information and defined terms for different types of securities issued by the State. The context or meaning of terms used in one part of the 2017 Annual Report may differ from that of the same terms used in another part. No information or resource referred to in the 2017 Annual Report is part of the report unless expressly incorporated by reference.



## **MASTER AGREEMENT ON CONTINUING DISCLOSURE (AMENDED AND RESTATED DECEMBER 1, 2010)**

This Master Agreement on Continuing Disclosure (**Disclosure Agreement**) is executed and delivered by the State of Wisconsin (**Issuer**), a municipal securities issuer and a sovereign government. The Issuer covenants and agrees as follows:

**SECTION 1. Definitions.** The following capitalized terms shall have the following meanings:

“**Addendum Describing Annual Report**” shall mean an addendum, substantially in the form of Exhibit A hereto, that describes the contents of an Annual Report for a particular type of obligation.

“**Annual Report**” shall mean any report provided by the Issuer pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

“**Bonds**” shall mean any issue of the Issuer’s securities to which this Disclosure Agreement applies.

“**Bondholders**” shall mean the beneficial owners from time to time of the Bonds.

“**Commission**” shall mean the U.S. Securities and Exchange Commission.

“**Disclosure Agreement**” shall mean this agreement.

“**EMMA**” shall mean the Electronic Municipal Market Access system for municipal securities disclosure, a Commission-approved electronic database established and operated by the MSRB to accommodate the collection and availability of required filings of secondary market disclosures under the Rule.

“**Event Notice**” shall mean a notice of an occurrence of a Listed Event provided under Section 6(b) hereof or a notice provided under Sections 4(c), 6(c), or 8.

“**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended from time to time.

“**Issuer**” shall mean the securities issuer described above, namely, the State of Wisconsin.

“**Listed Event**” shall mean any of the events listed in Section 6(a) of this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board.

“**Participating Underwriter**” shall mean any broker, dealer, or municipal securities dealer that is required to comply with the Rule when acting as an underwriter in connection with a primary offering of an issue of Bonds.

“**Resolution**” shall mean the resolution or resolutions of the State of Wisconsin Building Commission or the trust indenture entered into by the Issuer, pursuant to which the Bonds are issued.

“**Rule**” shall mean Rule 15c2-12(b)(5) adopted by the Commission under the Exchange Act.

“**Supplemental Agreement**” shall mean an agreement, substantially in the form of Exhibit B hereto, that either (i) determines that the Disclosure Agreement and a specific Addendum Describing Annual Report shall apply to a specific issue of Bonds or (ii) determines that the

Disclosure Agreement (other than Sections 4 or 5, which concern Annual Reports) shall apply to a specific issue of Bonds.

**SECTION 2. Purpose of the Disclosure Agreement.** The purpose of this Disclosure Agreement is to assist Participating Underwriters in complying with the Rule in connection with a primary offering of an issue of Bonds.

**SECTION 3. Application of the Disclosure Agreement.** This Disclosure Agreement shall apply to an issue of Bonds when the Issuer executes and delivers a Supplemental Agreement. This Disclosure Agreement may apply in whole or in part, as specified by the Supplemental Agreement. This Disclosure Agreement may apply to more than one issue of Bonds but shall be construed as a separate agreement for each issue of Bonds. The purpose of having this Disclosure Agreement apply to more than one issue of Bonds is to promote uniformity of the Issuer's obligations with respect to all issues of Bonds.

**SECTION 4. Provision of Annual Reports.**

(a) The Issuer shall, not later than 180 days following the close of the Issuer's fiscal year, provide to the MSRB an Annual Report that is consistent with the requirements of Section 5 of this Disclosure Agreement.

(b) If Issuer's audited financial statements are not publicly available at the time the Annual Report is submitted, the Issuer shall submit them to the MSRB within ten business days after the statements are publicly available.

(c) If the Issuer fails to provide an Annual Report to the MSRB by the date required in subsection (a), the Issuer shall send an Event Notice to the MSRB.

**SECTION 5. Content and Submission of Annual Reports.**

(a) The Annual Report shall be provided for each obligated person described in the Addendum Describing Annual Report, and it shall contain, or incorporate by reference, the financial statements and operating data, and use the accounting principles, described in the Addendum Describing Annual Report.

(b) The Annual Report shall be submitted to the MSRB in an electronic format, and accompanied by identifying information, as prescribed by the MSRB. As of the date of this Disclosure Agreement, the MSRB prescribes that all submissions of secondary disclosure be made through EMMA. The Annual Report may be provided as a single document or as a package comprising separate documents. All, or any of, the items constituting the Annual Report may be incorporated by reference from other documents available to the public on the MSRB's Internet Web site or filed with the Commission. The Issuer shall clearly identify each document so incorporated by reference.

(c) Each time the Issuer provides information to the MSRB in accordance with this Disclosure Agreement, it shall confirm, in the manner it deems appropriate, the MSRB's prescriptions concerning the electronic format and accompanying identifying information. As of the date of this Disclosure Agreement, information on the MSRB's required electronic format and submission procedures through EMMA can be found on the MSRB's Internet Web site at [www.emma.msrb.org](http://www.emma.msrb.org).

(d) To allow for uniformity of the contents of Annual Reports with respect to obligations that are similar in character, the Issuer may from time to time describe the contents in an Addendum Describing Annual Report and shall incorporate a description by reference in a Supplemental Agreement.

## **SECTION 6. Reporting of Significant Events.**

(a) This Section 6 shall govern the provision of notices of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of Bondholders, if material.
8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution, or sale of property securing repayment of the Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership, or similar event of an obligated person (for the purposes of this event, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all the assets or business of the obligated person).
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all the assets of an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Issuer shall provide a notice of such occurrence with the MSRB not in excess of ten business days after the occurrence of the event.

(c) Similarly, if the Issuer determines that it failed to give notice of an occurrence as required by this section, it shall promptly provide an Event Notice with respect to such occurrence to the MSRB.

**SECTION 7. Termination of Reporting Obligation.** The Issuer's obligations under this Disclosure Agreement with respect to an issue of Bonds shall terminate upon the legal defeasance, prior redemption, or payment in full of all Bonds of the issue or if the Rule shall be revoked or rescinded by the Commission or declared invalid by a final decision of a court of competent jurisdiction.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement if the following conditions are met:

(a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer, or an obligated person, or the type of business conducted; and

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Bondholders, as determined by an opinion of nationally recognized bond counsel, a certificate from an indenture trustee for the Bonds, or an approving vote of Bondholders pursuant to the terms of the Resolution at the time of the amendment.

In the event this Disclosure Agreement is amended for any reason other than to cure any ambiguities, inconsistencies, or typographical errors that may be contained herein, the Issuer agrees the next Annual Report it provides after such event shall explain the reasons for the amendment or waiver and the impact, if any, of the change in the type of financial statements or operating data being provided.

**SECTION 9. Additional Information.** The Issuer may from time to time choose to disseminate other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or include other information in any Annual Report or Event Notice, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or Event Notice in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or Event Notice.

**SECTION 10. Default.** A default under this Disclosure Agreement shall not be deemed an event of default under the Resolution, and the sole remedy of a Bondholder under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action or lawsuit to compel performance. The Issuer reserves any defense it may have to any such action or lawsuit including that this Disclosure Agreement violates sovereign rights or that no funds have been appropriated for performance.

**SECTION 11. Beneficiaries.** The Issuer intends to be contractually bound by this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Participating Underwriters, and Bondholders and shall create no rights in any other person or entity.

**SECTION 12. Responsible Officer.** Pursuant to a resolution adopted by the State of Wisconsin Building Commission on August 9, 1995, the Capital Finance Director has been authorized to execute this Disclosure Agreement on behalf of the Issuer, and the Capital Finance Office has been designated as the office of the Issuer responsible for providing Annual Reports

and giving notice of Listed Events, to the extent required hereunder. Any inquiries regarding this Disclosure Agreement should be directed to the Capital Finance Office, Department of Administration, Division of Executive Budget and Finance, 101 East Wilson Street, Madison, Wisconsin 53702, Phone: (608) 266-5355, Fax: (608) 266-7645, Email: DOACapitalFinanceOffice@wisconsin.gov, or such other address, telephone number, fax number, or email address as the Issuer may from time to time provide by an addendum hereto.

**SECTION 13. Satisfaction of Conditions.** This Disclosure Agreement amends and restates the Master Agreement on Continuing Disclosure (Amended and Restated July 1, 2009) (**Prior Agreement**), executed and delivered by the Issuer and dated July 1, 2009. The Issuer finds and determines that the conditions stated under Section 8 of the Prior Agreement for amendment of the Prior Agreement have been satisfied and, more particularly:

(a) The amendments are being made in connection with a change in circumstances that arises from a change in legal requirements or a change in law (namely, amendments to the Rule);

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account the amendments to the Rule; and

(c) The amendments do not materially impair the interests of the Bondholders, as determined by an opinion of nationally recognized bond counsel.

IN WITNESS WHEREOF, the Issuer has caused this Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010) to be executed by its duly authorized officer.

Date: December 1, 2010

STATE OF WISCONSIN  
Issuer

By: /s/ FRANK R. HOADLEY

Frank R. Hoadley,  
Capital Finance Director

**EXHIBIT A**

**FORM OF ADDENDUM DESCRIBING ANNUAL REPORT**

**ADDENDUM DESCRIBING ANNUAL REPORT  
FOR [TYPE OF OBLIGATIONS]**

This Addendum Describing Annual Report for [Type of Obligation] (**Addendum**) is delivered by the State of Wisconsin (**Issuer**) pursuant to the Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010) (**Disclosure Agreement**), executed and delivered by the Issuer and dated December 1, 2010. This Addendum describes the content of an Annual Report prepared with respect to [type of obligation]. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): [None] [Each of the entity named or described by objective criteria below is an obligated person: \_\_\_\_\_]

Content of Annual Report for Issuer. Accounting Principles. The following accounting principles shall be used for the financial statements: \_\_\_\_\_.

*Financial Statements.* The financial statements shall present the following information: \_\_\_\_\_.

*Operating Data.* In addition to the financial statements, operating data about the following matters shall be presented: \_\_\_\_\_.

Content of Annual Report for Additional Obligated Person(s). Accounting Principles. The following accounting principles shall be used for the financial statements: \_\_\_\_\_.

*Financial Statements.* The financial statements shall present the following information: \_\_\_\_\_.

*Operating Data.* In addition to the financial statements, operating data about the following matters shall be presented: \_\_\_\_\_.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: \_\_\_\_\_, 20\_\_

STATE OF WISCONSIN

Issuer

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT B**

**FORM OF SUPPLEMENTAL AGREEMENT**

**SUPPLEMENTAL AGREEMENT**

This Supplemental Agreement is executed and delivered by the State of Wisconsin (**Issuer**) to supplement the Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010) (**Disclosure Agreement**), executed and delivered by the Issuer and dated December 1, 2010. Pursuant to the provisions of the Disclosure Agreement, the Issuer hereby [determines that the Disclosure Agreement and the Addendum Describing Annual Report for [Type of Obligation] shall apply to the following issue of obligations] [determines that the Disclosure Agreement (other than Sections 4 and 5, which concern Annual Reports) shall apply to the following issue of obligations]:

Name of Obligations:

\_\_\_\_\_  
\_\_\_\_\_

Date of Issue: \_\_\_\_\_, \_\_\_\_\_

CUSIPs \_\_\_\_\_

IN WITNESS WHEREOF, the Issuer has caused this Supplemental Agreement to be executed by its duly authorized officer.

Date: \_\_\_\_\_, 20\_\_\_\_

STATE OF WISCONSIN  
Issuer

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## **ADDENDUM DESCRIBING ANNUAL REPORT FOR GENERAL OBLIGATIONS**

This Addendum Describing Annual Report for General Obligations (**Addendum**) is delivered by the State of Wisconsin (**Issuer**) pursuant to the Master Agreement on Continuing Disclosure executed and delivered by the Issuer and dated September 25, 1995, as amended and restated as of December 1, 2010 (**Disclosure Agreement**). This Addendum describes the content of an Annual Report prepared with respect to general obligations. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): None

Content of Annual Report for Issuer.

*Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

*Financial Statements.* The financial statements shall present the following information: General Purpose External Financial Statements section of the Comprehensive Annual Financial Report.

*Operating Data.* In addition to the financial statements, unaudited operating data about the following matters shall be presented: (i) revenues received by the State, (ii) expenditures made by the State, (iii) budgets, (iv) selected financial data concerning the General Fund, (v) information concerning temporary reallocation, (vi) pertinent information on significant pending litigation, (vii) balances of outstanding State obligations, and (viii) statistical information on the State's economic condition, veterans housing loan program and Wisconsin Retirement System.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: December 23, 2010

STATE OF WISCONSIN  
Issuer

By: /s/ FRANK R. HOADLEY

Name: Frank R. Hoadley  
Title: Capital Finance Director



## **ADDENDUM DESCRIBING ANNUAL REPORT FOR MASTER LEASE CERTIFICATES OF PARTICIPATION**

This Addendum Describing Annual Report for Master Lease Certificates of Participation (**Addendum**) is delivered by the State of Wisconsin (**Issuer**) pursuant to the Master Agreement on Continuing Disclosure executed and delivered by the Issuer and dated September 25, 1995, as amended and restated as of December 1, 2010 (**Disclosure Agreement**). This Addendum describes the content of an Annual Report prepared with respect to master lease certificates of participation. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person in this respect: it is required to make lease payments from any source of legally available funds, subject to annual appropriation, which lease payments will be used to pay, when due, the semi-annual principal and interest due with respect to the Master Lease Certificates of Participation. No other entity is an obligated person.

### Content of Annual Report for Issuer.

*Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

*Financial Statements.* The financial statements shall present the following information: The General Purpose External Financial Statements section of the Comprehensive Annual Financial Report.

*Operating Data.* In addition to the financial statements, unaudited operating data concerning the following matters shall be presented: (i) revenues received by the State, (ii) expenditures made by the State, (iii) budgets, (iv) selected financial data concerning the General Fund, (v) information concerning temporary reallocation, and (vi) pertinent information on significant pending litigation.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: December 23, 2010

STATE OF WISCONSIN  
Issuer

By /s/ FRANK R. HOADLEY  
Frank R. Hoadley  
Capital Finance Director

## **ADDENDUM DESCRIBING ANNUAL REPORT FOR TRANSPORTATION REVENUE BONDS**

This Addendum Describing Annual Report for Transportation Revenue Bonds (**Addendum**) is delivered by the State of Wisconsin (**Issuer**) pursuant to the Master Agreement on Continuing Disclosure executed and delivered by the Issuer and dated September 25, 1995, as amended and restated as of December 1, 2010 (**Disclosure Agreement**). This Addendum describes the content of an Annual Report prepared with respect to transportation revenue bonds. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): None

Content of Annual Report for Issuer.

*Accounting Principles.* The following accounting principles shall be used for the financial statements: generally accepted accounting principles or in accordance with another comprehensive basis of accounting.

*Financial Statements.* The financial statements shall present the following information: Audited financial statements of the transportation revenue bond program and supplemental information to the audited financial statement.

*Operating Data.* In addition to the financial statements, operating data about the following matters shall be presented:

- (a) History of Section 341.25 registration fees for last 10 years.
- (b) Estimated Section 341.25 registration fees for next 10 years.
- (c) Historical and estimated amounts of other pledged revenues consisting of certain vehicle registration-related fees.
- (d) Debt service on all outstanding transportation revenue bonds and estimated revenue coverage based on estimated pledged revenues for next 10 years.
- (e) Demographic information for the State of Wisconsin relating to vehicle registrations

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: December 1, 2010

STATE OF WISCONSIN  
Issuer

By: /s/ FRANK R. HOADLEY

Name: Frank R. Hoadley  
Title: Capital Finance Director

## **ADDENDUM DESCRIBING ANNUAL REPORT FOR CLEAN WATER REVENUE BONDS**

This Addendum Describing Annual Report for Clean Water Revenue Bonds (**Addendum**) is delivered by the State of Wisconsin (**Issuer**) pursuant to the Master Agreement on Continuing Disclosure executed and delivered by the Issuer and dated September 25, 1995, as amended and restated as of December 1, 2010 (**Disclosure Agreement**). This Addendum describes the content of an Annual Report prepared with respect to clean water revenue bonds. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): Each entity described by the objective criteria below is an obligated person (**Additional Obligated Person**): Any person, including an issuer of municipal securities, who directly or indirectly at the close of the Issuer's fiscal year, is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of 20 percent or more of the cash flow servicing the then outstanding clean water revenue bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

Any Additional Obligated Person, other than the Issuer, will be required by the Issuer to enter into an undertaking agreement to provide each Repository, not later than 180 days following the close of that Additional Obligation Person's fiscal year, an annual report meeting the requirements outlined below under "Content of Annual Report for Additional Obligated Person".

### Content of Annual Report for Issuer.

*Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

*Financial Statements.* The financial statements shall present the following information:

- (a) Audited financial statements of the clean water fund program and supplemental information to the audited financial statement.

*Operating Data.* In addition to the financial statements, operating data about the following clean water fund program matters shall be presented:

- (a) List of outstanding loans
- (b) List of financial assistance commitments
- (c) Information concerning the investments of the Loan Credit Reserve Fund

### Content of Annual Report for Additional Obligated Person.

*Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

*Financial Statements.* The financial statements shall present the following information: Audited financial statements of the Additional Obligated Person.

*Operating Data.* In addition to the financial statements, operating data about the following matters shall be presented: None.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: December 23, 2010

STATE OF WISCONSIN  
Issuer

By: /s/ FRANK R. HOADLEY

Frank R. Hoadley  
Capital Finance Director

## **ADDENDUM DESCRIBING ANNUAL REPORT FOR ENVIRONMENTAL IMPROVEMENT FUND REVENUE OBLIGATIONS**

This Addendum Describing Annual Report for Environmental Improvement Fund Revenue Obligations (**Addendum**) is delivered by the State of Wisconsin (**Issuer**) pursuant to the Master Agreement on Continuing Disclosure executed and delivered by the Issuer and dated September 25, 1995, as amended and restated as of December 1, 2010 (**Disclosure Agreement**). This Addendum describes the content of an Annual Report prepared with respect to environmental improvement fund revenue obligations. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): Each entity described by the objective criteria below is an obligated person (**Additional Obligated Person**): Any person, including an issuer of municipal securities, who directly or indirectly at the close of the Issuer's fiscal year, is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of 20 percent or more of the cash flow servicing the then outstanding environmental improvement fund revenue obligations (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

Any Additional Obligated Person will be required by the Issuer to enter into an undertaking agreement to provide, not later than 180 days following the close of that Additional Obligated Person's fiscal year, an annual report meeting the requirements outlined below under "Content of Annual Report for Additional Obligated Person".

### Content of Annual Report for Issuer.

*Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

*Financial Statements.* The financial statements shall present the following information:

(a) Audited financial statements of the Environmental Improvement Fund and supplemental information to the audited financial statement.

*Operating Data.* In addition to the financial statements, operating data about the following clean water fund program matters shall be presented:

- (a) List of outstanding loans
- (b) List of financial assistance commitments

### Content of Annual Report for Additional Obligated Person.

*Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

*Financial Statements.* The financial statements shall present the following information: Audited financial statements of the Additional Obligated Person.

*Operating Data.* In addition to the financial statements, operating data about the following matters shall be presented: None.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: December 3, 2015

STATE OF WISCONSIN  
Issuer

By: /S/ DAVID R. ERDMAN

David R. Erdman  
Capital Finance Director

## **ADDENDUM DESCRIBING ANNUAL REPORT FOR PETROLEUM INSEPTION FEE REVENUE OBLIGATIONS**

This Addendum Describing Annual Report for Petroleum Inspection Fee Revenue Obligations (**Addendum**) is delivered by the State of Wisconsin (**Issuer**) pursuant to the Master Agreement on Continuing Disclosure executed and delivered by the Issuer and dated September 25, 1995, as amended and restated as of December 1, 2010 (**Disclosure Agreement**). This Addendum describes the content of an Annual Report prepared with respect to petroleum inspection fee revenue obligations. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): None

Content of Annual Report for Issuer.

*Accounting Principles*. The following accounting principles shall be used for the financial statements: generally accepted accounting principles or in accordance with another comprehensive basis of accounting.

*Financial Statements*. The financial statements shall present the following information: Audited financial statements of the petroleum inspection fee revenue obligations program and supplemental information to the audited financial statement.

*Operating Data*. Operating data about the following matters shall be presented:

- (a) A description of petroleum products inspected and Petroleum Inspection Fees collected for the last five years.
- (b) A description of all authorized and outstanding petroleum inspection fee revenue obligations.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: December 23, 2010

STATE OF WISCONSIN  
Issuer

By: /s/ FRANK R. HOADLEY  
Name: Frank R. Hoadley  
Title: Capital Finance Director

## **ADDENDUM DESCRIBING ANNUAL REPORT FOR GENERAL FUND ANNUAL APPROPRIATION BONDS**

This Addendum Describing Annual Report for General Fund Annual Appropriation Bonds (**Addendum**) is delivered by the State of Wisconsin (**Issuer**) pursuant to the Master Agreement on Continuing Disclosure executed and delivered by the Issuer and dated September 25, 1995, as amended and restated as of December 1, 2010 (**Disclosure Agreement**).

This Addendum describes the content of an Annual Report prepared with respect to general fund annual appropriation bonds issued under Section 16.527 of the Wisconsin Statutes. This Addendum consolidates but does not amend the Addendum Describing Annual Report for General Fund Annual Appropriation Bonds, dated December 10, 2003, and the Addendum Describing Annual Report for General Fund Annual Appropriation Bonds Issued Under 1, 2009 Indenture, dated April 8, 2009. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person: None

Content of Annual Report for Issuer.

*Accounting Principles.* The following accounting principles shall be used for the financial statements: generally accepted accounting principles.

*Financial Statements.* The financial statements shall present the following information: The General Purpose External Financial Statements section of the audited Comprehensive Annual Financial Report.

*Operating Data.* In addition to the financial statements, unaudited operating data concerning the following matters shall be presented:

- (i) a determination, with supporting information, of the “Annual Appropriation Amount,” as defined in the Trust Indenture, dated as of December 1, 2003 (the “2003 Indenture”), as amended, between the Issuer and Deutsche Bank Trust Company Americas, as trustee, and of the “Annual Appropriation Amount”, as defined in the Trust Indenture, dated as of April 1, 2009 (the “2009 Indenture”), between the Issuer and Deutsche Bank Trust Company Americas, as trustee, for each fiscal year in the current biennium and, in the second fiscal year of a biennium, for the upcoming biennium (for fiscal years before the 2011-12 fiscal year, the “Annual Appropriation Amount” for purposes of the 2009 Indenture shall be presented as though it applied to such fiscal years);
- (ii) the amounts appropriated by the legislature in each fiscal year with respect to appropriation obligations issued under Section 16.527 of the Wisconsin Statutes; *provided, however*, that not more than ten years in which amounts have been appropriated need be presented;
- (iii) revenues received by the State;
- (iv) expenditures made by the State;



- (v) budgets;
- (vi) selected financial data concerning the General Fund;
- (vii) information concerning temporary reallocations;
- (viii) pertinent information on significant pending litigation;
- (ix) balances of outstanding State obligations; and
- (x) statistical information on the State's economic condition, veterans housing loan program, and Wisconsin Retirement System.

Reporting of Significant Events: The Issuer agrees that it will treat each of the following events as though it were a Listed Event under the Disclosure Agreement:

- (i) the event of a Budget Bill failing to include the Annual Appropriation Amount (as such terms are defined in each Indenture);
- (ii) an Event of Nonappropriation (as such term is defined in each Indenture); and
- (iii) any failure to make a payment when due under a Swap Agreement (as such term is defined in each Indenture).

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: December 23, 2010

STATE OF WISCONSIN  
Issuer

By /s/ FRANK R. HOADLEY  
Frank R. Hoadley  
Capital Finance Director

## PART II

### GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

Part II of the 2017 Annual Report provides general information about the State of Wisconsin (**State**). It describes the following:

- Revenues
- Expenditures
- Accounting and Financial Reporting
- Budgeting Process and Fiscal Controls
- Budgetary Results of 2016-17 Fiscal Year
- State Budget (including State Budget for 2017-19 Biennium)
- General Fund Information
- State Government Organization
- State Obligations
- Employee Pension Funds and Other Post-Employment Benefits
- Statistical Information

The State has made an Additional/Voluntary filing with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system, providing notice that the audited general purpose external financial statements and independent auditor's report for the fiscal year ended June 30, 2017 are not expected to be available as of the date of this Part II of the 2017 Annual Report and the audited financial statements and report are not available at this time. When available, the Comprehensive Annual Financial Report (**CAFR**), including the audited general purpose external financial statements and independent auditor's report for the fiscal year ended June 30, 2017 will be filed within 10 business days with the MSRB through its EMMA system, and made part of **APPENDIX A** to this Part II of the 2017 Annual Report.

Requests for additional information about the State may be directed as follows:

*Contact:* Capital Finance Office  
Attn: Capital Finance Director  
*Phone:* (608) 267-0374  
*Mail:* State of Wisconsin Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
*E-mail:* [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
*Web site:* [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

The State independently provides monthly reports on general fund financial information; the frequency of the reports is sometimes less than monthly. These reports are not required by any of the State's undertakings provided to permit compliance with Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. These reports are available on the State's Capital Finance Office web site that is listed above and also filed as additional voluntary information with the MSRB through its EMMA system. These reports are not incorporated by reference into this Part II of the 2017 Annual Report. The State is not obligated to provide such reports at any time in the future.

This Part II of the 2017 Annual Report presents financial information about the State in various formats. Some financial information is presented on a budgetary basis or an agency-recorded basis, while other information is presented on a cash basis. Some financial information relates to the General Fund only, while other information relates to other funds. The reader should be aware of these different formats when reviewing the financial information presented within the 2017 Annual Report.

The 2017 Annual Report includes information and defined terms for different types of 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. 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 II 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.

## REVENUES

### Revenue Structure

The State raises revenues from diverse sources:

- Various taxes levied by the State
- Federal Government payments
- Various kinds of fees, licenses, permits, and service charges paid by users of specific services, privileges, or facilities
- Investment income
- Gifts, donations, and contributions

**Table II-1** identifies the specific sources of revenue (all funds) and the amounts raised from each source for each of the last five years. Future receipts may differ from historical data.

### Tax Structure

The State collects a diverse variety of taxes. The most significant taxes are based on individual income and on general sales and use. The following discussion briefly describes certain taxes that appear in **Table II-1**.

#### *Individual Income Tax*

The tax brackets and rates for the 2017 and 2018 tax years are shown in **Table II-2**. The taxable income brackets have been indexed for changes in the Consumer Price Index.

Table II-1

REVENUES (ALL SOURCES)<sup>(a)</sup>

	2016-17	2015-16	2014-15	2013-14	2012-13
<b>State Collected Taxes</b>					
Individual Income.....	\$ 8,039,505,946	\$ 7,740,824,938	\$ 7,325,816,775	\$ 7,061,389,669	\$ 7,496,854,246
General Sales and Use.....	5,223,934,994	5,065,762,290	4,892,125,859	4,628,337,935	4,410,129,770
Corporate Franchise and Income.....	920,946,841	963,027,018	1,004,926,461	967,184,149	925,383,342
Public Utility.....	360,472,829	360,596,994	381,819,363	360,967,550	341,266,658
Excise.....	705,681,300	708,509,061	699,060,289	698,686,674	689,463,769
Inheritance and Gift .....	434,431	1,744,736	(112,267)	(77,722)	304,551
Insurance Companies.....	181,584,219	177,326,291	165,448,106	165,764,951	159,276,691
Motor Fuel.....	1,090,250,213	1,083,522,061	1,063,767,473	1,040,569,511	1,008,656,099
Forest.....	96,016,134	93,861,295	90,613,470	88,385,116	86,237,850
Miscellaneous.....	212,760,883	199,219,000	181,725,163	163,761,829	159,985,468
Subtotal.....	16,831,587,791	16,394,393,685	15,805,190,692	15,174,969,661	15,277,558,445
<b>Federal Aid</b>					
Medical Assistance.....	4,890,944,733	4,878,094,482	4,854,702,033	4,675,469,265	4,493,657,926
AFDC/W2.....	294,455,124	247,986,348	329,162,381	282,163,922	360,228,664
Transportation.....	662,502,937	906,033,490	990,580,399	888,220,243	1,000,025,145
Education.....	2,399,008,014	2,371,676,587	2,477,689,057	2,580,044,827	2,553,997,049
Other.....	2,959,676,942	2,642,332,824	2,690,819,415	2,752,701,021	2,860,170,174
Subtotal.....	11,206,587,749	11,046,123,732	11,342,953,284	11,178,599,277	11,268,078,959
<b>Fees</b>					
University of Wisconsin System.....	1,707,793,062	1,666,160,550	1,623,453,886	1,622,568,090	1,615,764,806
Other.....	724,040,345	692,248,631	668,384,323	628,539,901	648,748,261
Subtotal.....	2,431,833,407	2,358,409,181	2,291,838,209	2,251,107,991	2,264,513,067
<b>Licenses and Permits</b>					
Vehicles and Drivers.....	537,762,706	526,452,501	509,385,404	505,324,754	491,882,914
Hunting and Fishing.....	68,159,180	58,120,402	110,205,770	116,470,715	108,625,710
Other.....	1,240,979,221	1,231,663,425	1,115,655,149	1,113,707,662	1,122,321,862
Subtotal.....	1,846,901,107	1,816,236,328	1,735,246,322	1,735,503,130	1,722,830,486
<b>Miscellany</b>					
Service Charges.....	817,194,316	803,725,085	781,313,675	738,505,532	722,908,805
Sales of Products.....	987,235,893	1,026,863,635	935,521,722	922,241,810	924,093,491
Investment Income <sup>(b)</sup> .....	11,457,291,223	1,166,877,403	1,871,831,241	14,510,680,894	9,140,017,879
Gifts and Grants.....	643,012,621	596,605,495	612,224,426	563,269,277	616,858,189
Employee Benefit Contributions <sup>(c)</sup> .....	3,875,831,795	3,411,872,470	3,612,450,153	3,737,652,049	3,149,560,809
General Obligation Proceeds.....	834,445,069	981,570,885	1,298,902,695	828,217,375	1,219,324,725
Other Revenues.....	3,043,604,968	2,918,935,073	2,922,615,939	2,832,874,576	2,466,863,205
Subtotal.....	21,658,615,885	10,906,450,046	12,034,859,851	24,133,441,512	18,239,627,102
<b>Summary</b>					
TOTAL NET REVENUE.....	53,975,525,940	42,521,612,972	43,210,088,358	54,473,621,572	48,772,608,059
Transfers.....	1,700,574,365	1,402,823,022	1,508,789,439	1,459,009,937	1,249,254,506
Gross Revenue.....	\$ 55,676,100,305	\$ 43,924,435,994	\$ 44,718,877,797	\$ 55,932,631,509	\$ 50,021,862,565

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The amounts are unaudited.

(b) Figures include investment income for all funds. Investment income for the Wisconsin Retirement System totaled \$11,198,283,360 for fiscal year 2016-17, \$896,425,976 for fiscal year 2015-16, \$1,650,635,903 for fiscal year 2014-15, \$14,249,209,345 for fiscal year 2013-14, and \$8,950,565,085 for fiscal year 2012-13.

(c) Figures include all State and non-State employer and employee contributions.

Source: Wisconsin Department of Administration

Table II-2

**INDIVIDUAL INCOME TAX BRACKETS AND RATES**

<b>2017 Taxable Income Brackets<sup>(a)</sup></b>		
<b><u>Single</u></b>	<b><u>Married Filing Jointly<sup>(b)</sup></u></b>	<b><u>2017 Marginal Tax Rate</u></b>
0 to 11,230	0 to 14,980	4.00%
11,231 to 22,470	14,981 to 29,960	5.84
22,471 to 247,350	29,961 to 329,810	6.27
247,351+	329,811+	7.65

<b>2018 Taxable Income Brackets<sup>(a)</sup></b>		
<b><u>Single</u></b>	<b><u>Married Filing Jointly<sup>(b)</sup></u></b>	<b><u>2018 Marginal Tax Rate</u></b>
0 to 11,450	0 to 15,270	4.00%
11,451 to 22,900	15,271 to 30,540	5.84
22,900 to 252,150	30,541 to 336,200	6.27
252,151+	336,201+	7.65

<sup>(a)</sup> Taxable income in dollars

<sup>(b)</sup> Income thresholds for those married filing separately are half of the brackets for married filing jointly.

*General Sales and Use Tax*

A 5 percent tax is imposed on the sale or use of services and all tangible personal property unless specifically exempted. The most notable exemptions are food, prescription drugs, and motor and heating fuel. The State has adopted the Streamlined Sales and Use Tax Agreement, which is a multi-state agreement intended to simplify and modernize sales and use tax administration and to promote the voluntary collection of sales tax by out-of-state businesses. As of November 2017, 24 states have adopted the agreement, representing approximately one third of the national population.

*Corporate Income and Franchise Taxes*

Corporations doing business in the State are subject to either the corporate income or the corporate franchise tax. The difference between the two taxes is subtle, relating primarily to restrictions under federal law on the types of income that states can tax with an income tax. While the majority of corporations pay the franchise tax, both the franchise tax and the income tax are levied at a rate of 7.9 percent of corporate net income. The net tax liability is determined by subtracting allowable credits.

*Public Utility Taxes*

Public utilities in the State are subject to State taxation in lieu of local general property taxation. The State tax takes one of two general forms: an ad valorem tax based on the assessed value of the company's property within the State, or a tax or license fee based on the gross revenues or receipts of the company generated in the State.

Companies subject to the ad valorem tax include air carrier companies, conservation and regulation companies, municipal electric associations, pipeline companies, railroad companies, and telephone companies. A tax assessment is calculated by determining the full market value of the company's taxable property and multiplying that value by a tax rate. In general, the tax assessment equals the statewide average net property tax rate multiplied by the value of the taxable property. For telephone companies, however, the property values are determined within each local taxing jurisdiction. The value within each taxing jurisdiction is multiplied by the net tax rate applied in that jurisdiction. This procedure causes the value of intangible property to be excluded from the calculated amount.

Companies subject to the tax or license fee based on gross revenues or receipts include car line companies, electric cooperatives, and municipal and private light, heat, and power companies. Car line companies (which are companies engaged in the business of furnishing or leasing car line equipment to a railroad) are taxed on all receipts allocated to the State at a tax rate equal to the average statewide net property tax rate. For electric cooperatives, certain revenues are excluded, and deductions may be allowed. The taxable gross revenues are taxed at a flat rate of 3.19 percent, except that the tax rate on

wholesale sales of electricity is reduced to 1.59 percent. For light, heat, and power companies, certain revenues are excluded, and deductions may be allowed. Taxable gross revenues from the sale of gas services are subject to tax at the rate of 0.97 percent, and wholesale sales of electricity are taxed at the rate of 1.59 percent. The tax rate on all other revenues is 3.19 percent.

#### *Excise Taxes on Tobacco and Alcohol*

Cigarettes are taxed at the rate of \$2.52 cents per pack of 20, moist snuff is taxed at the rate of 100 percent of the manufacturer's list price, and other tobacco products are taxed at the rate of 71 percent of the manufacturer's list price, while the tax on cigars is the lesser of 71 percent of the manufacturer's list price or \$0.50 per cigar. The cigarette and tobacco products taxes are collected from distributors and subjobbers.

Wine is taxed at \$0.25 or \$0.45 per gallon (or \$0.066 or \$0.119 per liter), depending on its alcohol content. Liquor is taxed at \$3.25 per gallon (or \$0.859 per liter). The wine and liquor tax is collected from wholesalers. Beer is taxed at the rate of \$2 per barrel, and the tax is paid monthly by brewers.

#### *Estate, Inheritance, and Gift Taxes*

For deaths occurring after September 30, 2002 and before January 1, 2008, the State imposed an estate tax in an amount equal to the credit allowed for state inheritance or estate taxes under federal law in effect on December 31, 2000. For deaths occurring on or after January 1, 2008, State estate taxes were based on the federal credit computed under federal law in effect on the date of death, which, based on federal law in effect since January 1, 2008, resulted in the current elimination of State estate taxes for deaths occurring on or after January 1, 2008.

Congress has taken action to extend certain tax laws and to reinstate a modified federal estate tax to allow for a deduction for state estate taxes. Under current State law, this action results in the continued elimination of State estate taxes for deaths occurring on or after January 1, 2008. 2013 Wisconsin Act 20 eliminated Wisconsin's estate tax for deaths occurring after December 31, 2012. Prior statutes would take effect again if federal law is modified to provide a credit for state estate taxes.

#### *Insurance Company Premium Tax*

Wisconsin-based life insurance companies pay a tax of 2 percent of the premiums received less a credit equal to 50 percent of personal property taxes. Small companies may choose to pay 2.5 percent of all income except premiums less the personal property tax credit. Nondomestic life insurance companies pay the 2 percent rate with no personal property tax credit.

Domestic and nondomestic property and casualty insurance companies are taxed 2 percent on allocated fire insurance premiums received. The 2 percent tax levied on fire insurance premiums is redistributed to local governments as a "fire department dues" tax. Nondomestic casualty insurance companies are taxed an additional 2.375 percent on allocated fire insurance premiums received, 2 percent on all forms of casualty premiums, and 0.5 percent on ocean marine coverages.

Domestic mortgage guaranty insurance companies pay a tax of 2 percent of premiums received. Nondomestic companies are also subject to retaliation and reciprocation. If a nondomestic company's state of domicile assesses a Wisconsin domestic company, in aggregate, a greater amount than these rates, then the State retaliates. If a nondomestic company's state of domicile assesses a Wisconsin domestic company, in aggregate, a lesser amount than these rates, then the State reciprocates, subject to minimums of the 2 percent "fire department dues," 0.375 percent for ocean marine and allocated fire insurance premiums, 0 percent for all forms of casualty premiums, and 2 percent for life premiums.

#### *Motor Vehicle Fuel Tax*

Motor vehicle fuel is taxed at the rate of 30.9 cents per gallon. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the Transportation Fund, where they are used primarily for highway purposes.

### *Forest Tax*

The forest tax was the only State tax upon general property. It was a levy on all taxable property in the State. The tax rate for the 2016-17 fiscal year was \$0.1697 per \$1,000 in property value. The tax is collected by municipal treasurers and remitted to the State during property tax settlements. After its receipt in the General Fund, it is transferred to the segregated Conservation Fund. The 2017-19 biennial budget (2017 Wisconsin Act 59) repealed this tax beginning with the 2017-18 fiscal year.

### *Miscellaneous Taxes*

The State collects other miscellaneous taxes and fees, the largest of which is the real estate transfer fee. This fee is assessed at the time of a sale or transfer of real estate (subject to certain exceptions) and at the rate of \$0.30 per \$100 value.

### **Tax Credits**

Complementing the State's tax structure are tax credits designed to relieve certain taxes. These credits are reflected as expenditures for budgeting purposes. A brief description of the principal tax credits follows.

#### *Manufacturing and Agriculture Tax Credit*

The manufacturing and agriculture tax credit provides tax relief to manufacturers and farmers. For individual income tax filers, the credit is equal to 7.5 percent of a claimant's qualified production activities income (QPAI) derived from property assessed as manufacturing or agricultural property in the State. For corporate tax filers, the credit is 7.5 percent of the claimant's QPAI, apportioned income, or income taxable under combined reporting provisions. The credit was originally set at a 1.875 percent rate in tax year 2013 and phased in to its current 7.5 percent rate beginning with tax year 2016. The credit is nonrefundable, but unused credit amounts may be carried forward and used in future years. According to recent estimates by the Department of Revenue, the credit reduces annual state income tax revenues by approximately \$320 million annually.

#### *Homestead Tax Credit*

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit. The maximum household income limit is \$24,680. The maximum amount of aidable property taxes is \$1,460, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the portion of rent allocated as property tax is 25 percent, or 20 percent if heat is included in rent. In the 2016-17 fiscal year, low-income homeowners and renters received nearly \$95 million in homestead tax credit relief.

#### *Earned Income Tax Credit*

The earned income tax credit provides assistance to lower-income workers. The tax credit supplements the wages and self-employment income of such families. It offsets the impact of the social security tax and increases the incentive to work. As of August 2017, the State was one of 29 states and the District of Columbia that offered an earned income tax credit. Twenty-four of those programs, including the State's, offered a refundable earned income tax credit.

The State's earned income tax credit is calculated as a percentage of the federal tax credit, which varies by income and family size. The State's tax credit varies the percentage of the federal tax credit by the number of children: 4 percent of the federal tax credit for one child, 11 percent for two, and 34 percent for three or more. The maximum State tax credit in tax year 2017 was \$136 for one child, \$617 for two children, and \$2,148 for three or more children. In the 2016-17 fiscal year, low-income wage earners received \$99 million in earned income tax credits.

#### *Farmland Preservation Tax Credit*

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The tax credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit is based on the number of qualifying acres, as

well as certain other factors. Expenditures under the program were approximately \$17.7 million in fiscal year 2016-17.

#### *School Levy Tax Credit*

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of property taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2016, \$853 million of school levy tax credits was distributed statewide. The first dollar credit, which offsets the school district property taxes paid on the first \$6,500 on an improved parcel, provided an additional \$149 million of property tax relief for property taxes levied in December 2016. These tax credits offset approximately 9.3 percent of all levies or 20.6 percent when measured against school levies only. The tax credits are paid to counties or municipalities to reduce the amount due from all property taxpayers.

#### *Lottery Property Tax Credit.*

The net proceeds of the state lottery are reserved for property tax relief. The lottery property tax credit is paid to counties or municipalities to reduce the amount due from local taxpayers. The lottery property tax credit is paid only for property taxes on primary residences. For the 2016-17 tax year, the total lottery property tax credit was approximately \$185 million.

#### *School Property Tax Credit*

The school property tax credit is a nonrefundable credit to reduce individual income net tax liability, and is equal to 12 percent of the first \$2,500 in property taxes, or rent relating to allocable property taxes, for a maximum credit of \$300. In the 2016-17 fiscal year, the school property tax credit totaled approximately \$415.3 million.

#### *Electronics and Information Technology Zone Tax Credit.*

2017 Wisconsin Act 58 creates an electronics and information technology zone in southeast Wisconsin and provides refundable tax credits for a business or businesses located in the zone. In November, 2017, the State entered into a contract with a firm to provide up to \$2.85 billion in tax credits to that firm to support the development of a manufacturing campus in Racine County. The amount of refundable tax credits to be provided to this firm depends on verified levels of capital investment and job.

### **Tax Collection Procedure (Delinquencies)**

If a taxpayer does not file a valid return when required, the State of Wisconsin Department of Revenue (**Department of Revenue** or **DOR**) may estimate the amount of tax due and send the taxpayer an assessment of the amount owing. The taxpayer has 60 days to appeal the amount owed, and absent an appeal, the account is considered delinquent on the due date. A delinquency also occurs when a taxpayer fails to properly pay taxes on a filed return or under-computes the tax due. The taxpayer is billed for the shortfall, and in the case where taxes are not properly paid, there is no appeal process. An assessment can also result from office or field audits. A taxpayer has 60 days to appeal an audit adjustment.

DOR uses a computer system to record payment and collection information for income, franchise, sales, and use taxes. Revenue agents around the State can access the case records for delinquent accounts.

Collection of a delinquent account begins with a notice of overdue tax, which is sent to the taxpayer. This notice informs the taxpayer that failure to pay may result in a warrant being filed in the county of residence and that other involuntary collection actions may be taken. The account is assigned to a revenue agent, who may contact the taxpayer to attempt to solicit payment in full or to set up an installment payment plan. Records of all collection contacts and actions are maintained in the statewide computer system.

If voluntary payments cannot be arranged, the revenue agent may proceed to a variety of involuntary collection actions, such as attachment of wages, levy, or garnishment of assets. Depending on the circumstances of the account, DOR may move directly to an involuntary collection action after the notice of overdue tax is sent. If the amount owed is greater than \$5,000, the account will be posted on a DOR web site that identifies delinquent taxpayers. If the delinquent taxpayer has a refund coming from any tax



program administered by DOR, the refund is applied to the delinquent balance. Federal tax refunds are also applied to the delinquent balance.

Other actions that may be recommended to resolve a delinquent account include:

- Revocation of a business seller's permit
- Withholding a business's liquor license
- Denial of a State-issued occupational license
- Referral to a private collection agency

If the revenue agent cannot collect the delinquent taxes, and it is unknown whether the taxpayer has any assets that may be garnished, then a supplemental hearing may be called before the court commissioner in the taxpayer's county of residence, in order to determine the taxpayer's ability to pay. If assets are discovered, DOR may request appointment of a receiver to sell the assets. If the taxpayer is without any assets, the proceedings may be stayed and the account periodically reviewed until either the taxpayer has assets to pay or a determination is made to write off the account.

An analysis of the overall delinquency rate for the income, franchise, gift, and sales and use taxes is shown in [Table II-30 under "STATISTICAL INFORMATION"](#).

## EXPENDITURES

### General

State expenditures are categorized under eight functional categories and the general obligation bond program. They are subcategorized by three distinct types of expenditures. The eight functional categories, which are listed in [Table II-3](#), are described later in this Part II of the 2017 Annual Report. See "[STATE GOVERNMENT ORGANIZATION; Description of Services Provided by State Government](#)". The three types of expenditures are described below.

- *State Operations.* Direct payments by State agencies to carry out State programs for expenses such as salaries, supplies, services, debt service, and permanent property, including the University of Wisconsin System.
- *Aids to Individuals and Organizations.* Payments from a State fund made directly to, or on behalf of, an individual or private organization (for example, Medicaid, parent choice and charter school programs, or student financial assistance).
- *Local Assistance.* Payments from a State fund to, or on behalf of, local units of government and school districts, including payments associated with State programs administered by local governments and school districts (for example, elementary and secondary school aids, shared revenues, and school levy and first dollar tax credits).

[Table II-3](#) shows the amounts expended (all funds) by function and type for each of the last five fiscal years.

### General Fund Expenditures

In the 2016-17 fiscal year, approximately 53% of all general-fund taxes collected by the State were returned to local units of government. The remaining funds were used for aids to individuals and organizations (24%) and State operations and programs (23%), which included the University of Wisconsin System. For the 2017-19 biennium, these percentages are expected to be approximately 51% returned to local units of government, 25% for aids to individuals and organizations, and 24% for State operations and programs, which includes the University of Wisconsin System.

Table II-3

EXPENDITURES BY FUNCTION AND TYPE (ALL FUNDS)<sup>(a)</sup>

	2016-17	2015-16	2014-15	2013-14	2012-13
<b>Commerce</b>					
State Operations.....	\$ 229,543,994	\$ 220,297,122	\$ 251,812,554	\$ 229,386,338	\$ 230,498,660
Aids to Individuals and Organizations.....	22,699,946	25,056,868	36,164,193	37,092,716	39,257,204
Local Assistance.....	37,454,267	50,539,203	64,054,263	76,482,860	56,037,043
Subtotal.....	289,698,207	295,893,193	352,031,010	342,961,915	325,792,907
<b>Education</b>					
State Operations.....	6,243,487,558	6,188,774,127	6,166,780,064	6,243,833,208	6,005,424,862
Aids to Individuals and Organizations.....	524,440,457	518,366,096	497,227,676	457,347,628	431,783,064
Local Assistance.....	6,682,897,334	6,175,572,042	6,389,703,799	5,859,524,660	5,639,197,518
Subtotal.....	13,450,825,349	12,882,712,265	13,053,711,539	12,560,705,496	12,076,405,444
<b>Environmental Resources</b>					
State Operations.....	2,229,426,525	2,371,154,665	2,437,220,712	2,707,169,764	2,711,567,716
Aids to Individuals and Organizations.....	36,156,959	35,198,403	29,100,920	34,929,320	27,553,037
Local Assistance.....	1,067,527,992	1,059,845,591	1,223,204,106	1,156,224,236	1,165,514,898
Subtotal.....	3,333,111,476	3,466,198,659	3,689,525,738	3,898,323,320	3,904,635,650
<b>Human Relations and Resources</b>					
State Operations.....	2,829,118,753	2,796,248,129	2,789,044,549	2,733,416,164	2,664,971,784
Aids to Individuals and Organizations.....	12,535,406,350	12,255,382,618	12,059,458,300	11,541,177,302	10,744,126,690
Local Assistance.....	789,373,191	765,915,913	788,474,755	796,649,514	704,135,972
Subtotal.....	16,153,898,294	15,817,546,660	15,636,977,604	15,071,242,980	14,113,234,446
<b>General Executive</b>					
State Operations.....	8,442,288,631	8,198,790,546	8,287,821,942	7,692,753,618	6,885,875,587
Aids to Individuals and Organizations.....	498,079,428	489,636,943	465,241,942	458,594,192	467,821,376
Local Assistance.....	222,444,799	131,323,284	145,926,694	158,295,861	203,809,063
Subtotal.....	9,162,812,858	8,819,750,773	8,898,990,578	8,309,643,671	7,557,506,026
<b>Judicial</b>					
State Operations.....	114,332,068	106,815,611	107,969,106	104,815,737	105,624,208
Local Assistance.....	24,909,404	24,336,588	22,989,415	22,058,356	22,055,899
Subtotal.....	139,241,472	131,152,199	130,958,521	126,874,093	127,680,107
<b>Legislative</b>					
State Operations.....	68,574,267	66,951,115	65,595,364	65,525,903	64,552,205
Subtotal.....	68,574,267	66,951,115	65,595,364	65,525,903	64,552,205
<b>General</b>					
State Operations.....	970,740,737	1,102,216,739	1,301,160,305	1,232,746,769	965,930,734
Aids to Individuals and Organizations.....	320,231,365	341,233,254	332,178,675	343,230,101	328,033,500
Local Assistance.....	2,181,818,987	2,051,992,107	2,047,342,389	2,043,214,193	2,011,453,810
Subtotal.....	3,472,791,089	3,495,442,100	3,680,681,369	3,619,191,063	3,305,418,045
<b>General Obligation Bond Program</b>					
State Operations.....	920,645,582	911,485,053	790,116,321	1,093,559,790	1,089,901,357
Subtotal.....	920,645,582	911,485,053	790,116,321	1,093,559,790	1,089,901,357
<b>Summary Totals</b>					
State Operations.....	22,048,158,115	21,962,733,107	22,197,520,916	22,103,207,291	20,724,347,113
Aids to Individuals and Organizations.....	13,937,014,504	13,664,874,182	13,419,371,707	12,872,371,259	12,038,574,871
Local Assistance.....	11,006,425,975	10,259,524,728	10,681,695,421	10,112,449,680	9,802,204,203
GRAND TOTAL.....	\$ 46,991,598,593	\$ 45,887,132,017	\$ 46,298,588,044	\$ 45,088,028,229	\$ 42,565,126,187

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The amounts are unaudited.

Source: Wisconsin Department of Administration

# ACCOUNTING AND FINANCIAL REPORTING

## Statutory Basis

The State accounts for, reports, and budgets its operations as set forth in the Wisconsin Statutes. The Annual Fiscal Report (which is unaudited) must be published each year on or before October 15<sup>th</sup>. Except as noted in the following paragraph, under statutory accounting, receipts are recorded only at the time money or checks are deposited in the State Treasury, and disbursements are recorded only at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore the amounts reported in a fiscal year.

For budgeting and Wisconsin Constitutional compliance purposes, the State's records are maintained in conformity with statutory requirements. The more important legal provisions are:

- In all cases the date of the contract or order determines the fiscal year in which it is charged unless it is determined that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgeting intent.
- The current year records must remain open until July 31<sup>st</sup> to permit departments to certify for payment bills applicable to the year ended June 30<sup>th</sup> and to deposit revenues applicable to such year, with the following exceptions: (1) amounts withheld for income taxes prior to July 1<sup>st</sup> and (2) taxes imposed on sales prior to July 1<sup>st</sup> are deemed to be accrued tax receipts as of the close of the fiscal year, provided such revenue is deposited on or before August 15<sup>th</sup>.
- On July 31<sup>st</sup> all outstanding encumbrances entered for the previous year must be transferred to the new fiscal year, and an equivalent prior year appropriation balance must also be forwarded to the new fiscal year.
- Revenues and expenditures are reported on a net basis. Overcollections refunded are deducted from revenues and current year overpayments made are deducted from expenditures.
- General Fund investments are carried at the lower of cost or par with discounts, premiums, and earnings recorded on an accrual basis.
- Encumbrances are treated as expenditures in the year of initiation.

## Generally Accepted Accounting Principles

The State also accounts for and reports on its operations using generally accepted accounting principles (GAAP). Due in part to continued implementation of the State's new enterprise resource planning system during the fiscal year, the State's CAFR and the audited general purpose external financial statements for the fiscal year ended June 30, 2017 are not available as of the date of the 2017 Annual Report. When available, the CAFR and the audited general purpose external financial statements will be filed within 10 business days with the MSRB through its EMMA system and made a part of **APPENDIX A** to this Part II of the 2017 Annual Report.

Financial statements prepared in accordance with GAAP differ from those prepared in accordance with the Wisconsin Statutes. A notable difference pertains to the General Fund balance. Using the CAFR and audited general purpose external financial statements for the fiscal year ended June 30, 2016 as an example, the undesignated, unreserved balance for the fiscal year ended June 30, 2016 was \$331 million on a budgetary basis. However, under GAAP, the total fund balance of the General Fund for the fiscal year ended June 30, 2016 was a deficit of \$1.723 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2016 was \$839 million and related to the State's individual income tax accruals.

## **New Enterprise Resource Planning System**

Effective October 1, 2015, the State implemented a statewide initiative to consolidate information technology systems with an integrated software system that included applications for finance, procurement, budget and reporting. Effective December 14, 2015, applications of this new enterprise resource planning system were implemented for human resources and payroll. The State Department of Transportation commenced use of this system on July 1, 2016, which is a factor in the delay in the availability of the State's CAFR and general purpose external financial statements for the 2016-17 fiscal year.

## **BUDGETING PROCESS AND FISCAL CONTROLS**

Appropriations are made through the enactment of the State budget. Most of the budget process derives from statutory laws or custom and practice, and thus the process is subject to change.

The State budget is the legislative document that sets the amount of authorized State expenditures for the two fiscal years in a biennium and the corresponding amount of revenues (primarily taxes) projected to be available to pay those expenditures. A biennium begins on July 1<sup>st</sup> of each odd-numbered year and ends on June 30<sup>th</sup> of the subsequent odd-numbered year. The requirement for a State budget is linked directly to the Wisconsin Constitution, which provides that "No money shall be paid out of the treasury except in pursuance of an appropriation by law." The Wisconsin Constitution requires a balanced budget. It also requires that, if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take actions to pay the deficiency in the succeeding fiscal year.

### **Budget Requests from Agencies**

The formal budget process begins when the State Budget Office in the State of Wisconsin Department of Administration (**DOA** or **Department of Administration**) issues instructions to State agencies for submission of their budget requests for the next biennium. Larger agencies actually begin their internal processes for development of their budget requests several months prior to the issuance of these instructions.

Pursuant to the Wisconsin Statutes, agency budget requests are to be submitted no later than September 15<sup>th</sup> of each even-numbered year. Agencies are also required to submit copies of their budget requests to the Legislative Fiscal Bureau (**LFB**) at the same time that copies are delivered to the State Budget Office.

### **Executive Budget**

Pursuant to the Wisconsin Statutes, the Secretary of Administration is required to provide to the Governor or Governor-Elect and to each member of the next Legislature, by November 20<sup>th</sup> of each even-numbered year, a compilation of the total amount of each agency's biennial budget request. The Wisconsin Statutes also require that DOR compile and provide, by November 20<sup>th</sup> of each even-numbered year, information on the actual and estimated revenues for the current and forthcoming biennium. These revenue estimates are used by the Governor as the basis for budget recommendations about General Fund biennial budget spending. The State Budget Director (who is an appointee of the Secretary of Administration) is involved in the review of agency requests and the development of the Governor's budget recommendations for appropriations. In addition to proposing a biennial budget, the Governor's budget recommendations also include any statutory language changes needed to accomplish the policy initiatives and program or appropriation changes that are part of the Governor's recommendations. A draft bill is prepared by the Legislative Reference Bureau incorporating the Governor's fiscal and statutory recommendations.

The Governor is required to deliver the biennial budget message and executive budget bill or bills to the Legislature on or before the last Tuesday in January of the odd-numbered year. However, upon request of the Governor, a later submission date may be allowed by the Legislature upon passage of a joint resolution. It is common for the Governor to request a later submission date; a later submission date was requested, and allowed, for each of the last ten executive budget bills.

The Wisconsin Statutes provide that immediately after delivery of the Governor's budget message, the executive budget bill or bills must be introduced by the Legislature's Joint Committee on Finance (**JCF**),

without change, into one of the two houses of the Legislature. Upon introduction, the bill or bills must be referred to that committee for review. Because of both the complexity of the budget and its significance, committee review of the budget bill is the most extensive and involved review given to any bill in a legislative session.

### **Legislative Consideration**

LFB usually provides initial overview briefings on the budget for the JCF. The committee holds public hearings on the proposed budget, including both hearings at which agencies present informational briefings and hearings to allow public comment. Other legislative committees may hold meetings, at the discretion of the committee chairperson, to inform committee members of particular aspects of the budget that may affect the substantive interests of the committee.

Upon conclusion of the public hearings, the JCF commences executive sessions of the Governor's recommended budget. The committee invariably adopts a budget that contains numerous changes to the Governor's recommendations. The form of the committee's budget is usually a substitute amendment to the Governor's budget bill rather than being a separately identified new bill.

The two houses of the Legislature rarely pass identical versions of the budget in their first consideration. There are alternative methods available for achieving resolution of the differences between the two houses on bills. A common method is for one house to seek a committee of conference on the bill wherein a specified number of members from each house are delegated to meet as a bargaining committee with the goal of producing a report reconciling the differences. Another method that has been used from time to time has been to successively pass, between the houses, narrowing amendments dealing only with the points of difference between the respective budgets as initially recommended by the two houses.

While the Wisconsin Statutes require that summary information be compiled by DOR on the actual and estimated revenues for the current and forthcoming biennia and that this summary information be available on November 20<sup>th</sup> of each even-numbered year, LFB may use its discretion to provide updated revenue estimates at any time for the current and forthcoming biennia.

### **Governor's Partial Veto Power**

The Wisconsin Constitution grants the Governor the power of partial veto for any appropriation bill. This means that rather than having to approve or reject the budget bill in its entirety, the Governor may selectively delete portions of the budget bill. Both language and dollar amounts in a budget bill may be eliminated by the Governor's veto, and dollar amounts may be reduced. The Wisconsin Constitution prohibits the Governor from using the partial veto to create a new sentence by combining parts of two or more sentences.

The budget bill (less any items deleted or reduced by the Governor's partial veto) then becomes the State's fiscal policy document for the next two years. Just as it may do with a Governor's veto of a bill in its entirety, the Legislature may, by a two-thirds vote by each house, override a partial veto and enact the vetoed portion into law. This action may be taken before or after the budget becomes effective.

### **Continuing Authority**

The failure of the Legislature to adopt a new budget before the commencement of a biennium does not result in a lack of spending authority. Under Wisconsin law an existing appropriation continues in effect until it is amended or repealed. Thus, in the event that a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time as a new budget is enacted. Once a newly enacted budget becomes effective, the continuing authority is superseded by the newly enacted appropriations.

The continuing authority of existing appropriations until a new budget is adopted helps to protect against the effect of a delay in the adoption of a budget. If an amount has been appropriated for the second fiscal year in one biennium, there will be continuing authority in the same amount until a new biennial budget is enacted or some other legislative action is taken to amend or repeal the appropriation. The 2017-19 biennial budget of the State was enacted on September 21, 2017, which was 82 days after the start of the biennium. Of the prior ten biennial budgets, the 2015-17 biennial budget was enacted 11 days late and

the 2013-15, 2011-13, and 2009-11 biennial budgets were each enacted prior to the start of the respective biennium; however, each of the six biennial budgets prior to the 2009-11 biennium was enacted after the start of the biennium, with the latest date after the start of a biennium being October 27, 1999 (for the 1999-2001 biennium), which was nearly four months after the start of the 1999-2000 fiscal year (the first fiscal year of that biennium).

### **General Fund Tax Increase**

Wisconsin Statutes require that neither house of the Legislature may pass a bill that increases certain General Fund taxes (income, state sales, or franchise taxes) unless the bill is approved by two-thirds of those members present and voting. There is an exception if the Legislature passes a joint resolution requiring a statewide advisory referendum on the question of whether the Legislature should authorize the tax increase, and a majority of voters voting at the referendum approve the tax increase.

### **Fiscal Controls**

No money shall be paid out of the State Treasury except as appropriated by law. The Wisconsin Statutes require that the Secretary of Administration and the State Treasurer must approve all payments. The Secretary of Administration is also responsible for audit of expenditures prior to disbursement. The Legislative Audit Bureau has post-expenditure audit responsibility.

The Department of Administration maintains separate accounts for all appropriations, showing the amounts appropriated, the amounts allotted, the amounts encumbered, the amounts expended, and certain other data necessary for the financial management and control of all State accounts. The Department of Administration also maintains the general ledgers of the General Fund and all other funds of the State.

State law prohibits the enactment of legislation that would cause the estimated General Fund balance to be less than a specified amount or percentage of the general purpose revenue appropriations for that fiscal year. The specified amount for the 2016-17 fiscal year was \$65 million. State law currently requires that beginning with the 2017-18 fiscal year, the statutory required reserve will be an amount equal to the lesser of the prior fiscal year's required balance plus \$5 million, or 2% of the general purpose revenue appropriations for that fiscal year. The specified amount, or percentage of general purpose revenue appropriations, is included in Wisconsin Statutes, and can be changed (and has previously been changed) by legislative action.

The budget can move out of balance if estimated revenues are less than anticipated in the budget or if expenditures for open-ended appropriations are greater than anticipated. The Wisconsin Statutes provide that, following the enactment of the budget, if the Secretary of Administration determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues (consisting of general taxes, miscellaneous receipts, and revenues collected by State agencies which lose their identity and are available for appropriation by the Legislature), then no approval of expenditure estimates can occur. Further, the Secretary of Administration must notify the Governor and the Legislature, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, then the Governor must call a special session to take up the matter.

The Secretary of Administration also has statutory power to order reductions in the appropriations of State agencies. The Secretary of Administration may also temporarily reallocate free balances of certain funds to other funds that have insufficient balances and, further, may prorate or defer certain payments in the event current or projected balances are insufficient to meet current obligations. See "**GENERAL FUND INFORMATION; General Fund Cash Flow.**" The Department of Administration may also request, upon making certain determinations and receiving approval of the JCF, the issuance of operating notes by the State of Wisconsin Building Commission (**Commission**).

### **Budget Stabilization Fund**

Statutory provisions require, for each fiscal year, the transfer of 50% of general purpose revenues received over the original budget estimate to the State's Budget Stabilization Fund (which is a "rainy day fund"), provided that the statutory required General Fund balance for that fiscal year is maintained. As of June 30, 2017, the balance in the Budget Stabilization Fund was approximately \$283 million.

The transfers to the Budget Stabilization Fund, which only occur when general purpose revenues exceed the original budget estimates, are required to continue until the balance in the Budget Stabilization Fund is at least equal to 5% of the estimated expenditures from the General Fund, which would be approximately \$831 million based on estimated General Fund expenditures for the 2017-18 fiscal year.

A provision of 2013 Wisconsin Act 145 suspended the statutory provisions requiring transfers from the General Fund to the Budget Stabilization Fund for the 2013-14 and 2014-15 fiscal years.

## **BUDGETARY RESULTS OF 2016-17 FISCAL YEAR**

Pursuant to Wisconsin Statutes, the Annual Fiscal Report (budgetary basis) for the fiscal year ending June 30, 2017 was published October 15, 2017.

The Annual Fiscal Report provides that the State ended the 2016-17 fiscal year on a statutory and unaudited basis with an undesignated balance of \$579 million. This amount is \$448 million more than the projected gross ending balance for the fiscal year included in the budget for the 2015-17 biennium (2015 Wisconsin Act 55) and \$152 million more than the projected gross ending balance that was included in the LFB Report dated January 18, 2017 (**January 2017 LFB Report**). The State did not issue any operating notes during the 2016-17 fiscal year.

**Table II-4** shows the General Fund condition statement for the 2016-17 fiscal year. The table also includes, for comparison, the General Fund condition statement for the 2015-16 fiscal year, the estimated General Fund condition statement included in the 2015-17 biennial budget (2015 Wisconsin Act 55), and the estimated General Fund condition statement included in the January 2017 LFB Report.

The Annual Fiscal Report (budgetary basis) also provides final General Fund tax collections for the 2016-17 fiscal year. These General Fund tax revenue collections, on a budgetary basis, were \$15.518 billion, compared to \$15.098 billion for the 2015-16 fiscal year; this is an increase of approximately \$420 million (or 2.8%).

**Table II-5** provides a summary of the final General Fund tax revenues for the 2016-17 fiscal year. Table II-5 also includes, for comparison, the actual General Fund tax collections for the 2015-16 fiscal year, the projected General Fund tax collections as included in the 2015-17 biennial budget and the General Fund tax collections as projected in the January 2017 LFB Report.

**Table II-4**  
**GENERAL FUND CONDITION STATEMENT**  
**2016-17 FISCAL YEAR**  
(in Millions)

	2016-17 Fiscal Year			
	2015-16 Fiscal Year Annual <u>Fiscal Report</u>	2015-17 <u>Biennial Budget</u>	LFB <u>January 2017</u>	Annual <u>Fiscal Report</u>
<b>Revenues</b>				
Opening Balance	\$ 135.6	\$ 161.8	\$ 331.0	\$ 331.0
Prior-Year Designation	91.3	-	-	131.9
Taxes	15,097.5	15,791.6	15,503.6	15,517.6
<b>Department Revenues</b>				
Tribal Gaming	26.2	23.1	24.4	26.8
Other	<u>491.4</u>	<u>513.5</u>	<u>518.9</u>	<u>520.7</u>
Total Available	\$ 15,842.0	\$ 16,490.0	\$ 16,377.9	\$ 16,528.1
<b>Appropriations</b>				
Gross Appropriations	\$ 15,850.9	\$ 17,041.4	\$ 17,015.0	\$ 17,099.1
Sum Sufficient Reestimates	-	-	(55.4)	-
Transfers	38.0	39.5	39.5	39.5
Biennial Approp. Adjustments	-	-	(4.7)	-
Compensation Reserves	0.9	18.6	18.6	1.2
Less: Lapses	<u>(378.9)</u>	<u>(740.8)</u>	<u>(1,062.3)</u>	<u>(1,190.7)</u>
Net Appropriations	\$ 15,510.9	\$ 16,358.7	\$ 15,950.7	\$ 15,949.1
<b>Balances</b>				
Gross Balance	331.0	131.4	427.2	579.0
Less: Req. Statutory Balance	<u>n/a</u>	<u>(65.0)</u>	<u>(65.0)</u>	<u>n/a</u>
Net Balance, June 30	\$ 331.0	\$ 66.4	\$ 362.2	\$ 579.0

**Table II-5**  
**GENERAL FUND TAX REVENUE COLLECTIONS**  
**2016-17 FISCAL YEAR**  
(in Millions)

	2016-17 Fiscal Year			
	2015-16 Annual <u>Fiscal Report</u>	2015-17 <u>Biennial Budget</u>	LFB <u>January 2017</u>	Annual <u>Fiscal Report</u>
Individual Income	\$ 7,740.8	\$ 8,238.4	\$ 8,050.0	\$ 7,810.0
Sales and Use	5,065.8	5,224.0	5,215.0	5,050.9
Corp. Income & Franchise	963.0	1,015.7	900.0	990.0
Public Utility	360.6	373.4	359.7	370.7
<b>Excise</b>				
Cigarettes	573.4	545.5	565.0	571.0
Tobacco Products	76.1	73.6	82.0	76.4
Liquor & Wine	50.0	49.4	51.2	50.0
Beer	9.0	8.4	8.9	9.0
Insurance Company	177.3	187.0	187.0	168.0
Miscellaneous Taxes	<u>81.5</u>	<u>76.3</u>	<u>85.0</u>	<u>79.5</u>
TOTAL	\$15,097.5	\$15,791.6	\$15,503.6	\$15,175.6



The Annual Fiscal Report for the 2016-17 fiscal year is not part of the 2017 Annual Report but has been filed with, and may be obtained from, the MSRB through its EMMA system or at the following address:

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
(608) 267-0374  
[DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
[doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

## STATE BUDGET

### Budget for 2017-19 Biennium

The budget act for the 2017-19 biennium (**2017 Wisconsin Act 59**) was enacted on September 21, 2017 with some vetoes. Detailed information and summary tables and charts concerning the enacted budget for the 2017-19 biennium may be obtained from the following web site (neither the following web site nor the summaries available at such web site are incorporated by reference into this Part II of the 2017 Annual Report):

[https://docs.legis.wisconsin.gov/misc/lfb/budget/2017\\_19\\_biennial\\_budget](https://docs.legis.wisconsin.gov/misc/lfb/budget/2017_19_biennial_budget)

**Table II-6** includes the estimated General Fund condition statement for the 2017-18 and 2018-19 fiscal years, as included in 2017 Wisconsin Act 59, and includes, for comparison, the final General Fund condition statement from the 2016-17 fiscal year and the proposed General Fund condition statement included in the Governor's executive budget. As shown in Table II-6 the actual ending balance for the 2016-17 fiscal year was \$112 million higher than the opening balance assumed in 2017 Wisconsin Act 59 for the 2017-18 fiscal year.

In addition, information on 2017 Wisconsin Act 59 has been filed with, may be obtained from, the MSRB through its EMMA system at [www.emma.msrb.org](http://www.emma.msrb.org) or at the following address.

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
(608) 267-0374  
[DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
[doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

**Table II-6**

**ESTIMATED GENERAL FUND CONDITION STATEMENT  
2017-18 AND 2018-19 FISCAL YEARS  
(in Millions)**

	<u>2017-18 Fiscal Year</u>			<u>2018-19 Fiscal Year</u>	
	2016-17 Annual <u>Fiscal Report</u>	Governor's Executive <u>Budget</u>	2017 Wisconsin <u>Act 59</u>	Governor's Executive <u>Budget</u>	2017 Wisconsin <u>Act 59</u>
<b>Revenues</b>					
Opening Balance	\$ 331.0	\$ 453.0	\$ 467.1	\$ 297.7	\$ 443.3
Prior-Year Designation	131.9				
Taxes	15,517.6	15,973.2	16,077.7	16,573.0	16,650.0
<b>Department Revenues</b>					
Tribal Gaming	26.8	25.9	26.2	25.7	26.1
Other	<u>520.7</u>	<u>493.2</u>	<u>493.2</u>	<u>447.4</u>	<u>443.3</u>
Total Available	\$16,528.1	\$16,945.3	\$ 17,062	\$17,343.8	\$17,562.6
<b>Appropriations</b>					
Gross Appropriations	\$17,099.1	\$16,899.2	\$16,876.5	\$17,619.1	\$17,690.1
Current Session Bills	-	-	19.7	-	10.1
Transfers	39.5	59.9	40.2	41.4	41.6
Compensation Reserves	1.2	14.4	3.1	35.3	52.1
Less: Lapses	<u>(1,190.7)</u>	<u>(326.0)</u>	<u>(318.5)</u>	<u>(438.6)</u>	<u>(441.8)</u>
Net Appropriations	\$15,949.1	\$16,647.5	\$16,620.9	\$17,257.3	\$17,352.0
<b>Balances</b>					
Gross Balance	579.0	297.7	443.3	86.6	210.6
Less: Req. Statutory Balance	<u>n/a</u>	<u>(70.0)</u>	<u>(70.0)</u>	<u>(75.0)</u>	<u>(75.0)</u>
Net Balance, June 30	\$ 579.0	\$ 227.7	\$ 373.3	\$ 11.6	\$ 135.6

*2017-19 General Fund Tax Collections*

**Table II-7** and **Table II-8** include a summary of the estimated General Fund tax collections for the 2017-18 and 2018-19 fiscal years, as included in 2017 Wisconsin Act 59, in the respective total amounts of \$16.078 billion and \$16.650 billion. The tables also include, for comparison, the estimated General Fund tax collections for the respective fiscal years as provided by DOR for inclusion in a statutorily required report released by DOA on November 21, 2016 (**November 2016 DOA Report**) and as set forth in the January 2017 LFB Report.

In May of odd-numbered years, the LFB typically estimates collections to date and reviews current economic forecasts to determine if adjustments to its report from January are required. LFB completed this review, and released a memorandum on May 10, 2017 (**May 2017 LFB Report**) stating that the estimates in the January 2017 LFB Report were reasonable and should not be adjusted.

**Table II-7**  
**ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS**  
**2017-18 FISCAL YEAR**  
(in Millions)

	DOR <u>November 2016</u>	LFB <u>January 2017</u>	<u>Enacted Budget</u>
Individual Income	\$ 8,320.3	\$ 8,360.0	\$ 8,380.0
Sales and Use	5,308.4	5,370.0	5,383.8
Corp. Income & Franchise	897.8	940.0	950.8
Public Utility	380.1	373.5	373.5
Excise			
Cigarettes	564.3	565.0	564.7
Tobacco Products	83.6	85.0	85.0
Liquor & Wine	51.8	52.0	52.0
Beer	9.1	8.9	8.9
Insurance Company	185.9	192.0	192.0
Miscellaneous Taxes	<u>86.8</u>	<u>87.0</u>	<u>87.0</u>
TOTAL	\$ 15,888.1	\$ 16,033.4	\$ 16,077.7

**Table II-8**  
**ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS**  
**2018-19 FISCAL YEAR**  
(in Millions)

	DOR <u>November 2016</u>	LFB <u>January 2017</u>	<u>Enacted Budget</u>
Individual Income	\$ 8,655.2	\$ 8,710.0	\$ 8,720.0
Sales and Use	5,459.3	5,580.0	5,593.1
Corp. Income & Franchise	881.8	950.0	961.6
Public Utility	382.2	378.2	378.2
Excise			
Cigarettes	555.5	561.0	560.4
Tobacco Products	86.8	88.0	88.0
Liquor & Wine	52.7	53.0	53.0
Beer	9.1	8.8	8.8
Insurance Company	199.3	197.0	197.0
Miscellaneous Taxes	<u>88.2</u>	<u>90.0</u>	<u>90.0</u>
TOTAL	\$ 16,370.1	\$ 16,616.0	\$ 16,650.0

The LFB typically estimates the General Fund condition statement and projected tax collections for the Wisconsin legislature each January. In even-numbered years, its analysis includes an examination of economic forecasts and tax collections as well as expenditure data of the current fiscal year, and projections for each fiscal year of the current biennium. In odd-numbered years its analysis includes estimated revenues and expenditures for the current fiscal year and tax collections for the next biennium.

## **Tobacco Settlement Revenues**

In 2002 the State sold to the Badger Tobacco Asset Securitization Corporation (BTASC), pursuant to statutory authority, the right to receive tobacco settlement revenues to be made by the participating cigarette manufacturers under the **Master Settlement Agreement**, which was entered into in 1998 among the participating cigarette manufacturers and the attorneys general of 46 states and six other U.S. jurisdictions in connection with the settlement of certain smoking-related litigation.

In May 2002, BTASC issued \$1.591 billion principal amount of bonds to finance its purchase and to fund necessary reserves, operating costs, and costs of issuance. The proceeds that the State received for this sale were expended. The bonds issued by BTASC were payable from the tobacco settlement revenues that the State had sold and assigned to BTASC.

In April 2009, the State, acting by and through the Department of Administration, issued \$1.529 billion principal amount of general fund annual appropriation bonds to purchase from BTASC the State's right to the tobacco settlement revenues pursuant to the Master Settlement Agreement. All obligations previously issued by BTASC have been redeemed, and the State resumed its right to receive tobacco settlement revenues under the Master Settlement Agreement as a result of the State's purchase.

## **Potential Effect of Litigation**

The following is a description of various legal proceedings, claims, and tax refunds that may have a budgetary effect on the State.

### *Notice of Transferee Liability*

In September 2008, the Internal Revenue Service made a claim against the State of Wisconsin Investment Board (SWIB) by issuing a notice of transferee liability. This claim seeks taxes, penalties, and interest relating to the sale of Shockley Communications Corporation (SCC) stock in 2001. The Internal Revenue Service asserts that the shareholders' sale of SCC stock should have been characterized as a sale of assets by SCC, on which SCC should have paid income taxes. The Internal Revenue Service asserts that the former SCC shareholders, including SWIB, would be liable for those taxes, plus penalties and interest. The SWIB liability, as a putative transferee of SCC assets, was estimated to be between \$17 million and \$52 million. SWIB has accrued a loss of \$17 million which represents the estimated minimum amount of the possible liability to which SWIB believes it may be exposed.

### *Enforcement Provisions of Master Settlement Agreement*

The State and 22 other states that signed the Master Settlement Agreement are in litigation with the major tobacco manufacturers regarding the post-2003 diligence of the states in their enforcement of certification and escrow payment laws designed to monitor and regulate the sale of cigarettes by tobacco manufacturers that did not sign the Master Settlement Agreement.

An arbitration proceeding regarding the dispute for calendar year 2004 has begun. Wisconsin received notice from the tobacco manufacturers in June 2017 that they will contest the State's diligence. Wisconsin's hearing is currently scheduled to take place in April 2018. Therefore, pending resolution of the dispute, the State will not receive approximately \$15 million of Master Settlement Agreement funds that have been withheld by tobacco manufacturers.

### *Other*

The State, its officers, and its employees are defendants in numerous other lawsuits. It is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially impair its financial position. Potential liability for such pending litigation does not constitute a significant impairment of the State's financial position, or its ability to pay debt service.

## **Employment Relations**

This summary discusses employment relations within the executive branch under the authority of the Department of Administration. Since July 2015, the University of Wisconsin-Madison, and the remainder of the University of Wisconsin (UW) System combined, are independent civil service systems, with their own statutorily defined collective bargaining units and collective bargaining authority. Therefore, neither entity is included in the following summary.

The executive branch has approximately 24,756 full-time-equivalent (FTE) classified and unclassified employees in 18 statutorily-designated bargaining units at the end of 2016-17 fiscal year. An additional 2,249 classified supervisors in two bargaining units may by statute also be considered for representation, but these supervisory units have never applied for representation. For the 2016-17 fiscal year, three of these 18 bargaining units, covering 683 FTE employees, were represented by a union, statutorily limited to the ability to negotiate base wages only for fiscal year 2017-18. One additional bargaining unit, covering 403 FTE employees, was represented to negotiate wages, benefits, and working conditions. Thus, at the end of the 2016-17 fiscal year, a total of 1,086 FTE employees were represented for some degree of collective bargaining.

For all except one bargaining unit, representation rights are strictly limited to negotiation of base wage increases for a single fiscal year contract, and a recertification election must be held each year. The one exception is the public safety bargaining unit (State Patrol troopers and inspectors), which may negotiate wage rates, pay schedules, fringe benefits, hours of work, and conditions of employment for fiscal biennium contracts, and represent employees for grievances. Unlike the other unions, the public safety union is not subject to annual recertification.

Each collective bargaining agreement requires ratification by the members of the respective labor union, approval by the legislative Joint Committee on Employment Relations, passage by both houses of the Legislature, and signature of the Governor.

No new labor agreements have yet been implemented for fiscal years 2015-16, 2016-17, or 2017-18 for any of the four represented bargaining units.

All classified and unclassified employees are also covered under the State Compensation Plan, except for subjects reserved for collective bargaining. The compensation plan, in conjunction with statutes, administrative rules, and policies, provides wages and hours and conditions of employment for all civil service employees, except as negotiable by unions. Fringe benefits including retirement, and health and life insurance are determined legislatively or through the Group Insurance and Employee Trust Fund Boards. The public safety union is the only union that can negotiate with regard to certain aspects of these fringe benefits.

The budget provides for salary and fringe benefits in an amount that is expected to be sufficient to meet all contractual obligations.

## **State Budget Assumptions**

Tax revenue projections for the 2017-19 biennial budget were based on January 2017 estimates from LFB and affirmed in the May 2017 LFB Report. See **“STATE BUDGET”**. The estimates are based on the State tax structure and on assumptions about basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. For that purpose, any variation from the expected level of revenue is assumed to result in a corresponding increase or decrease in expenditures.

State disbursements for the budget are based on assumptions relating to economic and demographic factors, desired levels of services, and the success of expenditure control mechanisms applied by the Secretary of Administration pursuant to statutory authority in controlling disbursements for State operations. Factors that may affect the level of disbursements in the budgets and make the projected levels difficult to maintain include uncertainties relating to the economies of the nation and the State.

## Economic Assumptions

DOR prepares forecasts of income and employment for the State. These forecasts focus on industry employment, housing trends, and income components for the State.

While the revenues for the 2017-19 biennial budget were based on the January 2017 LFB Report, the tax revenue estimates from DOR included in the November 2016 DOA Report reflect certain projections presented in a national economic forecast by IHS Markit (IHS), which provides national economic forecasts, database support, and consulting services. This report is currently published in the fall of even-numbered calendar years. [Table II-9](#) contains excerpts from IHS' October 2016 national economic forecast, and [Table II-10](#) contains a summary of information from DOR's Wisconsin Econometric Model (Model).

### *Wisconsin Econometric Model*

The Model is a forecasting tool used for assessing the future of the State's economy, measured primarily by income and employment. The Model provides DOR with information about how the State's economy responds to changes in the national economic conditions and plays a critical role in the revenue estimating process. The Model was first designed in 1976 by a predecessor of IHS (Data Resources Inc.). DOR has periodically redesigned the Model to improve its performance and also to correspond to changes in national modeling concepts in the IHS macro model of the U.S. economy and to incorporate new data definitions as embodied in the national and regional income accounts.

The Model provides forecasts of the major components of Wisconsin income and employment. Income measures correspond to the measures of State personal income provided by the U.S. Department of Commerce, Bureau of Economic Analysis. Employment measures correspond to the North American Industry Classification System (NAICS) as provided by the U.S. Department of Labor, Bureau of Labor Statistics through its Current Employment Statistics program and Quarterly Census of Employment and Wages program. The Model is a structural model that employs accounting identities and theoretical constructs for predictions on each economic variable. It is driven by a set of variables that are exogenous, or determined outside the Model. The national forecast data are used in the Model to generate forecasts of State employment, income, tax revenue, and other economic indicators.

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, property income, proprietary income, transfer payments, housing permits, and taxes, among others. The Model currently consists of 182 equations, 98 of which are econometric regressions.

The equations of the Model are a mixture of definitional equations and stochastic equations. Definitional equations are used to formulate accounting relationships (for example, total employment is the sum of employment for each industry). Stochastic equations are used to specify probability or statistical relationships in which the relationship between any two economic measures cannot be defined exactly. Stochastic equations within the Model are determined using regression techniques. Both types of equations rely on an extensive historical database that contains both national and State measures.

Forecasts of economic variables at the national level are required to solve the Model's equations. National forecast data include measures of employment, personal income, industry output, factor costs, tax levels and rates, interest rates, inflation, etc. Currently, the Model uses forecasts provided by IHS for these national variables.

Other data come from both federal and State agencies. These data are principally measures of State personal income, employment, population, wages, milk prices, housing permits, new vehicle sales, and State tax rates and collections. After the data are compiled into the Model, the system of equations is simultaneously solved for income, employment, and other economic variables.

DOR maintains the Model through a process of keeping the Model's database up to date and re-examining the Model's equations when historical data are revised. The Model is calibrated to be temporally consistent with current data estimates by re-estimating the system of equations on a regular basis.

Updating and revising the Model is necessary to keep the Model's forecasts as reliable as possible. It is believed that if the Model can account for previous changes in income and employment, then it should be able to accurately forecast current levels of income and employment barring any large, unforeseen changes in the structure of the economy.

**Table II-9  
ECONOMIC FORECASTS—U.S.**

	Calendar Year				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<b>Real GDP and its Components.....</b>					
<b>(Amounts in Billions of 2009 Dollars)</b>					
GDP.....	\$16,628.74	\$16,989.00	\$17,366.16	\$17,748.21	\$18,116.69
Percent Change.....	1.41	2.17	2.22	2.20	2.08
GDP (Current Dollars).....	18,551.41	19,390.13	20,254.60	21,132.88	22,014.83
Percent Change.....	2.85	4.52	4.46	4.34	4.17
<b>Employment and Prices</b>					
Payroll Employment (\$ in Millions) .....	144.3	146.0	147.2	148.7	150.0
Percent Change .....	1.7	1.2	0.9	1.0	0.9
Unemployment Rate (%) .....	4.90	4.79	4.64	4.59	4.68
Consumer Price Index (% Change) .....	1.3	2.5	2.4	2.6	2.5
Employment Cost Index (% Change).....	2.21	2.65	3.01	3.10	3.12
Industrial Production (% Change) .....	-1.0	1.1	2.9	2.4	2.2
Retail Gasoline Prices (\$/gallon) .....	2.20	2.33	2.51	2.85	3.08
<b>Financial Markets</b>					
3-Month Treasury Bills (rate) .....	0.3	0.7	1.4	2.2	2.6
30-Year Fixed Mortgage (rate) .....	3.6	3.9	4.7	5.4	5.7
<b>Income and Profits</b>					
<b>(Amounts in Billions)</b>					
Personal Income .....	\$15,979.69	\$16,686.04	\$17,507.00	\$18,382.83	\$19,274.47
Percent Change .....	3.4	4.4	4.9	5.0	4.9
Wages and Salaries .....	8,154.01	8,561.05	8,989.47	9,431.37	9,882.30
Percent Change .....	3.8	5.0	5.0	4.9	4.8
Corporate Profits, Before Tax .....	2,019.44	2,098.81	2,213.15	2,247.45	2,262.39
Percent Change .....	-3.3	3.9	5.4	1.5	0.7

**Source: IHS, October 2016 and Department of Revenue**

**Table II-10  
ECONOMIC FORECASTS—WISCONSIN**

	Calendar Year				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<b>Wisconsin Employment Forecast</b>					
<b>Annual Industry Detail Average (Thousands of Workers)</b>					
Manufacturing .....	471.5	472.0	477.1	486.9	494.6
Percent Change .....	0.6	0.1	1.1	2.0	1.6
Trade, Transport & Utilities .....	544.0	545.7	541.9	539.3	536.0
Percent Change .....	2.3	0.3	(0.7)	(0.5)	(0.6)
Government .....	412.4	410.0	412.6	415.9	419.2
Percent Change .....	0.6	(0.6)	0.6	0.8	0.8
Total Nonfarm .....	2,928.5	2,946.6	2,964.9	2,989.9	3,009.8
Percent Change .....	1.4	0.6	0.6	0.8	0.7
<b>Wisconsin Income Forecast</b>					
<b>Components of Personal Income (Amounts in Billions)</b>					
Total Personal Income .....	\$ 272.380	\$ 282.737	\$ 294.345	\$ 307.708	\$ 321.653
Wages and Salaries .....	139.939	146.134	151.923	158.477	165.395
Supplements to Wages/Salaries .....	35.802	37.121	38.150	39.486	40.943
Proprietor's Income .....	18.987	19.708	20.658	21.645	22.678
Property Income .....	48.300	49.277	51.278	53.729	56.246
Personal Current Transfer .....	47.617	49.530	52.081	54.893	57.760
Contributions for Govt. Social Ins. ....	22.525	23.516	24.444	25.458	26.556
Personal Taxes .....	32.479	34.183	36.018	37.963	40.061
Disposable Personal Income .....	239.901	248.553	258.327	269.745	281.592
<b>Related Income</b>					
<b>Measures (Chained 2009 Dollars)</b>					
Personal Income (billions) .....	246.027	250.920	256.352	262.349	268.672
Percent Change .....	1.7	2.0	2.2	2.3	2.4
Per Capita Income (thousands of \$) .....	42.467	43.187	44.007	44.911	45.879
Percent Change .....	1.4	1.7	1.9	2.1	2.2
Per Capita Income (thousands of current \$) .....	47.016	48.663	50.529	52.676	54.926
Percent Change .....	2.5	3.5	3.8	4.2	4.3

Source: Wisconsin Department of Revenue, October 2016

### Budget Format

The State prepares two budgets—a general-fund budget and an all-funds budget—as well as subbudgets for each fund.

The general-fund budget includes money appropriated for the fiscal year from:

- All State-collected general taxes
- Revenues collected by State agencies that are deposited into the General Fund and lose their identity (departmental revenues)
- Various miscellaneous receipts

A portion of these revenues is returned to local governments in the form of shared tax payments and to school districts in the form of general equalization aid payments. Additionally, some of the revenues are used for aids to individuals. The remaining portion constitutes the operating budget for State agencies conducting State-administered programs.

The all-funds budget includes money appropriated for the fiscal year from:

- All revenues included in the general-fund budget



- Revenues collected by State agencies that are paid into a specific fund (such as the Transportation or Conservation Fund)
- Federal funds that are estimated to be received and either paid into a specific fund (such as the Transportation or Conservation Fund) for a specified program or purpose, or credited to an appropriation to finance a specific program or agency
- Investment earnings or losses
- Revenues resulting from the contracting of public debt

The all-funds budget assumes that certain categories of revenues are expended in like amounts. These categories include federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency. Because it includes only estimates of federal funds to be received and expended, the all-funds budget may vary during the course of the fiscal year.

### **Impact of Federal Programs**

The State does not typically receive substantial amounts of federal aid. Any reduction in federal aid would have a more immediate effect on individuals, local governments, and other service providers than on the State directly. Any reduction would, however, increase the likelihood of the State being asked to increase its support of the affected parties, which could not happen without the Legislature's approval.

#### *Budget Sequestration Cuts*

The United States Congress had mandated across-the-board cuts to the federal budget, starting with the federal fiscal year that started October 1, 2012. These cuts were required pursuant to the Budget Control Act of 2011 because, at that time, the congressional Joint Select Committee on Deficit Reduction had failed to reduce the federal deficit by \$1.2 trillion.

Beginning with the federal fiscal year that started October 1, 2016, the Bipartisan Budget Act of 2015 provides for an annual increase in federal domestic spending of \$15 billion over the amounts directed in the Budget Control Act of 2011. Due to this increase, the State does not expect to see any significant decrease in federal funds over the next fiscal year.

### **Supplemental Appropriations**

Even after the budget is adopted, the State may increase appropriations or reduce taxes. However, it has been the State's practice that supplemental appropriations adopted by the Legislature will be within revenue projections for that fiscal period or balanced by reductions in other appropriations.

No legislation directly or indirectly affecting general purpose revenue may be enacted if it would cause the estimated General Fund balance at the end of the fiscal year to be less than the required statutory reserve.

## **GENERAL FUND INFORMATION**

### **General Fund Cash Flow**

Many of the budgetary tables presented thus far in this Part II of the 2017 Annual Report have reported information on a budgetary basis. The following tables present information primarily on a cash basis.

**Table II-11** is presented over two pages and includes the detailed actual cash flow for the 2016-17 fiscal year and the detailed actual cash flow through October 31, 2017 and projected cash flow from November 1, 2017 through June 30, 2018 for the 2017-18 fiscal year. **Table II-12** provides a five-year history of general cash flows. **Table II-13** is presented over two pages and provides, for the 2016-17 fiscal year and for the 2017-18 fiscal year-to-date, receipts and disbursements on a cash basis along with a comparison to estimates for the same period and actual receipts and disbursements for the same period of the previous fiscal year. **Table II-14** presents a monthly summary of the General Fund from fiscal year 2015-16

through fiscal year 2016-17 and also provides actual expenditures and revenues from July 31, 2017 through October 31, 2017 and projected expenditures and revenues from November 30, 2017 through June 30, 2018.

No operating notes were issued for the 2015-16 or 2016-17 fiscal years, and none have been, or expected to be, issued for the current fiscal year.

Tables II-11, II-12, II-13 and II-14 should be read in conjunction with other information concerning the State budget set forth elsewhere in this Part II of the 2017 Annual Report, including “BUDGETING PROCESS AND FISCAL CONTROLS”, “STATE BUDGET”, and “STATE OBLIGATIONS; Operating Notes”. As noted above, there have been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentations in the following tables include all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in Tables II-4 and II-6 include tax revenues that are net of tax refunds.

The results, projections, or estimates for the 2017-18 fiscal year in the following tables reflect the enacted budget for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2017 LFB Report as confirmed in the May 2017 LFB Report.

Unforeseen events or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month and thus may adversely affect the projection of cash flow for the time shown. Additionally, the timing of transactions from month to month may vary from the forecast.

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the general-purpose revenue appropriations then in effect (approximately \$1.519 billion in the 2017-18 fiscal year). In addition, the Secretary of Administration can temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately \$506 million in the 2017-18 fiscal year) for a period of up to 30 days. In aggregate, the limit on the amount available from temporary reallocations for the 2017-18 fiscal year is approximately \$2.025 billion.

If the amount available for temporary reallocation to the General Fund is insufficient, then the Secretary of Administration may set priorities for payments from the General Fund as well as prorate and defer certain payments. The Wisconsin Statutes provide that all payments shall be in accordance with the following order of preference:

- All direct and indirect payments of principal and interest on State general obligation debt have first priority and may not be prorated or reduced.
- All direct and indirect payments of principal and interest on operating notes have second priority and may not be prorated or reduced.
- All State employee payrolls have third priority and may be prorated or reduced.
- All other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced. The Secretary of Administration has covenanted to give high priority to payments due under the Master Lease Program, debt service due on the General Fund Annual Appropriation Bonds, and appropriations to the Wisconsin Center District in the approximate amount of \$8 million to assist in the development and construction of a new arena in Milwaukee, Wisconsin, pursuant to contracts entered into in connection with the issuance of the related obligations.

Table II-15 presents the actual cash balances available for temporary reallocation from July 31, 2015 through October 31, 2017 and the projected balances for November 30, 2017 through June 30, 2018. The available cash balances are presented in two different tables; one table does not include balances in the

Local Government Investment Pool (LGIP), while the second table does include such balances. Though the LGIP is available for temporary reallocation, funds in the LGIP are deposited and withdrawn by local units of government and thus are outside the control of the State.

Tables II-16 and II-17 are each presented over two pages and include recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the 2016-17 fiscal year final as compared to the prior fiscal year, and July 1, 2017 to October 31, 2017 as compared to the period of July 1, 2016 to October 31, 2016. These tables present information that is based on the revenues and expenditures that are recorded in, or processed through, the State's central accounting system and across all State agencies. There may be differences between the tax revenues shown in Table II-16 and those reported by the Department of Revenue from time to time in its monthly general purpose revenue collections report; the Department of Revenue report only includes general purpose revenues or taxes that are actually collected by the Department of Revenue while certain revenues are collected by other State agencies.

Table II-11

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2016 TO JUNE 30, 2017<sup>(a)</sup>

	July	August	September	October	November	December	January	February	March	April	May	June
	2016	2016	2016	2016	2016	2016	2017	2017	2017	2017	2017	2017
<b>BALANCES<sup>(a)(b)</sup></b>												
Beginning Balance	\$ 1,060,311	\$ (146,310)	\$ 818,825	\$ 1,125,530	\$ 1,903,622	\$ 1,732,927	\$ 1,276,921	\$ 2,410,606	\$ 2,274,361	\$ 1,028,521	\$ 1,269,831	\$ 1,847,110
Ending Balance <sup>(c)</sup>	(146,310)	818,825	1,125,530	1,903,622	1,732,927	1,276,921	2,410,606	2,274,361	1,028,521	1,269,831	1,847,110	1,369,479
Lowest Daily Balance <sup>(c)</sup>	(217,092)	(147,381)	245,613	980,562	1,497,053	14,077	1,121,221	2,074,167	940,512	780,115	1,167,644	836,378
<b>RECEIPTS</b>												
<b>TAX RECEIPTS</b>												
Individual Income	\$ 487,412	\$ 798,604	\$ 816,815	\$ 767,801	\$ 559,830	\$ 664,948	\$ 1,301,636	\$ 596,975	\$ 742,226	\$ 1,144,772	\$ 807,826	\$ 798,812
Sales & Use	509,403	491,367	490,404	480,185	455,468	431,654	525,871	397,667	388,496	449,505	447,089	482,377
Corporate Income	31,799	28,898	190,159	41,838	32,721	191,018	53,526	55,135	197,471	84,769	59,480	185,054
Public Utility	25	26	301	16,001	204,109	131	2	51	6	5,209	189,908	15
Excise	65,149	61,593	65,727	62,193	61,036	57,047	56,544	54,403	50,740	52,210	55,362	66,758
Insurance	228	5,804	35,999	75	4,574	38,863	335	16,019	18,544	39,020	5,351	39,698
<b>Subtotal Tax Receipts</b>	<b>\$ 1,094,016</b>	<b>\$ 1,386,292</b>	<b>\$ 1,599,405</b>	<b>\$ 1,368,093</b>	<b>\$ 1,317,738</b>	<b>\$ 1,383,661</b>	<b>\$ 1,937,914</b>	<b>\$ 1,120,250</b>	<b>\$ 1,397,483</b>	<b>\$ 1,775,485</b>	<b>\$ 1,565,016</b>	<b>\$ 1,572,714</b>
<b>NON-TAX RECEIPTS</b>												
Federal	\$ 755,424	\$ 1,009,232	\$ 852,227	\$ 529,813	\$ 719,421	\$ 721,757	\$ 620,495	\$ 980,025	\$ 999,511	\$ 585,180	\$ 666,385	\$ 956,891
Other & Transfers	515,928	450,330	619,385	632,168	384,789	484,043	383,800	620,741	291,382	472,057	350,111	468,606
<b>Subtotal Non-Tax Receipts</b>	<b>\$ 1,271,352</b>	<b>\$ 1,459,562</b>	<b>\$ 1,471,612</b>	<b>\$ 1,161,981</b>	<b>\$ 1,104,210</b>	<b>\$ 1,205,800</b>	<b>\$ 1,004,295</b>	<b>\$ 1,600,766</b>	<b>\$ 1,290,893</b>	<b>\$ 1,057,237</b>	<b>\$ 1,016,496</b>	<b>\$ 1,425,497</b>
<b>TOTAL RECEIPTS</b>	<b>\$ 2,365,368</b>	<b>\$ 2,845,854</b>	<b>\$ 3,071,017</b>	<b>\$ 2,530,074</b>	<b>\$ 2,421,948</b>	<b>\$ 2,589,461</b>	<b>\$ 2,942,209</b>	<b>\$ 2,721,016</b>	<b>\$ 2,688,376</b>	<b>\$ 2,832,722</b>	<b>\$ 2,581,512</b>	<b>\$ 2,998,211</b>
<b>DISBURSEMENTS</b>												
Local Aids	\$ 1,604,248	\$ 189,043	\$ 793,131	\$ 100,094	\$ 868,104	\$ 1,250,587	\$ 166,655	\$ 657,933	\$ 1,447,381	\$ 108,524	\$ 204,388	\$ 1,833,694
Income Maintenance	985,172	719,310	773,713	726,744	754,110	833,525	747,048	786,840	846,860	731,964	745,043	535,782
Payroll and Related	301,415	323,227	502,723	303,117	437,896	413,804	442,970	367,815	632,966	373,713	421,173	479,571
Tax Refunds	87,392	92,922	90,360	117,565	138,543	155,781	65,727	519,877	528,330	464,497	159,372	129,651
Debt Service	250,746	-	-	116,003	-	-	-	-	-	487,726	36,759	-
Miscellaneous	343,016	556,217	604,385	388,459	393,990	391,770	386,124	524,796	478,679	424,988	437,498	497,144
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 3,571,989</b>	<b>\$ 1,880,719</b>	<b>\$ 2,764,312</b>	<b>\$ 1,751,982</b>	<b>\$ 2,592,643</b>	<b>\$ 3,045,467</b>	<b>\$ 1,808,524</b>	<b>\$ 2,857,261</b>	<b>\$ 3,934,216</b>	<b>\$ 2,591,412</b>	<b>\$ 2,004,233</b>	<b>\$ 3,475,842</b>

(a) The results in this table reflect the budget for the 2016-17 fiscal year (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2017 LFB Report as confirmed in the May 2017 LFB Report. These do not include temporary reallocations of cash.

(b) The General Fund cash balances presented in this schedule are not based on generally accepted accounting principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. These designated funds ranged from \$1.1 billion to \$1.8 billion during the 2016-17 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds have averaged approximately \$25 million during each fiscal year.

(c) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund may be in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the total general-purpose revenue appropriations then in effect with an additional amount up to 3% for a period of up to 30 days. The resulting amounts available for temporary reallocation in the 2016-17 fiscal year are approximately \$1.531 billion and \$510 million, respectively. If the amount available for temporary reallocation to the General Fund is not sufficient, then the Secretary of Administration is authorized to set priorities for payments from the General Fund and to prorate or defer certain payments.

**Source: Wisconsin Department of Administration**

Table II-11—(Continued)

**ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2017 TO OCTOBER 31, 2017**  
**PROJECTED GENERAL FUND CASH FLOW; NOVEMBER 1, 2017 TO JUNE 30, 2018<sup>(a)</sup>**

	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
<b>BALANCES</b> <sup>(a)(b)</sup>												
Beginning Balance	\$ 1,369,479	\$ 683,578	\$ 774,773	\$ 1,131,482	\$ 2,252,934	\$ 1,948,149	\$ 1,301,643	\$ 2,688,210	\$ 2,554,747	\$ 1,012,561	\$ 1,522,911	\$ 1,930,849
Ending Balance <sup>(c)</sup>	683,578	774,773	1,131,482	2,252,934	1,948,149	1,301,643	2,688,210	2,554,747	1,012,561	1,522,911	1,930,849	1,505,646
Lowest Daily Balance <sup>(c)</sup>	366,105	(43,568)	403,680	1,131,482	1,647,880	196,586	923,838	1,927,115	1,012,560	520,239	1,161,123	1,128,727
<b>RECEIPTS</b>												
<b>TAX RECEIPTS</b>												
Individual Income	\$ 737,127	\$ 582,634	\$ 694,115	\$ 938,898	\$ 636,356	\$ 540,671	\$ 1,418,373	\$ 694,373	\$ 595,576	\$ 1,502,608	\$ 673,075	\$ 740,367
Sales & Use	520,841	521,403	494,469	539,293	480,330	440,892	541,551	413,058	396,685	458,769	460,771	499,312
Corporate Income	42,449	25,114	186,257	34,644	25,430	202,744	41,215	41,258	227,735	65,789	42,952	208,345
Public Utility	57	31	102	13,169	211,940	136	2	53	6	5,409	197,194	15
Excise	68,987	59,845	63,536	57,450	62,225	57,164	60,657	47,257	52,816	58,661	57,093	62,226
Insurance	100	2,810	40,427	319	4,696	39,902	344	16,447	19,040	40,063	5,495	40,759
<b>Subtotal Tax Receipts</b>	<b>\$ 1,369,561</b>	<b>\$ 1,191,837</b>	<b>\$ 1,478,906</b>	<b>\$ 1,583,773</b>	<b>\$ 1,420,977</b>	<b>\$ 1,281,509</b>	<b>\$ 2,062,142</b>	<b>\$ 1,212,446</b>	<b>\$ 1,291,858</b>	<b>\$ 2,131,299</b>	<b>\$ 1,436,580</b>	<b>\$ 1,551,024</b>
<b>NON-TAX RECEIPTS</b>												
Federal	\$ 875,292	\$ 683,556	\$ 816,059	\$ 781,061	\$ 678,991	\$ 678,282	\$ 853,315	\$ 910,928	\$ 806,697	\$ 646,633	\$ 702,080	\$ 803,872
Other & Transfers	572,745	338,112	771,078	650,972	386,375	488,496	427,407	666,564	414,337	512,788	410,149	625,426
Note Proceeds	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal Non-Tax Receipts</b>	<b>\$ 1,448,037</b>	<b>\$ 1,021,668</b>	<b>\$ 1,587,137</b>	<b>\$ 1,432,033</b>	<b>\$ 1,065,366</b>	<b>\$ 1,166,778</b>	<b>\$ 1,280,722</b>	<b>\$ 1,577,492</b>	<b>\$ 1,221,034</b>	<b>\$ 1,159,421</b>	<b>\$ 1,112,229</b>	<b>\$ 1,429,298</b>
<b>TOTAL RECEIPTS</b>	<b>\$ 2,817,598</b>	<b>\$ 2,213,505</b>	<b>\$ 3,066,043</b>	<b>\$ 3,015,806</b>	<b>\$ 2,486,343</b>	<b>\$ 2,448,287</b>	<b>\$ 3,342,864</b>	<b>\$ 2,789,938</b>	<b>\$ 2,512,892</b>	<b>\$ 3,290,720</b>	<b>\$ 2,548,809</b>	<b>\$ 2,980,322</b>
<b>DISBURSEMENTS</b>												
Local Aids	\$ 1,382,827	\$ 181,849	\$ 768,273	\$ 87,585	\$ 937,804	\$ 1,308,208	\$ 148,454	\$ 624,152	\$ 1,625,217	\$ 133,533	\$ 106,869	\$ 1,917,122
Income Maintenance	996,906	805,222	729,256	726,034	865,556	810,594	793,073	820,944	870,536	864,301	861,264	320,790
Payroll and Related	331,436	425,567	476,684	385,741	468,926	382,875	472,549	418,787	578,167	337,490	407,029	514,329
Tax Refunds	94,736	100,074	94,295	118,786	115,502	178,281	89,412	556,584	546,800	508,481	167,954	139,417
Debt Service	192,497	-	-	139,342	5,664	257	-	5,664	-	541,820	97,957	256
Miscellaneous	505,097	609,598	640,826	436,866	397,676	414,579	452,809	497,270	434,358	394,745	499,798	513,611
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 3,503,499</b>	<b>\$ 2,122,310</b>	<b>\$ 2,709,334</b>	<b>\$ 1,894,354</b>	<b>\$ 2,791,129</b>	<b>\$ 3,094,793</b>	<b>\$ 1,956,297</b>	<b>\$ 2,923,401</b>	<b>\$ 4,055,078</b>	<b>\$ 2,780,370</b>	<b>\$ 2,140,871</b>	<b>\$ 3,405,525</b>

(a) The results, projections, or estimates in this table reflect the enacted budget for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2017 LFB Report as confirmed in the May 2017 LFB Report. Temporary reallocations of cash are not included.

(b) The General Fund cash balances presented in this schedule are not based on generally accepted accounting principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. These designated funds ranged from \$1.1 billion to \$2.4 billion during the 2015-16, \$1.1 billion to \$1.8 billion in the 2016-17 fiscal year and are anticipated to range from \$1.1 billion to \$1.8 billion in the 2017-18 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds have averaged and are expected to continue to average approximately \$25 million during each fiscal year.

(c) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund may be in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the total general-purpose revenue appropriations then in effect with an additional amount up to 3% for a period of up to 30 days. The resulting amounts available for temporary reallocation in the 2017-18 fiscal year are approximately \$1.519 billion and \$506 million, respectively. If the amount available for temporary reallocation to the General Fund is not sufficient, then the Secretary of Administration is authorized to set priorities for payments from the General Fund and to prorate or defer certain payments.

Source: Wisconsin Department of Administration

**Table II-12**  
**HISTORICAL GENERAL FUND CASH FLOW**  
**ACTUAL FISCAL YEARS 2013-2014 TO 2016-2017<sup>(a)</sup>**  
**ACTUAL AND PROJECTED GENERAL FUND CASH FLOW FISCAL YEAR 2017-2018<sup>(a)(b)</sup>**

	<u>Actual</u> <u>2013-14</u> <u>Fiscal Year</u>	<u>Actual</u> <u>2014-15</u> <u>Fiscal Year</u>	<u>Actual</u> <u>2015-16</u> <u>Fiscal Year</u>	<u>Actual</u> <u>2016-17</u> <u>Fiscal Year</u>	<u>Actual</u> <u>2017-18 YTD</u> <u>6/31/2017 - 10/31/2017</u> <u>Estimated</u> <u>11/31/2017 - 6/30/2018</u>
<b>RECEIPTS</b>					
<b>Tax Receipts</b>					
Individual Income	\$ 9,093,741	\$ 8,834,854	\$ 9,058,349	\$ 9,487,657	\$ 9,754,174
Sales	4,890,683	5,149,353	5,425,943	5,549,486	5,767,374
Corporate Income	1,075,966	1,167,126	1,173,106	1,151,868	1,143,932
Public Utility	365,105	373,082	404,820	415,784	428,114
Excise	691,507	705,796	710,742	708,762	707,917
Insurance	105,124	97,612	62,730	204,510	210,402
<b>Total Tax Receipts</b>	<b>\$ 16,222,126</b>	<b>\$ 16,327,823</b>	<b>\$ 16,835,690</b>	<b>\$ 17,518,067</b>	<b>\$ 18,011,913</b>
<b>Non-Tax Receipts</b>					
Federal	\$ 9,121,758	\$ 9,195,173	\$ 9,375,674	\$ 9,396,361	\$ 9,236,766
Other and Transfers	5,033,394	5,468,954	4,790,882	5,673,340	6,264,449
<b>Total Non-Tax Receipts</b>	<b>\$ 14,155,152</b>	<b>\$ 14,664,127</b>	<b>\$ 14,166,556</b>	<b>\$ 15,069,701</b>	<b>\$ 15,501,215</b>
<b>TOTAL RECEIPTS</b>	<b>\$ 30,377,278</b>	<b>\$ 30,991,950</b>	<b>\$ 31,002,246</b>	<b>\$ 32,587,768</b>	<b>\$ 33,513,128</b>
<b>DISBURSEMENTS</b>					
Local Aids	\$ 8,400,938	\$ 8,796,013	\$ 8,575,297	\$ 9,223,782	\$ 9,221,893
Income Maintenance	7,952,437	8,319,192	8,848,420	9,186,111	9,464,476
Payroll & Related	4,779,633	5,035,483	5,126,869	5,000,390	5,199,580
Tax Refunds	2,839,727	2,562,911	2,508,923	2,550,017	2,710,322
Debt Service	1,118,715	899,619	952,280	891,234	983,457
Miscellaneous	5,611,799	5,508,775	5,300,700	5,427,066	5,797,233
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 30,703,249</b>	<b>\$ 31,121,993</b>	<b>\$ 31,312,489</b>	<b>\$ 32,278,600</b>	<b>\$ 33,376,961</b>
<b>NET CASH FLOW</b>	<b>\$ (325,971)</b>	<b>\$ (130,043)</b>	<b>\$ (310,243)</b>	<b>\$ 309,168</b>	<b>\$ 136,167</b>

(a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly General Fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.

(b) The results, projections and estimates for fiscal year 2017-18 (cash basis) reflect the enacted budget for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2017 LFB Report and confirmed in the May 2017 LFB Report.

**Source: Wisconsin Department of Administration**

**Table II-13**  
**GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE**  
**COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR<sup>(a)</sup>**  
**(Cash Basis)**  
**Final 2016-17 Fiscal Year**

<u>2015-16 Fiscal Year through June 30, 2016</u>	<u>2016-17 Fiscal Year through June 30, 2017</u>					
	<u>Actual</u>	<u>Actual</u>	<u>Estimate<sup>(b)</sup></u>	<u>Variance</u>	<u>Adjusted Variance<sup>(c)</sup></u>	<u>Difference FY16 Actual to FY17 Actual</u>
<b>RECEIPTS</b>						
<b>Tax Receipts</b>						
Individual Income	\$ 9,058,349	\$ 9,487,657	\$ 9,472,648	\$ 15,009	\$ 15,009	\$ 429,308
Sales	5,425,943	5,549,486	5,583,709	(34,223)	(34,223)	123,543
Corporate Income	1,173,106	1,151,868	1,267,083	(115,215)	(115,215)	(21,238)
Public Utility	404,820	415,784	416,367	(583)	(583)	10,964
Excise	710,742	708,762	709,109	(347)	(347)	(1,980)
Insurance	62,730	204,510	49,110	155,400	155,400	141,780
<b>Total Tax Receipts</b>	<b>\$ 16,835,690</b>	<b>\$ 17,518,067</b>	<b>\$ 17,498,025</b>	<b>\$ 20,042</b>	<b>\$ 20,042</b>	<b>\$ 682,377</b>
<b>Non-Tax Receipts</b>						
Federal	\$ 9,375,674	\$ 9,396,361	\$ 9,455,291	\$ (58,930)	\$ (58,930)	\$ 20,687
Other and Transfers	4,790,882	5,673,340	5,592,585	80,755	80,755	882,458
<b>Total Non-Tax Receipts</b>	<b>\$ 14,166,556</b>	<b>\$ 15,069,701</b>	<b>\$ 15,047,876</b>	<b>\$ 21,825</b>	<b>\$ 21,825</b>	<b>\$ 903,145</b>
<b>TOTAL RECEIPTS</b>	<b>\$ 31,002,246</b>	<b>\$ 32,587,768</b>	<b>\$ 32,545,901</b>	<b>\$ 41,867</b>	<b>\$ 41,867</b>	<b>\$ 1,585,522</b>
<b>DISBURSEMENTS</b>						
Local Aids	\$ 8,575,297	\$ 9,223,782	\$ 9,216,759	\$ (7,023)	\$ (7,023)	\$ 648,485
Income Maintenance	8,848,420	9,186,111	9,201,042	14,931	14,931	337,691
Payroll & Related	5,126,869	5,000,390	5,058,563	58,173	58,173	(126,479)
Tax Refunds	2,508,923	2,550,017	2,673,670	123,653	123,653	41,094
Debt Service	952,280	891,234	1,052,056	160,822	160,822	(61,046)
Miscellaneous	5,300,700	5,427,066	5,441,712	14,646	14,646	126,366
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 31,312,489</b>	<b>\$ 32,278,600</b>	<b>\$ 32,643,802</b>	<b>\$ 365,202</b>	<b>\$ 365,202</b>	<b>\$ 966,111</b>
<b>2016-17 FISCAL YEAR VARIANCE YEAR-TO-DATE</b>				<b>\$ 407,069</b>	<b>\$ 407,069</b>	

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly General Fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.
- (b) The results in this table for the 2016-17 fiscal year reflect the budget bill for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2017 LFB Report as confirmed in the May 2017 LFB Report.
- (c) Changes are sometimes made after the beginning of the fiscal year to the projected revenues and disbursements. Depending on when these changes occur, there are situations in which prior estimates cannot be changed, which may result in large variances. This column includes adjustments to the variances, if any, to more accurately reflect the variance between the estimated and actual amounts.

**Source: Wisconsin Department of Administration**

**Table II-13—(Continued)**

**GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE  
COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR<sup>(a)</sup>**

**(Cash Basis)**

**As of October 31, 2017 (2017-18 Fiscal Year)**

	<u>2016-17 Fiscal Year through October 31, 2016</u>	<u>2017-18 Fiscal Year through October 31, 2017</u>					Difference FY16 Actual to FY17 Actual
	<u>Actual</u>	<u>Actual</u>	<u>Estimate<sup>(b)</sup></u>	<u>Variance</u>	<u>Adjusted Variance<sup>(c)</sup></u>		
<b>RECEIPTS</b>							
<b>Tax Receipts</b>							
Individual Income	\$ 2,870,632	\$ 2,952,774	\$ 2,902,150	\$ 50,624	\$ 50,624	\$ 82,142	
Sales	1,971,359	2,076,006	2,024,156	51,850	51,850	104,647	
Corporate Income	292,694	288,464	347,594	(59,130)	(59,130)	(4,230)	
Public Utility	16,353	13,359	16,981	(3,622)	(3,622)	(2,994)	
Excise	254,662	249,818	254,674	(4,856)	(4,856)	(4,844)	
Insurance	42,106	43,656	43,232	424	424	1,550	
<b>Total Tax Receipts</b>	<b>\$ 5,447,806</b>	<b>\$ 5,624,077</b>	<b>\$ 5,588,787</b>	<b>\$ 35,290</b>	<b>\$ 35,290</b>	<b>\$ 176,271</b>	
<b>Non-Tax Receipts</b>							
Federal	\$ 3,146,696	\$ 3,155,968	\$ 3,223,082	\$ (67,114)	\$ 9,272	\$ 9,272	
Other and Transfers	2,217,811	2,332,907	2,236,765	96,142	115,096	115,096	
<b>Total Non-Tax Receipts</b>	<b>\$ 5,364,507</b>	<b>\$ 5,488,875</b>	<b>\$ 5,459,847</b>	<b>\$ 29,028</b>	<b>\$ 124,368</b>	<b>\$ 124,368</b>	
<b>TOTAL RECEIPTS</b>	<b>\$ 10,812,313</b>	<b>\$ 11,112,952</b>	<b>\$ 11,048,634</b>	<b>\$ 64,318</b>	<b>\$ 159,658</b>	<b>\$ 300,639</b>	
<b>DISBURSEMENTS</b>							
Local Aids	\$ 2,686,516	\$ 2,420,534	\$ 2,515,089	\$ 94,555	\$ 94,555	\$ (265,982)	
Income Maintenance	3,204,939	3,257,418	3,511,393	253,975	253,975	52,479	
Payroll & Related	1,430,482	1,619,428	1,596,807	(22,621)	(22,621)	188,946	
Tax Refunds	388,239	407,891	415,264	7,373	7,373	19,652	
Debt Service	366,749	331,839	382,522	50,683	50,683	(34,910)	
Miscellaneous	1,892,077	2,192,387	1,923,852	(268,535)	(268,535)	300,310	
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 9,969,002</b>	<b>\$ 10,229,497</b>	<b>\$ 10,344,927</b>	<b>\$ 115,430</b>	<b>\$ 115,430</b>	<b>\$ 260,495</b>	
<b>2017-18 FISCAL YEAR VARIANCE YEAR-TO-DATE</b>				<b>\$ 179,748</b>	<b>\$ 179,748</b>		

<sup>(a)</sup> None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly General Fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.

<sup>(b)</sup> The results, projections, and estimates in this table for the 2017-18 fiscal year reflect the budget bill for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2017 LFB Report as confirmed in the May 2017 LFB Report.

<sup>(c)</sup> Changes are sometimes made after the beginning of the fiscal year to the projected revenues and disbursements. Depending on when these changes occur, there are situations in which prior estimates cannot be changed, which may result in large variances. This column includes adjustments to the variances, if any, to more accurately reflect the variance between the estimated and actual amounts.

**Source: Wisconsin Department of Administration**



**Table II-14**

**GENERAL FUND MONTHLY CASH POSITION<sup>(a)</sup>  
July 31, 2015 through October 31, 2017 — Actual  
November 30, 2017 through June 30, 2018 — Estimated<sup>(b)</sup>  
(Amounts in Thousands)**

	<u>Starting Date</u>	<u>Starting Balance</u>	<u>Receipts<sup>(c)</sup></u>	<u>Disbursements<sup>(c)</sup></u>
2015	July.....	\$ 1,370,554	\$ 2,622,023	\$ 3,523,484
	August.....	469,093	1,965,328	1,705,255
	September.....	729,166	3,055,596	2,581,501
	October.....	1,203,261	2,296,817	1,942,430
	November.....	1,557,648	2,439,966	2,376,141
	December.....	1,621,473	2,517,748	2,939,777
2016	January.....	1,199,444	2,590,587	1,886,391
	February.....	1,903,640	3,053,750	2,926,414
	March.....	2,030,976	2,485,380	3,341,140
	April.....	1,175,216	2,816,953	2,903,535
	May.....	1,088,634	2,454,537	1,595,440
	June.....	1,947,731	2,703,561	3,590,981
	July.....	1,060,311 <sup>(d)</sup>	2,365,368	3,571,989
	August.....	(146,310) <sup>(d)</sup>	2,845,854	1,880,719
	September.....	818,825	3,071,017	2,764,312
	October.....	1,125,530	2,530,074	1,751,982
	November.....	1,903,622	2,421,948	2,592,643
	December.....	1,732,927	2,589,461	3,045,467
2017	January.....	1,276,921	2,942,209	1,808,524
	February.....	2,410,606	2,721,016	2,857,261
	March.....	2,274,361	2,688,376	3,934,216
	April.....	1,028,521	2,832,722	2,591,412
	May.....	1,269,831	2,581,512	2,004,233
	June.....	1,847,110	2,998,211	3,475,842
	July.....	1,369,479	2,817,598	3,503,499
	August.....	683,578 <sup>(d)</sup>	2,213,505	2,122,310
	September.....	774,773	3,066,043	2,709,334
	October.....	1,131,482	3,015,806	1,894,354
November.....	2,252,934	2,486,343	2,791,129	
December.....	1,948,148	2,448,287	3,094,793	
2018	January.....	1,301,642	3,342,864	1,956,297
	February.....	2,688,210	2,789,938	2,923,401
	March.....	2,554,747	2,512,892	4,055,078
	April.....	1,012,561	3,290,720	2,780,370
	May.....	1,522,911	2,548,809	2,140,871
	June.....	1,930,849	2,980,332	3,405,525

<sup>(a)</sup> The General Fund balances presented in this table are not based on generally accepted accounting principles (GAAP).

<sup>(b)</sup> The results for the 2015-16 and 2016-17 fiscal years reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55). The projections and estimates for the 2017-18 fiscal year reflect 2017 Wisconsin Act 59, and the January 2017 LFB Report as confirmed in the May 2017 LFB Report.

<sup>(c)</sup> Operating notes have not been issued for the 2015-16 or 2016-17 fiscal years. It is not anticipated that operating notes will be issued for the 2017-18 fiscal year.

<sup>(d)</sup> At some period during this month, the General Fund was in a negative cash position. The Wisconsin Statutes provide certain administrative remedies for periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund up to 9% of the total general purpose revenue appropriations then in effect (approximately \$1.531 billion in the 2016-17 fiscal year and \$1.519 billion in the 2017-18 fiscal year) and may also temporarily reallocate an additional amount of up to 3% of total general purpose revenue appropriations in effect (approximately \$510 million in the 2016-17 fiscal year and \$506 million in the 2017-18 fiscal year) for a period of up to 30 days. If the amount available for temporary reallocation to the General Fund is insufficient, then the Secretary of Administration is authorized to set priorities for payments from the General Fund and to prorate and defer certain payments.

**Source: Wisconsin Department of Administration**

**Table II-15**  
**CASH BALANCES IN FUNDS AVAILABLE FOR TEMPORARY REALLOCATION<sup>(a)</sup>**  
**July 31, 2015 to October 31, 2017 — Actual**  
**November 30, 2017 to June 30, 2018 — Estimated**  
(Amounts in Millions)

The following two tables show, the monthly cash balances available for temporary reallocation. The first table does not include balances in the Local Government Investment Pool (LGIP), and the second table does include such balances. Though the LGIP is available for temporary reallocation, funds in the LGIP are deposited and withdrawn by local units of government and thus are outside the control of the State. The monthly average daily balances in the LGIP for the past five years have ranged from a low of \$2.18 billion during November 2013 to a high of \$3.88 billion in August 2016. The Secretary of Administration may not exercise the authority to make temporary reallocation if doing so would jeopardize the cash flow of any fund or account from which the temporary reallocation would be made.

**Available Balances; Does Not Include Balances in the LGIP**

<b><u>Month (Last Day)</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
January .....		\$1,613	\$1,442	\$1,442
February .....		1,613	1,305	1,305
March .....		1,612	1,356	1,356
April .....		1,575	1,302	1,302
May .....		1,517	1,361	1,361
June .....		1,752	1,289	1,289
July .....	1,245	1,597	1,388	
August .....	1,359	1,481	1,464	
September .....	1,674	1,622	1,524	
October .....	1,303	1,420	1,304	
November .....	1,277	1,390	1,390	
December .....	1,557	1,683	1,683	

**Available Balances; Includes Balances in the LGIP**

<b><u>Month (Last Day)</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
January .....		\$4,639	\$5,115	\$5,115
February .....		4,871	5,050	5,050
March .....		5,177	5,289	5,289
April .....		4,969	4,901	4,901
May .....		4,756	4,600	4,600
June .....		4,905	4,461	4,461
July .....	\$4,642	5,803	5,461	
August .....	4,071	4,750	4,762	
September .....	4,249	4,663	4,670	
October .....	3,589	4,292	4,103	
November .....	3,621	4,120	4,120	
December .....	4,275	4,902	4,902	

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly General Fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.
- (b) The amounts shown reflect a reduction in the aggregate cash balances available to the extent any fund had a negative balance and temporary reallocations were made from such fund.
- (c) The results for the 2015-16 and 2016-17 fiscal years reflect the enacted budget reflect 2015 Wisconsin Act 55. The estimates and projections for the 2017-18 fiscal year reflect 2017 Wisconsin Act 59 and the January 2017 LFB Report as confirmed in the May 2017 LFB Report.

**Source: Wisconsin Department of Administration**

**Table II-16**

**2016-2017 FISCAL YEAR**

**GENERAL FUND RECORDED REVENUES<sup>(a)</sup>**

**(Agency-Recorded Basis)**

**July 1, 2016 to June 30, 2017 compared with previous year<sup>(b)</sup>**

	<b>Annual Fiscal Report Revenues <u>2015-16 Fiscal Year<sup>(b)</sup></u></b>	<b>Projected Revenues <u>2016-17 Fiscal Year<sup>(c)</sup></u></b>	<b>Recorded Revenues July 1, 2015 to <u>June 30, 2016<sup>(d)</sup></u></b>	<b>Recorded Revenues July 1, 2016 to <u>June 30, 2017<sup>(e)</sup></u></b>
Individual Income Tax .....	\$ 7,740,825,000	\$ 8,238,400,000	\$ 7,742,095,770	\$ 8,040,565,460
General Sales and Use Tax .....	5,065,762,000	5,223,960,000	5,065,762,290	5,223,935,061
Corporate Franchise and Income Tax .....	963,027,000	1,015,700,000	963,027,018	920,946,841
Public Utility Taxes .....	360,597,000	373,400,000	360,596,994	360,472,829
Excise Taxes .....	708,509,000	676,850,000	708,730,601	705,870,580
Inheritance Taxes .....	1,745,000	-	1,745,000	1,744,736
Insurance Company Taxes .....	177,326,000	187,000,000	177,326,291	181,584,219
Miscellaneous Taxes .....	79,698,000	76,300,000	119,958,510	112,560,817
SUBTOTAL.....	<u>15,097,489,000</u>	<u>15,791,610,000</u>	<u>15,139,242,474</u>	<u>15,547,680,543</u>
Federal and Other Inter- Governmental Revenues <sup>(f)</sup> .....	10,009,068,000	10,668,877,300	10,058,160,495	9,992,784,266
Dedicated and Other Revenues <sup>(g)</sup> .....	<u>6,065,629,000</u>	<u>6,718,222,600</u>	<u>6,002,265,759</u>	<u>6,361,265,914</u>
TOTAL.....	<u>\$ 31,172,186,000</u>	<u>\$ 33,178,709,900</u>	<u>\$ 31,199,668,728</u>	<u>\$ 31,901,730,723</u>

(a) The revenues in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented in this table has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2015-16 fiscal year, dated October 15, 2015 and subsequently restated on November 21, 2016.

(c) The estimates and projections for the 2016-17 fiscal year (cash basis) reflect the 2015-17 biennial budget (2015 Wisconsin Act 55) but do not reflect the estimated General Fund tax revenues included in a report from the LFB in January 2016, the November 2016 DOA Report and the January 2017 LFB Report as confirmed in the May 2017 LFB Report.

(d) The amounts shown are 2015-16 fiscal year general purpose revenues and program revenues taxes as recorded by all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report (i)only includes general purpose revenues or taxes that are actually collected by DOR (and not by other State agencies), and (ii) may include accruals or other adjustments that may not be recorded by State agencies until a subsequent month.

(e) The amounts shown are 2016-17 fiscal year general purpose revenues and program revenues taxes as recorded by all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report (i)only includes general purpose revenues or taxes that are actually collected by DOR (and not by other State agencies), and (ii) may include accruals or other adjustments that may not be recorded by State agencies until a subsequent month. <sup>(f)</sup> This category includes intergovernmental transfers. The amount of these transfers may vary greatly between fiscal years, and therefore this category may not be comparable on a historical basis.

(g) Certain transfers between General Fund appropriations are recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore this category may not be comparable on a historical basis.

**Source: Wisconsin Department of Administration**

**Table II-16—(Continued)**

**2017-2018 FISCAL YEAR**

**GENERAL FUND RECORDED REVENUES<sup>(a)</sup>**

**(Agency-Recorded Basis)**

**July 1, 2017 to October 31, 2017 compared with previous year<sup>(b)</sup>**

	<b>Annual Fiscal Report Revenues <u>2016-17 Fiscal Year</u><sup>(b)</sup></b>	<b>Projected Revenues <u>2017-18 Fiscal Year</u><sup>(c)</sup></b>	<b>Recorded Revenues July 1, 2016 to <u>October 31, 2016</u><sup>(d)</sup></b>	<b>Recorded Revenues July 1, 2017 to <u>October 31, 2017</u><sup>(e)</sup></b>
Individual Income Tax .....	\$ 8,039,506,000	\$ 8,379,980,000	\$ 2,342,895,330	\$ 2,367,641,328
General Sales and Use Tax .....	5,223,935,000	5,383,804,900	1,313,857,144	1,395,237,652
Corporate Franchise and Income Tax .....	920,947,000	950,800,000	205,388,374	193,804,842
Public Utility Taxes .....	360,473,000	373,500,000	16,121,635	9,920,120
Excise Taxes .....	705,681,000	710,600,000	191,946,914	184,696,911
Inheritance Taxes .....	434,000	-	77,430	-4,526
Insurance Company Taxes .....	181,584,000	192,000,000	41,966,644	43,655,157
Miscellaneous Taxes .....	85,025,000	87,000,000	66,594,011	66,296,480
SUBTOTAL.....	<u>15,517,585,000</u>	<u>16,077,684,900</u>	<u>4,178,847,482</u>	<u>4,261,247,964</u>
Federal and Other Inter- Governmental Revenues <sup>(f)</sup> .....	10,431,105,000	10,624,981,400	3,196,285,112	3,348,919,907
Dedicated and Other Revenues <sup>(g)</sup> .....	<u>6,441,464,000</u>	<u>6,750,288,200</u>	<u>2,187,905,918</u>	<u>2,298,701,309</u>
TOTAL.....	<u>\$ 32,390,154,000</u>	<u>\$ 33,452,954,500</u>	<u>\$ 9,563,038,512</u>	<u>\$ 9,908,869,180</u>

- (a) The revenues in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented in this table has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.
- (b) The amounts are from the restated Annual Fiscal Report (budgetary basis) for the 2016-17 fiscal year, dated October 15, 2017
- (c) The estimates in this table for the 2017-18 fiscal year (cash basis) reflect the enacted budget for the 2017-19 biennial budget (2017 Wisconsin Act 59).
- (d) The amounts shown are 2016-17 fiscal year general purpose revenues and program revenues taxes as recorded by all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report (i)only includes general purpose revenues or taxes that are actually collected by DOR (and not by other State agencies), and (ii) may include accruals or other adjustments that may not be recorded by State agencies until a subsequent month.
- (e) The amounts shown are 2017-18 fiscal year general purpose revenues and program revenues taxes as recorded by all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report (i)only includes general purpose revenues or taxes that are actually collected by DOR (and not by other State agencies), and (ii) may include accruals or other adjustments that may not be recorded by State agencies until a subsequent month.
- (f) This category includes intergovernmental transfers. The amount of these transfers may vary greatly between fiscal years, and therefore this category may not be comparable on a historical basis.
- (g) Certain transfers between General Fund appropriations are recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore this category may not be comparable on a historical basis.

**Source: Wisconsin Department of Administration**

**Table II-17**

**2016-2017 FISCAL YEAR**

**GENERAL FUND RECORDED EXPENDITURES BY FUNCTION<sup>(a)</sup>**

**(Agency-Recorded Basis)**

**July 1, 2016 to June 30, 2017 compared with previous year<sup>(b)</sup>**

	<b>Annual Fiscal Report Expenditures 2015-16 Fiscal Year<sup>(b)</sup></b>	<b>Appropriations 2016-17 Fiscal Year<sup>(c)</sup></b>	<b>Recorded Expenditures July 1, 2015 to June 30, 2016<sup>(d)</sup></b>	<b>Recorded Expenditures July 1, 2016 to June 30, 2017<sup>(e)</sup></b>
Commerce.....	\$ 199,200,000	\$ 208,732,100	\$ 315,471,355	\$ 315,564,675
Education.....	12,795,785,000	13,475,926,900	12,787,670,879	13,393,301,710
Environmental Resources.....	305,488,000	321,761,500	304,565,917	321,530,203
Human Relations & Resources .....	14,048,751,000	14,014,356,300	14,115,447,623	14,382,568,082
General Executive.....	1,005,715,000	1,545,987,600	1,037,541,105	1,090,842,210
Judicial.....	130,937,000	137,569,900	130,929,112	139,030,432
Legislative.....	66,951,000	75,617,400	66,950,216	68,575,061
General Appropriations.....	<u>2,299,329,000</u>	<u>2,514,205,700</u>	<u>2,347,783,905</u>	<u>2,417,589,191</u>
TOTAL.....	<u>\$ 30,852,156,000</u>	<u>\$ 32,294,157,400</u>	<u>\$ 31,106,360,114</u>	<u>\$ 32,129,001,565</u>

(a) The expenditures in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented in this table has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2015-16 fiscal year, dated October 15, 2016.

(c) The estimates and projections for the 2016-17 fiscal year (cash basis) reflect the 2015-17 biennial budget (2015 Wisconsin Act 55), but do not reflect the November 2016 DOA Report or the January 2017 LFB Report.

(d) The amounts shown are 2015-16 fiscal year expenditures as recorded by all State agencies.

(e) The amounts shown are 2016-17 fiscal year expenditures as recorded by all State agencies.

**Source: Wisconsin Department of Administration**

**Table II-17—(Continued)**

**2017-2018 FISCAL YEAR**

**GENERAL FUND RECORDED EXPENDITURES BY FUNCTION<sup>(a)</sup>  
(Agency-Recorded Basis)  
July 1, 2017 to October 31, 2017 compared with previous year<sup>(b)</sup>**

	<b>Annual Fiscal Report Expenditures 2016-17 Fiscal Year<sup>(b)</sup></b>	<b>Appropriations 2017-18 Fiscal Year<sup>(c)</sup></b>	<b>Recorded Expenditures July 1, 2016 to October 31, 2016<sup>(d)</sup></b>	<b>Recorded Expenditures July 1, 2017 to October 31, 2017<sup>(e)</sup></b>
Commerce.....	\$ 209,017,000	\$ 200,578,100	\$ 60,621,397	\$ 60,923,550
Education.....	13,368,786,000	13,706,059,200	3,352,901,690	3,323,984,676
Environmental Resources.....	320,463,000	339,979,600	40,753,626	81,400,291
Human Relations & Resources .....	14,343,401,000	14,341,728,400	5,012,861,499	4,925,632,032
General Executive.....	1,075,321,000	1,146,065,800	494,676,442	433,137,222
Judicial.....	139,027,000	144,250,300	45,743,675	47,520,833
Legislative.....	68,575,000	76,520,900	18,240,793	19,011,328
General Appropriations.....	2,367,075,000	2,560,816,600	1,327,391,430	1,357,348,981
<b>TOTAL.....</b>	<b>\$ 31,891,665,000</b>	<b>\$ 32,515,998,900</b>	<b>\$ 10,353,190,552</b>	<b>\$ 10,248,958,913</b>

- (a) The expenditures in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented in this table has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.
- (b) The amounts are from the restated Annual Fiscal Report (budgetary basis) for the 2016-17 fiscal year, dated October 15, 2017.
- (c) The estimates and projections for the 2017-18 fiscal year (cash basis) reflect the 2017-19 biennial budget (2017 Wisconsin Act 59), the January 2017 LFB Report and the May 2017 LFB Report. <sup>(d)</sup> The amounts shown are 2016-17 fiscal year expenditures as recorded by all State agencies.
- (e) The amounts shown are 2017-18 fiscal year expenditures as recorded by all State agencies.

**Source: Wisconsin Department of Administration**

## General Fund History

Table II-18 presents the General Fund condition for the previous five years.

**Table II-18**  
**COMPARATIVE CONDITION OF GENERAL FUND<sup>(a)</sup>**  
**(As of June 30; Amounts in Thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>					
Cash & Investment Pool Shares.....	\$ 1,588,595	\$ 1,214,077	\$ 1,375,275	\$ 1,505,307	\$ 1,831,711
Contingent Fund Advances.....	2,776	2,774	2,909	2,931	2,939
<b>Receivables</b>					
Accounts Receivable.....	1,768,591	1,885,869	1,418,149	1,410,134	1,458,430
Due from Other Funds.....	92,666	85,276	160,950	206,976	182,348
Inventory.....	-	-	588	364	593
Prepayments.....	4,017	3,304	72,749	69,120	79,019
Other Assets.....	111,211	128,547	127,622	115,065	16,898
<b>TOTAL ASSETS.....</b>	<u>\$ 3,567,856</u>	<u>\$ 3,319,847</u>	<u>\$ 3,158,242</u>	<u>\$ 3,309,897</u>	<u>\$ 3,571,938</u>
<b>LIABILITIES</b>					
Accounts Payable.....	\$ 393,794	\$ 673,468	\$ 591,323	\$ 536,002	\$ 513,857
Due to Other Funds.....	66,970	63,915	337,782	194,579	454,770
Tax and Other Deposits.....	80,895	40,672	28,271	20,476	21,189
Deferred Revenue.....	191,895	197,131	185,747	175,201	163,382
<b>TOTAL LIABILITIES.....</b>	<u>\$ 733,554</u>	<u>\$ 975,186</u>	<u>\$ 1,143,123</u>	<u>\$ 926,258</u>	<u>\$ 1,153,198</u>
<b>FUND BALANCE</b>					
<b>Reserves</b>					
Encumbrances & GPR Balances .....	\$ 211,630	\$ 323,747	\$ 236,915	\$ 241,535	\$ 138,845
Program Revenue Balances.....	368,218	364,849	419,048	472,871	402,290
Total Reserves.....	\$ 579,848	\$ 688,596	\$ 655,963	\$ 714,406	\$ 541,135
Unreserved Balance-Undesignated....	2,254,454	1,656,065	1,359,156	1,669,233	1,987,605
<b>TOTAL FUND BALANCE.....</b>	<u>\$ 2,834,302</u>	<u>\$ 2,344,661</u>	<u>\$ 2,015,119</u>	<u>\$ 2,383,639</u>	<u>\$ 2,528,740</u>
<b>TOTAL LIABILITIES AND</b>					
<b>FUND BALANCE.....</b>	<u>\$ 3,567,856</u>	<u>\$ 3,319,847</u>	<u>\$ 3,158,242</u>	<u>\$ 3,309,897</u>	<u>\$ 3,681,938</u>

<sup>(a)</sup> The amounts shown are based on statutorily required accounting and not GAAP. The amounts are unaudited.

Source: Department of Administration

## STATE GOVERNMENT ORGANIZATION

The State is located in the Midwest. The State ranks 20th among the states in population and 25th in land area. Wisconsin attained statehood in 1848, its capital is the City of Madison, and its largest city is Milwaukee. The following is a summary of the general organization of, and services provided by, State government.

### General Organization

#### *Executive Branch*

The executive branch is under the direction of the Governor. The Governor is the chief executive officer of the State and is assisted by five elected constitutional officers (each elected to a four-year term):

- *Lieutenant Governor.* The Governor and Lieutenant Governor are elected on the same ballot. The Lieutenant Governor serves as Acting Governor during the absence or incapacity of the Governor.
- *Attorney General.* The Attorney General heads the State of Wisconsin Department of Justice, which provides all State agencies with legal advice and counsel.

- *State Treasurer.* The State Treasurer participates in the promotion of the State's unclaimed property program administered by the Department of Revenue, and signs certain checks and other financial instruments.
- *Secretary of State.* The Secretary of State keeps a record of the official acts of the Legislature and executive agencies.
- *Superintendent of Public Instruction.* The Superintendent of Public Instruction heads the State of Wisconsin Department of Public Instruction, which supervises the operations of and establishes standards for schools throughout the State.

The executive branch consists of 17 departments (including two headed by other constitutional officers), 11 independent agencies, and numerous other authorities.

#### *Legislative Branch*

The legislative branch consists of the Legislature and its subordinate service agencies. The Legislature is bicameral, composed of the Senate and the Assembly. The 33 members of the Senate serve staggered four-year terms, and the 99 members of the Assembly serve identical two-year terms. Both the Senate and the Assembly operate on a committee system. The Legislature's biennial session begins in odd-numbered years on the first Monday in January (or January 3<sup>rd</sup> if the first Monday is January 1<sup>st</sup> or January 2<sup>nd</sup>). By a joint resolution, the biennial session is divided into floor periods interspersed with committee work periods. In odd-numbered years, the Joint Committee on Legislative Organization develops a schedule for the two-year period. The Legislature also meets in special session when so called by the Governor and in extraordinary session when a majority from each branch signs a petition; at these times the Legislature may transact only that business for which the special or extraordinary session is called.

#### *Judicial Branch*

The judicial branch consists of:

- *Supreme Court.* The Supreme Court is composed of seven justices who are elected statewide for staggered ten-year terms.
- *Court of Appeals.* The Court of Appeals is composed of 16 judges who are elected district-wide for staggered six-year terms, generally sitting in three-judge panels.
- *Circuit Courts.* There are 69 Circuit Courts (the State's trial courts). Each has one or more branches and judges who are locally elected for six-year terms, and all are administered from ten judicial districts.

The State pays all costs of the Supreme Court and Court of Appeals and certain costs of the Circuit Courts.

### **Description of Services Provided by State Government**

The State provides a wide range of services to its residents and to its local government units. These services are organized for both budgetary and financial reporting of the General Fund into eight functional groupings. Each State agency is categorized into one or more of these functions. There are some agency activities that fit into more than one function. Listed below is a description of each function, an identification of those State agencies and boards within each function, and a brief summary of the responsibilities of each State agency.

#### *Commerce*

The State's involvement in the commerce function is in the regulation of conduct of commercial transactions. The objective is to protect the public as consumers of agricultural and manufactured goods and services and as participants in financial transactions. The State also actively promotes economic development by working with companies seeking to expand or move to the State and broadening markets for State goods and services. These objectives are met in several ways:



- Inspection of raw products and conditions under which they are grown or obtained, including conducting research in areas such as animal or plant diseases, grading of products, and establishing standards for contents of processed foods.
- Licensing of members of various trades and professions whose activities affect the health of individuals, such as doctors and nurses, or whose actions are considered important for public safety, such as architects and engineers.
- Maintaining an orderly market in which to conduct business and specifying methods of fair competition by:
  - ❑ regulating the rates that public utilities may charge for their services
  - ❑ setting standards for the operation of banks, savings and loan companies, and credit unions to protect depositors
  - ❑ regulating the sale of securities and insurance offered for sale in the State
  - ❑ approving or disapproving the establishment or discontinuance of transportation routes

Several State agencies participate in the field of commerce:

- *Department of Agriculture, Trade and Consumer Protection* provides consumer protection and regulates the conditions of the growth and processing of food and fair trade practices in general.
- *Department of Safety and Professional Services* supervises a variety of examining boards in various trades and professions and promotes industrial development.
- *Department of Financial Institutions* regulates securities transactions and supervises State-chartered banks, credit unions, and savings and loans. In addition, 2017 Wisconsin Act 59 transferred administration of the State's Section 529 College Savings Plans to the Department of Financial Institutions, from the Department of Administration. Further information about these Section 529 College Savings Plans can be found at [www.edvest.com](http://www.edvest.com) or [www.tomorrowsscholar.com](http://www.tomorrowsscholar.com) or at [info@edvest.com](mailto:info@edvest.com). These sites and materials are not incorporated into, nor are they a part of, the 2017 Annual Report.
- *Public Service Commission* regulates the rates and services offered by railroad companies and heat, light, power, and water companies. The commission also awards grants for expansion of broadband services to underserved areas of the State.
- *Department of Tourism* promotes the State's many attributes to visitors.

The *Wisconsin Economic Development Corporation* was created in 2011 to develop and implement economic and business development programs in the State. The Wisconsin Economic Development Corporation is a public body corporate and politic, has a 14-member board of directors whose chair is elected by the board from among the nonlegislative voting members, and receives appropriations from the State to fund its activities. Prior to 2011, the Wisconsin Department of Commerce provided economic development services.

### *Education*

The State views its responsibilities in education to encompass all levels, and nearly all types, of education and related activities. As a result the State provides significant financial support to primary and secondary schools, and technical colleges operated at the local level, assists private higher educational institutions, and operates the University of Wisconsin System.

- *Primary and Secondary Schools.* There were 424 school districts in the State for the 2016-17 school year, which administer the elementary and secondary schools within those districts. There were approximately 854,403 students attending public elementary and secondary schools in the 2016-17 school year. Elementary and secondary schools are operated by district boards, with supervision of the system provided by the Department of Public Instruction.

- *Technical Colleges.* The State is divided into 16 technical college districts. In the 2016-17 academic year, 307,607 full- and part-time students were enrolled in the technical college system. The technical colleges are operated by district boards, with supervision of the system provided by the Technical College System Board.
- *University of Wisconsin System.* The University of Wisconsin System consists of its doctoral campus in Madison (the largest campus in the State), its doctoral campus in Milwaukee, 11 other four-year degree-granting institutions, 13 two-year colleges, and the University of Wisconsin Extension. The system's total enrollment in 2016-17 was 175,825 students.

Other agencies and boards concerned with the education function of the State include the Educational Communications Board (which operates the State public radio network, the State public television network, and the State educational television network), the State Historical Society, and the Higher Educational Aids Board (which manages and oversees of the State's student financial aid system for residents attending institutions of higher education).

#### *Environmental Resources and Transportation*

Two major State agencies, the Department of Transportation and the Department of Natural Resources, are concerned with the development of transportation resources, and the protection of the land, forests, water, air, wildlife, and minerals of the State while promoting a healthy, sustainable environment.

The State works with municipal and industrial operations discharging wastewater to surface or groundwater to retain the purity of State lakes and streams and ensure quality groundwater for families, businesses, customers, and the community. The State also sets standards of air quality at a level that will provide adequate protection to public health and welfare, and prevent detrimental effects on property and our environment. Parks and forests have been established and are maintained both to preserve unusual phenomena of nature and to provide the public with recreational and educational opportunities. Private forest owners are given incentives to observe scientific conservation practices so that new growth may replace cut timber. Hunting and fishing limits are set, and hunters and anglers licensed, to preserve the fish and wildlife from extinctive practices. Farming methods that preserve the quality and stability of the soil are encouraged.

Governmental activities for preserving and protecting the State's natural resources are largely the province of the Department of Natural Resources, but the Department of Agriculture, Trade and Consumer Protection is also actively involved.

The State has an elaborate system of highways. It consists of interstate highways financed from Federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also concerned with the safety and convenience of the people who are using those roads. Over 6.30 million vehicles are currently registered.

The Department of Transportation also gives various forms of driver examination tests when driver licenses are issued or renewed to ensure drivers know the laws, are physically fit to drive, and have the required driving skills. Road building and motor vehicle regulation are also responsibilities of the Department of Transportation, which also has charge of the State's aeronautical activities, the administration of funds to assist mass transit, railroad preservation, and intermodal transportation planning.

#### *Human Relations and Resources*

Various State agencies have responsibilities to maximize human growth and development, including health, living standards, safety, and working relationships with each other.

Public health covers the prevention and detection of disease, health education programs, assistance in hospital construction, maintenance of institutions for the care and treatment of the mentally handicapped, the setting of standards of cleanliness of public facilities and safety in construction, and the maintenance of public health records.

Improving living standards for needy, aged, handicapped, and minors in need of assistance is also a goal of the State. Such health and welfare activities are primarily the work of the Department of Health Services, including the State's Badger Care Plus Program, which provides health insurance coverage for all children under the age of 19 (regardless of income) and low-income adults, and a prescription drug program for the elderly. With respect to the Patient Protection and Affordable Care Act, the State has notified the U.S. Department of Health and Human Services that the State will not build a state-based health insurance exchange and will defer to the Federal Government's insurance exchange.

The Board of Aging and Long-Term Care makes recommendations on programs to benefit the aged and those individuals needing long term-care services. The Department of Veterans Affairs operates additional assistance programs for military service veterans.

As a worker, the individual comes in contact with the State in many ways, mostly through the Department of Workforce Development:

- Minimum wages and maximum hours are set by law.
- State worker's compensation provides financial assistance if a worker is injured on the job.
- Unemployment compensation is provided to the worker if the worker's job is lost.
- Employment services are provided by the State (in partnership with the Federal Government) to help a worker find a job or to acquire the skills necessary for employment.
- Investigation of discrimination occurs if a worker suspects employment discrimination based on race, age, gender, creed, or handicap.

The State mediates or arbitrates labor disputes between workers and their employers, which is the task of the Employment Relations Commission. The State's agent in protecting and assisting the worker is the Department of Workforce Development, which is also currently responsible for the State's employment and training services.

The Department of Children and Families focuses exclusively on helping and protecting children and families within the State. It administers more than 30 services, including child welfare and the Wisconsin Works (W-2) program, which provides employment preparation services, case management, and cash assistance to eligible families.

To promote the general welfare of citizens and insure peaceable relations among them, the State seeks to protect citizens from lawless elements in society by maintaining those conditions of stability and order necessary for a well-functioning society. Law enforcement is largely a local matter, but the Department of Corrections is responsible for the safe custody and supervision of offenders using the best, most effective correctional policies and procedures, as well as keeping citizens protected, helping offenders succeed in the community and making every effort to reduce costs to taxpayers. The Department of Justice furnishes legal services to State agencies and provides technical assistance to local law enforcement agencies. The Office of the State Public Defender makes determinations of indigence and provides legal representation for specified defendants who are unable to afford a private attorney.

The State also provides an armed military force to protect the populace in times of State or national emergencies, natural or man-made, and to supplement the federal armed forces in time of war. These activities come under the jurisdiction of the Department of Military Affairs.

### *General Executive*

The administrative or staff functions that support the direct services provided to Wisconsin residents and local governments are included in this functional group. Although each operating agency may conduct some staff functions, some agencies perform staff functions almost exclusively.

- *Department of Administration* duties include budgeting, information technology, data processing, accounting, payroll, financial reporting, processing the receipt and disbursement of monies received or expended by the State, engineering, and facilities management and planning. In addition, the 2015-17 biennial budget abolished the Office of State Employment Relations and transferred its duties, which included supervision of State personnel practices, to the Department of Administration. Further, 2017 Wisconsin Act 59 transferred the administration of the State's Section 529 College Savings Plans to the Department of Financial Institutions.
- *Elections Commission* administers and enforces Wisconsin election law, working with municipal clerks to carry out open, fair, and transparent elections.
- *Ethics Commission* administers and enforces the campaign finance, ethics, and lobbying law.
- *Department of Revenue* collects the taxes imposed by Wisconsin Statutes, distributes that part of the revenue that is to be returned to the local units of government, calculates the equalized value of the property that has been assessed by local government, operates and distributes the proceeds of the State lottery and serves as custodian of unclaimed property.
- *Office of the State Treasurer* participates in the promotion of the State's unclaimed property program administered by the Department of Revenue, and signs certain checks and other financial instruments.
- *Department of Employee Trust Funds* manages the State's public employee retirement system and health and other group insurance contracts.
- *Office of the Secretary of State* keeps and authenticates various State records.
- *State of Wisconsin Investment Board* invests the assets of the Wisconsin Retirement System and various State funds, including the State Investment Fund.

### *Legislative*

The legislative function provides for the operation of the Legislature, its committees, and service agencies.

### *General Appropriations*

The function of general appropriations is assigned those appropriations that do not fit easily into any of the other functions. Most general appropriations are for payments to local governments of taxes collected by the State but shared with local governments and for other payments intended to relieve local taxes.

The major portion of this reporting area relating to State operations is the funding of any planned adjustments to employee compensation, which is budgeted centrally but transferred to, and ultimately paid by, each agency.

## **STATE OF WISCONSIN BUILDING COMMISSION**

The Commission supervises all matters relating to the State's issuance of general obligations, revenue obligations, and operating notes. In addition, the Commission also oversees the planning, improvement, major maintenance, and renovation of State facilities.

Limitations in the Wisconsin Constitution severely restricted the issuance of direct State debt until 1969, when the Wisconsin Constitution was amended to authorize the State to borrow money. Chapter 18 of the Wisconsin Statutes delegates powers to the Commission and establishes the procedures for the issuance of debt.

The Commission is composed of eight members. The Governor serves as the chairperson. Each house of the Legislature appoints three members. One citizen member is appointed by the Governor and serves at the Governor's pleasure. State law provides for the two major political parties to be represented in the membership from each house, and one member appointed from each house must be a member of the Legislative State Supported Program Study and Advisory Committee. The members act without liability except for misconduct.

The Administrator of the Division of Facilities Development and Management serves as Secretary to the Commission with the concurrence of the Secretary of Administration. Nonvoting advisory members of the Commission include the Secretary of Administration, and the ranking architect in the DOA Division of Facilities Development and Management. Employees of the DOA Division of Executive Budget and Finance, including the Capital Finance Director, serve as staff responsible for managing the State's various borrowing programs.

The Commission's office is located at the Administration Building, 7th Floor, 101 East Wilson Street, its mailing address is P.O. Box 7866, Madison, Wisconsin 53707-7866, and its telephone number is (608) 266-1855.

## STATE OBLIGATIONS

### General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. There is irrevocably appropriated, as a first charge upon all revenues of the State, a sum sufficient for the timely payment of State general obligations. As of December 15, 2017, the State had \$7.849 billion of outstanding general obligations.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments. The State has reserved no right to reduce or modify any terms with respect to security or source of payment of general obligation bonds or notes. See [Part III of the 2017 Annual Report](#) for additional information on general obligations.

### Operating Notes

The Commission may issue operating notes to fund operating expenses upon the request of the Department of Administration if it determines that a deficiency will occur in the funds of the State that will not permit the State to pay its operating expenses in a timely manner. The Governor and the JCF must also approve the request for issuance.

Operating notes may be issued in an amount not exceeding 10% of budgeted appropriations of general purpose and program revenues in the year in which operating notes are issued, and must be repaid no later than the last day of the fiscal year in which they are issued. Operating notes are not general obligations of the State and are not on parity with State general obligations. The General Fund may be pledged for the repayment of operating notes, and money of the General Fund may be impounded for future payment of principal and interest; however, any such repayment or impoundment must adhere to statutory requirements related to payment of the amounts due the Bond Security and Redemption Fund securing the repayment of State general obligation bonds. All payments and impoundments securing the operating notes are also subject to appropriation. Owners of the operating notes have a right to file suit against the State in accordance with procedures established in the Wisconsin Statutes.

As of December 15, 2017, the State had not issued operating notes in fiscal year 2017-18.

### Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring property (and in limited situations, prepaid service contracts) for State agencies through installment payments. The State's obligation to make lease payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease

payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State's obligation to make the lease payments does not constitute debt for purposes of the Wisconsin constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that State agencies may separately incur such obligations through other lease arrangements. Certificates of participation have been issued that evidence a proportionate interest in certain lease payments to be made by the State. As of December 15, 2017, the outstanding principal amount of the State's obligations under the master lease program was approximately \$111 million. See [Part IV of the 2017 Annual Report](#) for additional information on master lease certificates of participation.

### **State Revenue Obligations**

Subchapter II of Chapter 18 of the Wisconsin Statutes authorizes the State, acting through the Commission, to issue revenue obligations. Revenue obligations may be in one of the following forms:

- *Enterprise obligations.* Secured by a pledge of revenues or property derived solely from the operation of a program funded by the issuance of the revenue obligations.
- *Special fund obligations.* Secured by a pledge of revenues or property derived from any program or any pledge of revenues.

Any such program to be undertaken or obligations to be issued must be specifically authorized by the Legislature. The resulting obligations are not general obligations of the State.

Revenues pledged to the repayment of revenue obligations are deposited with a trustee for the obligations. These revenues are pledged to the owners of revenue obligations, who have a security interest on all such revenues until payment of the obligations has been made or provided for. Four such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees and other registration-related fees. The Commission has issued 38 series of bonds (which include refunding bond issues) and three series of commercial paper notes for this program, which were outstanding in the aggregate amount of \$1.925 billion as of December 15, 2017. See [Part V of the 2017 Annual Report](#) for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has authorized two revenue bond programs for the funding the clean water fund program. The first are clean water revenue bonds; the Commission issued 28 series of bonds for this program (including refunding bond issues); however, upon establishment of the environmental improvement fund revenue bond program, no further issuance of clean water revenue bonds is expected. As of December 15, 2017, the outstanding principal amount of the State's clean water revenue bonds was \$45 million. See [Part VI of the 2017 Annual Report](#) for additional information on clean water revenue bonds. The second are environmental improvement fund revenue bonds; the Commission has issued three series of bonds for this program, of which two series refunded clean water revenue bonds. As of December 15, 2017, the outstanding principal amount of the State's environmental improvement fund revenue bonds is \$328 million. See [Part VII of the 2017 Annual Report](#) for additional information on environmental improvement fund revenue bonds.
- *Petroleum inspection fee revenue obligations program.* This program funds environmental remediation claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations issued for this program are secured by petroleum inspection fees. The Commission has issued six series of bonds (including refunding bond issues) and two series of extendible municipal commercial paper for this program, of which only bonds were outstanding in the

aggregate amount of \$55 million as of December 15, 2017. See [Part VIII of the 2017 Annual Report](#) for additional information on petroleum inspection fee revenue obligations.

### **General Fund Annual Appropriation Bonds**

The State has issued general fund annual appropriation bonds (1) to pay the State's unfunded accrued prior service (pension) liability and the State's unfunded accrued liability for sick leave conversion and (2) to finance the purchase of tobacco settlement revenues that the State previously sold to BTASC. The general fund annual appropriation bonds are not a debt of the State, and the State's obligation to make debt service payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged, and the State is not obligated to levy or pledge any tax, to make the debt service payments.

The State has issued eight series of general fund annual appropriation bonds (including refunding bond issues) to pay the State's unfunded accrued prior service (pension) liability, determined as of January 1, 2003, and the State's unfunded accrued liability for sick leave conversion, determined as of October 1, 2003. See "[STATE OBLIGATIONS; Prior Service Pension Liabilities and Other Post-Employment Benefits](#)". The general fund annual appropriation bonds issued for this purpose were outstanding in the aggregate amount of \$1.565 billion as of December 15, 2017. With respect to the outstanding general fund annual appropriation bonds that are in the form of taxable floating rate notes, the State has hedged nearly all its variable-rate exposure by entering into interest rate exchange agreements (commonly called swap agreements).

The State has issued five series of general fund annual appropriation bonds (including refunding bond issues) to finance the purchase of tobacco settlement revenues that the State previously sold to BTASC. See "[STATE BUDGET; Tobacco Settlement Revenues](#)". The general fund annual appropriation bonds issued for this purpose were outstanding in the aggregate amount of \$1.532 billion as of December 15, 2017.

See [Part IX of the 2017 Annual Report](#) for additional information on all general fund annual appropriation bonds.

### **Independent Authorities**

State law creates and grants to three independent special purpose authorities the power to issue bonds and notes. None of these entities is a department or agency of the State, and none can issue bonds or notes that are legal obligations of the State.

#### *Wisconsin Housing and Economic Development Authority*

The Wisconsin Housing and Economic Development Authority (WHEDA) acts as a funding vehicle for the development of housing for low- and moderate-income families and economic development projects. WHEDA is also authorized to administer the State's agricultural production loan guaranty program.

WHEDA may issue bonds and notes, which are to be general obligations of WHEDA (except for bonds for the housing rehabilitation loan program) unless WHEDA chooses to limit the obligation. The State is expressly not liable on WHEDA obligations. Repayment may be secured by capital reserve funds, which may be created for each bond issue in an amount that is appropriate for the type of projects being funded. Invasion of this reserve triggers a moral obligation pledge on the part of the State and prevents further WHEDA borrowing until the reserve is replenished. In the event a capital reserve fund is not established for a particular bond issue, the moral obligation pledge would not be applicable. As of June 30, 2017, WHEDA had borrowing authority of approximately \$600 million for programs secured by the capital reserve fund, excluding debt issued to refund other debt, the current outstanding balance for programs secured by the capital reserve fund was approximately \$354 million, and in aggregate, WHEDA had \$1.174 billion in outstanding notes and bonds. WHEDA has borrowing authority for several specific programs:

- *Programs secured by capital reserve fund.* Borrowing authority of \$600 million, excluding debt issued to refund other debt, of which \$439 million of borrowing authority was available on October 31, 2017.

- *Housing rehabilitation programs.* Borrowing authority of \$100 million, of which \$100 million of borrowing authority was available on November 30, 2017.
- *Single-family home ownership mortgage loan program.* WHEDA has issued \$8.372 billion in such bonds as of November 30, 2017. In the one-year period ending November 30, 2017, one single-family issue of approximately \$215 million was sold.
- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of \$99 million, and as of November 30, 2017, WHEDA had sold three bond issues totaling \$5 million.
- *Economic development and agriculture loans.* Current borrowing authority of \$167 million. From current and previous borrowing authority, as of November 30, 2017, WHEDA had sold 143 series of bonds for economic development and agriculture totaling \$125 million, which are not general obligations of WHEDA, and 58 series of bonds, totaling \$93 million, which are general obligations of WHEDA.
- *General programs not secured by capital reserve fund.* No obligations issued for this purpose remain outstanding as of November 30, 2017.

WHEDA is directed by a twelve-member board comprising the Secretary of Administration, the chief executive officer of the Wisconsin Economic Development Corporation, two representatives to the Assembly and two State Senators who are appointed in the same manner as the members of standing committees in their respective houses and equally represent the two major political parties, and six public members serving staggered terms, nominated by the Governor and confirmed by the Senate. Financial reports may be obtained from the Wisconsin Housing and Economic Development Authority, P.O. Box 1728, Madison, WI 53701. The telephone number is (608) 266-7884, the e-mail address is info@wheda.com, and the web site address is www.wheda.com.

#### *Wisconsin Health and Educational Facilities Authority*

The Wisconsin Health and Educational Facilities Authority (**WHEFA**) provides revenue bond financing for any Wisconsin 501(c)(3) nonprofit organizations. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 2017, WHEFA had outstanding 239 issues totaling approximately \$9.639 billion. All bonds are limited obligations of WHEFA, payable only from revenues specified in the documents pertaining to each bond financing and are not State debt. There is no capital reserve fund or authorization for a moral obligation pledge. An annual program and financial report to the Legislature and the Governor is required. The State Auditor is empowered to investigate WHEFA's financial affairs and prescribe methods of accounting. The governance of WHEFA is by a seven-member, staggered-term board nominated by the Governor and confirmed by the Senate. The Governor annually appoints the chairperson. Financial reports may be obtained from Wisconsin Health and Educational Facilities Authority, 18000 West Sarah Lane, Suite 300, Brookfield, WI 53045-5841. The telephone number is (262) 792-0466, the e-mail address is info@whefa.com, and the web site address is www.whefa.com.

#### *University of Wisconsin Hospitals and Clinics Authority*

The University of Wisconsin Hospitals and Clinics Authority (**UWHCA**) operates hospitals in Wisconsin: the University of Wisconsin Hospital, American Family Children's Hospital, and The American Center Hospital. Hospitals in Illinois include the Swedish American Hospital and the Swedish American Medical Center. UWHCA also operates a number of clinics in Wisconsin and Illinois. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of June 30, 2017, UWHCA had outstanding long-term debt totaling approximately \$597 million.

UWHCA may issue bonds and notes payable solely from the funds pledged in the bond resolution or any trust indenture or mortgage or deed of trust that secures the obligations. The State is not liable for the payment of principal or interest on the debt, nor is it liable for the performance of any pledge, mortgage, obligation, or agreement entered into by UWHCA.



UWHCA is directed by a sixteen-member board. Composition and selection of members are specified by Chapter 233 and Section 15.96 of the Wisconsin Statutes. The sixteen voting members consist of six persons appointed by the Governor for staggered five-year terms with the approval of the State Senate, two members either filled by or appointed by each co-chairperson of JCF, three members of the Board of Regents appointed by the President of the Board of Regents, the Chancellor of UW-Madison, Dean of the UW School of Medicine and Public Health (UWSMPH), a Chair of a department of the UWSMPH appointed by the Chancellor of UW-Madison, a Faculty member of a UW-Madison health professional school other than the UWSMPH appointed by the Chancellor of UW-Madison, and the Secretary of DOA or his/her designee. Financial reports can be obtained from the University of Wisconsin Hospitals and Clinics Authority, Room H4/893, 600 Highland Avenue, Madison, WI 53792-8360. The telephone number is (608) 265-7131.

### **Local Districts**

The Legislature has authorized the creation of the following types of local districts, which may be created by one or more local units of government:

- *Local exposition district.* This type of district is authorized to issue bonds for costs related to an exposition center and to issue up to \$203 million of obligations for costs related to a sports and entertainment arena facilities. To date, one such district has been created (the Wisconsin Center District). For bonds issued related to an exposition center, if the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's debt service reserve fund that secure up to \$200 million principal amount of bonds in the event that project revenues and tax revenues received by the district are inadequate to pay debt service on the bonds. Obligations issued for costs related to a sports and entertainment arena facilities are not subject to a moral obligation of the State.
- *Local professional baseball park district.* The territory of this type of district consists of each county with a population of more than 600,000 and all contiguous counties. A district is authorized to issue bonds for costs related to a baseball park. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to \$160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Southeast Wisconsin Professional Baseball Park District).
- *Local professional football park district.* The territory of this type of district consists of any county with a population of more than 150,000 that includes the principal site of a stadium that is the home of a professional football team. A district is authorized to issue revenue bonds for costs related to a football park. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to \$160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Green Bay-Brown County Professional Football Stadium District).

### **Moral Obligations**

In certain situations where the State does not have a legal obligation to make a payment, the Legislature has recognized a moral obligation to make an appropriation for the payment and has expressed its expectation and aspiration that, if ever called upon to do so, it would. The following items describe these situations and the amount of outstanding obligations that are subject to the State's moral obligation:

- *Payments to reserve funds securing certain obligations of WHEDA.* As of June 30, 2017 there were twelve issues outstanding in the aggregate amount of \$354 million that carry a moral obligation of the State.

<u>Name of WHEDA Issue</u>	<u>Maturity Date</u>	<u>Principal Issued</u>	<u>Outstanding Balance</u>
Housing Revenue Bonds			
1998 Series A, B & C	11/1/2018	\$ 39,895,000	\$ 150,000
2003 Series A-E	5/1/2044	41,975,000	8,415,000
2005 Series A-F	11/1/2045	179,535,000	92,780,000
2006 Series A-D	5/1/2047	28,580,000	17,830,000
2007 Series A-G	11/1/2042	42,570,000	14,990,000
2008 Series A-G	11/1/2033	56,155,000	14,730,000
2009 Series A	5/1/2042	14,045,000	8,745,000
2010 Series A-B	11/1/2043	42,775,000	26,000,000
2012 Series A-B	5/1/2055	53,540,000	51,985,000
2013 Series A-C	5/1/2045	21,270,000	11,605,000
2015 Series A-C	5/1/2052	73,170,000	67,555,000
2016 Series A-C	5/1/2054	39,775,000	<u>39,700,000</u>
Total			\$354,485,000

- *Payments of debt service on petroleum inspection fee revenue obligations.* In its legislation authorizing the issuance of the petroleum inspection fee revenue obligations, the Legislature, recognizing a moral obligation to do so, expressed its expectation that, if the Legislature were to reduce the rate of the petroleum inspection fee (which has happened) and if the petroleum inspection fee were insufficient to pay debt service on the petroleum inspection fee revenue obligations when due (which has not happened), then the Legislature would make an appropriation from the general fund sufficient to pay such debt service. The petroleum inspection fee revenue obligations are currently outstanding in the principal amount of \$55 million.
- *Payments to reserve funds securing certain obligations of different types of local districts,* subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue from a local exposition district (the Wisconsin Center District) that is outstanding in the amount of \$114 million that carries a moral obligation of the State. Two other local districts (the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District) each have authority to issue \$160 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Both districts have issued revenue obligations, but those obligations do not carry the moral obligation of the State.
- *Payments for debt service on certain obligations issued by a local governmental unit in an electronics and information technology manufacturing zone,* subject to the Secretary of Administration's designation and determination that certain conditions have been met. This moral obligation will be for up to 40 percent of a local governmental unit's aggregate municipal obligations issued to finance costs related to development occurring in, or for the benefit of, the electronics and information technology manufacturing zone. At this time, the Secretary of Administration has not designated any such moral obligation.
- *Payments to reserve funds securing obligations issued by certain redevelopment authorities,* subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue by a redevelopment authority (the Redevelopment Authority of the City of Milwaukee) for the Milwaukee Public Schools Neighborhood Schools Initiative that are outstanding in the total amount of \$29 million that carries a moral obligation of the State.

- *Payments required to be made by municipalities on loans from the Clean Water Fund Program, if so designated by the State. Currently no Clean Water Fund Program loan carries a moral obligation of the State.*

### **Employee Pension Funds**

The State is part of the Wisconsin Retirement System (WRS), which is a hybrid pension plan with separate individual accounts maintained for all participants. Market-related risks are generally mitigated via (1) regular changes in active employee contributions based on actuarial costs and (2) adjustment of benefits based on investment performance. A further description of the WRS and identification of the State’s obligation follows; this is supplemented with additional statistical material in **Tables II-19 through II-24**.

The State’s pension obligations are defined by formulas that establish monthly retirement benefits as a function of annual compensation and years of service. The State’s current contributions to meet these pension obligations are established by a yearly actuarial determination of the value of the retirement benefits that have accrued to State employees and will have to be paid out in the future. The actuarial method used to determine the size of the contributions is known as “Frozen Initial Liability” for prior service liability and “Entry Age Normal” for current contributions. Actuarial assumptions that have been adopted in application of this method are shown in **Tables II-25, II-26, and II-27**.

The Department of Employee Trust Funds administers the pension programs of both the State and local governments, and the State of Wisconsin Investment Board is responsible for investment of all the funds. Although the State provides pension and investment management staff for its own and local government employees, *the State has no financial obligation for payment of any local government contribution.*

WRS covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution, and an employer cannot fund any of the member’s required contribution. As of June, 2017, employee and employer contributions for calendar year 2018 were set at the following rates:

#### **WISCONSIN RETIREMENT SYSTEM STATE EMPLOYER CONTRIBUTION RATES<sup>(a)</sup>**

Employee Classification	<u>Employee Required</u>	<u>Employer Required</u>
General, Executive & Elected Officials (including teachers)	6.70%	6.70%
Protective occupations with Social Security	6.70	10.70
Protective occupations without Social Security	6.70	14.90

<sup>(a)</sup> Effective date of January 1, 2018

**Source: Department of Employee Trust Funds**

The contributions are actuarially determined each year by an independent actuarial firm. In addition, the State is also charged 0.3% of its protective payroll for special duty disability coverage. Prior to the enactment of 2011 Wisconsin Act 10, employers were permitted to fund all, or some of, the member’s required contribution. Following the enactment of 2011 Wisconsin Act 10, the total retirement contribution must be split equally between the employee required contribution and the employer required contribution (except in certain circumstances).

Other changes to WRS as the result of 2011 Wisconsin Act 10 included the following:

- The employee required contribution for protective occupations with Social Security and for protective occupations without Social Security is the same as for general employees. The employer required contribution for these groups is the difference between the total required contribution and the employee required contribution.
- The benefit adjustment contribution was eliminated.

- All new participants after July 1, 2011 were subjected to a five-year vesting requirement. Participants terminating before fully vesting are not eligible for a retirement benefit but can receive a separation benefit of member contributions and interest.
- The work requirement to be eligible to participate in the WRS was increased from 33%, to 67%, of full-time employment.
- Employee required contributions may not be paid by the employer on behalf of the employee.
- The formula multiplier for State executives, judges, and elected officials was reduced from 2.0% to 1.6%.

Monthly benefits upon retirement at normal retirement age (65 for general employees, 62 for elected officials and certain other State positions, and 55 for protective occupation participants) are computed on a formula basis (the formula varies by the particular class of participation). Some inactive members and a small number of currently active employees may have benefits computed on some other basis when they apply for benefits.

Annual adjustments are also made to annuities from the WRS based on investment performance. In calendar years 2009, 2010, 2011, 2012, and 2013 retirees in the WRS's Core Retirement Trust experienced reductions of up to 2.1%, 1.3%, 1.2%, 7.0%, and 9.6%, respectively, to their monthly annuity amounts. While these were the first negative adjustments for the Core Retirement Trust since the WRS was created, retirees in the Variable Retirement Investment Trust see annual adjustments, sometimes negative, that reflect changing market value on a year-by-year basis. In calendar years 2014, 2015, 2016 and 2017, retirees in the WRS's Core Retirement Trust experienced increases of 4.7%, 2.9%, 0.5% and 2.0%, respectively, to their monthly annuity amounts.

Contributions into the WRS are invested by the State of Wisconsin Investment Board, as provided by law, and are maintained in two separate funds: the Core Retirement Investment Trust and the Variable Retirement Investment Trust. Investments are recorded pursuant to the Wisconsin Statutes as follows:

- The assets of the Core Retirement Trust are carried by a hybrid method providing for the amortization of capital gains and losses as well as deferred items over a five-year period.
- The Variable Retirement Investment Trust assets are recorded at market value with all market adjustments included in current operations.

Except for certain protective occupation employees and a few other minor exceptions, employees under the WRS are also covered by Social Security.

Various reports and information relating to WRS and the Department of Employee Trust Funds, including the Comprehensive Annual Financial Report for the year ended December 31, 2016 for the Department of Employee Trust Funds (including WRS and other benefit plans and trust funds) are or will be available from the State of Wisconsin Department of Employee Trust Funds publications web site at: [etf.wi.gov/publications.htm](http://etf.wi.gov/publications.htm). This web site, and the materials available on this web site, are not incorporated into, nor are they a part of, the 2017 Annual Report.

**Table II-19** provides comparative actuarial balance sheets for the most recent reporting periods. The unfunded accrued liability presented is solely the responsibility of local governments and is not an obligation of the State.

#### *GASB Pension Accounting Standards*

The Governmental Accounting Standards Board (**GASB**) pension accounting standards require uniform calculations of pension expense and liabilities. Under these standards each participating employer in the WRS is required to report its proportionate share of the net pension liability (or asset) on its financial statements, if such statements are prepared in accordance with GAAP. The net pension liability of participating WRS employers as of December 31, 2016 was \$824 million.

## **Prior Service Pension Liabilities and Other Post-Employment Benefits**

### *Pension Liabilities in Accompanying Financial Statements*

Liabilities of WRS are reported in the following tables. While WRS covers most public employers and employees in the State, including local governments, the State and its participants account for 28.6% of active participants in the system. WRS tracks unfunded prior service liabilities in separate accounts for each employer. The unfunded prior service liabilities reported in the financial statements for WRS are entirely attributable to other units of government and not to the State.

Pension liabilities are calculated using the “Entry Age Normal with Frozen Initial Liability” actuarial cost method. Under this method, actuarial gains and losses are treated as future costs in the normal cost calculation and do not affect the past service liability. Investment losses, such as those experienced in 2008, do not create an unfunded liability but do place upward pressure on future contribution rates.

### *Pension and Sick Leave Conversion Benefits*

Prior to 2004, the State recognized for accounting and disclosure purposes an unfunded prior service liability for the State’s account within WRS. The State also recognized for accounting and disclosure purposes an unfunded prior service liability for sick leave conversion, which permits employees, at retirement, to use the value of unused sick leave to pay for health insurance premiums. Proceeds from the State’s issuance of General Fund Annual Appropriation Bonds in 2003 fully funded both of these prior service liabilities, and the State currently has no prior service liabilities associated with these benefits.

### *Implied Subsidy of Group Health Insurance*

In July 2016, the State received a report containing the results of an actuarial valuation (as of January 1, 2015) of the State of Wisconsin Retiree Health Program. The report shows a total unfunded liability for other post-employment benefits of \$942 million, which results from an implicit rate subsidy (previously referred to as implied subsidy of group health insurance). The liability for this implicit rate subsidy is up from the \$893 million amount reported in May 2014 (as of January 1, 2013). Beginning January 1, 2012, prescription drug coverage for Medicare eligible retirees enrolled in the State group health insurance program is provided through a self-funded Medicare Part D Employer Group Waiver Plan, including a Medicare wrap. As a result, the State no longer receives the Retiree Drug Subsidy, and there is no longer a liability for any Medicare Part D subsidy.

### *Implied Subsidy of Retiree Life Insurance Program*

A Retiree Life Insurance Program may also have an implied rate subsidy. The State provides post-retirement life insurance coverage to retired plan participants over the age of 65 at no cost to the employee. An actuarial valuation of this plan as of January 1, 2016 calculated an unfunded liability of approximately \$331 million.

**Table II-19**  
**WISCONSIN RETIREMENT SYSTEM**  
**ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES**  
**December 31, 2016**  
**(Amounts in Millions)**

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>Increase (Decrease)</u>
<b>Assets and Employer Obligations:</b>			
<u>Net Assets</u>			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Core Division.....	\$88,484.6	\$84,865.4	\$ 3,619.2
Variable Division.....	<u>6,911.5</u>	<u>6,637.0</u>	<u>274.5</u>
Totals .....	<u>95,396.1</u>	<u>91,502.4</u>	<u>3,893.7</u>
<u>Obligations of Employers</u>			
Unfunded Accrued Liability .....	<u>17.8</u>	<u>24.1</u>	<u>(6.3)</u>
<b>TOTAL ASSETS .....</b>	<b><u>\$95,413.9</u></b>	<b><u>\$91,526.5</u></b>	<b><u>\$3,887.4</u></b>
<b>Reserves and Surplus:</b>			
<u>Reserves</u>			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions.....	\$17,177.6	\$16,537.2	\$ 640.4
Member Additional Contributions.....	184.0	170.0	14.0
Employer Contributions.....	<u>22,288.3</u>	<u>21,967.4</u>	<u>320.9</u>
Total Contributions .....	\$39,649.9	\$38,674.6	\$ 975.3
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Core Annuities.....	\$50,941.4	\$48,897.5	\$ 2,043.9
Variable Annuities .....	<u>3,645.1</u>	<u>3,910.1</u>	<u>(265.0)</u>
TOTAL ANNUITIES .....	<u>54,586.5</u>	<u>52,807.6</u>	<u>1,778.9</u>
TOTAL RESERVES .....	<u>\$94,236.4</u>	<u>\$91,482.2</u>	<u>\$ 2,754.2</u>
<u>Surplus</u>			
Core Annuity Reserve Surplus .....	\$ 1,030.6	\$ 249.5	\$ 781.1
Variable Annuity Reserve Surplus .....	<u>146.9</u>	<u>(205.3)</u>	<u>352.2</u>
TOTAL SURPLUS.....	<u>1,177.5</u>	<u>44.2</u>	<u>1,133.3</u>
<b>TOTAL RESERVES AND SURPLUS.....</b>	<b><u>\$ 95,413.9</u></b>	<b><u>\$ 91,526.4</u></b>	<b><u>\$ 3,887.5</u></b>

**Source: Department of Employee Trust Funds**

## Notes to Wisconsin Retirement System

All eligible State of Wisconsin employees participate in the Wisconsin Retirement System (**System**), a cost-sharing multiple-employer public employee retirement system (**PERS**). The payroll for State employees covered by the system for the year ended December 31, 2016 was \$4.36 billion, which includes various public authorities in the State.

Effective June 29, 2011, all permanent employees expected to work over 1,200 hours a year (880 hours a year for teachers) are eligible to participate in the System. General category and Executive/Elected employees are required by statute to contribute one-half of the actuarially determined contribution (6.8% of their salary) for calendar year 2017. Employers may not make these contributions to the plan on behalf of the employees. Protective occupation employees are required to contribute the same percentage of their salaries as General category employees. Employers are required to contribute the remaining amounts necessary to pay the projected cost of future benefits. The total required contribution for the year ended December 31, 2016 was \$589 million, which consisted of \$302 million or 6.9% of payroll from the employer and \$287 million or 6.6% of payroll from employees.

Employees who retire at or after age 65 (55 for protective occupation employees) are entitled to receive a retirement benefit. The benefit is calculated as 1.6% (2.0% for Executives, Elected Officials, and Protective Occupations with social security and 2.5% for protective occupations without social security) of final average earnings for each year of creditable service after December 31, 1999. Service earned before January 1, 2000 accrues benefits at a rate of 1.765% (2.165% for Executives, Elected Officials, and Protective Occupations with social security and 2.665% for protective occupations without social security). The benefit multiplier for Executives and Elected Officials is reduced to 1.6% for service earned after June 29, 2011. Final Average Earnings is the average of the employee's three highest years' earnings. Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. For employees joining the system after June 29, 2011, five years of service are required to be eligible for a retirement benefit. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefit. The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 40 of the Wisconsin Statutes.

The System utilizes the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40-year period beginning January 1, 1990. However, periodically, the Employee Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions affect the unfunded accrued actuarial liability, and the resulting actuarial gains or losses are credited or charged to employer's unfunded liability accounts. The State of Wisconsin, as of December 31, 2016, had no unfunded liability. The total system unfunded liability of \$18 million, as of December 31, 2016, is attributable to local governments.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2016 Comprehensive Annual Financial Report.

The preceding provides a comparative actuarial balance sheet for the most recent reporting periods.

**Table II-20**

**WISCONSIN RETIREMENT SYSTEM  
FUNDING RATIO  
(Amounts in Thousands)**

<u>Year</u>	<b>A</b> <b>Net Real</b> <b>Assets</b>	<b>B</b> <b>Unfunded</b> <b>Actuarial</b> <b>Liability</b>	<b>C</b> <b>Reserve</b> <b>Requirement</b> <b>(A+B)</b>	<b>D</b> <b>Funding</b> <b>Ratio</b> <b>(A÷C)</b>
2007.....	\$79,791,900	\$287,800	\$80,079,700	99.6%
2008.....	77,159,400	252,600	77,412,000	99.7
2009.....	78,911,300	193,300	79,104,600	99.8
2010.....	80,626,900	131,900	80,758,800	99.8
2011.....	78,940,000	99,300	79,039,300	99.9
2012.....	78,613,000	69,700	78,682,700	99.9
2013.....	85,276,100	52,600	85,328,700	99.9
2014.....	89,360,400	31,700	89,392,100	100.0
2015.....	91,502,400	24,100	91,526,500	100.0
2016.....	95,396,200	17,800	95,414,000	100.0

**Source: Department of Employee Trust Funds**

**Table II-21**

**WISCONSIN RETIREMENT SYSTEM  
COVERED EMPLOYEES**

<u>Year</u>	<b>Active</b> <b>State</b>	<b>Active</b> <b>Local</b>	<b>Retired</b>
2007.....	71,162	192,219	142,906
2008.....	72,165	193,556	144,033
2009.....	72,415	194,878	150,671
2010.....	72,740	193,889	155,775
2011.....	70,391	186,863	167,453
2012.....	72,269	184,564	173,655
2013.....	73,091	183,697	180,056
2014.....	73,893	183,362	185,605
2015.....	73,036	183,041	191,795
2016.....	73,514	183,771	197,647

**Source: Department of Employee Trust Funds**



**Table II-22**  
**WISCONSIN RETIREMENT SYSTEM**  
**REQUIRED CONTRIBUTIONS BY SOURCE<sup>(a)</sup>**  
**(Amounts in Thousands)**

<u>Year</u>	<u>State</u>		<u>Local</u>		<u>Total</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
2007 .....	\$1,622	\$393,386	\$4,934	\$902,112	\$6,556	\$1,295,498
2008 .....	1,748	421,936	5,217	937,406	6,965	1,359,342
2009 .....	1,248	415,600	6,703	950,177	7,951	1,365,777
2010 .....	3,602	444,538	8,099	1,006,560	11,701	1,451,098
2011 .....	62,391	347,477	101,703	878,753	164,094	1,226,230
2012 .....	213,447	263,731	398,207	697,435	611,654	961,166
2013 .....	249,681	305,657	511,329	704,475	761,010	1,010,132
2014 .....	279,067	328,856	612,781	689,606	891,848	1,018,462
2015 .....	293,397	305,518	615,017	677,349	908,414	982,867
2016 .....	286,523	301,931	609,879	662,244	896,402	964,175

(a) Employer contributions include employer pick-up, if any, of employee contributions. Contributions for 2011 and subsequent years reflect provisions of 2011 Wisconsin Act 10.

**Source: Department of Employee Trust Funds**

**Table II-23**  
**WISCONSIN RETIREMENT SYSTEM**  
**REVENUES BY TYPE<sup>(a)</sup>**  
**(Amounts in Thousands)**

<u>Year</u>	<u>Employee Contributions<sup>(b)</sup></u>	<u>Employer Contributions<sup>(c)</sup></u>	<u>Investment Income</u>	<u>Other Income</u>	<u>Total Revenues</u>
2007	\$705,804	\$655,128	\$6,495,914	\$1,823	\$7,858,669
2008	736,149	683,520	(22,744,110)	1,618	(21,322,822)
2009	736,689	705,997	13,024,986	1,117	14,468,790
2010	787,460	750,702	8,317,435	990	9,856,588
2011	797,856	789,244	664,151	849	2,252,100
2012	757,151	799,350	9,858,710	678	11,415,889
2013	871,260	914,698	11,343,231	532	13,129,721
2014	906,499	1,023,197	4,888,240	642	6,818,578
2015	937,225	977,734	(674,988)	248	1,240,219
2016	921,864	963,122	7,271,531	341	9,156,858

(a) Employee required contributions made in accordance with statutory requirements. Employer required contributions were made in accordance with actuarially-determined contribution requirements.

(b) Employee contributions include all employee required, employee additional and benefit adjustment contributions, including those paid by the employer on behalf of the employee.

(c) Employer contributions include all employer required contributions, including contributions for unfunded actuarial accrued liability.

**Source: Department of Employee Trust Funds**

**Table II-24**

**WISCONSIN RETIREMENT SYSTEM  
BENEFIT EXPENDITURES BY TYPE  
(Amounts in Thousands)**

<u>Year</u>	<u>Separations</u>	<u>Death</u>	<u>Annuities</u>	<u>Supplemental</u> <sup>(a)</sup>	<u>Misc.</u>	<u>Total</u>
2007 .....	\$24,172	\$36,874	\$3,480,104	\$1,422	\$17,689	\$3,560,261
2008 .....	27,375	28,802	3,793,740	1,160	17,970	3,869,047
2009 .....	24,800	29,124	3,758,389	912	36,543	3,843,300
2010 .....	26,415	29,124	3,846,305	743	17,603	3,920,190
2011 .....	28,006	33,129	4,103,321	601	18,620	4,183,677
2012 .....	26,563	24,800	4,182,881	470	21,542	4,256,256
2013 .....	33,271	37,972	4,186,386	342	22,858	4,280,829
2014 .....	34,401	33,480	4,411,169	265	119,371	4,598,686
2015 .....	37,642	31,746	4,748,334	210	66,005	4,883,937
2016 .....	39,276	30,366	4,921,126	158	91,697	5,082,623

<sup>(a)</sup> Supplemental benefits were granted to certain employees by the Legislature in 1974. These benefits are paid out of the State General Fund.

**Source: Department of Employee Trust Funds**

## ACTUARIAL ASSUMPTIONS

Tables II-25, II-26, and II-27 set forth the actuarial assumptions that will be applied in the determination of contribution levels required for the funding of the WRS effective January 1, 2016.

**Table II-25**

### WISCONSIN RETIREMENT SYSTEM SEPARATION BEFORE AGE AND SERVICE RETIREMENT

#### Select and Ultimate Withdrawal

Age & Service	% of Active Participants Terminating								
	Protective		Public Schools		University		Executive &Elected	Others	
	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females		Males	Females
0	17.0%	4.0%	18.3%	16.0%	16.0%	16.0%	18.0%	16.8%	20.0%
1	8.0	3.5	11.0	10.8	14.0	15.0	14.0	12.7	14.1
2	5.0	1.5	7.8	7.7	12.0	13.0	12.0	9.0	11.0
3	4.3	1.3	5.9	5.8	10.0	10.0	10.0	7.3	8.9
4	3.8	1.2	4.9	5.0	8.5	9.9	10.0	7.0	8.5
5	3.1	1.1	3.6	4.3	8.0	8.4	8.0	4.8	6.7
6	3.0	1.0	3.2	3.8	7.5	6.4	7.0	4.3	5.6
7	2.9	0.9	2.6	3.4	5.7	5.7	6.0	4.2	5.0
8	2.5	0.8	2.6	2.8	4.6	4.7	6.0	3.4	4.7
9	2.2	0.7	2.4	2.5	4.0	4.2	6.0	3.1	4.5
10 & over									
25	2.0	0.7	1.3	2.2	4.0	5.0	6.0	2.5	4.5
30	1.8	0.7	1.3	1.9	3.9	4.6	5.1	2.5	4.3
35	1.6	0.7	1.3	1.6	3.6	4.2	4.3	2.4	3.5
40	1.3	0.6	1.3	1.3	3.1	3.4	4.1	2.1	2.7
45	1.1	0.6	1.3	1.1	2.3	2.6	3.2	1.8	2.2
50	1.0	0.5	1.3	1.0	1.9	2.1	2.5	1.5	1.9
55	1.0	0.5	1.3	1.0	1.8	2.0	2.4	1.5	1.8
60	1.0	0.5	1.3	1.0	1.8	2.0	2.4	1.5	1.8

#### Disability Rates

##### % of Active Participants Becoming Disabled

Age	Protective		Public Schools		University		Exec. & Elected		Others	
	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females	Males	Females	Males	Females
20	0.01%	0.04%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%
25	0.01%	0.04%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%
30	0.01%	0.04%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%
35	0.02%	0.04%	0.01%	0.01%	0.00%	0.02%	0.01%	0.01%	0.01%	0.03%
40	0.02%	0.06%	0.01%	0.02%	0.01%	0.03%	0.01%	0.01%	0.03%	0.04%
45	0.03%	0.11%	0.03%	0.05%	0.01%	0.03%	0.01%	0.01%	0.06%	0.06%
50	0.06%	0.64%	0.08%	0.10%	0.02%	0.06%	0.02%	0.02%	0.13%	0.09%
55	0.87%	0.48%	0.16%	0.14%	0.05%	0.09%	0.09%	0.09%	0.24%	0.16%
60	1.46%	0.14%	0.26%	0.21%	0.07%	0.13%	0.11%	0.11%	0.43%	0.23%

Source: Department of Employee Trust Funds

Table II-26

WISCONSIN RETIREMENT SYSTEM  
RETIREMENT PATTERNS

Rates of Retirement for Those Eligible to Retire  
(Normal Retirement Pattern)

<u>Age</u>	% Retiring Next Year								
	<u>General</u>		<u>Public Schools</u>		<u>University</u>		<u>Protective</u>		<u>Executive &amp; Elected</u>
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>	<u>With Soc. Sec.</u>	<u>Without Soc. Sec.</u>	
50	%	%	%	%	%	%	6%	4%	%
51							7	4	
52							9	5	
53							23	17	
54							19	25	
55							19	21	
56							19	27	
57	18	15	36	28	12	14	19	30	12
58	18	15	31	28	12	12	18	30	12
59	18	15	24	28	12	10	16	30	12
60	18	15	30	28	12	12	20	26	12
61	18	15	28	28	12	16	20	15	12
62	25	25	37	36	12	14	22	20	12
63	30	25	32	30	12	19	26	40	12
64	25	25	27	27	12	13	17	40	12
65	25	28	29	35	15	18	30	40	12
66	32	32	33	35	17	22	25	40	20
67	26	26	27	30	16	17	30	40	15
68	19	22	24	30	16	16	30	40	15
69	19	20	24	30	16	14	30	40	10
70	19	20	20	35	16	18	100	100	10
71	19	20	20	30	18	18	100	100	10
72	19	20	20	22	14	18	100	100	15
73	19	20	20	22	14	18	100	100	15
74	19	20	20	22	10	18	100	100	15
75	100	100	100	100	100	100	100	100	100

Source: Department of Employee Trust Funds

**Table II-27**  
**WISCONSIN RETIREMENT SYSTEM**  
**OTHER ASSUMPTIONS**

**Mortality Table**

**Active & Retired Future Life Expectancy**

<b>Sample Attained</b>	<b>Future Life Expectancy (Years)</b>	
<u>Ages</u>	<u>Males</u>	<u>Females</u>
40	44.6	47.9
45	39.6	42.8
50	34.6	37.8
55	29.8	32.9
60	25.3	28.1
65	20.8	23.5
70	16.6	19.0
75	12.8	14.8
80	9.3	11.0
85	6.5	7.8

**Salary Scale**

<u>Service</u>	<u>Merit &amp; Longevity Increase in Next Year</u>					
	<u>General</u>	<u>University Teachers</u>	<u>Teachers</u>	<u>Protective With S.S.</u>	<u>Protective w/o S.S.</u>	<u>Executive &amp; Elected</u>
1	3.5%	3.0%	5.6%	4.8%	5.5%	2.5%
2	3.5	3.0	5.6	4.8	5.5	2.5
3	3.1	2.9	5.2	4.1	4.7	2.0
4	2.8	2.8	4.7	3.5	3.8	1.6
5	2.5	2.7	4.3	2.8	3.0	1.1
10	1.5	2.2	2.6	1.1	0.9	0.2
15	1.1	1.7	1.4	0.8	0.5	0.2
20	0.9	1.2	0.6	0.7	0.4	0.2
25	0.6	0.9	0.3	0.6	0.3	0.2
30	0.4	0.7	0.2	0.5	0.2	0.2

In addition to the above Merit and Longevity increase assumptions, there is a 3.2% wage inflation assumption for each year.

**Future Annual Investment Return**

For purposes of the above tables, the future annual invested return is assumed to be 7.2%.

For benefit calculation purposes, an assumed benefit rate of 5.0% is used.

**Source: Department of Employee Trust Funds**

**STATE OF WISCONSIN INVESTMENT BOARD**

The State of Wisconsin Investment Board (SWIB) invests the assets of the State Investment Fund, WRS, and several smaller trust funds established by the State. Overall policy direction for SWIB is established

by an independent, nine-member Board of Trustees (**Trustees**). The Trustees establish long-term investment policies, set guidelines for each investment portfolio, and monitor investment performance.

The nine members of the Board of Trustees include:

- The Secretary of Administration or a designee.
- Two participants in the WRS. One of these is a teacher who is appointed by the Teacher Retirement Board. The other represents non-teacher participants and is appointed by the Wisconsin Retirement Board.
- Six public members, who are appointed by the Governor. Of these public members, four are required to have at least ten years of investment experience, and one is required to be an individual with a minimum of ten years of financial experience who holds a nonelected finance position with a local government that participates in the Local Government Investment Pool.

All appointed members serve six-year terms. During calendar year 2017, the Trustees met six times.

SWIB's executive director is appointed by the Trustees. The executive director is responsible for oversight of staff activities and developing and recommending policies for adoption by the Trustees. The portfolio managers and analysts are all responsible for daily investment decisions in their markets. Their activities are monitored by SWIB's chief investment officer, who is appointed by the executive director with participation of the Trustees.

Pursuant to Wisconsin Statutes, the State Investment Fund consists of cash balances of the General Fund, State agencies and departments, and WRS reserves. In addition, the State Investment Fund also includes investment deposits from elective participants consisting of over 1,000 municipalities and other public entities, which are accounted for in the LGIP, which is a subset of the State Investment Fund.

The objectives of the State Investment Fund are to provide (in order of priority):

- Safety of principal
- Liquidity
- Competitive rate of return

This fund includes the cash balances from retirement trust funds. This fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The State Investment Fund is strategically managed similar to a money market fund but has the ability to have a longer average maturity than a registered money market fund. Because of the role played by the State Investment Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from the funds.

With regard to investments of the State Investment Fund, the Wisconsin Statutes establish parameters, and the Trustees establish and monitor policies covering:

- Types of assets and the amount that can be acquired
- Delegation of powers to purchase and sell and specific guidelines for various types of investments
- Emergency powers in the event the Trustees are unable to meet
- Guidelines that prohibit the use of derivatives, financial futures, and related options

The policies seek to achieve safety of principal and liquidity by attention to quality standards, maturity, and marketability. The policies seek to enhance return through portfolio management that considers, among other things, anticipated changes in interest rates and the yield curve.

As a public agency, SWIB is not registered under the Investment Company Act of 1940, the Investment Advisers Act of 1940, or the Commodity Exchange Act. However, a description of risk factors, guidelines, and investment objectives concerning the LGIP and the State Investment Fund may be obtained from the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842. The telephone

number is (608) 266-2381, the e-mail address is info@swib.state.wi.us, and the web site address is www.swib.state.wi.us.

**Table II-28** presents unaudited financial and statistical information for the State Investment Fund. A copy of SWIB's annual report or information on the LGIP and the State Investment Fund may be obtained from SWIB, but are not part of the 2017 Annual Report.

**Table II-28**

**STATE INVESTMENT FUND  
(As of October 31, 2017)**

**HOLDINGS DETAIL REPORT**

	<u>Amortized Cost</u>	<u>Percent of Portfolio at Amortized Cost</u>
U.S. Governments & Agencies.....	\$ 6,539,716,000	68.5%
U.S. Repurchase Agreements .....	1,907,000,000	19.9
Certificates of Deposit & Bankers Acceptance ...	81,458,000	0.9
Commercial Paper and Corporate Notes .....	<u>1,020,299,000</u>	<u>10.7</u>
	<u>\$9,548,473,000</u>	<u>100.0%</u>

**AVERAGE MATURITY FOR THE LAST SIX MONTHS**

<u>Reporting Date</u>	<u>Average Maturity (Days)</u>	<u>Reporting Date</u>	<u>Average Maturity (Days)</u>
10/31/2017	31	7/31/2017	29
9/30/2017	37	6/30/2017	29
8/31/2017	21	5/31/2017	38

**Summary of Investment Fund Participants  
(As of October 31, 2017)**

	<u>Par Amount (\$000)</u>	<u>Percent of Portfolio</u>
<b>Mandatory Participants</b>		
State of Wisconsin and Agencies	\$ 4,244,590	45.5%
State of Wisconsin Investment Board	2,289,910	24.5
<b>Elective Participants</b>		
Local Government Investment Pool	<u>2,798,664</u>	<u>30.0</u>
	\$ 9,333,164	100.0%

The difference between the total of participant's unit shares (\$9,333,164,000) and the total of the investments (\$9,548,473,000) is the result of check float (checks written and posted at DOA that have not yet cleared the bank) and a timing delay in posting bank receipts at DOA which have already been invested by SWIB.

Source: State of Wisconsin Investment Board

## STATISTICAL INFORMATION

This section presents information pertaining to the State's economic condition, including property value, population, income, and employment.

**Table II-29**

### STATE ASSESSMENT (EQUALIZED VALUE) OF TAXABLE PROPERTY

<u>Calendar Year</u>	<u>Value of Taxable Property</u>	<u>Rate of Increase (Decrease)</u>
2008 .....	\$514,393,963,700	3.3%
2009 .....	511,911,983,100	(0.5)
2010 .....	495,904,192,300	(3.1)
2011 .....	486,864,232,800	(1.8)
2012 .....	471,092,529,200	(3.2)
2013 .....	467,502,564,000	(0.8)
2014 .....	479,023,957,200	2.5
2015 .....	490,602,544,050	2.4
2016 .....	505,124,328,250	3.0
2017 .....	525,984,545,850	4.1

**Source: Department of Revenue**

**Table II-30**

### DELINQUENCY RATE; INCOME, FRANCHISE, GIFT, SALES, AND USE TAXES

<u>Fiscal Year</u>	<u>Total Revenues Expected (Amounts in Thousands)</u>	<u>Delinquent Balance<sup>(a)</sup> (Amounts in Thousands)</u>	<u>Delinquent Balance as a Percent of Total Revenues Expected</u>
2008 <sup>(b)</sup> .....	\$11,978,322	\$1,016,825	8.49%
2009 .....	10,957,071	1,128,139	10.30
2010 .....	10,898,706	993,075	9.14
2011 .....	11,662,010	914,671	7.84
2012 .....	12,236,987	968,484	7.91
2013 .....	12,832,365	971,303	7.57
2014 .....	12,656,911	975,512	7.71
2015 .....	13,222,872	928,244	7.02
2016 .....	13,762,689	950,356	6.90
2017 .....	14,184,390	1,019,961	7.19

<sup>(a)</sup> The collectible delinquent balance is generally less than shown. The collectible delinquent balance is determined by decreasing the delinquent balance by various factors to address amounts owed by taxpayers in bankruptcy, amounts owed by deceased taxpayers, amounts owed by defunct corporations, and amounts owed by accounts assigned to field revenue agents.

<sup>(b)</sup> Starting with the 2007-08 fiscal year, the delinquent balance reflects changes due to an integrated audit, processing, and collection system and a change in the way DOR records accruing interest. In the previous system, accruing interest was only posted to the delinquent tax account when a payment or credit was received. In the current system, accruing interest is posted each month to the delinquent accounts.

**Source: Department of Revenue**



**Table II-31**

**POPULATION TREND**

<u>Year</u>	<u>Wisconsin Total</u>		<u>%change</u>		<u>Population Per Sq. Mile</u>	
	<u>(Amounts in Thousands)</u>	<u>Rank</u>	<u>Wisconsin</u>	<u>U.S.</u>	<u>Wisconsin</u>	<u>U.S.</u>
1910	2,334	13	12.8	21.0	42.2	26.0
1920	2,632	13	12.8	15.0	47.6	29.9
1930	2,939	13	11.7	16.2	53.7	34.7
1940	3,138	13	6.8	7.3	57.3	37.2
1950	3,435	14	9.5	14.5	62.8	42.6
1960	3,952	15	15.1	18.5	72.6	50.6
1970	4,418	16	11.8	13.3	81.1	57.5
1980	4,706	16	6.5	11.4	86.5	64.0
1990	4,892	16	4.0	9.8	90.1	70.3
2000	5,364	18	9.6	13.2	98.8	79.6
2001	5,404	18	0.8	1.3	99.5	80.6
2002	5,439	20	0.6	1.0	100.2	81.4
2003	5,472	20	0.6	1.0	100.8	82.2
2004	5,504	20	0.6	1.0	101.4	83.0
2005	5,536	20	0.6	1.0	101.9	84.0
2006	5,557	20	0.9	0.9	103.0	85.0
2007	5,602	20	0.8	1.0	103.5	86.4
2008	5,628	20	0.5	0.9	103.9	87.1
2009	5,655	20	0.5	0.9	104.0	88.0
2010	5,690	20	0.6	0.4	105.0	87.4
2011	5,710	20	0.4	0.7	105.4	88.2
2012	5,726	20	0.3	0.7	105.7	88.9
2013	5,743	20	0.3	0.7	106.0	89.5
2014	5,758	20	0.3	0.7	106.3	90.2
2015	5,768	20	0.2	0.7	106.5	90.9
2016	5,779	20	0.2	0.7	106.7	91.5

**Source:** U.S. Census Bureau Population and Housing Units Estimates <http://www.census.gov/popzest/> and land area statistics from U.S. Census Bureau State and County Quick Facts <http://quickfacts.census.gov/qfd/states/55000.html>

**Table II-32**

**POPULATION CHARACTERISTICS**

	<u>Wisconsin</u>	<u>U.S.</u>
% Urban (2010) .....	70.2%	80.7%
% Rural (2010) .....	29.8	19.3
% Foreign-born (2016).....	5.0	13.5
Dependency Ratio <sup>(a)</sup> .....	62.0	60.7

**YEARS OF SCHOOL COMPLETED  
(as % of population age 25 and over)**

	<u>Wisconsin</u>	<u>U.S.</u>
Grade School - 8 years .....	97.3%	94.6%
High School/equiv.....	91.9	87.4
Bachelor's Degree .....	29.5	31.2

(a) Dependency Ratio =  $\frac{(\text{Population under 18}) + (\text{Population aged 65+})}{(\text{Population aged 18-64})}$

**Source:** All U.S. Census Bureau web site, American FactFinder  
**Urban/Rural:** 2010 Census Summary File 1 Table P2  
**Foreign-Born:** 2016 American Community Survey 1-Year Estimates Table S0501  
**Dependency Ratio:** 2016 American Community Survey 1-Year Estimates Table S0101  
**Educational Attainment:** 2016 American Community Survey 1-Year Estimates Table S1501

**Table II-33**

**POPULATION BY AGE GROUP  
(2016)**

<u>Age Group</u>	<u>Wisconsin</u>	<u>U.S.</u>
Under 5 .....	5.8%	6.1%
5-14 .....	12.6	12.7
15-44 .....	38.1	39.8
45-59 .....	20.9	20.0
60 and over .....	<u>22.6</u>	<u>21.3</u>
Total .....	100.0	100.0

Note: Totals may not equal 100% due to rounding

**Source:** 2016 American Community Survey 1-Year Estimates  
**Table S0101**

**Table II-34**

**ESTIMATED PERSONAL INCOME<sup>(a)</sup>**

<b><u>Year</u></b>	<b><u>Amount Total (\$ in Millions)</u></b>	<b><u>Per Capita Wisconsin</u></b>	<b><u>Per Capita U.S.</u></b>	<b><u>Percentage Wisconsin to U.S.</u></b>
2007	\$211,378	\$37,674	\$39,821	96.4%
2008	219,283	38,873	41,082	94.9
2009	215,499	38,012	39,376	96.5
2010	219,628	38,597	40,277	95.8
2011	232,664	40,749	42,461	96.0
2012	243,576	42,537	44,282	96.1
2013	245,382	42,728	44,493	96.0
2014	255,075	44,296	46,494	95.3
2015	265,094	45,960	48,451	94.9
2016	270,226	46,762	49,246	95.0

Note: All dollar estimates are in current dollars (not adjusted for inflation).

Source: Table SA1 State and Local Area Income, Bureau of Economic Analysis, U.S. Department of Commerce, [www.bea.gov](http://www.bea.gov)

**Table II-35**

**MEDIAN INCOME FOR FOUR-PERSON HOUSEHOLDS<sup>(b)</sup>**

<b><u>Year<sup>(a)</sup></u></b>	<b><u>Wisconsin</u></b>	<b><u>U.S.</u></b>	<b><u>Percentage WI to U.S.</u></b>
2007 .....	\$74,885	\$73,276	102.2%
2008 .....	80,530	75,782	106.3
2009 .....	76,188	73,714	103.4
2010 .....	76,117	72,767	140.6
2011 .....	79,648	74,563	106.8
2012 .....	80,198	76,049	105.5
2013 .....	82,350	77,953	105.6
2014 .....	85,859	80,545	106.6
2015 .....	88,133	82,508	106.8
2016 .....	93,500	86,877	107.6

(a) Annual values are not adjusted for inflation.

(b) The values provided are based on the estimated “Median Income for Four-Person Family”. Data included in prior continuing disclosure annual reports may have included a mix of family households and non-family households.

Source: American Community Survey 1-Year Estimates Table B19019. The 2016 data is from the 2016 1-year estimates, the 2015 data is from the 2015 1-year estimates, and so forth.

Table II-36

**DISTRIBUTION OF EARNINGS BY INDUSTRY  
(By Place of Work)**

	<u>Wisconsin Distribution</u>		<u>U.S. Distribution</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Farm Wage and Salary Disbursements .....	0.6%	0.7%	0.3%	0.3%
Forestry, Fishing, and Related .....	0.2	0.2	0.2	0.2
Mining .....	0.2	0.1	1.0	0.8
Utilities .....	0.8	0.7	0.7	0.7
Construction .....	4.8	5.0	4.9	5.1
Manufacturing .....	19.8	19.1	10.3	10.1
Durable Goods Manufacturing .....	12.3	11.8	6.8	6.7
Nondurable Goods Manufacturing .....	7.5	7.3	3.5	3.4
Wholesale Trade .....	5.8	5.8	5.6	5.5
Retail Trade .....	6.1	6.1	6.1	6.1
Transportation & Warehousing .....	3.2	3.2	3.3	3.3
Information .....	2.5	2.5	3.4	3.5
Finance and Insurance .....	6.9	6.9	7.8	7.7
Real Estate and Rental & Leasing .....	0.7	0.8	1.5	1.5
Professional, Scientific, and Technical .....	5.5	5.6	10.1	10.2
Management of Companies and Enterprises .....	4.5	4.9	3.3	3.2
Administrative and Waste Management .....	3.2	3.3	4.3	4.3
Educational Services .....	1.5	1.5	1.8	1.8
Health Care and Social Assistance .....	13.3	13.4	11.4	11.6
Arts, Entertainment, and Recreation .....	0.9	0.9	1.1	1.1
Accommodation and Food Services .....	2.9	2.9	3.7	3.8
Other Services, Except Public Administration .....	3.0	3.0	3.1	3.1
Government and Government Enterprises .....	13.8	13.6	16.0	15.9
Federal, Civilian .....	1.4	1.3	2.8	2.8
Military .....	0.3	0.3	1.2	1.1
State and Local .....	12.2	12.0	12.0	12.0

**Note:** This table reflects NAICS.

Source: Bureau of Economic Analysis, U.S. Department of Commerce Table SA07, World Wide Web Site

**Table II-37**

**ESTIMATED EMPLOYEES IN WISCONSIN ON  
NONAGRICULTURAL PAYROLLS  
(2016 Annual Average)**

	<u>Wisconsin</u>		<u>U.S.</u>	
	<u>(Amounts in Thousands)</u>	<u>%</u>	<u>(Amounts in Thousands)</u>	<u>%</u>
Natural Resources & Mining .....	4	0.1	677	0.5
Construction.....	112	3.8	6,711	4.7
Manufacturing .....	465	15.9	12,348	8.6
Retail Trade .....	309	10.6	15,820	11.0
Wholesale Trade .....	124	4.2	5,867	4.1
Transportation, Warehousing & Utilities.....	106	3.6	4,989	3.5
Information .....	49	1.7	2,772	1.9
Financial Activities.....	152	5.2	8,285	5.8
Professional & Business Services.....	322	11.0	20,136	14.0
Educational & Health Services.....	445	15.2	22,616	15.7
Leisure & Hospitality .....	275	9.4	15,620	10.9
Other Services.....	149	5.1	5,685	4.0
Government .....	<u>413</u>	<u>14.1</u>	<u>22,223</u>	<u>15.5</u>
Total .....	2,924	100.0	143,749	100.0

**Source: Department of Workforce Development**

**Table II-38**

**GENERAL STATISTICS OF MANUFACTURING <sup>(a)</sup>**

	<u>2014</u>	<u>2015</u>
Total Capital Expenditures (millions).....	\$ 5,069	\$ 5,085
Number of Employees (thousands).....	428.1	436.7
Total Payroll (millions).....	\$ 22,388	\$ 23,110
Number of Production Workers (thousands) .....	308.4	312.5
Value Added by Manufacturer (millions).....	\$ 82,959	\$ 80,759
Value of Shipments (millions).....	\$ 181,533	\$ 175,958

<sup>(a)</sup> Data is from the US Census Bureau's Annual Survey of Manufactures.

**Source: U.S. Census Bureau Annual Survey of Manufactures, World Wide Web Site**

Table II-39

**TOTAL NEW HOUSING UNITS AUTHORIZED IN PERMIT ISSUING PLACES**  
**Percent Change**

<u>Year<sup>(a)</sup></u>	<u>Wisconsin</u>	<u>Wisconsin</u>	<u>U.S.</u>
2007	21,837	(20.1)	(24.0)
2008	15,509	(29.0)	(35.3)
2009	10,780	(30.5)	(35.6)
2010	10,864	0.8	3.7
2011	9,939	(8.5)	3.2
2012	12,041	21.1	32.9
2013	13,869	15.2	19.4
2014	14,741	6.3	6.2
2015	16,793	13.9	12.4
2016	19,274	14.8	2.0

<sup>(a)</sup>Data from 2014 forward is discontinuous with data from 2013 and earlier, due to revised count methodology.

Source: U.S. Bureau of the Census, Building Permits Survey <https://www.census.gov/construction/bps/>

Table II-40

UNEMPLOYMENT RATE COMPARISON <sup>(a)(b)</sup>  
 By Month 2012 To 2017  
 By Quarter 2008 To 2011

	<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>		<u>2013</u>		<u>2012</u>	
	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>
January .....	4.2	5.1	4.7	5.3	5.4	6.1	6.4	7.0	7.9	8.5	7.9	8.8
February ....	4.5	4.9	4.9	5.2	5.5	5.8	6.8	7.0	7.9	8.1	8.2	8.7
March .....	3.7	4.6	4.7	5.1	5.3	5.6	6.6	6.8	7.6	7.6	7.9	8.4
April .....	3.0	4.1	4.1	4.7	4.5	5.1	5.6	5.9	7.1	7.1	7.0	7.7
May .....	2.8	4.1	3.8	4.5	4.6	5.3	5.3	6.1	6.5	7.3	6.9	7.9
June .....	3.5	4.5	4.5	5.1	4.8	5.5	5.6	6.3	7.1	7.8	7.5	8.4
July .....	3.4	4.6	4.2	5.1	4.6	5.6	5.5	6.5	6.7	7.7	7.3	8.6
August .....	3.4	4.5	4.0	5.0	4.2	5.2	5.1	6.3	6.3	7.3	6.9	8.2
September..	3.0	4.1	3.8	4.8	3.9	4.9	4.6	5.7	5.9	7.0	6.1	7.6
October.....	2.8	3.9	3.7	4.7	3.9	4.8	4.4	5.5	5.9	7.0	6.0	7.5
November..			3.7	4.4	4.1	4.8	4.5	5.5	6.0	6.6	6.2	7.4
December ..			<u>3.7</u>	<u>4.5</u>	<u>4.1</u>	<u>4.8</u>	<u>4.6</u>	<u>5.4</u>	<u>6.0</u>	<u>6.5</u>	<u>6.6</u>	<u>7.6</u>
Annual Average .....			4.1	4.9	4.6	5.3	5.4	6.2	6.7	7.4	7.0	8.1
	<b>2011 Quarters</b>		<b><u>WI</u></b>	<b><u>U.S.</u></b>			<b>2010 Quarters</b>		<b><u>WI</u></b>	<b><u>U.S.</u></b>		
I .....			8.9	9.5	I .....			10.3	10.4			
II .....			7.9	8.9	II .....			8.7	9.5			
III .....			7.4	9.1	III .....			8.1	9.5			
IV .....			6.8	8.3	IV .....			7.6	9.1			
	<b>2009 Quarters</b>		<b><u>WI</u></b>	<b><u>U.S.</u></b>			<b>2008 Quarters</b>		<b><u>WI</u></b>	<b><u>U.S.</u></b>		
I .....			8.6	8.8	I .....			5.3	5.3			
II .....			8.7	9.1	II .....			4.5	5.2			
III .....			8.5	9.6	III .....			4.6	6.0			
IV .....			8.5	9.5	IV .....			5.2	6.6			

(a) Figures show the percentage of labor force that is unemployed and are *not seasonally adjusted*.

(b) Historical information has been adjusted due to benchmarking through the Local Area Unemployment Statistics (LAUS).

Source: Department of Workforce Development and U.S. Bureau of Labor Standards

## APPENDIX A

### GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

(Updated February 14, 2018)

On December 12, 2017, the State of Wisconsin (**State**) provided an Additional/Voluntary filing with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system, providing notice that the Comprehensive Annual Financial Report (**CAFR**), and audited General Purpose External Financial Statements and independent auditor's report for the fiscal year ended June 30, 2017 were not expected to be available as of the submittal date of the 2017 Annual Report, and those documents were not available as of the December 22, 2017 submittal date.

On February 14, 2018, the CAFR and audited General Purpose External Financial Statements and independent auditor's report for the fiscal year ended June 30, 2017 were published. The State filed those documents with the MSRB through its EMMA system on February 14, 2018, and the General Purpose External Financial Statements and independent auditor's report for the fiscal year ended June 30, 2017 are now part of this **APPENDIX A** to Part II of the 2017 Annual Report.

No other information in Part II of the 2017 Annual Report is being updated at this time. The revision of Part II of the 2017 Annual Report to include the General Purpose External Financial Statements and independent auditor's report does not create any implication that any other information in the 2017 Annual Report remains accurate at any time after its date.

The entire CAFR is available from the State Finance Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864 and available at:

[doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

{This page number is the last sequential page number of the 2017 Annual Report to be used in this Part II of the 2017 Annual Report. The following uses page numbers from the General Purpose External Financial Statements. The sequential page numbers for the 2017 Annual Report continue in Part III.}



# STATE OF WISCONSIN

## General Purpose External Financial Statements



For the fiscal year ended June 30, 2017

**Scott Walker, Governor**

Department of Administration

Scott A. Neitzel, Secretary

Jeffery C. Anderson, State Controller

Prepared by the State Controller's Office

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**General Purpose External Financial Statements  
For the Fiscal Year Ended June 30, 2017**

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**STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION**

Scott Walker, Governor  
Scott A. Neitzel, Secretary  
Waylon Hurlburt, Division Administrator

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February 13, 2018

The Honorable Scott Walker  
The Honorable Members of the Legislature  
Citizens of the State of Wisconsin

We are pleased to submit the General Purpose External Financial Statements of the State of Wisconsin for the fiscal year ended June 30, 2017. They are part of the audited Comprehensive Annual Financial Report and present financial information in conformity with generally accepted accounting principles.

The General Purpose External Financial Statements include management's discussion and analysis (MD&A), the basic financial statements, and required supplementary information (RSI).

- MD&A presents a discussion and analysis of the State's financial performance during the fiscal year.
- The basic financial statements include an overview of the government as a whole (excluding the State's fiduciary activities) as well as detailed information on all governmental, proprietary, and fiduciary fund activity. Notes, which are considered part of the basic financial statements, provide additional information and should be used in conjunction with the financial statements.
- RSI includes information on post-employment health insurance benefits, the State's proportionate share of the net pension liability, the State's pension contribution, infrastructure and the budgetary comparison schedule with accompanying notes.

The General Purpose External Financial Statements, as well as the Comprehensive Annual Financial Report, are on file at the office of the State Controller and will benefit users requiring summary information about our State's finances. The Comprehensive Annual Financial Report is available on the Department of Administration's website.

Sincerely,

Scott A. Neitzel  
Secretary

Jeffery C. Anderson, CPA  
State Controller





## **Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards***

Honorable Members of the Legislature    The Honorable Scott Walker, Governor

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

We have audited the accompanying financial statements and the related notes of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin, which collectively make up the State's basic financial statements, as of and for the year ended June 30, 2017, as listed in the table of contents.

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

Management of the State of Wisconsin 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.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements for the following: the Environmental Improvement Fund, which is a major fund and represents 15 percent of the assets and 9 percent of the liabilities of the business-type activities; and the College Savings Program Trust, which represents 4 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for these programs, are based solely on the reports of the other auditors. In addition, we did not audit the financial statements of the discretely presented component units. Our opinion on the aggregate discretely presented component units is based solely upon audit reports, prepared by other auditors and furnished to us, for the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Foundation.

We conducted our audit 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*, which is 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. The financial statements for the following were audited by other auditors in accordance with these standards: the Environmental Improvement Fund, the College Savings Program Trust, the

Wisconsin Housing and Economic Development Authority, and the University of Wisconsin Hospitals and Clinics Authority. The financial statements of the University of Wisconsin Foundation were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the 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 opinions on these financial statements.

### **Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of June 30, 2017, and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphases of Matter**

The State implemented Governmental Accounting Standards Board (GASB) Statement Number 77, *Tax Abatement Disclosures*. This statement established new disclosure requirements related to revenue forgone by the State as the result of tax abatements, as discussed in Note 26.

The State also implemented GASB Statement Number 72, *Fair Value Measurements and Application*, for those funds presented with the fiscal year end of December 31, 2016. This statement established standards for determining a fair value measurement for financial reporting and resulted in new note disclosures, as discussed in Note 5B.

Certain account balances cannot be measured precisely but must be estimated, particularly actuarially accrued liabilities and infrastructure assets reported in the financial statements and notes. Notes 14, 16, 17, 18, and 20 include a discussion of estimates used by funds that accrue liabilities based upon actuarial information, including assumptions used in their calculation. Note 1E includes information related to the estimated historical cost of infrastructure assets constructed prior to July 1, 2000. Because estimates are based upon information available when the financial statements are prepared, actual values may differ from the estimated amounts. These differences cannot be quantified.

As discussed in Note 5B, the financial statements include investments that do not have readily ascertainable market prices and are valued based on a variety of third-party pricing methods. However, because of the inherent uncertainty of valuation, those estimated values may differ from the values that would have been used had a ready market for the investments existed.

Our opinions are not modified with respect to these matters.

### **Other Matter**

*Required Supplementary Information*—Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, and the following items in the required supplementary information section, as listed in the table of contents— Postemployment Benefits–State Health Insurance Program, State’s Proportionate Share of Net Pension Liability or Net Pension (Asset), State’s Pension Contributions, Infrastructure Assets Reported Using the Modified Approach, Budgetary Comparison Schedule–General Fund, Budgetary Comparison Schedule–Transportation Fund, and Notes to Required Supplementary Information—be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, which considers it to be essential for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 13, 2018, on our consideration of the State’s internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is solely 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* and should be used when considering the State’s internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

February 13, 2018





## MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year that ended June 30, 2017. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the State's financial statements, including the note disclosures which are an integral part of the statements, that follow this part of the CAFR.

### FINANCIAL HIGHLIGHTS -- PRIMARY GOVERNMENT

#### Government-wide (Tables 2 and 3 on Pages 10 and 11)

- *Net Position.* The assets plus deferred outflows of resources of the State of Wisconsin exceeded its liabilities plus deferred inflows of resources at the close of Fiscal Year 2017 by \$24.6 billion (reported as "net position"). Of this amount, \$(7.4) billion was reported as "unrestricted net position". A positive balance in unrestricted net position would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Position.* The State's total net position increased by \$1.3 billion in Fiscal Year 2017. Net position of governmental activities increased by \$1.0 billion or 8.4 percent, while net position of the business-type activities showed an increase of \$280.9 million or 2.5 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2017, the State's total revenues for governmental activities of \$29.0 billion were \$1.8 billion more than total expenses (excluding transfers and special items) for governmental activities of \$27.2 billion. Of these expenses, \$11.7 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled \$17.3 billion.

#### Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2017, the State's governmental funds reported combined ending fund balances of \$414.4 million, an increase of \$467.9 million in comparison with the prior year. Of this total amount, \$(2.4) billion represents the unassigned fund balances.
- *General Fund -- Fund Balance.* At the end of the current fiscal year, total fund balance was \$(1,625.9) million, a change of \$96.7 million from a deficit of \$(1,722.6) million reported in the prior year. The unassigned fund deficit for the General Fund was \$(2.2) billion, or 9.1 percent of total General Fund expenditures.

Additional information regarding individual funds begins on Page 15.

#### Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) decreased by \$108.0 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. Increases in debt resulted from new borrowings in excess of repayments of existing debt. During the year issuances of new general obligations exceeded repayments and refundings of debt by \$150.1 million. Revenue bonds outstanding decreased by \$339.6 million. Annual appropriation bonds totaling \$81.5 million were repaid. Additional detail regarding these activities begins on Page 20.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this CAFR consists of four parts: (1) **management's discussion and analysis** (this section), (2) **basic financial statements**, (3) additional **required supplementary information**, and (4) optional **other supplementary information**. Parts (2), (3), and (4) are briefly described on the following pages:

**Basic Financial Statements**

The basic financial statements include two sets of statements that present different views of the State -- the **government-wide financial statements** and the **fund financial statements**. These financial statements also include notes that explain some of the information in the financial statements and provide more detail.

- The *government-wide financial statements* provide a broad view of the State's operations. The statements provide both short-term and long-term information about the State's financial status, which assists in assessing the State's financial condition at the end of the fiscal year.
- The *fund financial statements* focus on individual parts of the State government, reporting the State's operations in greater detail than the government-wide statements. The basic fund financial statements provide more detailed information on the State's most significant funds.

Table 1, below, summarizes the major features of the financial statements.

<b>Table 1</b>				
<b>Major Features of State of Wisconsin's Government-wide and Fund Financial Statements</b>				
	<b>GOVERNMENT-WIDE STATEMENTS</b>	<b>FUND STATEMENTS</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	<p>Entire State government (except fiduciary funds) and the State's component units, reported as follows:</p> <ul style="list-style-type: none"> <li>• <i>Governmental Activities</i> – Most services generally associated with State government fall into this category, including commerce, education, transportation, environmental resources, human relations and resources, general executive, judicial and legislative.</li> <li>• <i>Business-Type Activities</i> – Those operations for which a fee is charged to external users for goods and services are reported in this category.</li> <li>• <i>Discretely Presented Component Units</i> – These are operations for which the State has financial accountability but that have certain independent qualities. The State's discretely presented component units are discussed in Note 1-B to the financial statements.</li> </ul>	<p>These funds report activities of the State that are not proprietary or fiduciary in nature. Most of the basic services provided by the State, which are primarily financed through taxes, intergovernmental revenues, and other nonexchange revenues, are reported as governmental funds.</p> <p>Examples of the State's governmental funds (including the State's three major governmental funds), as reported within their respective fund types, follow:</p> <ul style="list-style-type: none"> <li>• <i>General Fund</i> (major fund)</li> <li>• <i>Special Revenue:</i> <ul style="list-style-type: none"> <li>-- Transportation (major fund)</li> </ul> </li> <li>• <i>Debt Service:</i> <ul style="list-style-type: none"> <li>-- Bond Security and Redemption</li> </ul> </li> <li>• <i>Capital Projects:</i> <ul style="list-style-type: none"> <li>-- Capital Improvement (major fund)</li> </ul> </li> <li>• <i>Permanent:</i> <ul style="list-style-type: none"> <li>-- Common School</li> </ul> </li> </ul>	<p>The activities the State operates similar to private business. These funds are used to show activities that operate more like those of commercial enterprises. Fees are charged for services provided, both to outside customers and to other units of the State.</p> <p>Examples of the State's proprietary funds, including the State's four major enterprise funds, follow:</p> <ul style="list-style-type: none"> <li>• <i>Enterprise:</i> <ul style="list-style-type: none"> <li>-- Injured Patients and Families Compensation (major fund)</li> <li>-- Environmental Improvement (major fund)</li> <li>-- University of Wisconsin System (major fund)</li> <li>-- Unemployment Reserve (major fund)</li> <li>-- Lottery</li> </ul> </li> <li>• <i>Internal services:</i> <ul style="list-style-type: none"> <li>-- Technology Services</li> <li>-- Facilities Operations and Maintenance</li> </ul> </li> </ul>	<p>These funds are used to show assets held by the State as trustee or agent for others and cannot be used to support the State's own programs.</p> <p>Examples of the State's fiduciary funds, as reported within their respective fund types, follow:</p> <ul style="list-style-type: none"> <li>• <i>Pension and Other Employee Benefit Trust Funds:</i> <ul style="list-style-type: none"> <li>-- Wisconsin Retirement System</li> </ul> </li> <li>• <i>Investment Trust:</i> <ul style="list-style-type: none"> <li>-- Local Government Pooled Investment</li> </ul> </li> <li>• <i>Private Purpose Trust:</i> <ul style="list-style-type: none"> <li>-- College Savings Program Trust</li> </ul> </li> <li>• <i>Agency:</i> <ul style="list-style-type: none"> <li>-- Support Collection Trust</li> </ul> </li> </ul>
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net position – Presents all of the government's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as "net position". Over time, increases or decreases in the state's net position is an indicator of whether its financial health is improving or weakening, respectively.</li> <li>• Statement of activities – Presents a comparison between direct expenses and program revenues for each function of the State's governmental activities and for different identifiable business-type activities of the State.</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul> <p>Because the State cannot use these assets to finance its operations, fiduciary funds are not included in the government-wide financial statements discussed in the left column.</p>

(Table 1, continued)

**Table 1 (Continued)**  
**Major Features of State of Wisconsin's Government-wide and Fund Financial Statements**

	GOVERNMENT-WIDE STATEMENTS	FUND STATEMENTS		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Accounting basis and measurement focus</b>	<p>Accrual accounting and economic resource focus</p> <p>The accrual basis of accounting, which is similar to the methods used by most businesses, takes into account all revenues and expenses associated with the fiscal year even if cash involved has not been received or paid.</p>	<p>Modified accrual accounting and current financial resource focus</p> <p>These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State. Because this information does not encompass the long-term focus of the government-wide statements, reconciliations are provided on the subsequent page of the governmental fund statements.</p>	<p>Accrual accounting and economic resources focus</p>	<p>Accrual accounting and economic resources focus</p>
<b>Type of asset, deferred outflows of resources, liability, deferred inflows of resources information</b>	<p>All assets and liabilities, both financial and capital, and short-term and long-term. Deferred inflows/outflows of resources reported only in limited instances as required by GASB standards.</p>	<p>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</p>	<p>All assets and liabilities, both financial and capital, and short-term and long-term</p>	<p>All assets and liabilities, both short-term and long-term</p>
<b>Type of inflow-outflow information</b>	<p>All revenues and expenses during the year, regardless of when cash is received or paid</p>	<ul style="list-style-type: none"> <li>Revenues for which cash is received during or soon after the end of the year</li> <li>Expenditures when goods or services have been received and payment is due during the year or soon thereafter</li> </ul>	<p>All revenues and expenses during the year, regardless of when cash is received or paid</p>	<p>All revenues and expenses during the year, regardless of when cash is received or paid</p>

### Additional Required Supplementary Information

In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. The required supplementary information includes:

- Postemployment Benefits - State Health Insurance Program,
- State's Proportionate Share of the Net Pension Liability or Net Pension Asset,
- State's Pension Contributions,
- Infrastructure Assets Reported Using the Modified Approach, and
- Budgetary Comparison Schedule of the General and the Transportation funds (includes reconciliations between the statutory and GAAP fund balances at fiscal year-end).

### Other Supplementary Information

The Other Supplementary Information includes combining financial statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds and fiduciary funds, each of which are added together and presented in single columns in the basic financial statements.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Tables 2 and 3 present summary information of the State's net position and changes in net position.

### Net Position

As presented in Table 2, total assets of the State on June 30, 2017 were \$45.8 billion and deferred outflows of resources were \$2.2 billion, while total liabilities were \$22.6 billion and deferred inflows of resources were \$754.9 million, resulting in combined net position (government and business-type activities) of \$24.6 billion. The largest component of the State's total net position consists of \$23.8 billion invested in capital assets (i.e., land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Approximately \$8.3 billion of net position was restricted by external sources or the State Constitution or Statutes, and was not available to finance the day-to-day operations of the State.

The unrestricted net position, which, if positive, could be used at the State's discretion, showed a negative balance of \$(7.4) billion. Therefore, based on this measurement, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net position as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, and future benefits and loss liabilities – listed in Note 10 to the financial statements) on the statement of net position. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of \$(1.6) billion at year-end, as discussed on Page 15, also contributed to the deficit unrestricted net position reported in the statement of net position.

During Fiscal Year 2017, the State issued \$1.3 billion of general obligation bonds, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment. At June 30, 2017 general obligation bonds and long term general obligation notes outstanding totaled \$7.8 billion, outstanding annual appropriation bonds were \$3.1 billion, and outstanding revenue bonds, which are not considered general obligation debt of the State, totaled \$2.7 billion.

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2017-2016
	2017	2016*	2017	2016*	2017	2016*	
Current and Other Assets	\$ 6,789.6	\$ 6,554.0	\$ 8,804.0	\$ 8,802.9	\$ 15,593.6	\$ 15,356.9	1.5 %
Capital Assets	24,007.8	23,239.7	6,247.2	6,223.3	30,255.0	29,463.1	2.7
Total Assets	30,797.4	29,793.7	15,051.2	15,026.2	45,848.6	44,819.9	2.3
Deferred Outflows of Resources	1,195.2	1,481.3	955.4	1,382.5	2,150.6	2,863.8	(24.9)
Long-term Liabilities	12,354.1	12,168.0	3,471.0	3,993.9	15,825.2	16,161.9	(2.1)
Other Liabilities	6,184.3	6,558.2	629.5	664.5	6,813.8	7,222.7	(5.7)
Total Liabilities	18,538.4	18,726.3	4,100.5	4,658.4	22,639.0	23,384.7	(3.2)
Deferred Inflows of Resources	354.6	459.9	400.4	525.5	754.9	985.4	(23.4)
Net Position:							
Net investment in							
Capital Assets	19,181.1	18,613.5	4,578.7	4,562.9	23,759.8	23,176.4	2.5
Restricted	2,279.9	2,368.9	6,014.9	5,619.6	8,294.7	7,988.5	3.8
Unrestricted (deficit)	(8,361.4)	(8,893.6)	912.1	1,042.4	(7,449.3)	(7,851.2)	5.1
Total Net Position	\$ 13,099.5	\$ 12,088.9	\$ 11,505.7	\$ 11,224.9	\$ 24,605.3	\$ 23,313.7	5.5

\* Amounts for the prior fiscal year include restatements of prior year's balances.

## Changes in Net Position

The revenues and expenses information, as shown in Table 3, was derived from the government-wide statement of activities and reflects how the State's net position changed during the fiscal year. The State earned program revenues of \$19.2 billion and general revenues of \$17.3 billion for total revenues of \$36.5 billion during Fiscal Year 2017. Expenses for the State during Fiscal Year 2017 were \$35.2 billion. As a result of the excess of revenues over expenses, the total net position of the State increased \$1.3 billion, net of contributions, special items and transfers.

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2017-2016
	2017	2016*	2017	2016*	2017	2016*	
<b>Program Revenues:</b>							
Charges for Services	\$ 2,375.5	\$ 2,338.5	\$ 6,867.7	\$ 7,072.8	\$ 9,243.3	\$ 9,411.3	(18) %
Operating Grants and Contributions	8,737.8	8,724.2	610.1	460.2	9,347.8	9,184.4	18
Capital Grants and Contributions	601.1	808.9	22.6	45.5	623.7	854.4	(27.0)
<b>General Revenues:</b>							
Income Taxes	8,928.2	8,582.4	-	-	8,928.2	8,582.4	4.0
Sales and Excise Taxes	5,931.2	5,781.2	-	-	5,931.2	5,781.2	2.6
Public Utility Taxes	357.8	368.7	-	-	357.8	368.7	(3.0)
Motor Fuel Taxes	1,101.7	1,091.8	-	-	1,101.7	1,091.8	0.9
Other Taxes	516.1	481.9	-	-	516.1	481.9	7.1
Other General Revenues	415.5	410.8	8.8	15.8	424.4	426.6	(0.5)
<b>Total Revenues</b>	<b>28,965.0</b>	<b>28,588.3</b>	<b>7,509.2</b>	<b>7,594.3</b>	<b>36,474.2</b>	<b>36,182.5</b>	<b>0.8</b>
<b>Program Expenses:</b>							
Commerce	248.9	237.5	-	-	248.9	237.5	4.8
Education	7,237.5	7,028.2	-	-	7,237.5	7,028.2	3.0
Transportation	2,135.5	2,121.7	-	-	2,135.5	2,121.7	0.7
Environmental Resources	458.1	469.2	-	-	458.1	469.2	(2.4)
Human Relations and Resources	13,396.6	13,301.6	-	-	13,396.6	13,301.6	0.7
General Executive	675.3	568.3	-	-	675.3	568.3	18.8
Judicial	142.6	131.9	-	-	142.6	131.9	8.2
Legislative	70.3	67.6	-	-	70.3	67.6	4.0
Tax Relief and Other General Expenditures	1,428.6	1,434.8	-	-	1,428.6	1,434.8	(0.4)
Intergovernmental - Shared Revenue	967.0	965.3	-	-	967.0	965.3	0.2
Interest on Long-term Debt	450.1	436.8	-	-	450.1	436.8	3.0
Injured Patients and Families Compensation	-	-	(56.9)	(50.7)	(56.9)	(50.7)	(12.3)
Environmental Improvement	-	-	74.1	44.9	74.1	44.9	65.0
University of Wisconsin System	-	-	5,005.3	4,938.5	5,005.3	4,938.5	1.4
Unemployment Reserve	-	-	471.3	520.8	471.3	520.8	(9.5)
Lottery	-	-	616.6	612.6	616.6	612.6	0.7
Health Insurance	-	-	1,290.5	1,399.7	1,290.5	1,399.7	(7.8)
Care and Treatment Facilities	-	-	395.7	377.6	395.7	377.6	4.8
Other Business-type	-	-	169.5	175.4	169.5	175.4	(3.4)
<b>Total Expenses</b>	<b>27,210.6</b>	<b>26,762.8</b>	<b>7,966.1</b>	<b>8,018.9</b>	<b>35,176.7</b>	<b>34,781.7</b>	<b>1.1</b>
<b>Excess (deficiency) before Contributions, Special Items and Transfers</b>							
	1,754.4	1,825.4	(456.9)	(424.7)	1,297.5	1,400.8	
Contributions to Term and Permanent Endowments	-	-	2.0	4.4	2.0	4.4	
Contributions to Permanent Fund Principal	12.6	11.4	-	-	12.6	11.4	
Special Item - (Surrender)/Cancellation of GO Bonds	148.9	-	(169.4)	-	(20.5)	-	
Transfers	(905.1)	(903.0)	905.1	903.0	-	-	
<b>Increase (decrease) in Net Position</b>	<b>1,010.7</b>	<b>933.9</b>	<b>280.9</b>	<b>482.8</b>	<b>1,291.5</b>	<b>1,416.7</b>	
<b>Net Position - Beginning (Restated)</b>	<b>12,088.9</b>	<b>11,155.0</b>	<b>11,224.9</b>	<b>10,742.1</b>	<b>23,313.7</b>	<b>21,897.1</b>	
<b>Net Position - Ending</b>	<b>\$ 13,099.5</b>	<b>\$ 12,088.9</b>	<b>\$ 11,505.7</b>	<b>\$ 11,224.9</b>	<b>\$ 24,605.3</b>	<b>\$ 23,313.7</b>	<b>5.6</b>

\* Amounts for the prior fiscal year include restatements of prior year's balances.

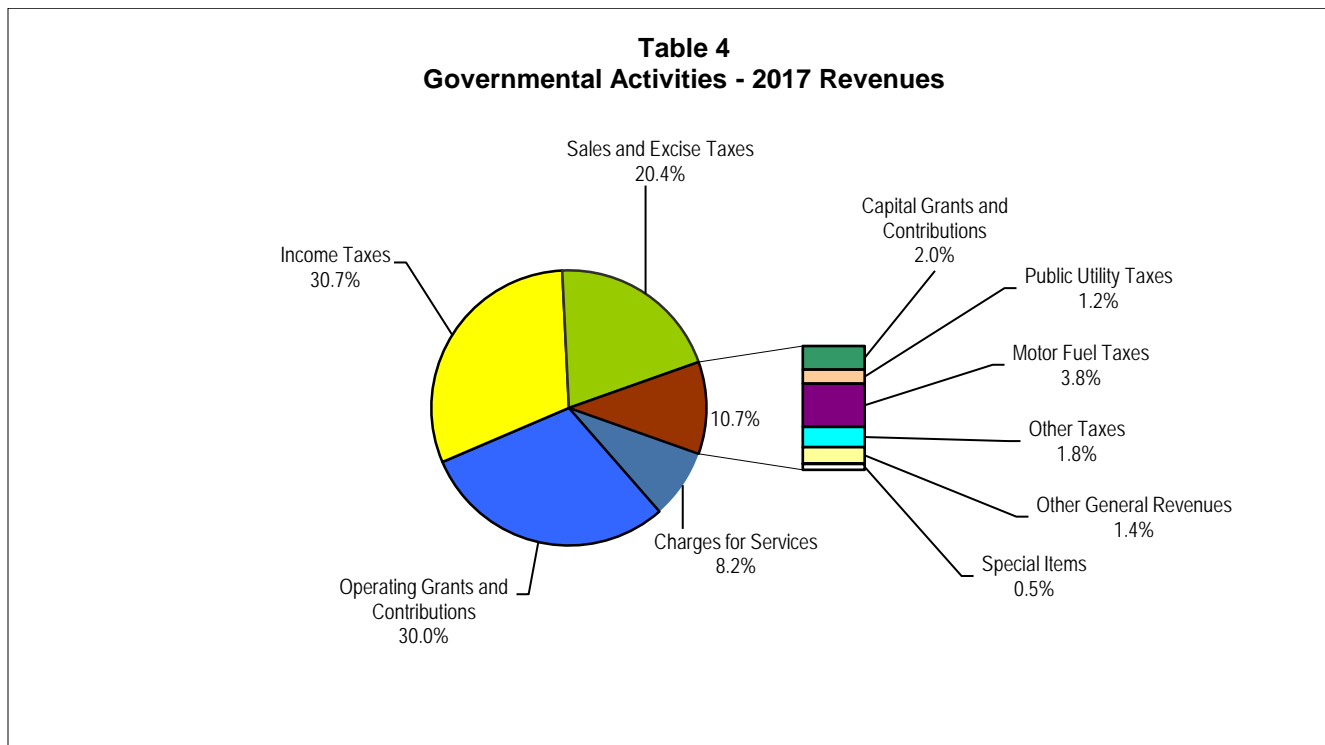
**Governmental Activities**

The net position of governmental activities increased \$1.0 billion in Fiscal Year 2017. Revenues for the governmental activities (including contributions to permanent fund principal and special items) totaled \$29.1 billion, while expenses and net transfers totaled \$28.1 billion in Fiscal Year 2017.

General and program revenues of governmental activities increased \$376.7 million during this fiscal year. Tax revenues increased \$529.1 million primarily due to enhanced income and sales and excise taxes of \$345.8 million and \$150.0 million, respectively. Charges for goods and services increased by \$37.0 million while other taxes also increased by \$34.3 million. In addition, operating grants increased \$13.6 million. Offsetting those increases was a decrease of \$207.8 million in capital grants.

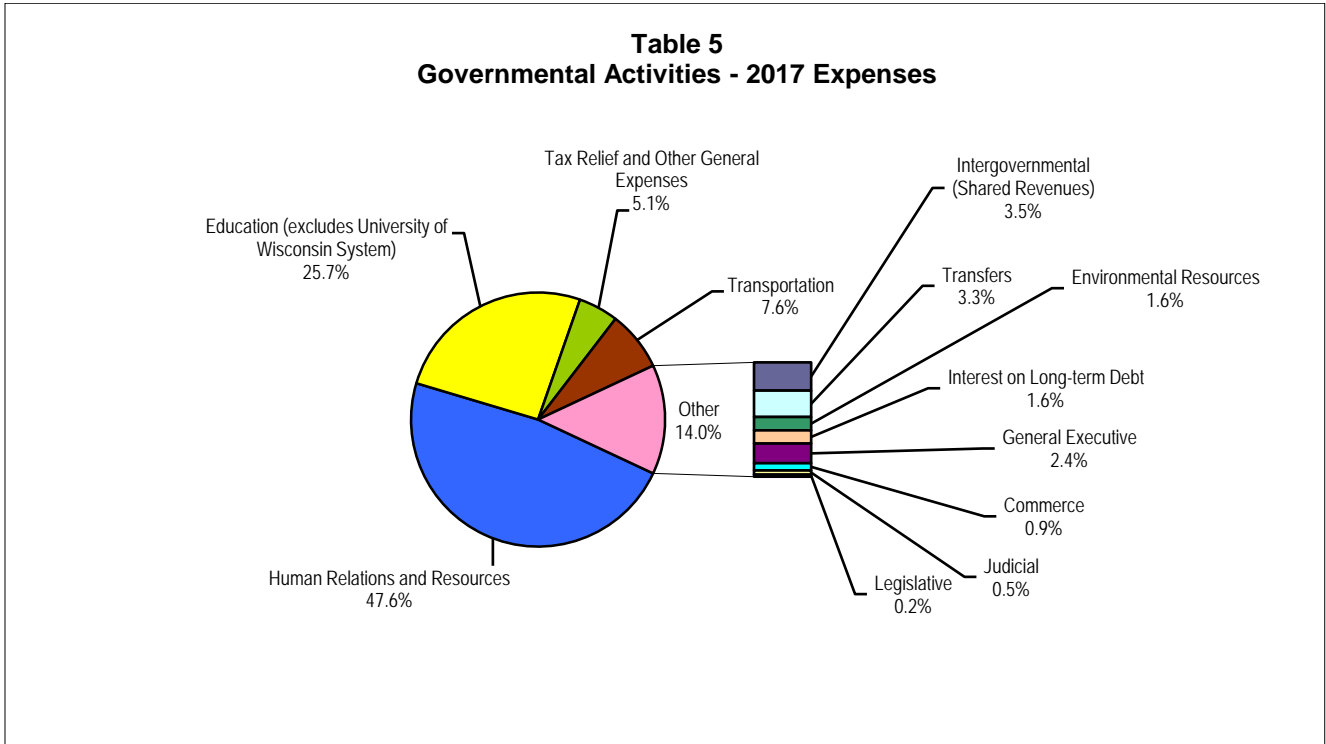
The State’s governmental activities program expenses increased \$447.8 million to \$27.2 billion during Fiscal Year 2017. Human relations and resources expenses increased by \$95.0 million (0.7 percent) to a total of \$13.4 billion. Education expenses increased by \$209.3 million (3.0 percent) to \$7.2 billion as a result of 2015 Wisconsin Act 55 which included an increase in per pupil aid. General executive expenses also increased \$107.0 million. Transportation, commerce, and judicial expenses increased \$13.8 million, \$11.4 million, and \$10.8 million, respectively. Conversely, environmental resources expenses decreased \$11.0 million.

As shown in Table 4, below, approximately 57.9 percent of revenues from all sources earned came from taxes (sales and excise, income, public utility, motor fuel, and other taxes). Operating grants and contributions represent amounts received from other governments/entities – primarily the federal government. Operating grants and contributions for non-capital purposes provided 30.0 percent of total revenues. Capital grants and contributions provided 2.0 percent, charges for services contributed 8.2 percent, while various other revenues provided 1.9 percent of the remaining governmental activity revenue sources.



As shown in Table 5, below, expenses for human relations and resources programs make up the largest portion – 47.6 percent – of total governmental expenses and transfers. Included in this cost function are programs such as Medical Assistance and Temporary Assistance for Needy Families as well as costs for state correctional facilities and services.

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 25.7 percent of total expenses. Tax relief and other general expenses and the municipal and county shared revenue program represent 8.6 percent of the total, while transportation expenses represent 7.6 percent. Net transfers to business-type activities, which include a general purpose revenue subsidy to the University of Wisconsin System, make up 3.3 percent of the total expenses and transfers. Remaining functional expenses totaled 5.6 percent while interest on long-term debt totaled 1.6 percent.



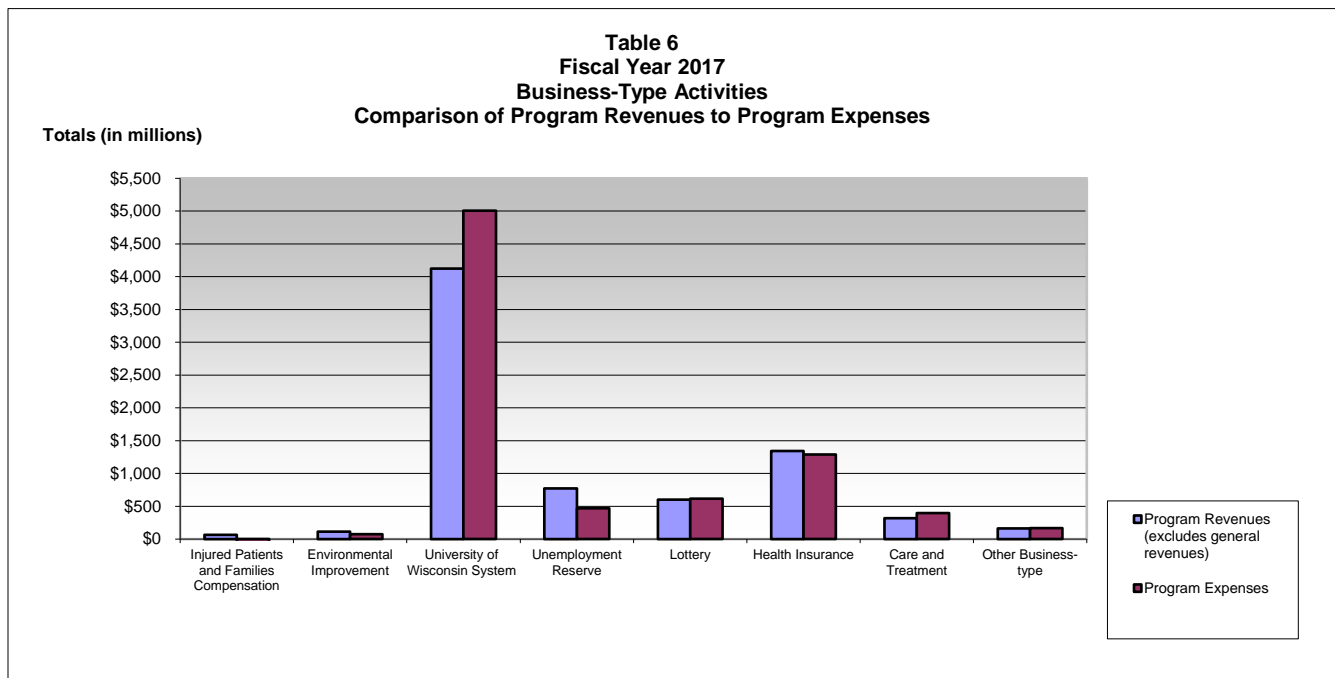
### Business-Type Activities

Net position of the State’s business-type activities increased \$280.9 million in Fiscal Year 2017.

Revenues of business-type activities totaled \$7.5 billion for Fiscal Year 2017, a decrease of \$85.0 million from the prior year. Program revenues consisted of \$6.9 billion of charges for services, \$610.1 million of operating grants and contributions, and \$22.6 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal and net transfers totaled \$8.8 million, \$2.0 million, and \$905.1 million, respectively.

The total expenses for business-type activities were \$8.0 billion, a decrease of \$52.8 million from the prior fiscal year. The largest decrease in program expenses, \$109.2 million, related to decreased expenses for Health Insurance. Expenses for Unemployment Reserve, Injured Patients and Family Compensation, and other business type program expenses also decreased \$49.5 million, \$6.2 million and \$5.9 million, respectively. Offsetting those decreases were increases in the University of Wisconsin System, Environmental Improvement, Care and Treatment Facilities, and Lottery funds of \$66.8 million, \$29.2 million, \$18.1 million and \$4.0 million, respectively. There was also a special item for the surrender of investments for \$169.4 million in Fiscal Year 2017.

Table 6, below, compares the program revenues and program expenses of the various State business-type activities. This table does not include the transfer in (subsidy) from the General Fund to the University of Wisconsin System or other business-type activities. Also excluded from the table is the special item for the surrender of investments.





## FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

### Governmental Funds

At the end of Fiscal Year 2017, the State's governmental funds reported a combined fund balance of \$414.4 million. Funds with significant changes in fund balance are discussed below:

#### General Fund

The General Fund is the chief operating fund of the State. At June 30, 2017, the State's General Fund reported a total fund deficit of \$(1.6) billion. The net change in fund balance during Fiscal Year 2017 was \$96.7 million, in contrast to \$18.5 million in Fiscal Year 2016. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

#### Revenues

Revenues of the General Fund totaled \$25.5 billion in Fiscal Year 2017, an increase of \$513.1 million (2.1 percent) from the prior year. Factors contributing to this change included the following:

- Revenues from taxes increased \$482.1 million. The increases relate to income and sales taxes, which increased \$338.5 million and \$144.4 million, respectively, from Fiscal Year 2016. Sales tax revenue increases were driven by increased consumer expenditures for taxable goods, while the increase in income taxes was the result of growth in personal income.
- Charges for Goods and Services increased \$46.8 million in Fiscal Year 2017. Revenues for human relations and resources and general executive programs increased \$26.1 million and \$24.5 million, respectively.
- Intergovernmental revenues (i.e. federal assistance) decreased \$7.4 million to \$8.4 billion in Fiscal Year 2017. Revenues for human relations and resources, education, and other programs decreased \$58.0 million, \$13.2 million and \$9.3 million, respectively, while the general executive program reported increased revenues of \$73.1 million.

#### Expenditures

2015 Wisconsin Act 55 established spending authority for the State of Wisconsin for Fiscal Year 2017. Expenditures of the General Fund totaled \$23.7 billion in Fiscal Year 2017, an increase of \$384.0 million from Fiscal Year 2016. Factors contributing to the change include the following:

- 2015 Wisconsin Act 55 budgeted for an increase in per pupil aid in Fiscal Year 2017. As a result, education expenditures increased by \$208.2 million to \$7.1 billion. These costs comprise 30.2 percent of General Fund expenditures.
- Human relations and resources expenditures increased by \$105.8 million (0.8 percent) to \$13.1 billion. These costs comprise 55.5 percent of General Fund expenditures.
- General executive expenditures increased by \$84.3 million (17.6 percent) to a total of \$563.8 million primarily because of increased federal assistance in Fiscal Year 2017.

#### Other Financing Sources and Uses

Other financing sources/uses totaled a net \$(1.6) billion in Fiscal Year 2017, a \$51.7 million decrease from Fiscal Year 2016. The components of this included the following:

- Transfers out of the General Fund totaled \$1.7 billion, an increase of \$59.2 million from the prior year.
  - The GPR supplement comprises a large portion of the transfers out and is provided to various enterprise funds. The supplement totaled \$870.7 million, a decrease of \$19.8 million from the prior year. The University of Wisconsin System, which receives the majority of the GPR supplement, received \$808.2 million in Fiscal Year 2017, an increase of \$5.4 million.

- Transfers out for debt service payments to the Bond Security and Redemption Fund totaled \$514.8 million in Fiscal Year 2017 compared to \$522.3 million in Fiscal Year 2016.
- Transfers out to nonmajor enterprise funds, the Capital Improvement Fund and Transportation Fund were \$88.2 million, \$70.7 million and \$39.9 million, respectively.
- Transfers in to the General Fund increased \$22.0 million (from \$77.7 million in Fiscal Year 2016 to \$99.6 million in Fiscal Year 2017). Non-major governmental funds transferred \$27.0 million while non-major enterprise funds transferred \$23.1 million. In addition, the University of Wisconsin System, Environmental Improvement Fund and internal service funds transferred \$20.3 million, \$17.2 million and \$10.1 million, respectively.

Note 9D provides additional information on transfers in and out of the General Fund.

As of June 30, 2017, the General Fund reported an unassigned fund balance deficit of \$(2.2) billion, a reduction of the deficit of \$232.3 million from the prior year. A deficit unassigned fund balance represents the excess of the liabilities of the General Fund over its assets and nonspendable, restricted, and committed fund balance accounts.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were significant and included a \$4.3 billion increase in appropriations. Contributing to the variance is the fact that several of the State’s programs and various transfers (see the items denoted with \*, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances occurred in the following appropriations (in millions):

Program	Variance
Food Stamps, Electronic Benefit Transfer*	\$ 1,200.0
UW System, General Program Operations (part of Statutory General Fund)	367.3
Federal Aid Medical Assistance	316.1
Medical Assistance Refunds and Collections	208.4
UW System, Gifts and Nonfederal Grants and Contracts	79.7

Actual charges to appropriations (expenditures) were \$4.6 billion below the final budgeted estimates. Large positive expenditure variances were reported in the Medical Assistance Federal Aid (\$543.3 million) and the Food Stamps Benefits (\$313.0 million) appropriations.

During the past fiscal year, the budgetary-based fund balance increased \$518.5 million for the statutory General Fund, in part, because of increased general purpose revenues for taxes. Net transfers from other funds totaled \$20.0 million in Fiscal Year 2017 compared to \$17.6 million in the prior fiscal year.

## Transportation Fund

In Fiscal Year 2017, the Transportation Fund's fund balance decreased \$134.9 million (18.8 percent) from \$717.3 million to \$582.4 million. A constitutional amendment restricts use of state resources deposited into the Fund for state transportation purposes. As such, \$560.3 million or 96.2 percent of fund balance is reported as restricted for Fiscal Year 2017. Remaining fund balance is reported as nonspendable and correlates to prepaid and inventory assets.

A decline in federal funding caused revenues of the fund to decrease by \$170.0 million (6.6 percent) to a total of \$2.4 billion. Primary revenue sources of the fund include motor fuel taxes, intergovernmental, and license and permit revenue sources, as well as interfund transfers in.

A reduction in capital outlay expenditures caused expenditures to decrease by \$115.1 million in Fiscal Year 2017, to a total of \$2.4 billion. In addition to the expenditures reported in the Transportation Fund, long term debt-funded transportation expenditures of \$82.8 million and \$80.7 million were reported in the Capital Improvement Fund and Transportation Revenue Bonds Fund, respectively. Transportation-related expenditures increased \$29.0 million in the Capital Improvement Fund and decreased \$92.6 million in the Transportation Revenue Bonds Fund in the current year.

Transfers in to the Transportation Fund increased slightly from \$65.7 million to \$67.1 million in Fiscal Year 2017. An on-going transfer equal to 0.25 percent of general fund taxes as published in the general fund condition statement is made annually with that amount being \$39.5 million in Fiscal Year 2017. In addition, \$27.3 million was transferred from the Petroleum Inspection special revenue fund.

Transfers out of the fund increased \$13.7 million to \$159.8 million. Transfers out to the Bond Security and Redemption Fund for debt service were \$97.1 million, while transfers out to the Capital Improvement Fund were \$31.7 million in Fiscal Year 2017.

## Capital Improvement Fund

Fund balance of the Capital Improvement Fund increased by \$262.9 million from \$(524.4) million to \$(261.5) million. Assets of the Fund, which are comprised of cash and receivables, increased \$115.5 million to \$196.1 million. Short-term notes payable and amounts owed to the Transportation Fund for reimbursement of transportation-related projects comprise the majority of Fund liabilities. Liabilities totaled \$457.6 million, a decrease of \$147.4 million from the prior year.

Four issues of long-term debt totaling \$617.4 million were made during the year, an increase of \$89.1 million from the prior fiscal year. During the year, debt and premium proceeds funded \$303.9 million of capital outlay expenditures, a decrease of \$25.3 million. Capital outlay expenditures reflect capital assets, such as buildings and highways, which were either in progress or completed during the fiscal year and will be used on a long-term basis. Debt proceeds also funded \$130.2 million of maintenance and repair expenditures on state owned assets that are reported as functional expenditures. Transportation related functional costs were \$82.8 million, an increase of \$29.0 million, and comprised 63.6 percent of functional expenditures.

Transfers In to the Capital Improvement Fund for debt service payments on outstanding notes payable decreased \$7.2 million to \$104.9 million. Transfers Out of the Capital Improvement Fund, which are also funded from debt proceeds, increased \$33.8 million to \$121.2 million, because more debt was issued and subsequently distributed to proprietary funds.

## Proprietary Funds

Proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Significant changes to balances of major proprietary funds from Fiscal Year 2016 to Fiscal Year 2017 include the following:

### Environmental Improvement

Fund net position of the Environmental Improvement Fund decreased \$144.4 million to \$1.9 billion primarily due to the surrender of \$169.4 million in investments. The investments, consisting of general obligation subsidy bonds issued by the State of Wisconsin, were previously required to be held in the loan credit reserve fund to satisfy requirements of the General Resolution. In June 2017, all but \$45.1 million of clean water revenue bonds were economically defeased releasing the lien of the General Resolution.

Total assets of the Fund decreased by \$519.0 million due to the surrender of the subsidy bond investments for cancellation and the use of cash to pay off debt obligations. Liabilities decreased by \$400.8 million, as result of the defeasance of clean water revenue bonds of \$583.0 million. This is reflected in the \$433.9 million decrease in revenue bonds payable. Loans to local governments increased by \$28.6 million to a total of \$2.0 billion.

Operating income of the Fund decreased by \$22.7 million to a loss of \$9.1 million in Fiscal Year 2017. The defeasance of the clean water revenue bonds resulted in expensed deferred charges of \$25.6 million in June 2017. Non-operating revenue decreased by \$13.7 million due to non-operating investment income decreasing by \$24.9 million to \$4.1 million. This decrease in non-operating investment income was offset by an increase of \$13.7 million in federal grant funds to \$56.7 million.

### **Injured Patients and Families Compensation**

Net position of the Injured Patients and Families Compensation Fund increased by \$121.1 million, from \$878.3 million to \$999.4 million at June 30, 2017. The increase is the result of negative benefit expenses, adequate assessment revenue, and investment income.

The Fund reported benefit expense of negative \$58.2 million for fiscal year 2017. In comparison, benefits expense from the prior year was negative \$51.7 million. A negative benefit expense is the result of an actuarial reduction to prior years' estimated claim liabilities. As a result of this actuarial estimate, the total liability for future benefit and loss liabilities decreased \$67.4 million to \$357.1 million. Benefit payments during the fiscal year totaled \$9.3 million.

Total assets of the Fund increased \$57.9 million to \$1.4 billion. Fund assets consist primarily of investments of \$1.3 billion. Investment and interest income totaled \$48.5 million and consists primarily from realized gains and interest income. Assessment income decreased by \$6.6 million, or 29.6%, to \$15.7 million for fiscal year 2017, because of a 30.0 percent decrease in assessment rates and changes in the number of providers participating in the Fund.

### **Unemployment Reserve**

Net position of the Unemployment Reserve Fund increased by \$299.1 million during Fiscal Year 2017 from \$1.2 billion at June 30, 2016 to \$1.5 billion at June 30, 2017. Benefit expenses decreased from \$513.8 million to \$465.8 million in Fiscal Year 2017, a decrease of \$48.0 million (9.3 percent). The decrease in benefits is the result of the average unemployment rate falling from 4.29 percent during Fiscal Year 2016 to 3.73 percent during Fiscal Year 2017.

Total operating revenues decreased by \$172.9 million from \$917.5 million in Fiscal Year 2016 to \$744.6 million in Fiscal Year 2017. Employer contributions decreased from \$873.3 million in Fiscal Year 2016 to \$706.9 million in Fiscal Year 2017, a decrease of \$166.4 million (19.0 percent). The average tax rate on taxable wages decreased from 2.55% during Calendar Year 2016 to an estimated 2.04% in Calendar Year 2017.

### **University of Wisconsin System**

Fund net position decreased by \$20.4 million to \$6.6 billion. Assets, which consist primarily of capital assets and cash, increased \$79.0 million to \$8.6 billion. Liabilities, which consist mostly of bonds payable, decreased by \$154.3 million to \$2.5 billion.

Operating revenues of the University of Wisconsin System increased \$32.5 million or approximately 1.0 percent to \$3.7 billion. Student tuition, and federal grants and contracts of \$1.3 billion and \$909.5 million, respectively, comprise 59.1 percent of operating revenues. Increases of \$26.5 million, \$18.6 million, \$13.9 million and \$11.4 million were reported for tuition and fees, sales and services of educational activities, federal grants and contracts, and sales and services of auxiliary enterprises, respectively. Conversely, revenues decreased by \$32.3 million (7.3 percent) and \$7.8 million (3.0 percent), for other income and local and private grants and contracts, respectively. Operating expenses increased \$93.9 million or 1.9 percent, primarily from an increase in personal services of \$62.7 million (2.0 percent) and supplies and services of \$28.3 million.

Transfers in to the University of Wisconsin System increased by \$7.2 million to a total of \$935.5 million in Fiscal Year 2017. The general purpose revenue supplement received from the State's General Fund, which comprises the majority of the amount transferred in, was \$808.2 million an increase of \$5.4 million. The Capital Improvement Fund also transferred \$102.2 million of bond and note proceeds to the University of Wisconsin System an increase of \$43.0 million from the prior year. Bond proceeds transferred in are a function of on-going capital projects funded with those bonds.

## GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the close of Fiscal Year 2017, the State reported \$30.3 billion invested in capital assets, net of accumulated depreciation of \$6.4 billion. This represents an increase of \$801.1 million, or 2.7 percent, from Fiscal Year 2016. Depreciation charges totaled \$163.9 million and \$308.1 million for governmental and business-type activities, respectively, in Fiscal Year 2017. The details of these assets are presented in Table 7, below. Additional information about the State's capital assets is presented in Note 7 to the financial statements.

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Primary Government</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Land and Land Improvements	\$ 2,893	\$ 2,824	\$ 171	\$ 171	\$ 3,065	\$ 2,995
Buildings and Improvements	1,387	1,364	4,387	4,378	5,774	5,743
Library Holdings	75	74	1,120	1,124	1,195	1,198
Machinery and Equipment	335	343	307	309	642	652
Infrastructure	15,843	15,433	-	-	15,843	15,433
Construction and Software in Progress	3,474	3,192	262	240	3,736	3,432
<b>Totals</b>	<b>\$ 24,008</b>	<b>\$ 23,231</b>	<b>\$ 6,247</b>	<b>\$ 6,223</b>	<b>\$ 30,255</b>	<b>\$ 29,454</b>

The major capital asset additions completed or acquired during Fiscal Year 2017 included the:

- US 41 Winnebago and Brown Counties \$1.4 billion
- Hoan Bridge \$272.2 million
- Falcon Center for Health & Education UW-River Falls \$60.2 million
- Student Center UW-La Crosse \$52.0 million
- Hill Farms Building A&B Replace \$36.2 million
- Memorial Theater Wing Renovation UW-Madison \$17.7 million

In addition to these completed projects, construction and software in progress as of June 30, 2017 for governmental and business-type activities totaled \$3.4 billion and \$261.8 million, respectively. A list of those projects is provided in Note 7. The State's continuing or proposed major capital projects for Fiscal Year 2017 and future years include:

- I-94 North South Freeway Project (Completion in 2033) \$1.7 billion
- Zoo Interchange (Completion in 2022) \$1.5 billion
- Highway 12 to Illinois (Completion in 2021) \$1.2 billion
- St. Croix Bridge Crossing (Completion in 2018) \$304.5 million Wisconsin share of project
- US 10 / Highway 441 (Completion in 2020) \$400.0 million
- Verona Road (Completion in 2019) \$281.7 million
- Highway 12 Lake Delton to Sauk City (Completion in 2018) \$191.3 million
- Highway 67 / US 41 (Completion in 2021) \$150.5 million
- La Crosse Corridor (Completion TBD) \$144.9 million
- Highway 76 – New London (Completion in 2021) \$137.7 million
- I-94 / 43<sup>rd</sup> Avenue (Completion in 2023) \$109.0 million

## Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 2017 was \$7.8 billion, as shown in Table 8. During Fiscal Year 2017, \$1.3 billion of general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes or to refund outstanding bonds. Of the bonds issued in the current year, \$359.1 million was to be used for University of Wisconsin System academic and self-amortizing facilities; \$484.4 million for transportation projects, \$100.3 million for environmental programs, \$40.6 million for correctional and mental health facilities and \$353.5 million for various other projects.

In Fiscal Year 2004, the State issued \$1.8 billion of annual appropriation bonds to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. In Fiscal Year 2009, the State issued \$1.5 billion of annual appropriation bonds to purchase the future right, title, and interest in the Tobacco Settlement Revenues (TSRs) from Badger Tobacco Asset Securitization Corporation (BTASC) as well as pay any issuance expenses. In Fiscal Year 2017, \$1.6 billion of Annual Appropriation Refunding Bonds were issued to refund portions of the outstanding bonds. As of June 30, 2017, \$3.1 billion of these bonds were outstanding.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not general obligation debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds of the primary government totaled \$2.7 billion outstanding at June 30, 2017, as shown in Table 8. These bonds included \$2.2 billion of Transportation Revenue Bonds, \$78.9 million of Petroleum Inspection Revenue Bonds, and \$362.0 million of Environmental Improvement Revenue Bonds.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
General obligations:						
Bonds and long-term notes	\$6,190.4	\$6,055.0	\$1,620.5	\$1,605.8	\$7,810.8	\$7,660.8
Annual appropriation bonds	3,113.9	3,032.4	--	--	3,113.9	3,032.4
Revenue bonds	2,314.7	2,256.8	362.0	759.5	2,676.7	3,016.3
<b>Totals</b>	<b>\$11,618.9</b>	<b>\$11,344.2</b>	<b>\$1,982.5</b>	<b>\$2,365.3</b>	<b>\$13,601.4</b>	<b>\$13,709.5</b>

Article VIII of the Wisconsin Constitution and Wis. Stat. Sec. 18.05 limit the amount of general obligation bond debt the State can contract in total and in any calendar year. In total, debt cannot exceed five percent of the value of all taxable property in the State. The amount of debt contracted in any calendar year is limited to the lesser of three-quarters of one percent of the aggregate value of taxable property or five percent of the aggregate value of taxable property less net indebtedness at January 1.

At June 30, 2017, State of Wisconsin general obligation fixed rate bonds had a rating of AA from Fitch Ratings, AA from Kroll Bond Rating Agency, Aa2 from Moody's Investors Services, and AA from Standard and Poor's Rating Services. General obligation variable notes had a rating of F1+ from Fitch Investors Services, L.P, P-1 from Moody's, and A-1+ from Standard and Poor's Corporation.

As of August 4<sup>th</sup>, 2017, Moody's Upgraded the State's G.O. Bonds rating to Aa1.

Detailed information about the State's long-term debt activity is presented in Note 11 to the financial statements.



## INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. Infrastructure assets exclude right-of-way costs. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 5,200 bridges with a combined value of \$15.8 billion) using the modified approach. Under this method, infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve these assets at a condition level established and disclosed by the State.

All infrastructure assets constructed prior to July 1, 2000 have been recorded at estimated historical cost. Historical cost was determined by calculating current costs of a similar asset and deflating that cost, using the Federal Highway Administration's composite index for federal-aid highway construction, to the estimated average construction date. All infrastructure assets constructed after July 1, 2000 have been recorded at historical cost.

In order to adequately serve the traveling public and support the State economy, it is the State's policy to ensure at least 85 percent of the state-owned roads and bridges are in good or fair condition. As of June 30, 2017, 92.6 percent of the roads and 96.9 percent of bridges were in good or fair condition, consistent with State policies. This compares to 91.1 percent of the roads and 96.9 percent of bridges as of June 30, 2016.

For the fiscal year ended June 30, 2017, actual maintenance and preservation costs for the State's road network were \$629.3 million, or \$141.0 million less than the estimated amount. On the same date, actual maintenance and preservation costs for the State's bridge network were \$59.3 million, or \$2.4 million more than the estimated amount. In developing estimated costs at the beginning of the fiscal year, it is difficult to predict the types of projects that will actually incur costs during the year. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimate amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

## ECONOMIC FACTORS

During calendar year 2016, the Wisconsin economy continued its strong expansion.

Wisconsin employment continued to grow throughout 2016. According to the federal Bureau of Labor Statistics, total nonfarm employment in Wisconsin increased 1.5 percent in 2014, 1.4 percent in 2015 and 1.1 percent during 2016. This performance generally followed national employment trends. Nationally, employment grew 1.9 percent in 2014, 2.1 percent in 2015 and 1.7 percent in 2016.

More recently, Wisconsin's growth in employment has slightly accelerated while growth nationwide has moderated. Between October 2016 and October 2017, Wisconsin employment has increased 1.4 percent. Nationally, employment is up 1.4 percent over the same period, representing a modest deceleration from 2016. In addition, Wisconsin's seasonally adjusted unemployment rate in October 2017 was 3.4 percent, well below the 4.1 percent national unemployment rate.

Reflecting the continuing recovery, Wisconsin's state nominal gross domestic product increased 2.8 percent in 2016, matching the national growth rate of 2.8 percent. Wisconsin's 2016 growth followed growth rates of 3.5 percent and 4.5 percent in 2014 and 2015, respectively. These figures compare with the 50-state total gross domestic product increases of 4.4 percent in 2014 and 4.0 percent in 2015. Since 2007, Wisconsin's gross domestic product increased by a similar magnitude to the country as a whole with 28.5 percent cumulative growth versus 28.6 percent nationally.

Steady growth in output has spurred gains in personal income. Wisconsin personal income grew 3.9 percent, 3.9 percent and 1.9 percent in 2014, 2015 and 2016, respectively. Nationally, personal income grew 5.3 percent, 5.0 percent and 2.3 percent in the same years. On a per capita basis, Wisconsin's income performance is similar to the nation's. Per capita income in Wisconsin increased by 3.7 percent, 3.8 percent and 1.7 percent in 2014, 2015 and 2016, respectively. This compares to growth of 4.5 percent, 4.2 percent and 1.6 percent in the same years nationally. Relative to the national average, Wisconsin per capita income has remained in approximately the same range for the past three years at 95.3 percent, 94.9 percent and 95.0 percent of the national average in 2014, 2015 and 2016, respectively.

Wisconsin's statewide total property value increased again in 2017 for the fourth straight year following five years of declines from 2009 through 2013. The recovery in values has been broad-based, reflecting improvements in all major sectors. In 2017, total property value increased 4.1 percent, with residential property value growing at 4.3 percent. In addition, commercial real estate values grew 5.1 percent and manufacturing values grew 2.4 percent. Manufacturing values have now increased for six consecutive years.

## **CONTACTING THE STATE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide Wisconsin's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to: State of Wisconsin, State Controller's Office, 101 E. Wilson Street, 5th Floor, Madison, WI 53707 or by email to: [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov).

Some state agencies, such as the State of Wisconsin Investment Board, Department of Employee Trust Funds and the University of Wisconsin, issue stand-alone audited financial statements. The information contained in those statements may vary from this document due to scope and application of generally accepted accounting principles. Questions about how to obtain the separately issued financial statements should be directed to individual agencies or to the State Controller's Office.

The State's component units issue their own separate audited financial statements. These statements may be obtained by directly contacting the component unit through their administrative offices identified in Note 1-B.

\* \* \* \*



Statement of Net Position

June 30, 2017

(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,679,874	\$ 3,847,512	\$ 5,527,386	\$ 751,631
Investments	584,415	1,883,680	2,468,095	1,631,584
Cash and Investments with Other Component Units	-	-	-	229,982
Receivables (net of allowance)	3,922,308	3,003,907	6,926,215	1,759,192
Internal Balances	51,113	(51,113)	-	-
Inventories	42,340	49,906	92,246	30,358
Prepaid Items	26,035	30,267	56,301	35,869
Capital Leases Receivable - Component Units	-	176	176	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	248,231	34,040	282,271	105,043
Investments	211,004	-	211,004	3,703,627
Cash and Investments with Other Component Units	-	-	-	19,363
Other Restricted Assets	229	-	229	-
Other Assets	24,035	5,660	29,695	151,088
Capital Assets:				
Depreciable	1,605,663	4,702,877	6,308,540	1,129,166
Nondepreciable:				
Infrastructure	15,842,901	-	15,842,901	-
Other	6,559,235	1,544,318	8,103,553	93,143
Total Assets	30,797,382	15,051,230	45,848,612	9,640,046
<b>Deferred Outflows of Resources</b>	<b>1,195,189</b>	<b>955,373</b>	<b>2,150,562</b>	<b>250,258</b>
<b>Liabilities</b>				
Accounts Payable and Other Accrued Liabilities	1,203,973	317,425	1,521,398	568,234
Due to Other Governments	2,390,447	28,278	2,418,725	82,576
Tax Refunds Payable	1,357,343	-	1,357,343	-
Tax and Other Deposits	109,285	26,616	135,900	81,972
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	220,095
Amounts Held in Trust by Component Unit for Others	-	-	-	73,607
Unearned Revenue	324,190	198,723	522,912	861
Interest Payable	107,651	3,767	111,418	9,560
Short-term Notes Payable	540,949	54,682	595,631	-
Other Liabilities	150,476	-	150,476	32,880
Long-term Liabilities:				
Current Portion	913,788	412,350	1,326,137	89,478
Noncurrent Portion	11,440,346	3,058,682	14,499,028	2,069,739
Total Liabilities	18,538,448	4,100,521	22,638,968	3,229,002
<b>Deferred Inflows of Resources</b>	<b>354,586</b>	<b>400,359</b>	<b>754,944</b>	<b>107,551</b>
<b>Net Position</b>				
Net Investment in Capital Assets	19,181,100	4,578,725	23,759,825	636,215
Restricted for:				
Human Relations and Resources	53,709	-	53,709	-
Conservation Related	126,442	-	126,442	-
General Executive	127,602	-	127,602	-
Transportation	560,273	-	560,273	-
Debt Service	93,317	-	93,317	-
Capital Projects	80,198	-	80,198	-
Unemployment Compensation	-	1,533,476	1,533,476	-
Environmental Improvement	-	1,898,511	1,898,511	-
Permanent Trusts:				
Expendable	24,757	308,884	333,641	10,474
Nonexpendable	1,097,544	198,295	1,295,839	8,988
Future Benefits	-	1,274,269	1,274,269	38,684
Other Purposes	116,028	801,427	917,455	4,153,520
Unrestricted	(8,361,432)	912,137	(7,449,295)	1,705,870
Total Net Position	\$ 13,099,538	\$ 11,505,724	\$ 24,605,262	\$ 6,553,751

The notes to the financial statements are an integral part of this statement.

**Statement of Activities  
For the Fiscal Year Ended June 30, 2017**

(In Thousands)

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Primary Government:</b>				
Governmental Activities:				
Commerce	\$ 248,879	\$ 265,120	\$ 16,628	\$ -
Education	7,237,495	14,406	917,720	-
Transportation	2,135,538	771,320	159,947	593,452
Environmental Resources	458,103	226,066	87,709	1,679
Human Relations and Resources	13,396,577	722,589	7,281,082	5,965
General Executive	675,331	268,493	203,056	41
Judicial	142,649	51,372	768	-
Legislative	70,310	2,141	1	-
Tax Relief and Other General Expenses	1,428,610	15	70,872	-
Intergovernmental - Shared Revenue	966,989	53,995	-	-
Interest on Debt	450,129	-	-	-
Total Governmental Activities	27,210,609	2,375,517	8,737,782	601,136
Business-type Activities:				
Injured Patients and Families Compensation	(56,933)	15,748	48,496	-
Environmental Improvement	74,089	55,268	60,738	-
University of Wisconsin System	5,005,294	3,676,555	426,067	20,945
Unemployment Reserve	471,341	740,165	30,587	-
Lottery	616,585	603,233	(1,253)	-
Health Insurance	1,290,526	1,326,618	17,769	-
Care and Treatment Facilities	395,682	318,177	434	568
Other Business-type	169,515	131,974	27,223	1,086
Total Business-type Activities	7,966,099	6,867,741	610,061	22,599
Total Primary Government	\$ 35,176,708	\$ 9,243,258	\$ 9,347,843	\$ 623,736
<b>Component Units:</b>				
Housing and Economic Development Authority	\$ 269,265	\$ 89,959	\$ 185,406	\$ -
Health Care Liability Insurance Plan	2,015	1,769	2,045	-
University Hospitals and Clinics Authority	2,972,923	2,991,235	-	-
University of Wisconsin Foundation	339,692	331,685	338,450	-
Wisconsin Economic Development Corp	43,719	224	36,951	-
Total Component Units	\$ 3,627,614	\$ 3,414,872	\$ 562,852	\$ -

General Revenues:  
 Dedicated for General Purposes:  
     Income Taxes  
     Sales and Excise Taxes  
     Public Utility Taxes  
     Other Taxes  
 Motor Fuel/Other Taxes Dedicated for Transportation  
 Other Dedicated Taxes  
 Interest and Investment Earnings  
 Miscellaneous  
 Contributions to Term and Permanent Endowments  
 Contributions to Permanent Fund Principal  
 Special Item - (Surrender)/Cancellation of GO Bonds  
 Transfers  
  
 Total General Revenues, Contributions, and Transfers  
 Change in Net Position  
 Net Position - Beginning  
 Net Position - Ending

The notes to the financial statements are an integral part of this statement.

**Net (Expense) Revenue and  
Changes in Net Position**

Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ 32,869		\$ 32,869	
(6,305,368)		(6,305,368)	
(610,819)		(610,819)	
(142,649)		(142,649)	
(5,386,941)		(5,386,941)	
(203,742)		(203,742)	
(90,509)		(90,509)	
(68,168)		(68,168)	
(1,357,724)		(1,357,724)	
(912,994)		(912,994)	
(450,129)		(450,129)	
<u>(15,496,173)</u>		<u>(15,496,173)</u>	
	\$ 121,178	121,178	
	41,917	41,917	
	(881,726)	(881,726)	
	299,411	299,411	
	(14,605)	(14,605)	
	53,861	53,861	
	(76,503)	(76,503)	
	(9,231)	(9,231)	
-	(465,698)	(465,698)	
<u>(15,496,173)</u>	<u>(465,698)</u>	<u>(15,961,871)</u>	
			\$ 6,100
			1,799
			18,312
			330,444
			(6,544)
			<u>350,110</u>
8,928,209	-	8,928,209	-
5,931,200	-	5,931,200	-
357,757	-	357,757	-
312,131	-	312,131	-
1,101,736	-	1,101,736	-
204,006	-	204,006	-
12,206	8,637	20,843	97,926
403,324	189	403,513	14,061
-	1,955	1,955	(323)
12,566	-	12,566	-
148,867	(169,364)	(20,497)	-
(905,147)	905,147	-	-
<u>16,506,854</u>	<u>746,564</u>	<u>17,253,418</u>	<u>111,663</u>
1,010,681	280,865	1,291,547	461,773
12,088,857	11,224,859	23,313,716	6,091,978
<u>\$ 13,099,538</u>	<u>\$ 11,505,724</u>	<u>\$ 24,605,262</u>	<u>\$ 6,553,751</u>

**Balance Sheet - Governmental Funds**  
**June 30, 2017**

(In Thousands)

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
<b>Assets and Deferred Outflows of Resources</b>					
Assets:					
Cash and Cash Equivalents	\$ 550,662	\$ 447,075	\$ 190,704	\$ 461,651	\$ 1,650,091
Investments	568	-	-	583,847	584,415
Receivables (net of allowance):					
Taxes	1,328,233	105,879	-	22,601	1,456,713
Loans to Local Governments	-	-	-	443,012	443,012
Other Loans Receivable	8,097	15,677	-	-	23,774
Other Receivables	669,233	3,545	34	81,215	754,027
Due from Other Funds	169,686	82,715	5,400	29,523	287,324
Interfund Receivables	78,934	-	-	-	78,934
Due from Other Governments	925,145	225,372	-	22,072	1,172,589
Inventories	15,036	21,195	-	1,571	37,802
Prepaid Items	6,689	909	-	13,638	21,236
Restricted and Limited Use Assets:					
Cash and Cash Equivalents	-	-	-	248,231	248,231
Investments	-	-	-	211,004	211,004
Other Restricted Assets	-	-	-	229	229
Other Assets	24,030	-	-	5	24,035
<b>Total Assets</b>	<b>3,776,313</b>	<b>902,366</b>	<b>196,138</b>	<b>2,118,599</b>	<b>6,993,415</b>
Deferred Outflows of Resources	-	142	-	-	142
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 3,776,313</b>	<b>\$ 902,508</b>	<b>\$ 196,138</b>	<b>\$ 2,118,599</b>	<b>\$ 6,993,557</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
Liabilities:					
Accounts Payable and Other					
Accrued Liabilities	\$ 1,010,780	\$ 139,056	\$ 7,339	\$ 19,243	\$ 1,176,418
Due to Other Funds	107,471	55,493	12,324	49,022	224,309
Due to Component Units	133	-	-	-	133
Interfund Payables	-	-	-	1,990	1,990
Due to Other Governments	2,276,068	111,654	1,010	1,716	2,390,447
Tax Refunds Payable	1,354,020	2,722	-	602	1,357,343
Tax and Other Deposits	91,420	-	-	17,865	109,285
Unearned Revenue	307,456	10,841	-	5,892	324,189
Interest Payable	-	-	-	44,970	44,970
Advances from Other Funds	735	-	-	6,321	7,055
Short-term Notes Payable	-	-	436,943	88,723	525,666
Revenue Bonds and Notes Payable	-	-	-	154,255	154,255
<b>Total Liabilities</b>	<b>5,148,082</b>	<b>319,765</b>	<b>457,616</b>	<b>390,598</b>	<b>6,316,061</b>
Deferred Inflows of Resources	254,151	368	-	8,606	263,125
Fund Balances:					
Nonspendable	21,712	22,103	-	1,110,337	1,154,153
Restricted	230,152	560,273	-	394,318	1,184,743
Committed	282,850	-	-	220,613	503,463
Unassigned	(2,160,635)	-	(261,478)	(5,873)	(2,427,987)
<b>Total Fund Balances</b>	<b>(1,625,920)</b>	<b>582,376</b>	<b>(261,478)</b>	<b>1,719,394</b>	<b>414,372</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 3,776,313</b>	<b>\$ 902,508</b>	<b>\$ 196,138</b>	<b>\$ 2,118,599</b>	<b>\$ 6,993,557</b>

(Continued)

**Balance Sheet - Governmental Funds**  
**June 30, 2017**

(Continued)

**Total  
Governmental**

**Reconciliation to the Statement of Net Position:**

<b>Total Fund Balances - Governmental Funds</b> (from previous page)	\$	414,372
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Infrastructure	15,842,901	
Other Capital Assets	9,380,523	
Accumulated Depreciation	<u>(1,587,646)</u>	
		23,635,777
Other long-term assets and deferred outflows and inflows of resources that are not available to pay for current period expenditures and, therefore, are not recognized in the funds.		
		686,165
Deferred outflows of resources used to accumulate decreases in fair values of hedging derivatives that are not reported in the governmental funds.		
	150,476	
Derivative instruments (interest rate swaps) that also are not reported in the governmental funds.		
	<u>(150,476)</u>	0
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are not recognized in the funds.		
		263,124
Internal service funds are used by management to charge the costs of certain activities, such as telecommunications and insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		
		12,819
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the fund statements. These liabilities, however, are included in the Statement of Net Position.		
Revenue Bonds Payable	(2,160,427)	
Appropriation Bonds Payable	(3,113,887)	
General Obligation Bonds and Notes Payable	(5,988,786)	
Accrued Interest on Bonds	(62,681)	
Capital Leases	(73,038)	
Compensated Absences	(148,577)	
Pollution Remediation	(7,982)	
Claims and Judgments	(556)	
Net Pension Liability	(105,395)	
Other Postemployment Benefits Liability	<u>(251,392)</u>	
		<u>(11,912,720)</u>
<b>Net Position of Governmental Activities as reported on the Statement of Net Position</b> (See page 39)	<b>\$</b>	<b>13,099,538</b>

The notes to the financial statements are an integral part of this statement.

**Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds  
For the Fiscal Year Ended June 30, 2017**

(In Thousands)

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
<b>Revenues:</b>					
Taxes					
Income	\$ 8,918,612	\$ -	\$ -	\$ -	8,918,612
Sales and Excise	5,923,388	-	-	-	5,923,388
Public Utility	357,757	-	-	-	357,757
Other General Purpose	312,124	-	-	-	312,124
Motor Fuel	-	1,101,666	-	-	1,101,666
Other Dedicated	-	-	-	204,006	204,006
Intergovernmental	8,365,753	750,738	-	70,698	9,187,189
Licenses and Permits	808,055	515,365	-	649,938	1,973,358
Charges for Goods and Services	330,698	16,255	-	18,417	365,370
Investment and Interest Income	3,798	1,653	337	37,392	43,180
Fines and Forfeitures	42,007	1,389	-	17,432	60,827
Gifts and Donations	8,185	3	-	16,010	24,199
Miscellaneous:					
Tobacco Settlement	139,973	-	-	-	139,973
Other	239,684	15,427	2	7,695	262,809
<b>Total Revenues</b>	<b>25,450,035</b>	<b>2,402,495</b>	<b>339</b>	<b>1,021,587</b>	<b>28,874,456</b>
<b>Expenditures:</b>					
Current Operating:					
Commerce	168,658	-	4,745	68,681	242,084
Education	7,147,503	-	617	40,865	7,188,985
Transportation	11,673	1,970,202	82,794	1,450	2,066,119
Environmental Resources	99,362	-	19,297	302,080	420,739
Human Relations and Resources	13,145,121	-	5,275	24,411	13,174,807
General Executive	563,794	-	825	107,168	671,787
Judicial	132,148	-	-	210	132,359
Legislative	66,908	-	-	-	66,908
Tax Relief and Other General	1,414,315	-	16,622	935	1,431,872
Intergovernmental - Shared Revenue	912,991	-	-	53,998	966,989
Capital Outlay	40,758	468,519	303,852	105,889	919,017
Debt Service:					
Principal	-	-	-	621,154	621,154
Interest	-	-	4,339	487,671	492,010
Other Expenditures	-	-	818	19,946	20,764
<b>Total Expenditures</b>	<b>23,703,230</b>	<b>2,438,721</b>	<b>439,184</b>	<b>1,834,457</b>	<b>28,415,592</b>
Excess of Revenues Over (Under) Expenditures	1,746,805	(36,225)	(438,845)	(812,870)	458,864
<b>Other Financing Sources (Uses):</b>					
Long-term Debt Issued	-	-	617,361	158,420	775,781
Long-term Debt Issued - Refunding Bonds	-	-	-	1,965,745	1,965,745
Payments for Refunded Bonds	-	-	-	(420,443)	(420,443)
Payments to Refunding Bond Escrow Agent	-	-	-	(1,645,980)	(1,645,980)
Premium on Bonds	-	-	100,658	137,060	237,718
Transfers In	99,643	67,134	104,875	1,070,265	1,341,916
Transfers Out	(1,748,451)	(159,806)	(121,172)	(209,552)	(2,238,980)
Capital Lease Acquisitions	373	-	-	-	373
<b>Total Other Financing Sources (Uses)</b>	<b>(1,648,436)</b>	<b>(92,672)</b>	<b>701,721</b>	<b>1,055,515</b>	<b>16,129</b>
Net Change in Fund Balances	98,369	(128,897)	262,876	242,645	474,993
Fund Balances, Beginning of Year	(1,722,629)	717,311	(524,354)	1,476,141	(53,531)
Increase (Decrease) in Inventories	(1,661)	(6,038)	-	609	(7,090)
<b>Fund Balances, End of Year</b>	<b>\$ (1,625,920)</b>	<b>\$ 582,376</b>	<b>\$ (261,478)</b>	<b>\$ 1,719,394</b>	<b>\$ 414,372</b>

(Continued)

**Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds  
For the Fiscal Year Ended June 30, 2017**

(Continued)

	<b>Total Governmental</b>
<b>Reconciliation to the Statement of Activities:</b>	
<b>Net Change in Fund Balances</b> (from previous page)	\$ 474,993
Inventories, which are recorded under the purchases method for governmental fund reporting, are reported under the consumption approach on the Statement of Activities. As a result of this change, the Increase (Decrease) in Reserve for Inventories on the fund statement has been reclassified as functional expenses on the government-wide statement.	(7,090)
Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at acquisition value with a corresponding amount of revenue recognized. In the current period, these amounts are:	
Capital Outlay/Functional Expenditures	907,390
Depreciation Expense	(127,547)
Grants and Contributions (Donated Assets)	<u>1,720</u>
	781,563
In the Statement of Activities, only the gain/(loss) on the sale/disposal of capital assets is reported, while in the governmental funds, any proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold/disposed.	(35,890)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	20,997
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	
Bonds Issued	(2,741,526)
Payments for Refunded Bonds	420,443
Payments to Refunding Bond Escrow Agent	1,645,980
Repayment of Bond Principal	621,154
Special Item - Cancellation of GO Bonds	148,867
Bond Premium	(237,718)
Prepaid Bond Insurance Costs (Amortization)	<u>8,126</u>
	(134,673)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Net Decrease (increase) in Accrued Interest	71,333
Decrease (increase) in Capital Leases	7,115
Decrease (increase) in Installment Contracts	472
Decrease (increase) in Compensated Absences	2,368
Decrease (increase) in Pollution Remediation Liabilities	(282)
Decrease (increase) in Claims and Judgments	26
Change in net pension assets, net pension liabilities, and pension-related deferred outflows and inflows of resources	(141,435)
Decrease (increase) in Postemployment Benefit Liabilities	<u>(15,958)</u>
	(76,361)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>(12,858)</u>
<b>Changes in Net Position of Governmental Activities as reported on the Statement of Activities</b> (See page 41)	<u>\$ 1,010,681</u>

The notes to the financial statements are an integral part of this statement.

**Statement of Net Position  
Proprietary Funds  
June 30, 2017**

(In Thousands)

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Injured Patients and Families Compensation</b>	<b>Environmental Improvement</b>	<b>University of Wisconsin System</b>	<b>Unemployment Reserve</b>
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 31,366	\$ 243,586	\$ 1,666,087	\$ 1,339,883
Investments	7,532	-	-	-
Loans to Local Governments (net of allowance)	-	184,399	-	-
Other Loans Receivable (net of allowance)	-	-	28,618	-
Other Receivables (net of allowance)	17,139	127	147,279	189,670
Due from Other Funds	-	214	23,753	305
Due from Component Units	-	-	-	-
Interfund Receivables	-	-	-	-
Due from Other Governments	-	19,576	71,301	1,995
Inventories	1	-	42,581	-
Prepaid Items	-	17	29,383	-
Capital Leases Receivable - Component Units	-	-	36	-
Other Assets	-	-	-	-
<b>Total Current Assets</b>	<b>56,037</b>	<b>447,919</b>	<b>2,009,038</b>	<b>1,531,853</b>
<b>Noncurrent Assets:</b>				
Investments	1,284,331	-	452,171	-
Loans to Local Governments (net of allowance)	-	1,814,630	-	-
Other Loans Receivable (net of allowance)	-	-	166,584	-
Other Receivables	-	-	149	42,156
Prepaid Items	-	100	-	-
Advances to Other Funds	50	6,271	-	-
Capital Leases Receivable - Component Units	-	-	140	-
<b>Restricted and Limited Use Assets:</b>				
Cash and Cash Equivalents	32,025	-	-	2,015
Other Assets	-	-	-	-
Depreciable Capital Assets (net of accumulated depreciation)	974	-	4,512,799	-
Nondepreciable Capital Assets	-	-	1,508,172	-
<b>Total Noncurrent Assets</b>	<b>1,317,381</b>	<b>1,821,001</b>	<b>6,640,015</b>	<b>44,171</b>
<b>Total Assets</b>	<b>1,373,418</b>	<b>2,268,919</b>	<b>8,649,053</b>	<b>1,576,024</b>
<b>Deferred Outflows of Resources</b>				
	191	4,397	815,034	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,373,609</b>	<b>\$ 2,273,316</b>	<b>\$ 9,464,088</b>	<b>\$ 1,576,024</b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts Payable and Other Accrued Liabilities	\$ 15,107	\$ 124	\$ 123,565	\$ 16,304
Due to Other Funds	53	2,628	75,394	1,930
Due to Component Units	-	-	-	-
Interfund Payables	-	-	-	-
Due to Other Governments	-	1	3,405	24,314
Tax and Other Deposits	-	-	2,112	-
Unearned Revenue	1,671	-	170,603	-
Interest Payable	-	1,093	1,919	-
Short-term Notes Payable	-	-	53,507	-
<b>Current Portion of Long-term Liabilities:</b>				
Future Benefits and Loss Liabilities	58,661	-	-	-
Capital Leases	-	-	2,030	-
Compensated Absences	11	143	67,652	-
General Obligation Bonds and Notes Payable	-	-	84,166	-
Revenue Bonds and Notes Payable	-	90,550	-	-
<b>Total Current Liabilities</b>	<b>75,504</b>	<b>94,539</b>	<b>584,353</b>	<b>42,548</b>
<b>Noncurrent Liabilities:</b>				
Accounts Payable and Other Accrued Liabilities	-	-	-	-
Due to Other Governments	-	552	-	-
<b>Noncurrent Portion of Long-term Liabilities:</b>				
Future Benefits and Loss Liabilities	298,452	-	-	-
Capital Leases	-	-	28,928	-
Installment Contracts Payable	-	-	-	-
Compensated Absences	35	427	70,395	-
Net Pension Liability	26	11	112,699	-
Other Postemployment Benefits	64	35	289,642	-
General Obligation Bonds and Notes Payable	-	-	1,459,736	-
Revenue Bonds and Notes Payable	-	271,470	-	-
<b>Total Noncurrent Liabilities</b>	<b>298,577</b>	<b>272,495</b>	<b>1,961,399</b>	<b>-</b>
<b>Total Liabilities</b>	<b>374,081</b>	<b>367,034</b>	<b>2,545,753</b>	<b>42,548</b>
<b>Deferred Inflows of Resources</b>				
	86	45	359,879	-
<b>Net Position:</b>				
Net Investment in Capital Assets	974	-	4,392,605	-
Restricted for Unemployment Compensation	-	-	-	1,533,476
Restricted for Environmental Improvement	-	1,898,511	-	-
Restricted for Expendable Trusts	-	-	308,884	-
Restricted for Nonexpendable Trusts	-	-	198,295	-
Restricted for Future Benefits	998,468	-	-	-
Restricted for Other Purposes	-	-	723,463	-
Unrestricted	-	7,726	935,208	-
<b>Total Net Position</b>	<b>999,442</b>	<b>1,906,238</b>	<b>6,558,456</b>	<b>1,533,476</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 1,373,609</b>	<b>\$ 2,273,316</b>	<b>\$ 9,464,088</b>	<b>\$ 1,576,024</b>

The notes to the financial statements are an integral part of this statement.



<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities - Internal Service Funds</b>	
	<b>Nonmajor Enterprise</b>	<b>Totals</b>			
\$	566,591	\$ 3,847,512	\$	29,783	
	5,497	13,029		-	
	242	184,641		-	
	1,201	29,819		-	
	113,989	468,205		2,689	
	91,458	115,730		33,071	
	-	-		-	
	82,013	82,013		-	
	9,529	102,401		54	
	7,323	49,906		4,538	
	767	30,167		4	
	-	36		-	
	473	473		-	
	<u>879,085</u>	<u>4,923,932</u>		<u>70,139</u>	
	134,149	1,870,651		-	
	1,782	1,816,413		-	
	32,519	199,104		-	
	189	42,494		-	
	-	100		494	
	735	7,055		-	
	-	140		-	
	-	34,040		-	
	5,187	5,187		-	
	189,104	4,702,877		320,887	
	36,146	1,544,318		51,134	
	<u>399,811</u>	<u>10,222,379</u>		<u>372,515</u>	
	<u>1,278,896</u>	<u>15,146,310</u>		<u>442,654</u>	
	<u>135,751</u>	<u>955,373</u>		<u>17,811</u>	
\$	<u>1,414,646</u>	\$ <u>16,101,684</u>	\$	<u>460,465</u>	
\$	98,996	\$ 254,097	\$	8,353	
	36,240	116,245		13,973	
	-	-		-	
	25,422	25,422		51,522	
	6	27,725		387	
	24,503	26,616		-	
	26,448	198,723		-	
	754	3,767		1,386	
	1,176	54,682		15,283	
	96,859	155,520		48,800	
	30	2,061		12,601	
	5,105	72,910		1,303	
	7,143	91,309		17,477	
	-	90,550		-	
	<u>322,682</u>	<u>1,119,626</u>		<u>171,085</u>	
	16,621	16,621		-	
	-	552		-	
	399,859	698,311		64,120	
	72	29,000		12,069	
	-	-		-	
	8,344	79,201		3,243	
	12,652	125,388		2,004	
	36,417	326,158		4,113	
	69,417	1,529,153		184,110	
	-	271,470		-	
	<u>543,383</u>	<u>3,075,855</u>		<u>269,658</u>	
	<u>866,065</u>	<u>4,195,480</u>		<u>440,743</u>	
	<u>40,348</u>	<u>400,359</u>		<u>7,023</u>	
	185,146	4,578,725		133,987	
	-	1,533,476		-	
	-	1,898,511		-	
	-	308,884		-	
	-	198,295		-	
	275,801	1,274,269		-	
	77,963	801,427		-	
	<u>(30,677)</u>	<u>912,257</u>		<u>(121,288)</u>	
	<u>508,233</u>	<u>11,505,845</u>		<u>12,699</u>	
\$	<u>1,414,646</u>	\$ <u>16,101,684</u>	\$	<u>460,465</u>	
	Total Net Position Reported Above	\$ 11,505,845			
	Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	(121)			
	Net Position of Business-type Activities	\$ <u>11,505,724</u>			

State of Wisconsin

**Statement of Revenues, Expenses, and Changes in  
Fund Net Position - Proprietary Funds  
For the Fiscal Year Ended June 30, 2017**

(In Thousands)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve
<b>Operating Revenues:</b>				
Charges for Goods and Services	\$ 15,748	\$ -	\$ -	-
Participant and Employer Contributions	-	-	-	706,926
Tuition and Fees	-	-	1,258,248	-
Federal Grants and Contracts	-	-	909,525	-
Local and Private Grants and Contracts	-	-	257,908	-
Sales and Services of Educational Activities	-	-	335,615	-
Sales and Services of Auxiliary Enterprises	-	-	429,498	-
Sales and Services to UW Hospital Authority	-	-	69,204	-
Investment and Interest Income	-	49,798	-	-
Interest Income Used as Security for Revenue Bonds	-	-	-	-
Miscellaneous:				
Federal Aid for Unemployment Insurance Program	-	-	-	4,476
Reimbursing Financing Revenue	-	-	-	31,287
Other	-	22	409,103	1,953
<b>Total Operating Revenues</b>	<b>15,748</b>	<b>49,820</b>	<b>3,669,101</b>	<b>744,642</b>
<b>Operating Expenses:</b>				
Personal Services	660	5,145	3,256,804	-
Supplies and Services	273	3,297	1,206,165	-
Lottery Prize Awards	-	-	-	-
Scholarships and Fellowships	-	-	145,168	-
Depreciation	353	-	292,442	-
Benefit Expense	(58,219)	-	-	465,774
Interest Expense	-	50,480	-	-
Other Expenses	-	-	24,898	5,568
<b>Total Operating Expenses</b>	<b>(56,933)</b>	<b>58,922</b>	<b>4,925,477</b>	<b>471,341</b>
<b>Operating Income (Loss)</b>	<b>72,681</b>	<b>(9,102)</b>	<b>(1,256,376)</b>	<b>273,300</b>
<b>Nonoperating Revenues (Expenses):</b>				
Operating Grants	-	56,723	-	-
Investment and Interest Income	48,496	4,053	56,205	26,111
Gain (Loss) on Disposal of Capital Assets	-	-	(24,841)	-
Interest Expense	-	-	(53,396)	-
Gifts and Donations	-	-	378,124	-
Miscellaneous Revenues	-	5,448	7,454	-
Other Expenses:				
Property Tax Credits	-	-	-	-
Grants Disbursed	-	(15,167)	-	-
Federal Settlement	-	-	-	-
Other	-	-	-	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>48,496</b>	<b>51,058</b>	<b>363,545</b>	<b>26,111</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>121,178</b>	<b>41,956</b>	<b>(892,831)</b>	<b>299,411</b>
Capital Contributions	-	-	20,945	-
Additions to Endowments	-	-	1,955	-
Transfers In	-	8,214	935,474	-
Transfers Out	(17)	(25,213)	(85,945)	(320)
<b>Net Income before Special Item</b>	<b>121,160</b>	<b>24,957</b>	<b>(20,403)</b>	<b>299,091</b>
Special Item:				
Surrender of General Obligation Bonds Held as Investments	-	(169,364)	-	-
<b>Change in Net Position</b>	<b>121,160</b>	<b>(144,407)</b>	<b>(20,403)</b>	<b>299,091</b>
<b>Total Net Position, Beginning of Year</b>	<b>878,282</b>	<b>2,050,645</b>	<b>6,578,859</b>	<b>1,234,384</b>
<b>Total Net Position, End of Year</b>	<b>\$ 999,442</b>	<b>\$ 1,906,238</b>	<b>\$ 6,558,456</b>	<b>\$ 1,533,476</b>

The notes to the financial statements are an integral part of this statement.

<b>Business-type Activities - Enterprise Funds</b>				
<b>Nonmajor Enterprise</b>		<b>Totals</b>	<b>Governmental Activities - Internal Service Funds</b>	
\$	941,768	\$	957,517	\$
	1,418,240		2,125,166	286,022
	-		1,258,248	-
	-		909,525	-
	-		257,908	-
	-		335,615	-
	-		429,498	-
	-		69,204	-
	2,298		52,096	-
	-		-	-
	-		4,476	-
	-		31,287	-
	3,103		414,181	1,184
	<u>2,365,409</u>		<u>6,844,721</u>	<u>287,206</u>
	324,945		3,587,554	49,303
	196,778		1,406,512	157,758
	362,966		362,966	-
	-		145,168	-
	15,273		308,068	36,666
	1,372,363		1,779,918	43,185
	2,146		52,626	-
	16,447		46,912	109
	<u>2,290,917</u>		<u>7,689,725</u>	<u>287,020</u>
	<u>74,493</u>		<u>(845,004)</u>	<u>186</u>
	1,332		58,055	179
	42,571		177,436	224
	41		(24,800)	299
	(1,540)		(54,936)	(6,710)
	576		378,699	-
	14,625		27,527	1,433
	(176,455)		(176,455)	-
	(1,900)		(17,067)	-
	-		-	(489)
	(610)		(610)	(2,758)
	<u>(121,361)</u>		<u>367,850</u>	<u>(7,821)</u>
	(46,868)		(477,154)	(7,635)
	1,654		22,599	-
	-		1,955	-
	109,865		1,053,553	4,419
	(36,910)		(148,406)	(11,959)
	<u>27,741</u>		<u>452,547</u>	<u>(15,175)</u>
	-		(169,364)	-
	<u>27,741</u>		<u>283,182</u>	<u>(15,175)</u>
	<u>480,492</u>		<u>11,222,662</u>	<u>27,874</u>
\$	<u>508,233</u>	\$	<u>11,505,845</u>	<u>12,699</u>
Change in Net Position Reported Above	\$		283,182	
Activities Related to Enterprise Funds			(2,317)	
Change in Net Position of Business-Type Activities	\$		<u>280,865</u>	

## Statement of Cash Flows - Proprietary Funds

### For the Fiscal Year Ended June 30, 2017

(In Thousands)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve
<b>Cash Flows from Operating Activities:</b>				
Cash Receipts from Customers	\$ 15,443	\$ -	\$ -	755,244
Cash Payments to Suppliers for Goods and Services	(255)	(3,750)	(1,256,749)	-
Cash Payments to Employees for Services	(679)	(6,365)	(3,091,079)	-
Tuition and Fees	-	-	1,263,104	-
Grants and Contracts	-	-	1,164,346	-
Cash Payments for Lottery Prizes	-	-	-	-
Cash Payments for Loans Originated	-	(210,490)	(36,039)	-
Collection of Loans	-	181,880	35,959	-
Interest Income	-	49,849	-	-
Cash Payments for Benefits	(9,300)	-	-	(483,746)
Sales and Services of Educational Activities	-	-	325,953	-
Sales and Services of Auxiliary Enterprises	-	-	427,465	-
Sales and Services to UW Hospital Authority	-	-	67,799	-
Scholarships and Fellowships	-	-	(145,168)	-
Other Operating Revenues	-	22	397,372	63,208
Other Operating Expenses	-	-	-	(5,646)
Other Sources of Cash	-	-	-	-
Other Uses of Cash	-	-	-	-
Net Cash Provided (Used) by Operating Activities	5,209	11,145	(847,037)	329,060
<b>Cash Flows from Noncapital Financing Activities:</b>				
Operating Grants Receipts	-	47,563	-	-
Grants for Loans to Governments	-	-	-	-
Grants Disbursed	-	(15,167)	-	-
Proceeds from Issuance of Debt	-	318,073	-	-
Repayment of Bonds and Notes	-	(54,105)	-	-
Escrow Deposit	-	(608,841)	-	-
Interest Payments	-	(32,919)	-	-
Property Tax Credit Payments	-	-	-	-
Noncapital Gifts and Grants	-	-	380,079	-
Interfund Loans Received	-	-	-	-
Interfund Loans Repaid	-	-	-	-
Repayment of Interfund Borrowings	-	-	-	-
Transfers In	-	8,214	1,064,168	-
Transfers Out	(17)	(25,213)	(99,260)	(337)
Student Direct Lending Receipts	-	-	678,992	-
Student Direct Lending Disbursements	-	-	(684,749)	-
Other Cash Inflows from Noncapital Financing Activities	-	5,417	11	-
Other Cash Outflows from Noncapital Financing Activities	-	-	(10,134)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(17)	(356,978)	1,329,107	(337)
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Proceeds from Issuance of Debt	-	-	211,455	-
Capital Contributions	-	-	103,318	-
Repayment of Bonds and Notes	-	-	(350,552)	-
Interest Payments	-	-	(137,808)	-
Transfers In	-	-	-	-
Capital Lease Obligations	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
Payments for Purchase of Capital Assets	(313)	-	(338,020)	-
Other Cash Inflows from Capital Financing Activities	-	-	34,250	-
Other Cash Outflows from Capital Financing Activities	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(313)	-	(477,357)	-
<b>Cash Flows from Investing Activities:</b>				
Proceeds from Sale and Maturities of Investment Securities	495,568	12,025	90,984	-
Purchase of Investment Securities	(527,854)	44	(86,813)	-
Cash Payments for Loans Originated	-	-	-	-
Collection of Loans	-	-	-	-
Investment and Interest Receipts	32,337	9,873	14,640	26,111
Net Cash Provided (Used) by Investing Activities	51	21,943	18,811	26,111
Net Increase (Decrease) in Cash and Cash Equivalents	4,930	(323,890)	23,524	354,835
Cash and Cash Equivalents, Beginning of Year	58,461	567,476	1,642,563	987,063
Cash and Cash Equivalents, End of Year	\$ 63,391	\$ 243,586	\$ 1,666,087	\$ 1,341,898

**Business-type Activities - Enterprise Funds**

Nonmajor Enterprise		Totals	Governmental Activities - Internal Service Funds	
\$	2,327,637	\$ 3,098,324	\$	293,279
	(152,439)	(1,413,193)		(160,802)
	(311,589)	(3,409,711)		(46,308)
	-	1,263,104		-
	-	1,164,346		-
	(373,014)	(373,014)		-
	-	(246,529)		-
	11,719	229,558		-
	2,411	52,259		-
	(1,396,408)	(1,889,454)		(29,642)
	-	325,953		-
	-	427,465		-
	-	67,799		-
	-	(145,168)		-
	8,702	469,304		1,075
	(50,877)	(56,524)		-
	56,123	56,123		481
	(62)	(62)		(3,840)
	122,202	(379,420)		54,245
	1,332	48,894		-
	-	-		-
	(2,959)	(18,126)		-
	-	318,073		-
	(12,930)	(67,035)		-
	-	(608,841)		-
	(2,179)	(35,098)		(146)
	(183,352)	(183,352)		-
	-	380,079		-
	1,202	1,202		4,098
	(2,339)	(2,339)		-
	10,469	10,469		-
	109,456	1,181,838		4,480
	(35,954)	(160,782)		(3,140)
	-	678,992		-
	-	(684,749)		-
	1,369	6,797		38
	-	(10,134)		(1,102)
	(115,886)	855,889		4,228
	373	211,828		69,442
	1,654	104,972		-
	(3,852)	(354,404)		(26,956)
	(1,875)	(139,682)		(8,370)
	3,006	3,006		-
	(102)	(102)		(11,141)
	-	-		631
	(16,105)	(354,438)		(75,089)
	19	34,269		8,256
	(5)	(5)		-
	(16,885)	(494,555)		(43,226)
	19,492	618,069		-
	(9,152)	(623,774)		-
	-	-		-
	-	-		-
	44,008	126,969		-
	54,348	121,265		-
	43,779	103,178		15,246
	522,812	3,778,375		14,537
\$	566,591	\$ 3,881,553	\$	29,783

(Continued)

**Statement of Cash Flows - Proprietary Funds  
For the Fiscal Year Ended June 30, 2017**

(Continued)

**Business-type Activities - Enterprise Funds**

	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:</b>				
Operating Income (Loss)	\$ 72,681	\$ (9,102)	\$ (1,256,376)	\$ 273,300
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	353	-	292,442	-
Provision for Uncollectible Accounts	-	-	-	(8,277)
Operating Income (Investment Income) Classified as Investing Activity	-	-	-	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	50,283	-	-
Miscellaneous Nonoperating Income (Expense)	-	-	-	-
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:				
Decrease (Increase) in Receivables	(50)	(28,610)	(8,856)	64,113
Decrease (Increase) in Due from Other Funds	-	(104)	3,030	101
Decrease (Increase) in Due from Component Units	-	-	4,739	-
Decrease (Increase) in Due from Other Governments	-	-	4,906	304
Decrease (Increase) in Inventories	-	-	(701)	-
Decrease (Increase) in Prepaid Items	-	17	305	-
Decrease (Increase) in Net Pension Assets	-	-	-	-
Decrease (Increase) in Other Assets	-	-	-	-
Decrease (Increase) in Deferred Outflows of Resources	96	70	379,089	-
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	-	(58)	8,010	4,030
Increase (Decrease) in Due to Other Funds	(29)	(1,330)	(71,342)	(1)
Increase (Decrease) in Due to Component Units	-	-	(2,046)	-
Increase (Decrease) in Due to Other Governments	-	(2)	(443)	(4,510)
Increase (Decrease) in Tax and Other Deposits	-	-	-	-
Increase (Decrease) in Unearned Revenue	(425)	-	(7,819)	-
Increase (Decrease) in Interest Payable	-	-	-	-
Increase (Decrease) in Compensated Absences	(5)	14	6,526	-
Increase (Decrease) in Net Pension Liability	(28)	(19)	(107,761)	-
Increase (Decrease) in Postemployment Benefits	12	5	21,776	-
Increase (Decrease) in Future Benefits and Loss Liability	(67,370)	-	-	-
Increase (Decrease) in Deferred Inflows of Resources	(28)	(19)	(112,515)	-
Total Adjustments	(67,472)	20,247	409,339	55,760
Net Cash Provided (Used) by Operating Activities	\$ 5,209	\$ 11,145	\$ (847,037)	\$ 329,060
<b>Noncash Investing, Capital and Financing Activities:</b>				
Assets Acquired through Capital Leases	\$ -	\$ -	\$ 1,872	\$ -
Special Item: Surrender of General Obligation Bonds Held as Investments	-	(169,364)	-	-
Net Change in Unrealized Gains and Losses	107,671	-	30,438	-
Other	-	-	3,182	-

The notes to the financial statements are an integral part of this statement.

<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities - Internal Service Funds</b>	
	<b>Nonmajor Enterprise</b>		<b>Totals</b>		
\$	74,493	\$	(845,004)	\$	186
	15,273		308,068		36,666
	101		(8,175)		-
	-		-		-
	2,444		52,727		-
	14,834		14,834		(1,318)
	12,753		39,349		276
	(33,666)		(30,639)		4,313
	-		4,739		-
	(1,634)		3,576		88
	1,440		739		264
	(670)		(347)		-
	-		-		-
	318		318		-
	41,349		420,605		7,519
	(12,079)		(97)		(4,362)
	9,341		(63,361)		722
	-		(2,046)		-
	(2)		(4,957)		(27)
	980		980		-
	(215)		(8,458)		-
	-		-		-
	(182)		6,353		73
	(12,122)		(119,929)		(1,982)
	2,600		24,393		401
	19,208		(48,161)		13,543
	(12,364)		(124,927)		(2,119)
	47,709		465,583		54,058
\$	122,202	\$	(379,420)	\$	54,245

\$	3	\$	1,875	\$	4,046
	-		(169,364)		-
	1,568		139,678		-
	2,351		5,533		-

## Statement of Fiduciary Net Position

### June 30, 2017

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private- Purpose Trust	Agency
<b>Assets</b>				
Cash and Cash Equivalents	\$ 6,334,782	\$ 3,356,401	\$ 68,254	\$ 34,993
Securities Lending Collateral	1,004,940	-	-	-
Prepaid Items	7,520	-	9	-
Receivables (net of allowance):				
Prior Service Contributions Receivable	18,035	-	-	-
Benefits Overpayment Receivable	2,270	-	-	-
Due from Other Funds	68,929	-	9,315	3,877
Due from Component Units	5,915	-	-	-
Due from Other Governments	129,574	-	14,518	1,034
Due from Employers	-	-	-	19,968
Interest and Dividends Receivable	244,205	-	-	-
Investment Sales Receivable	910,708	-	-	-
Other Receivables	3,766	-	21,007	2,256
Total Receivables	1,383,403	-	44,841	27,135
Investments:				
Fixed Income	28,622,140	-	-	-
Stocks	44,963,358	-	-	-
Options	252	-	-	-
Financial Futures Contracts and Swaps	(55,518)	-	-	-
Limited Partnerships	11,285,915	-	-	-
Preferred Securities	166,542	-	-	-
Convertible Securities	639	-	-	-
Real Estate	1,275,526	-	-	-
Investments of Private Purpose Trust Funds	-	-	4,606,041	-
Investments of Agency Funds	-	-	-	59
Multi-asset Investments	4,407,772	-	-	-
Investment Contract	600,547	-	-	-
Foreign Currency Contracts	67,024	-	-	-
Total Investments	91,334,195	-	4,606,041	59
Capital Assets	25,774	-	-	-
Other Assets	-	-	-	325,932
Total Assets	100,090,615	3,356,401	4,719,146	\$ 388,119
<b>Deferred Outflows of Resources</b>	-	-	28	
<b>Liabilities</b>				
Accounts Payable and Other Accrued Liabilities	143,677	-	11,986	\$ 38,484
Reverse Repurchase Agreements	1,831,169	-	-	-
Securities Lending Collateral Liability	1,004,940	-	-	-
Annuities Payable	343,683	-	-	-
Advance Contributions	62	-	-	-
Due to Other Funds	148,453	130	7,814	2,531
Interfund Payables	27	-	81,986	-
Tax and Other Deposits	-	-	-	347,104
Future Benefits and Loss Liabilities	-	-	5,519	-
Short Sales of Securities	314,926	-	-	-
Investment Payable	161,529	-	-	-
Unearned Revenue	-	-	5,169	-
Compensated Absences Payable	2,468,990	-	-	-
Net Pension Liability	-	-	4	-
Other Postemployment Benefits	-	-	11	-
Total Liabilities	6,417,455	130	112,488	\$ 388,119
<b>Deferred Inflows of Resources</b>	-	-	12	
<b>Net Position</b>				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	\$ 93,673,160	\$ 3,356,271	\$ 4,606,674	

The notes to the financial statements are an integral part of this statement.



**Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2017**

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private- Purpose Trust
<b>Additions</b>			
Contributions:			
Employer Contributions	\$ 1,022,077	\$ -	\$ -
Employee Contributions	967,350	-	-
Other	-	-	-
Total Contributions	<u>1,989,427</u>	<u>-</u>	<u>-</u>
Deposits	-	10,224,396	485,314
Premiums	-	-	245,080
Federal Subsidy	-	-	20,562
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	5,861,708	-	-
Interest	568,127	-	-
Dividends	1,239,791	-	-
Securities Lending Income	36,529	-	-
Other	242,854	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	252,620	32,744	450,772
Less:			
Investment Expense	(391,427)	(592)	(7,415)
Securities Lending Rebates and Fees	(2,973)	-	-
Investment Income Distributed to Other Funds	(283,077)	-	-
Net Investment Income	<u>7,524,151</u>	<u>32,152</u>	<u>443,356</u>
Interest on Prior Service Receivable	1,198	-	-
Miscellaneous Income	348	-	1,886
Total Additions	<u>9,515,124</u>	<u>10,256,549</u>	<u>1,196,198</u>
<b>Deductions</b>			
Retirement Benefits and Refunds:			
Retirement, Disability, and Beneficiary Separations	4,951,492	-	-
	39,276	-	-
Total Retirement Benefits and Refunds	<u>4,990,768</u>	<u>-</u>	<u>-</u>
Distributions	34,380	10,149,641	370,406
Other Benefit Expense	368,928	-	246,112
Administrative Expense	25,986	108	12,982
Miscellaneous Expense	-	-	-
Transfers Out	-	-	3
Total Deductions	<u>5,420,061</u>	<u>10,149,749</u>	<u>629,503</u>
Net Increase (Decrease)	4,095,063	106,799	566,695
Net Position - Beginning of Year	89,578,097	3,249,472	4,039,979
Net Position - End of Year	<u>\$ 93,673,160</u>	<u>\$ 3,356,271</u>	<u>\$ 4,606,674</u>

The notes to the financial statements are an integral part of this statement.

Notes To The Financial Statements

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## Notes To The Financial Statements

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Basis of Presentation

The accompanying basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

#### B. Financial Reporting Entity

For GAAP purposes, the State of Wisconsin includes all funds, elected offices, departments and agencies of the State, as well as boards, commissions, authorities and universities. The State has also considered all potential "component units" for which it is financially accountable, and other affiliated organizations for which the nature and significance of their relationship, including their ongoing financial support, with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

The decision to include a potential component unit in the State's reporting entity is based on the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. GASB Statement No. 14 criteria include the ability to appoint a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. GASB Statement No. 39 provisions relate to separately legal, tax-exempt organizations and include: (1) the economic resources received or held are entirely or almost entirely for the direct benefit of the State, (2) the State is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) the economic resources received or held by an individual organization that the State is entitled to, or has the ability to otherwise access, are significant to the State. GASB Statement No. 61 modifies certain requirements for inclusion in the financial reporting entity, especially in regards to the fiscal dependency criterion where a financial benefit or burden relationship is now required. It also amends the "blending" criteria for component units and clarifies the reporting of equity interests in legally separate organizations.

Based upon the application of the criteria contained in GASB Statement No. 14, as amended by GASB Statement No. 39, the

Wisconsin Public Broadcasting Foundation, Inc. is reported as a blended component unit; and the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the University of Wisconsin Hospital and Clinics Authority, the Wisconsin Economic Development Corporation and the University of Wisconsin Foundation, are presented as discrete component units, as discussed below.

Complete financial statements of the individual component units that issue separate statements can be obtained from their respective administrative offices:

Wisconsin Public Broadcasting Foundation Inc.  
Wisconsin Educational Communications Board  
3319 West Beltline Highway  
Madison, WI 53713  
<http://www.ecb.org>

Wisconsin Housing and Economic Development Authority  
201 West Washington Avenue, Suite 700  
Madison, WI 53703  
<http://www.wheda.com>

Wisconsin Health Care Liability Insurance Plan  
Office of the Commissioner of Insurance  
125 South Webster Street  
Madison, WI 53703  
<http://oci.wi.gov>

University of Wisconsin Hospital and Clinics Authority  
301 South Westfield Road  
Madison, WI 53717  
<http://www.uwhealth.org>

Wisconsin Economic Development Corporation  
201 West Washington Avenue  
Madison, Wisconsin 53703  
<http://inwisconsin.com>

University of Wisconsin Foundation  
1848 University Avenue  
Madison, WI 53726-4090  
<https://www.supportuw.org>

**Blended Component Unit**

Blended component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. The blended component unit serves or benefits the primary government. They are reported as part of the State and blended into the appropriate funds.

*Wisconsin Public Broadcasting Foundation, Inc.* – The Wisconsin Public Broadcasting Foundation, Inc. (Foundation), created in 1983 by the Wisconsin Legislature, is a private, non-stock, nonprofit Wisconsin Corporation, wholly owned by the Wisconsin Educational Communications Board (ECB), a unit of the State. The Foundation solicits funds in the name of, and with the approval of, the ECB. The Foundation's funds are managed by a five-member board of trustees consisting of the executive director of the ECB and four members of the ECB board. The Foundation is reported as a special revenue fund.

**Discretely Presented Component Units**

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the University of Wisconsin Hospital and Clinics Authority, the Wisconsin Economic Development Corporation and the University of Wisconsin Foundation are reported in a separate column and in separate rows in the government-wide statements to emphasize that they are legally separate.

*Wisconsin Housing and Economic Development Authority* – The Wisconsin Housing and Economic Development Authority (Authority) was established by the Wisconsin Legislature in 1972 to help meet the housing needs of Wisconsin's low and moderate income citizens. The State has significantly expanded the scope of services of the Authority by adding programs that include financing for farmers and for economic development projects. While the Authority receives no State tax dollars for its bond-supported programs and the State is not liable on bonds the Authority issues, the State has the ability to impose its will on the Authority through legislation. The State appoints the Authority's Board. The Authority reports on a June 30 fiscal year-end.

*Wisconsin Health Care Liability Insurance Plan* – The Wisconsin Health Care Liability Insurance Plan (Plan) was established by rule of the Commissioner of Insurance of the State of Wisconsin to provide health care liability insurance and liability coverage normally incidental to health care liability insurance to eligible health care providers in the State. Eight out of 13 members of the Board of Directors are appointed by the Governor, and the State

has the ability to impose its will upon the Plan. The Plan reports on a fiscal year ended December 31.

*University of Wisconsin Hospital and Clinics Authority* – The University of Wisconsin Hospital and Clinics Authority (Hospital) is a not-for-profit academic medical center. The Hospital operates an acute-care hospital with 566 beds, numerous specialty clinics, and six intensive care units with a total of 83 beds, and it provides comprehensive health care to patients, education programs, research and community service. Prior to June 1996, the Hospital was a unit of the University of Wisconsin-Madison. In June 1996, in accordance with legislation enacted by the State Legislature, the Hospital was restructured as a Public Authority, a public body corporate and politic created by State statutes. The State appoints a majority of the Hospital's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the State. The Hospital reports on a June 30 fiscal year-end.

The legislation that created the Hospital Authority also provided, among other things, for the Board of Regents of the University of Wisconsin System to execute various agreements with the Hospital. These agreements include an Affiliation Agreement, a Lease Agreement, a Conveyance Agreement and a Contractual Services Agreement and Operating and Service Agreement.

The Affiliation Agreement requires the Hospital to continue to support the educational, research and clinical activities of the University of Wisconsin-Madison, which are administered by the Hospital. Under the terms of a Lease Agreement, the Hospital leases facilities which were occupied by the Hospital as of June 29, 1996. Under a Conveyance Agreement, certain assets and liabilities related to the Hospital were identified and transferred to the Hospital effective July 1, 1996. Subject to the Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts for the continuation of services in support of programs and operations.

*Wisconsin Economic Development Corporation* – The Wisconsin Economic Development Corporation (WEDC) is a legally separate body corporate and politic. The WEDC's primary purpose is economic development activities in the State. The State appoints a majority of the WEDC's Board, has the ability to impose its will on the WEDC, and a financial benefit/burden relationship exists. The WEDC reports on a fiscal year ended June 30.

*University of Wisconsin Foundation* – The University of Wisconsin Foundation (the Foundation) is a legally separate, tax-exempt component unit of the State. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available mostly to the University of Wisconsin-Madison (UW-Madison) as well as several other units of the University of Wisconsin System in support of its programs. These include scientific, literary, athletic and educational program purposes. The University of Wisconsin System is reported as an enterprise

fund of the State. Although the State does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, are restricted to the activities of the UW-Madison by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the UW-Madison and several other units of the University of Wisconsin System, the Foundation is considered a component unit of the State. The Foundation reports on a fiscal year ended June 30.

#### Related Organizations

These related organizations are excluded from the reporting entity because the State's accountability does not extend beyond appointing a voting majority of the organization's board members. Financial statements are available from the respective organizations.

*Wisconsin Health and Educational Facilities Authority* – a public body politic and corporate that provides financing for capital expenditures and refinancing of indebtedness for Wisconsin health care and educational institutions.

*Bradley Center Sports and Entertainment Corporation* – a public body politic and corporate that operates the Bradley Center.

*Fox River Navigational System Authority* – created under Chapter 237 as a public body corporate and politic to oversee the Fox River navigational system after the federal government (the U.S. Army Corps of Engineers) transferred the system to the State.

### C. Government-wide and Fund Financial Statements

The *government-wide* financial statements consist of the statement of net position and the statement of activities.

These statements report information on all activities, except for fiduciary activities, of the primary government and its component units. The statement of net position and the statement of activities distinguish between the governmental and business-type activities of the State. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are generally financed in whole or in part by fees charged to external parties for goods and services. The focus of the government-wide statements is the primary government. A separate column on the statement of net position and the statement of activities reports activities for all discretely presented component units.

The *fund* financial statements provide detailed information on all governmental, proprietary and fiduciary funds. Separate columns are presented for all major governmental and enterprise funds. Nonmajor governmental and enterprise funds are aggregated and presented as a single column on the respective governmental or

proprietary statements. Internal service funds are exempt from the major fund reporting requirements and are aggregated and ultimately reported as a single column on the proprietary statements. Fiduciary funds are also exempt from major fund reporting and are aggregated by fund type and ultimately reported as single columns on the fiduciary statements.

### D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The *government-wide* statement of net position and statement of activities, as well as the *proprietary and fiduciary fund* statements, are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

In the University of Wisconsin System's enterprise fund, revenues and expenses of an academic term that spans two fiscal years are recognized in two years based on a proration of summer session days.

In reporting the financial activity of its enterprise funds and business-type activities, the State applies all applicable GASB pronouncements.

Most of the funds included in the State's Comprehensive Annual Financial Report are presented on a fiscal year ended June 30. However, because funds of the Department of Employee Trust Funds (DETF) are administered on a calendar year basis, they are presented on a fiscal year ended December 31. This may result in GASB standards being implemented in different fiscal years for the DETF GAAP funds. Funds reported as of December 31 include: Wisconsin Retirement System, Accumulated Sick Leave, Duty Disability, Reimbursed Employee Expense, Local Retiree Life Insurance, Retiree Life Insurance, Milwaukee Retirement System, Retiree Health Insurance, Local Retiree Health Insurance, Income Continuation Insurance, Long-term Disability Insurance, Health Insurance, and Life Insurance.

As a result of the differences in timing, transactions between funds with different fiscal year ends may result in inconsistencies in amounts reported as due to/due from other funds or as interfund transfers. Similar differences may occur in amounts reported as due to/from component units.

The University of Wisconsin Foundation and Wisconsin Health Care Liability Insurance Plan are reported as component units. The Foundation financial statements are prepared using accounting standards promulgated by the Financial Accounting Standards Board as they apply to not-for-profit corporations. The Plan financial statements are prepared using prescribed statutory

accounting practices included in the National Association of Insurance Commissioner's Accounting Practices and Procedures Manual. Statutory accounting practices vary somewhat from United States GAAP but are expected to be immaterial.

*Governmental fund* financial statements are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net available financial resources.

Governmental funds are reported on the modified accrual basis of accounting. This basis of accounting recognizes revenues generally when they become measurable and available to pay current reporting period liabilities. For this purpose, the State considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Other revenues are considered to be available if received within one year after the fiscal year end except for tobacco settlement revenues for which just one-half of revenues expected to be received within one year are recognized. Material revenue sources susceptible to accrual include individual and corporate income taxes, sales taxes, public utility taxes, motor fuel taxes and federal revenues.

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due.

The State reports the following major funds:

#### **Major Governmental Funds**

- *General Fund* – the primary operating fund of the State, accounts for all financial transactions except those required to be accounted for in another fund.
- *Transportation Fund* – a special revenue fund, accounts for the proceeds from motor fuel taxes, vehicle registrations, licensing fees, and federal and local governments which are used to supply and support safe, efficient and effective transportation in Wisconsin.
- *Capital Improvement Fund* - a capital projects fund, accounts for the proceeds received from general obligation bonds and notes, and associated interest earnings. Resources of the fund are used for the acquisition or construction of major capital facilities and for repair and maintenance projects.

#### **Major Enterprise Funds**

- *Injured Patients and Families Compensation Fund* – accounts for the program to provide excess medical malpractice insurance for Wisconsin health care providers. The revenues to finance this insurance are primarily derived from assessments charged to health care providers.
- *Environmental Improvement Fund* – accounts for financial resources generated and used for clean water projects. Federal capitalization grants, interest earnings, revenue bond proceeds, and general obligation bond proceeds are its primary funding sources.
- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration.
- *Unemployment Reserve Fund* – accounts for unemployment contributions made by employers, federal program receipts, benefit payment recoveries and unemployment benefits paid to laid off workers in the State.

In addition, the State reports the following fund types:

#### **Governmental Funds**

- *Special Revenue Funds* – account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Examples include the Conservation Fund and the Petroleum Inspection Fund.
- *Debt Service Funds* – account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Financial resources that are being accumulated for future principal and interest are also reported in debt service funds.
- *Capital Projects Funds* – account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds or that will be held in trust for individuals, private organizations, or other governments).
- *Permanent Funds* – account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the State's programs – that is, for the benefit of the State or its citizenry.

#### **Proprietary Funds**

- *Enterprise Funds* – account for the activities for which fees are charged to external users for goods or services. Examples include the Lottery Fund and the Veterans Trust Fund.



- *Internal Service Funds* – account for the operations of State agencies which provide goods or services to other State units or other governments on a cost-reimbursement basis. These services include technology, fleet management, financial, facilities management, and risk management. Additional goods and services are provided by the inmate work experience program, Badger State Industries.

#### **Fiduciary Funds**

- *Pension and Other Employee Benefit Trust Funds* – used to account for resources that are required to be held in trust for members and beneficiaries for public employee retirement or other benefit plans e.g. Wisconsin Retirement System and duty disability.
- *Investment Trust Funds* – account for assets invested on a commingled basis by the State on behalf of other governmental entities e.g. local government pooled investments.
- *Private-purpose Trust Funds* – account for all other trust arrangements which benefit individuals, private organizations, or other governments e.g. the state-sponsored college savings program.
- *Agency Funds* – account for those assets for which the State acts solely in a custodial capacity e.g. the collection and disbursement of court-ordered child support payments.

Amounts reported as program revenues on the government-wide statement of activities include (a) charges for services – amounts received from customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by the State; including interest earnings from various loan funds/ component units, (b) program-specific operating grants, contributions, and restricted interest, and (c) program-specific capital grants, contributions, and restricted interest. General revenues consist of taxes and all other revenues that do not meet the definition of program revenues. Special items, if any, are significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. This includes all internal service fund activity, as well as other internal allocations. Exceptions to this general rule are certain charges between various functions of the government, whose elimination would distort the direct costs and program revenues reported for the various functions concerned.

The revenues and expenses shown on the proprietary fund statements are identified as either operating or nonoperating. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's primary mission. The State's enterprise funds are involved in many diverse fields including patient care, insurance programs,

loan programs, the University of Wisconsin System, employee benefit plans, and the lottery. The internal service funds provide services and goods to other State agencies and departments.

A significant portion of operating revenues for the proprietary funds is recorded under charges for goods and services. In the case of the State's loan program enterprise funds, investment and interest income is an important component of operating revenue. Operating revenues of the University of Wisconsin include tuition and fees, certain grants and contracts resulting from exchange transactions, and sales and services of educational activities and auxiliary enterprises. In regards to the employee benefit plans, the primary operating revenue source is participant and employer contributions. Operating expenses for the proprietary funds include the costs of sales and services, benefit expenses, administration expenses and depreciation on capital assets. All revenues and expenses not related to a fund's primary purpose are reported as nonoperating.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

## **E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balances**

### **1. Cash and Cash Equivalents**

Cash balances of most funds are deposited with the Department of Administration where the available balances beyond immediate needs are pooled in the State Investment Fund for short-term investment purposes. Balances pooled are restricted to legally stipulated investments valued consistent with GASB Statement No. 72, *Fair Value Measurement and Application*. Cash balances not controlled by the Department of Administration may be invested where permitted by statute.

Cash and cash equivalents, reported on the balance sheet and statement of cash flows, include bank accounts, petty cash, cash in transit, short-term investments with an original maturity of three months or less such as certificates of deposit, money market certificates, repurchase agreements and individual funds' shares in the State Investment Fund.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosure of risks associated with deposit and investment balances and the policies applied to mitigate such risks. Specific disclosures are included in Note 5, Deposits and Investments.

### **2. Investments**

The State 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 corporate 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 5 to the financial statements).

Investments of the primary government are reported at fair value consistent with the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. Typically, fair value information is determined using quoted market prices. However, when quoted market prices are not available for certain securities, fair values are estimated through techniques such as discounted future cash flows, matrix pricing and multi-tiers.

In some instances, securities are reported at cost. Certain non-public or closely held stocks are carried at cost since no independent quotation is available to price these securities. Further, certain investment agreements are reported on a cost basis because the State cannot readily determine whether these agreements meet the definition of interest-earning investment contracts as defined by GASB Statement No. 31. However, the impact on the financial statements is immaterial.

Under Wisconsin Statutes, the investment earnings of certain Permanent Funds are assigned to other funds. The following table shows the funds earning the investment income and the ultimate recipients of that income:

Fund Generating Investment Income	Fund Receiving Investment Income
Agricultural College	University of Wisconsin System
Normal School	General Fund and University of Wisconsin System
University	University of Wisconsin System
Benevolent	General Fund

**3. Mortgage and Other Loans**

Mortgage loans of the Veterans Mortgage Loan Repayment Fund and the Veterans Trust Fund programs, business-type activities, are stated at the outstanding loan balance less an allowance for doubtful accounts.

**4. Forestation State Tax**

The State levies an annual tax of two-tenths of one mill for each dollar of the assessed valuation of the property in the State, as described in Wis. Stat. Sec. 70.58. This tax is levied for the purpose of acquiring, preserving and developing the forests of the

state; for forest crop law and county forest law administration and aid payments; and for the acquisition, purchase and development of forests. The proceeds of the tax are paid to the Conservation Fund.

This tax, the only property tax levied by the State, is levied to each county on or before the fourth Monday in August of each year on assessed valuation as of January 1 of that year. The tax is due and payable January 31 or on the due dates established through an installment option permitted under Wis. Stat. Sec. 74.12.

Consistent with the requirements of GASB Interpretation No. 5, Property Tax Revenue Recognition in Governmental Funds, collections received July 1 through August 31 that were due but unpaid at June 30 are accrued.

**5. Interfund Assets/Liabilities**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The balance sheet or statement of net position for proprietary and fiduciary funds classifies these receivables and payables as "Due from Other Funds" or "Due to Other Funds." Short-term interfund loans are classified as "Interfund Receivables" or "Interfund Payables." Long-term interfund loans are classified as "Advances to Other Funds" and "Advances from Other Funds".

Balances that exist between the primary government and component units are classified as "Due to/from Primary Government" and, correspondingly, "Due to/from Component Units".

Amounts reported in the funds as interfund assets/liabilities are eliminated in the governmental and business-type columns of the Statement of Net Position, except for the net residual amount due between governmental and business-type activities which is shown as internal balances.

**6. Inventories and Prepaid Items**

Inventories of governmental and proprietary funds are valued at cost, which approximates market, using the first-in/first-out, last in/first out, or weighted-average method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Inventories of the University of Wisconsin System held by central stores are valued at average cost, fuels are valued at market, and other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year.

Prepaid items reflect payments for costs applicable to future accounting periods.



The fund balances of governmental funds are reported as nonspendable for inventories and prepaid items, except in cases where prepaid items are offset by unearned revenues, to indicate that these accounts do not represent expendable available financial resources.

**7. Capital Assets**

Capital assets, which include property, plant, equipment, intangibles, land and infrastructure assets (roads, bridges, and buildings considered an ancillary part of roads), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets of the primary government, other than infrastructure and land purchased for the construction of infrastructure assets, are capitalized when they have a unit cost of \$5,000 or more (except for a collection of library resources that must have a cumulative value equal to or greater than \$5.0 million and software purchased by the University of Wisconsin System) and a useful life of two or more years. In addition, internally generated intangible assets are capitalized only if costs are equal to or are greater than \$1.0 million.

Purchased or constructed capital assets are valued at cost or estimated historical cost if actual historical cost is not practicably determinable. Donated capital assets are recorded at their acquisition value at the time received.

The State has elected to report infrastructure assets (roads, bridges and buildings considered an ancillary part of roads) using the modified approach. Under this method infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve its infrastructure assets at a condition level established and disclosed by the State. All infrastructure assets constructed prior to July 1, 2000 have been recorded at estimated historical cost. The estimated historical cost was determined by calculating the current cost of a similar asset and deflating that cost using the Federal Highway Administration’s composite index for federal aid highway construction to the estimated average construction date. All infrastructure assets constructed after July 1, 2000 have been recorded at historical cost. The costs of maintenance and preservation that do not add to the asset’s capacity or efficiency are not capitalized. Interest incurred during construction is not capitalized.

Exhaustible capital assets of the primary government generally are depreciated on the straight-line method over the asset’s useful life. Select buildings of the University of Wisconsin System are depreciated using the componentized method over the estimated useful life of the related assets. Depreciation expense is recorded in the government-wide financial statements, as well as in the proprietary fund statements. There is no depreciation recorded for land, construction in process, infrastructure, and

certain other capital assets including the State Capitol and Executive Residence and associated furnishings, defined as inexhaustible. Generally, estimated useful lives are as follows:

Buildings and improvements	6 - 40 years
Equipment, machinery and furnishings	3 - 15 years

Collections of works of art, historical treasures, and similar assets, which are on public display, used in furtherance of historical education, or involved in advancement of artistic or historical research, are not capitalized unless these collections were already capitalized at June 30, 1999. Collections range from memorabilia on display in the Wisconsin Veterans Museum, the Wisconsin Historical Society Museum and other museums to buildings such as the Villa Louis Mansion and the Fur Trade Museum located at the Villa Louis historical site. In addition, works of art or historical treasures on display in the various State office buildings, as well as statues on display outside the State Capitol, also are not capitalized.

**8. Restricted and Limited Use Assets**

Assets that are required to be held and/or used as specified in Wisconsin statutes, bond indentures, bond resolutions, trustee agreements, board resolutions, and donor specifications have been reported as Restricted and Limited Use Assets.

**9. Local Assistance Aids**

**Municipal and County Shared Revenue Program**

Through the Municipal and County Shared Revenue Program, the State distributes general revenues collected from general State tax sources to municipal and county governments to be used for providing local government services. State statutes require that payment to local governments be made during July and November.

At June 30, 2017, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State’s fiscal year, the amount is prorated over portions of recipient local governments’ calendar fiscal years that are within the State’s fiscal year. The result is that a liability of \$440.4 million representing one-half of the total appropriated amount is reported at June 30, 2017 as Due to Other Governments.

**State Property Tax Credit Program**

At June 30, 2017, the State was liable to various taxing jurisdictions for the school levy, the first dollar, and the lottery property tax credits paid through the State Property Tax Credit Program.

The school levy tax credit provides property tax relief in the form of State credits on individual property tax bills.

The first dollar tax credit was first established for property taxes levied in 2008, and payable in 2009. This credit is allowed on every taxable real estate parcel containing an improvement in the state.

Under the lottery property tax credit, owners of property used as a primary residence receive a tax credit equal to the school property tax on a portion of the dwelling's value.

State statutes require that payment to local taxing jurisdictions for the school levy and first dollar tax credits be made during July. Although the state property tax credit is calculated on the property tax levy for school purposes, the State's July payment is paid to an administering municipality who treats the payment the same as other tax collections and distributes the collections to the various tax levying jurisdictions (e.g., cities, towns, and school districts).

The portion of the liability payable to school districts for the school levy and first dollar tax credits represents the amount of the July payment earned over the school districts' previous fiscal year ended June 30. Since the entire school districts' portion of the July payment occurs within the State's fiscal year, 100 percent of the July payment relating to the school taxing jurisdictions' levy is reported as a liability at June 30, 2017.

The portion of the liability payable to general government for the school levy and first dollar tax credits represents the amount of the July payment prorated over the portion of the local governments' calendar year which is within the State's fiscal year. The result is that 50 percent of the July payment based on the general government taxing jurisdictions' levy is reported as a liability at June 30, 2017.

The aggregated State Property Tax Credit Program liability of \$746.6 million is reported in the General Fund as Due to Other Governments. Of that amount, \$635.6 million relates to the school levy tax credit and \$111.0 million relates to the first dollar tax credit.

The lottery property tax credit is accounted for in the Lottery Fund, an enterprise fund that records revenues and expenses on the accrual basis. The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2017 property tax bills, the State made this payment in March 2017. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year that ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 2017, while the remaining portion represents advanced payments. The resulting deferred outflow of resources reported within the Lottery Fund totals \$46.7 million at June 30, 2017.

### State Aid for Exempt Computers

The Aid for Exempt Computers compensates local governments for tax base lost due to the property tax exemption for computers, software and related equipment. Aid payments are calculated using a procedure that results in an aid amount equal to the amount of taxes that would be paid if the property were taxable. Payments to local governments are made on the fourth Monday in July.

At June 30, 2017, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of \$64.7 million.

### 10. Long-term Debt Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized using the effective interest rate method on a prospective basis beginning in Fiscal Year 2004, except for the annual appropriation bonds that are amortized ratably over the life of the obligations to which they relate.

In the fund financial statements, governmental fund types recognize flows for bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums and discounts are reported as other financing sources and other financing uses, respectively. Issuance costs are reported as other debt service expenditures for governmental fund types, and non-operating expenses for proprietary fund types.

On the government-wide financial statements, bond premiums and discounts related to the Transportation Revenue Bonds and the Petroleum Inspection Fee Obligation Revenue Bonds (which finance programs in a capital projects fund and a special revenue fund, respectively) are amortized ratably over the life of the obligations to which they relate. Results from the use of this method do not vary materially from those that would be obtained by use of the effective interest rate method.

### 11. Compensated Absences

Consistent with the compensated absences reporting standards of GASB Statement No. 16, *Accounting for Compensated Absences*, an accrual for certain salary-related payments associated with annual leave and an accrual for a certain portion of sick leave is included in the compensated absences liability at year end.

#### Annual Leave

Full-time employees' annual leave days are credited on January 1 of each calendar year in general at a minimum of 15 or 13 days

per year, depending on Fair Labor Standards Act (FLSA) status. There is no requirement to use annual leave. However, unused leave is lost unless approval to carry over the unused portion is obtained from the employing agency. In general, each full-time employee is eligible for four and one-half personal holidays each calendar year, provided the employee is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employees receive leave time proportional to their working status to use at their discretion.

The State's compensated absence liability at June 30 consists of accumulated unpaid annual leave, personal holiday hours, and Saturday/legal hours earned and vested during January through June. The liability is reported in the government-wide, proprietary fund types and fiduciary funds.

#### **Sick Leave**

Full-time employees earn sick leave at a rate of five hours per pay period. Unused sick leave is accumulated from year to year without limit until termination or retirement. Accumulated sick leave is not paid. However, at employee retirement the accumulated sick leave may be converted to pay for the retiree's health insurance premiums. The State accumulates resources to pay for the expected health insurance premiums of retired employees. The portion of the health insurance obligation funded through the sick leave conversion and accumulated resources are presented in the Accumulated Sick Leave Fund, a pension and other employee benefit trust fund.

#### **12. Unearned Revenue**

In both the government-wide and fund financial statements unearned revenue represents amounts for which asset recognition criteria have been met, but not revenue recognition criteria. Unearned revenue arises when resources are received by the State before it has a legal claim to them, such as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenue of the University of Wisconsin System consists of payments received but not earned at June 30, 2017, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

#### **13. Self-Insurance**

Consistent with the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and*

*Related Insurance Issues*, the State's risk management activities are reported in an internal service fund, and the claims liabilities associated with that fund are reported therein.

The State's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, State management believes it is more economical to manage its own risks internally. The Risk Management Fund, an internal service fund, is used to pay for losses incurred by any State agency and for administrative costs incurred to manage a state-wide risk management program. These losses include damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, and worker's compensation costs for State employees. A limited amount of insurance is purchased to limit the exposure to catastrophic losses. Annually, a charge is allocated to each agency for its proportionate share of the estimated cost attributable to the program per Wis. Stat. Sec. 16.865(8).

#### **14. Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The events associated with the outflows and inflows of resources have already occurred. Under GASB standards, however, the recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable. GASB standards identify circumstances under which deferred outflows of resources and deferred inflows of resources must be reported. The reporting of deferred inflows and outflows are only allowable under those circumstances.

As applicable, the State reports deferred outflows of resources or deferred inflows of resources in the Statement of Net Position for governmental activities and business-type activities and for proprietary and fiduciary fund types as follows:

A decrease or increase in the fair value of derivative instruments classified as effective hedges is presented as a deferred outflow or deferred inflow of resources, respectively, with an off-setting liability or asset, as applicable.

Gains on refunded debt (i.e. the reacquisition price is less than the net carrying amount of the old debt) are reported as deferred inflows, while losses on refunded debt (i.e. the reacquisition price is greater than the net carrying amount of the old debt) are reported as deferred outflows. Both are amortized to interest expense over the remaining life of the old bonds or the life of the new bonds, whichever is shorter.

Differences between expected and actual pension experience with regard to economic and demographic factors in the measurement of the total pension liability for the State's proportionate share are reported as deferred inflows or deferred outflows of resources. They are amortized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all active and inactive employees provided with pensions through the pension plan.

Changes of assumptions about future economic or demographic factors, or of other inputs in the measurement of the total pension liability for the State's proportionate share, are reported as deferred inflows or deferred outflows of resources. They are amortized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all active and inactive employees provided with pensions through the pension plan.

Differences between projected and actual earnings on the State's proportionate share of pension plan investments are reported as deferred inflows or deferred outflows of resources and amortized using a systematic and rational method over a closed five-year period.

Changes in the State's proportionate share of the net pension liability since the prior measurement date, and differences between actual and proportionate share of contributions are reported as deferred inflows or deferred outflows of resources. They are amortized using a systematic and rational method over a closed period equal to the average expected remaining service lives of all active and inactive employees provided with pensions through the pension plan.

Contributions to the pension plan from the State subsequent to the measurement date of the collective net pension liability and before the end of the State's fiscal year end are reported as deferred outflows of resources.

State resources transmitted to an entity before time requirements are met, but after all other eligibility requirements have been met, are reported as a deferred outflow of resources.

Federal or other entities' resources transmitted to the State before time requirements are met, but after all other eligibility requirements have been met, are reported as deferred inflows of resources.

Further, governmental fund types may report deferred inflows of resources for unavailable revenue, such as derived nonexchange revenue transactions (e.g. sales tax, income tax, assessments on earnings and consumption, etc.). These inflows are not deferred in the government-wide financial statements; rather, they are recognized as revenue.

## 15. Fund Balance Classification and Restricted Net Position

### Fund Balance Classification

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the state is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or, imposed by law through constitutional provisions or enabling legislation.

Amounts that may be used only for specific purposes, pursuant to constraints imposed by passage of a bill by both houses of the legislature that is signed into law by the governor, are reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless a bill passes both houses of the legislature and is signed by the governor to remove or change the specified use. Passage of a bill by both houses of the legislature and signing of the bill by the governor is the highest level action that results in committed fund balance.

Amounts that are constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed, are classified as assigned fund balances. Intent is expressed by state officials to whom the state has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Nonspendable fund balances include amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

When both restricted and unrestricted resources are available for use it is the State's policy to use restricted resources first, and then unrestricted as they are needed. The state has not established a policy for use of unrestricted fund balance. Under the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, if a government does not establish a policy for its use of unrestricted fund balance amounts, committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

### Restricted Net Position

Restricted Net Position, presented in the government-wide and proprietary funds statement of net position are reported when constraints placed on use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by

law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Unrestricted net position may be used at the State's discretion but may have limitations on use based on State statutes.

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**NOTE 2. DETAILED RECONCILIATION OF THE GOVERNMENT-WIDE AND FUND STATEMENTS****A. Explanation of Differences Between the Balance Sheet – Governmental Funds and the Statement of Net Position**

During the year ended June 30, 2017, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental activities section of the Statement of Net Position (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Position compared to the current financial focus of the Balance Sheet – Governmental Funds.

	Total Governmental Funds	Long-term Assets and Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations (3)	Total Amount for Statement of Net Position
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 1,650,091	\$ -	\$ 29,783	\$ -	\$ 1,679,874
Investments	584,415	-	-	-	584,415
Receivables (net of allowance):					
Taxes	1,456,713	-	-	(1,456,713)	-
Loans to Local Governments	443,012	-	-	(443,012)	-
Other Loans Receivable	23,774	-	-	(23,774)	-
Other Receivables	754,027	2,667	2,743	3,162,871	3,922,308
Due from Other Funds	287,324	-	33,071	(320,395)	-
Interfund Receivables	78,934	-	-	(78,934)	-
Due from Other Governments	1,172,589	-	-	(1,172,589)	-
Internal Balances	-	-	121	50,992	51,113
Inventories	37,802	1	4,538	-	42,340
Prepaid Items	21,236	4,300	498	-	26,035
Restricted Assets:					
Cash and Cash Equivalents	248,231	-	-	-	248,231
Investments	211,004	-	-	-	211,004
Other Restricted Assets	229	-	-	-	229
Other Assets	24,035	-	-	-	24,035
Depreciable Capital Assets	-	1,284,776	320,887	-	1,605,663
Infrastructure	-	15,842,901	-	-	15,842,901
Other Non-depreciable Capital Assets	-	6,508,101	51,134	-	6,559,235
<b>Total Assets</b>	<b>6,993,415</b>	<b>23,642,745</b>	<b>442,774</b>	<b>(281,553)</b>	<b>30,797,382</b>
<b>Deferred Outflows of Resources</b>	<b>142</b>	<b>1,177,236</b>	<b>17,811</b>	<b>-</b>	<b>1,195,189</b>
<b>Total Assets and Deferred Outflows</b>	<b>\$ 6,993,557</b>	<b>\$ 24,819,981</b>	<b>\$ 460,586</b>	<b>\$ (281,553)</b>	<b>\$ 31,992,571</b>
<b>Liabilities:</b>					
Accounts Payable and Other					
Accrued Liabilities	1,176,418	-	10,126	17,429	1,203,973
Due to Other Funds	224,309	-	65,495	(289,804)	-
Due to Component Units	133	-	-	(133)	-
Interfund Payables	1,990	-	-	(1,990)	-
Due to Other Governments	2,390,447	-	-	-	2,390,447
Tax Refunds Payable	1,357,343	-	-	-	1,357,343
Tax and Other Deposits	109,285	-	-	-	109,285
Unearned Revenue	324,189	1	-	-	324,190
Interest Payable	44,970	62,681	-	-	107,651
Advances from Other Funds	7,055	-	-	(7,055)	-
Short-term Notes Payable	525,666	-	15,283	-	540,949
Other Liabilities	-	150,476	-	-	150,476
Long-term Liabilities:					
Current Portion	154,255	679,351	80,181	-	913,788
Noncurrent Portion	-	11,170,688	269,658	-	11,440,346
<b>Total Liabilities</b>	<b>6,316,061</b>	<b>12,063,196</b>	<b>440,743</b>	<b>(281,553)</b>	<b>18,538,448</b>
<b>Deferred Inflows of Resources</b>	<b>263,125</b>	<b>84,438</b>	<b>7,023</b>	<b>-</b>	<b>354,586</b>
<b>Fund Balances/Net Position</b>	<b>414,372</b>	<b>12,672,347</b>	<b>12,819</b>	<b>-</b>	<b>13,099,538</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances/Net Position</b>	<b>\$ 6,993,557</b>	<b>\$ 24,819,981</b>	<b>\$ 460,586</b>	<b>\$ (281,553)</b>	<b>\$ 31,992,571</b>

- (1) Long-term asset and liability differences arise because governmental funds focus only on short-term financing (that is, resources that will be available to pay for current period expenditures). In contrast, the Statement of Net Position has a long-term economic focus and reports on all capital and financial resources.
- (2) The adjustment for internal service funds reflects the reclassification of these funds for the government-wide statement. The assets and liabilities of these funds are reported as proprietary activities on the fund statements, but are included as governmental activities on the Statement of Net Position.
- (3) Various reclassifications are necessary due to the differing level of detail needed on each of the statements. Eliminations are done on the Statement of Net Position to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government. The net residual amounts due between governmental and business-type activities are shown as internal balances.



**B. Explanation of Differences Between the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and the Statement of Activities**

During the year ended June 30, 2017, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the amounts presented in the governmental section of the Statement of Activities (in thousands). The differences result primarily from the long-term economic focus of the Statement of Activities compared to the current financial focus of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.

	Total Governmental Funds	Long-term Revenues and Expenses (1)	Capital-Related Items (2)
<b>Revenues:</b>			
Taxes			
Income Taxes	\$ 8,918,612	\$ 9,597	-
Sales & Excise Taxes	5,923,388	7,812	-
Public Utility Taxes	357,757	-	-
Other Taxes	312,124	7	-
Motor Fuel (Transportation) Taxes	1,101,666	70	-
Other Dedicated Taxes	204,006	-	-
Intergovernmental	9,187,189	-	-
Operating Grants	-	-	-
Capital Grants	-	-	1,720
Licenses and Permits	1,973,358	-	-
Charges for Goods and Services	365,370	3,511	-
Investment and Interest Income	43,180	-	-
Fines and Forfeitures/Contributions to Permanent Fund	60,827	-	-
Gifts and Donations	24,199	-	-
Miscellaneous:			
Tobacco Settlement	139,973	-	-
Other	262,809	-	-
<b>Total Revenues</b>	<b>28,874,456</b>	<b>20,997</b>	<b>1,720</b>
<b>Expenditures/Expenses:</b>			
Current Operating:			
Commerce	242,084	5,927	539
Education	7,188,985	4,825	5,596
Transportation	2,066,119	20,279	42,922
Environmental Resources	420,739	11,023	18,790
Human Relations and Resources	13,174,807	82,094	82,373
General Executive	671,787	7,798	15,302
Judicial	132,359	8,331	1,964
Legislative	66,908	3,394	-
Tax Relief and Other General Expenditures	1,431,872	-	-
Intergovernmental - Shared Revenue	966,989	-	-
Capital Outlay	919,017	-	(911,439)
Debt Service:			
Principal	621,154	-	-
Interest and Other Charges	512,774	3,393	-
<b>Total Expenditures/Expenses</b>	<b>28,415,592</b>	<b>147,064</b>	<b>(743,953)</b>
Excess of Revenues Over (Under) Expenditures/Expenses	458,864	(126,067)	745,673
<b>Other Financing Sources (Uses):</b>			
Net Transfers	(897,065)	-	-
Long-term Debt Issued	2,741,526	-	-
Premium/Discount on Bonds	237,718	-	-
Payments for Refunded Bonds	(420,443)	-	-
Payments to Refunding Bond Escrow Agent	(1,645,980)	-	-
Capital Lease Acquisitions	373	(373)	-
<b>Total Other Financing Sources (Uses)</b>	<b>16,129</b>	<b>(373)</b>	<b>-</b>
<b>Special Items</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance/Net Position</b>	<b>474,993</b>	<b>(126,441)</b>	<b>745,673</b>
Change in Inventories	(7,090)		
<b>Net Change for the Year</b>	<b>\$ 467,903</b>		

- (1) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," while government-wide statements report revenues when earned. Long-term expense differences arise because governmental funds report operating expenses (including interest) using the modified accrual basis of accounting, while government-wide statements report using the accrual basis of accounting.
- (2) Capital-related adjustments consist of the difference between proceeds for the sales of capital assets and the gain or loss from the sales of capital assets, and from the difference between capital outlay expenditures recorded in the governmental funds and depreciation expense recorded in the government-wide statements.
- (3) The adjustment for internal service funds reflects the elimination of these funds from the government-wide statement, which is accomplished by charging/refunding additional amounts to participating governmental activities to completely offset the internal service funds' cost for the year.

	Internal Service Funds (3)	Long-term Debt Transactions (4)	Eliminations (5)	Revenue/Expense Reclassifications (6)	Total Amount for Statement of Activities	
\$	-	\$	-	\$	-	8,928,209
	-	-	-	-	-	5,931,200
	-	-	-	-	-	357,757
	-	-	-	-	-	312,131
	-	-	-	-	-	1,101,736
	-	-	-	-	-	204,006
	-	-	-	(9,187,189)	-	-
	-	-	(420,599)	9,158,381	-	8,737,782
	-	-	515,214	84,203	-	601,136
	-	-	-	(1,973,358)	-	-
	(6,347)	-	(8,637)	2,021,620	-	2,375,517
	224	-	-	(31,198)	-	12,206
	-	-	-	(48,261)	-	12,566
	-	-	-	(24,199)	-	-
	-	-	-	403,324	-	403,324
	-	-	-	(139,973)	-	-
	-	-	-	(262,809)	-	-
	(6,123)	-	85,977	543	-	28,977,570
	9	-	-	319	-	248,879
	165	-	37,455	468	-	7,237,495
	180	16	-	6,022	-	2,135,538
	62	282	-	7,207	-	458,103
	(256)	(26)	57,160	424	-	13,396,577
	(7,683)	-	(8,637)	(3,236)	-	675,331
	-	-	-	(4)	-	142,649
	8	-	-	-	-	70,310
	-	(3,182)	-	(79)	-	1,428,610
	-	-	-	-	-	966,989
	-	-	-	(7,578)	-	(0)
	-	(621,154)	-	-	-	-
	6,710	(76,293)	-	3,546	-	450,129
	(805)	(700,357)	85,977	7,090	-	27,210,609
	(5,318)	700,357	-	(6,547)	-	1,766,961
	(7,540)	-	-	(543)	-	(905,147)
	-	(2,741,526)	-	-	-	-
	-	(237,718)	-	-	-	-
	-	420,443	-	-	-	-
	-	1,645,980	-	-	-	-
	-	-	-	-	-	-
	(7,540)	(912,820)	-	(543)	-	(905,147)
	-	148,867	-	-	-	148,867
\$	(12,858)	\$ (63,596)	\$ 0	(7,090)	-	1,010,681
				7,090	-	-
				\$ (0)	\$	1,010,681

- (4) Long-term debt transaction differences consist of bond proceeds and principal repayments reported as other financing sources and expenditures in governmental funds, but as increases and decreases in liabilities in the government-wide statements.
- (5) Intra-entity activity within the same function is eliminated to remove the grossing up of both direct expenses and program revenues within that category.
- (6) Revenue and expense reclassifications are necessary due to the differing level of detail needed on each of the statements. In addition, the Statement of Activities focuses on program revenue, which has been redefined from the traditional revenue source categories.

**NOTE 3. BUDGETARY CONTROL**

The legal level of budgetary control for Wisconsin is at the function, agency, program, appropriation-level. Supplemental appropriations require the approval of the Joint Finance Committee of the Legislature. Routine adjustments, such as pay plan supplements and rent increases, are distributed by the Division of Executive Budget and Finance from non-agency specific appropriations authorized by the Legislature. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

The budgetary comparison schedule and related disclosures for the General and Transportation funds are reported as Required Supplementary Information. This schedule presents the original budget, the final budget and actual data of the current period. The related disclosures describe the budgetary practices of the State, as well as, provide a detailed reconciliation between the General and Transportation funds' equity balance on the budgetary basis compared to the GAAP basis as shown on the governmental fund statements.

**NOTE 4. DEFICIT FUND BALANCE/FUND NET POSITION, RESTRICTED NET POSITION, BUDGET STABILIZATION ARRANGEMENT, MINIMUM FUND BALANCE POLICY, AND FUND BALANCE OF GOVERNMENTAL FUNDS**

**A. Deficit Fund Balance/Fund Net Position**

In addition to the General and Capital Improvement Funds, funds reporting a deficit fund balance or net position at June 30, 2017 are (in thousands):

Special Revenue:	
Dry Cleaner Environmental Response	5,873
Enterprise:	
Northern Developmental Disabilities Center	11,476
Long Term Disability Insurance	109,388
Internal Service:	
Risk Management	102,398
Pension and Other Employee Benefit Trust	
Accumulated Sick Leave	102,071
Private-Purpose Trust:	
Retiree Health Insurance	67,334

**B. Restricted Net Position**

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which amends GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, provides guidance for determining when net assets have been restricted to a particular use by the passage of enabling legislation and how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. Net position restricted by enabling legislation was as follows on June 30, 2017 (in thousands):

Governmental Activities:	
Net Position Restricted by Enabling Legislation	54,315
Business-type Activities:	
Net Position Restricted by Enabling Legislation	240,363

**C. Budget Stabilization Arrangement**

Wisconsin Statutes 25.60 establishes a stabilization arrangement for monies to be set aside for use if General Fund revenues are less than projected and expenditures exceed budgeted amounts. Wisconsin Statutes 16.518 provides for the automatic transfer of 50.0 percent of the excess of General Fund tax revenues over tax estimates to be deposited into a stabilization appropriation. However, the transfer may not be made if the stabilization balance is at least equal to 5.0 percent of estimated General Fund expenditures for the fiscal year. Further, the transfer may not reduce the General Fund balance below the required statutory balance. In addition to the transfer described, under Wisconsin Statutes 16.72(4) net proceeds from the sale of supplies, materials and equipment are also to be deposited into the stabilization appropriation except as otherwise provided by law.

Wisconsin Statutes 16.50(7) provides that if the secretary of the Department of Administration determines that previously authorized expenditures under the biennial budget act will exceed revenues in the current or forthcoming fiscal year by more than one-half of one percent of the estimated general purpose revenue appropriations for that fiscal year, he or she shall immediately notify the governor, the presiding officers of each house of the legislature and the joint committee on finance. Following such notification, the governor shall submit a bill containing recommendations for correcting the imbalance between projected revenues and authorized expenditures, including a recommendation as to whether moneys should be transferred from the budget stabilization appropriation to the General Fund.

The balance of the budget stabilization arrangement as of June 30, 2017 was \$282.9 million.

**D. Minimum Fund Balance**

Wisconsin Statutes 20.003(4) establishes a minimum General Fund balance. Under the statutes, no bill directly or indirectly affecting general purpose revenues as defined in Wisconsin Statutes 20.001(2)(a) may be enacted by the legislature if the bill would cause the estimated General Fund balance on June 30 of any fiscal year to be an amount equal to or less than the amount specified for that fiscal year. The minimum required balance for the fiscal year ending June 30, 2017 was \$65.0 million.

**E. Fund Balance for Governmental Funds**

Governmental funds reported the following categories of fund balance as of June 30, 2017 (in thousands):

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
<b>Nonspendable for:</b>					
Inventory, Prepaid and Long-term					
Receivables	21,712	22,103	-	15,210	59,025
Legal or Contractual Purposes (Permanent Fund Principal)	-	-	-	1,095,127	1,095,127
<b>Restricted for:</b>					
Commerce	33,114	-	-	32	33,146
Education	10,129	-	-	50,342	60,471
Transportation	-	560,273	-	-	560,273
Environmental Resources	5,177	-	-	126,442	131,619
Human Relations and Resources	53,709	-	-	33,994	87,703
General Executive	127,602	-	-	7,281	134,883
Judicial	12	-	-	-	12
Tax Relief and Other General Expenditures	410	-	-	-	410
Intergovernmental - Shared Revenue	-	-	-	2,712	2,712
Debt Service	-	-	-	93,317	93,317
Capital Projects	-	-	-	80,198	80,198
<b>Committed to:</b>					
Commerce	-	-	-	67,799	67,799
Education	-	-	-	412	412
Environmental Resources	-	-	-	89,247	89,247
Human Relations and Resources	-	-	-	20,574	20,574
General Executive	-	-	-	18,815	18,815
Judicial	-	-	-	15	15
Tax Relief and Other General Expenditures	282,850	-	-	-	282,850
Capital Projects	-	-	-	23,752	23,752
<b>Unassigned</b>	(2,160,635)	-	(261,478)	(5,873)	(2,427,987)
<b>Total Fund Balance</b>	(1,625,920)	582,376	(261,478)	1,719,394	414,372

**NOTE 5. DEPOSITS AND INVESTMENTS**

The State maintains a short-term investment "pool", the State Investment Fund, for the State, its agencies and departments, and certain other public institutions which elect to participate. The investment "pool" is managed by the State of Wisconsin Investment Board (the Board) which is further authorized to carry out investment activities for certain enterprise, trust and agency funds. A small number of State agencies and the University of Wisconsin System also carry out investment activities separate from the Board.

The State of Wisconsin Investment Board also issues separate financial reports for the investments they manage, including the State Investment Fund, and the Wisconsin Retirement System. Copies of the separately issued financial reports may be obtained at [www.swib.state.wi.us](http://www.swib.state.wi.us) or by writing to:

State of Wisconsin Investment Board  
P.O. Box 7842  
Madison, WI 53707-7842

**A. Deposits**

Deposits include cash and cash equivalents on deposit in banks or other financial institutions, and nonnegotiable certificates of deposit. The majority of the State's deposits are under the control of the Department of Administration. The Department of Administration maintains multiple accounts with an agreement with the bank that allows an overdraft in one account if the overdraft is offset by balances in other accounts.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The State's policy regarding custodial credit risk is detailed in Chapter 34 of the State Statutes. In brief, any federal or state bank, credit union or savings bank may be designated a public depository. A surety bond may be required. The State's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and an appropriation for losses on public deposits. In the event of loss, the division of banking makes payments up to \$400,000 per depositor for the excess of the payments made by the Federal Deposit Insurance Corporation or the Wisconsin Credit Union Savings Insurance Corporation. Payments are made, until the funds available in the appropriation are exhausted, in the order in which satisfactory proofs of loss are received by the State's Department of Financial Institutions.

**1. Primary Government**

As of June 30, 2017, \$403.7 million of the primary government's bank balance of \$428.5 million was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	\$ 403.7
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Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Deposits in foreign currency at June 30, 2017 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State's Unemployment Reserve Fund had \$1.3 billion on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

Certificates of Deposit are carried at cost as they are considered nonparticipating interest-earning investment contracts. Because they are valued at cost, they are not included in the fair value hierarchy established by GASB Statement 72, Fair Value Measurement and Application.

**2. Wisconsin Retirement System (WRS)**

As of December 31, 2016, WRS cash deposits totaled \$1,119.2 million. Of the total deposits, \$526.2 million was collateralized by the securities borrowed. Depository insurance covered another \$41.4 million of the total. Additionally, a portion of the total deposits were uninsured and uncollateralized. These represented balances held in foreign currencies in the custodian's nominee name, cash posted as collateral for derivatives transactions and cash collateral posted in excess of the market value of securities borrowed for short sales. The sum of uninsured and uncollateralized deposits amounted to \$551.6 million at December 31, 2016. In addition to cash deposits, the WRS also held \$72.2 million in certificates of deposit, all of which were covered by depository insurance.

**3. State Investment Fund**

As of June 30, 2017, the SIF held Certificates of Deposit (CDs) with a value of \$30.0 million invested pursuant to the Wisconsin Certificate of Deposit Program, all of which is insured through FDIC insurance. Investment guidelines provide that to be accepted into this program, banks must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits.

## B. Investments

### 1. Primary Government

Wisconsin Statutes, program policy provisions, appropriate governing boards, and general resolutions contained in revenue bond indenture documents define the types of securities authorized as appropriate investments and the conditions for making investment transactions.

Investments of the State are managed by various portfolios. For disclosure purposes, the following investment portfolios are discussed separately:

- Primary government, excluding the University of Wisconsin System, the Wisconsin Retirement System and the State Investment Fund. The primary government portfolios include Various Funds managed by the State of Wisconsin Investment Board consisting of the following:
  - Local Government Property Insurance Fund (LGPIF)
  - State Life Insurance Fund (SLF)
  - Injured Patients and Families Compensation Fund (IPFCF)
  - Historical Society Fund
  - Tuition Trust Fund
- University of Wisconsin System (UWS)
- Wisconsin Retirement System (WRS)
- State Investment Fund (SIF) -- functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. Investments of the SIF are discussed in section B2 of this note disclosure.

**Primary Government** (excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))

For the primary government, except for the Various Funds discussed later, permitted investments include: direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) for which the payment of the principal and interest are unconditionally guaranteed by the full faith and credit of the United States; bonds or other obligations of any state or the United States of America or of any agency, instrumentality or local governmental unit of any such state including the State of Wisconsin; bonds, debentures, participation certificates, notes or similar evidences of indebtedness of any of the Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association or Tennessee Valley Authority; public housing bonds issued by public agencies or municipalities; commercial paper; interest-bearing time deposits, certificates of deposit or other similar banking arrangements; shares of a diversified open-end management investment company; repurchase agreements; common and preferred stock; bankers acceptances; corporate

commercial paper; bonds issued by a local district created under Wisconsin Act 229; and investment agreements with a bank, bank holding company, insurance company or other financial institution.

The State of Wisconsin Investment Board (SWIB or the Board) has control of the investment and collection of principal, interest, and dividends of all monies invested of the Local Government Property Insurance Fund (LGPIF), the State Life Insurance Fund (SLF), the Injured Patients and Families Compensation Fund (IPFCF), the Historical Society Trust Fund, and the Tuition Trust Fund, which are collectively known as the "Various Funds".

Wisconsin Statutes allow investments of the LGPIF in direct obligations of the United States and Canada, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, Yankee/Euro dollar issues, and certificates of deposit issued by banks in the United States, including solvent financial institutions in Wisconsin.

Permitted classes of investments of the SLF and the IPFCF include bonds of government units or of corporations, loans secured by mortgages, preferred or common stocks, real property and other investments not specifically prohibited by statute.

Funds available for the Historical Society Trust Fund are managed with an investment objective of maintaining a diversified portfolio of high quality publicly issued equities and fixed income obligations providing long-term growth in capital and income generation.

The Board is directed to invest moneys held in the Tuition Trust Fund in investments with maturities and liquidity that are appropriate for the needs of the fund as reported by the State Department of Administration.

#### **University of Wisconsin System (UWS)**

The University of Wisconsin System (UWS) investment policies and guidelines are governed and authorized by the Board of Regents. The current approved asset allocation policy for long-term funds sets a general target of 35.0 percent marketable equities, 30.0 percent fixed income, and 35.0 percent alternatives. The approved asset allocation for intermediate term funds is 15.0 percent marketable equities, 70.0 percent fixed income, 10.0 percent alternatives and 5.0 percent cash. These target allocations were last affirmed/approved by the Board of Regents in December 2015.

The UWS also issues separate financial reports. Copies of these separately issued financial reports may be obtained at [www.wisconsin.edu](http://www.wisconsin.edu) or by writing to:

Office of Financial Administration  
780 Regent Street, Suite 255  
Madison, WI 53715

**Wisconsin Retirement System (WRS)**

All assets of the WRS are invested by the State of Wisconsin Investment Board (the Board). The WRS consists of shares in the Core Retirement Investment Trust and the Variable Retirement Investment Trust.

The investments of the Core Retirement Investment Trust consist of a diversified portfolio of securities. Wis. Stat. Sec. 25.182 authorizes the Board to manage the Core Retirement Investment Trust in accordance with “prudent investor” standard of responsibility as described in Wis. Stat. Sec. 25.15(2) which requires that the Board manage the funds with the diligence, skill and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

Investments of the Variable Retirement Investment Trust are authorized under Wis. Stat. Sec. 25.15 and 25.17. Wis. Stat. Sec. 25.17(5) states assets of the Variable Retirement Investment Trust shall be invested primarily in equity securities which shall include common stocks, real estate or other recognized forms of equities whether or not subject to indebtedness, including securities convertible into common stocks and securities of corporations in the venture capital stage. The Variable Retirement Investment Trust consists primarily of common stock and bonds convertible into common stock, although, because of existing conditions in the securities market, there may temporarily be other types of investments.

**Valuation**

Investments of the State are reported at Fair Value as defined by GASB Statement Number 72 – Fair Value Measurement and Application and are categorized based on the investment valuation hierarchy established by GASB. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 Inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The fair value of investments are obtained or estimated using information provided by custodial banks and brokerages. A variety of independent pricing sources are used to price assets based on type, class or issue, including published quotations from active markets, pricing models and other methods deemed acceptable by industry standards.

**Primary Government** (excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))

The following tables present fair value measurements as of June 30, 2017, in millions.

<b>Primary Government (excluding the Various Funds)</b>				
	Fair Value	Fair Value Measurement Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level:				
U.S. Government & Agency Securities	\$ 235.5	\$ 235.5	\$ -	
State & Municipal Bonds & Notes	551.7		551.7	
Corporate Bonds	0.3		0.3	
Closed-End Funds	4.1	4.1		
Stocks	22.8	22.8		
<b>Total By Fair Value Level</b>	<b>\$ 814.4</b>	<b>\$ 262.4</b>	<b>\$ 552.0</b>	
Investments Valued at Net Asset Value (NAV):				
Mutual Funds	\$ 4,446.7			
Money Market Funds	289.9			
Investments Valued at Cost:				
Guaranteed Investment Contracts	\$ 170.1			
US Savings Bonds	0.2			
<b>Total</b>	<b>\$ 5,721.3</b>			



The following tables present fair value measurements as of June 30, 2017 for the Various Funds, in millions.

Various Funds	Fair Value Measurement Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>SLF</b>				
Investments by Fair Value Level:				
U.S. Government and Agency Securities	\$ 48.4		\$ 48.4	
Corporate Bonds	66.7		66.7	
<b>Total SLF</b>	<b>\$ 115.2</b>		<b>\$ 115.2</b>	

**IPFCF**

Investments by Fair Value Level:

U.S. Government and Agency Securities	\$ 575.0	\$ 16.3	\$ 558.7
Corporate Bonds	466.8		466.8
Municipal Bonds	25.5		25.5
Foreign Governments	22.3		22.3
Preferred Securities	1.6		1.6
<b>Total Investments by Fair Value Level</b>	<b>\$ 1,091.3</b>	<b>\$ 16.3</b>	<b>\$ 1,075.0</b>

Investments Valued at Net Asset Value (NAV):

Equity Index Funds	\$ 200.6
Short-Term Investment Fund	\$ 15.1
<b>Total IPFCF</b>	<b>\$ 1,307.0</b>

**Historical Society**

Investments Reported at Net Asset Value (NAV):

U.S. Equity Index Fund	\$ 12.0
U.S. Fixed Income Fund	3.7
<b>Total Historical Society</b>	<b>\$ 15.7</b>

**Tuition Trust**

Debt Securities

U.S. Government and Agency Bonds	\$ 2.2	\$ 2.2
<b>Tuition Trust Total</b>	<b>\$ 2.2</b>	<b>\$ 2.2</b>

Securities categorized as Level 1 are valued using prices quoted in active markets for those securities.

Debt securities categorized as Level 2 are valued by third party pricing services using a matrix-pricing technique that values securities based on their relationship to quoted market prices for securities with similar interest rates, maturities and credit ratings.

The Injured Patients and Families Compensation fund holds Investments in the amount of \$15.1 million in the Short-Term Investment Fund, a short-term investment pool. Investments of the Short-Term Investment Fund are reported at net asset value (NAV).

Fair values of investments in equity and fixed income co-mingled index funds, mutual funds and money market funds are based on the investments' published NAV per share (or its equivalent) provided by the investee. These investments are considered Level 1 in the GASB fair value hierarchy.

*Investments Valued at Cost or Amortized Cost* — Certain investments are valued at cost or amortized cost. Investments valued at cost are not included in the GASB fair value hierarchy.

The College Savings Fund has a \$170.1 million investment in a Guaranteed Investment Contract, a non-participating interest earning contract which is valued at cost.

US Government Savings Bonds in the amount of \$0.2 million are held at amortized cost.

**University of Wisconsin System (UWS)**

The following schedule presents fair value measurements at June 30, 2017 (fair values in millions):

UWS	Fair Value Measurement Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs
Investments by Fair Value Level:			
U.S. Government Securities	\$ 32.4	\$ 31.2	\$ 1.2
U.S. Agency Securities	13.7	-	13.7
Bonds & Preferred Stock	26.8	-	26.8
Pooled Fixed Income Fund	44.6	44.6	-
Common Stock & Convertible Securities	57.0	57.0	-
Pooled Equity Funds	104.8	53.4	51.4
Pooled Allocation Fund	81.5	81.5	-
<b>Total By Fair Value Level</b>	<b>\$ 360.9</b>	<b>\$ 267.7</b>	<b>\$ 93.2</b>
Investments Valued at Net Asset Value (NAV):			
Custodial Pooled Cash & Cash Equivalents	\$ 36.0		
Limited Partnerships	91.4		
<b>Total</b>	<b>\$ 488.2</b>		



**Wisconsin Retirement System (WRS)**

The following schedules presents fair value measurements at December 31, 2016 (fair values in millions):

WRS	Fair Value	Fair Value Measurement Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level:				
Cash Equivalents:				
Corporates & Private Placements	\$ 2.3	\$ -	\$ 2.3	\$ -
Foreign Government / Agency Securities	341.9	-	-	341.9
U.S. Treasury Securities	156.8	156.8	-	-
<b>Total Cash Equivalents</b>	<b>501.1</b>	<b>156.8</b>	<b>2.3</b>	<b>341.9</b>
Stocks				
Domestic	22,141.7	22,061.7	-	80.0
International	16,768.2	16,768.1	0.1	-
<b>Total Stocks</b>	<b>38,909.9</b>	<b>38,829.8</b>	<b>0.1</b>	<b>80.0</b>
Fixed Income				
Asset Backed Securities	28.3	-	26.7	1.5
Corporates & Private Placements	5,106.0	-	4,963.1	142.9
Foreign Government / Agency Bonds	3,946.4	-	3,921.8	24.6
Municipal Bonds	117.5	-	117.5	-
U.S. Government Agencies	294.3	-	294.3	-
U.S. Treasury Inflation Protected Securities	9,296.5	-	9,296.5	-
U.S. Treasury Securities	4,003.8	-	4,003.8	-
<b>Total Fixed Income</b>	<b>22,792.8</b>	<b>-</b>	<b>22,623.8</b>	<b>169.0</b>
Real Estate	1,275.5	-	-	1,275.5
Preferred Securities				
Domestic	72.2	-	38.5	33.7
International	94.3	94.3	-	-
<b>Total Preferred Securities</b>	<b>166.5</b>	<b>94.3</b>	<b>38.5</b>	<b>33.7</b>
Convertibles	0.6	-	-	0.6
Derivatives				
Foreign Exchange Contracts	67.0	-	67.0	-
Futures	(79.1)	(79.1)	-	-
Options	0.3	0.3	-	-
Swaps	23.6	-	23.6	-
<b>Total Derivatives</b>	<b>11.8</b>	<b>(78.9)</b>	<b>90.6</b>	<b>-</b>
Equity Short Sales	(259.1)	(259.1)	-	-
Fixed Income Short Sales				
Exchange Traded Funds - Short Positions	(0.5)	(0.5)	-	-
U.S. Treasury Securities - Short Positions	(55.4)	(9.0)	(46.4)	-
<b>Total Fixed Income Short Sales</b>	<b>(55.8)</b>	<b>(9.4)</b>	<b>(46.4)</b>	<b>-</b>
<b>Total</b>	<b>\$ 63,343.3</b>	<b>\$ 38,733.6</b>	<b>\$ 22,709.0</b>	<b>\$ 1,900.8</b>

WRS	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period (7)
Investments Measured at NAV:				
Fixed Income (1)	\$ 7,055.1	\$ 136.6	Daily, Monthly, N/A (1)	0-15 days, N/A (1)
Private Equity Limited Partnerships (2)	6,564.3	4,951.7	N/A	N/A
Stock (3)	6,053.5	-	Daily, Monthly, Quarterly	2-45 days
Real Estate Limited Partnerships (4)	4,721.6	1,103.5	N/A, Quarterly	N/A, 30-90 days
Hedge Funds (5)	4,407.8	100.0	Various (see Multi Asset)	Various (see Multi Asset)
Total (6)	<u>\$ 28,802.3</u>	<u>\$ 6,291.8</u>		

(1) A portion of this category consists of short term cash funds with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. Corporate and government bond index funds are a significant portion of this category and have the investment objective of approximating as closely as practicable the return of a given segment of the markets for publicly traded investments. The short-term cash funds and the Corporate and government index funds all have daily liquidity with 0-2 days' notice. An additional portion of this category represents long-only fixed income managers, which can invest across the credit quality spectrum, in varying geographies, and can include derivatives, high yield and structured securities. These long-only managers require a redemption notice period of approximately 2 weeks and have monthly liquidity. The remaining funds in this category include LLCs which invest in private real estate debt. These LLC investments distribute earnings over the life of the investment and have an average remaining life of between 0-5 years.

(2) Private Equity Limited Partnerships include direct, co-investments with existing WRS general partners, direct secondary investments and fund of funds. These investments are illiquid and are generally not resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. The table entitled Limited Partnerships - Estimated Remaining Life provides an estimate of the period over which the underlying assets are expected to be liquidated.

(3) This category includes emerging markets equity index funds (56%) with an investment strategy designed to track the return of the given segment of the emerging equity markets. This investment can be redeemed daily with 2 days' notice. An additional 40% of this category represents long-only equity managers with various fundamental, quantitative and other approaches spanning various styles, geographies and market cap weights. These long-only manager investments can be redeemed monthly, with between 10 and 30 days' notice. The remaining 4% of this category includes investments structured as Real Estate Investment Trusts which can be redeemed quarterly, with 45 days' notice.

(4) This category includes funds that invest directly in real estate and real estate related assets. Approximately 67% of these investments are generally not resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. The table entitled Limited Partnerships - Estimated Remaining Life provides an estimate of the period over which the underlying assets are expected to be liquidated. The remaining 33% of this category consists of open-ended funds that invest directly in real estate and real estate related assets. Such investments can be redeemed quarterly with between 30 and 90 days' notice.

(5) Hedge Fund investments are private investment funds that seek to produce absolute returns using a broad range of strategies. In certain instances, Hedge fund investments are structured as limited partnerships, whereby participants receive distributions over the life of the fund. Estimated remaining life of funds structured as limited partnerships is estimated to be between 6-10 years.

(6) The WRS had additional unfunded commitments of approximately \$22.4 million, relating to assets not valued using NAV.

(7) Redemption terms described for NAV investments reflect contractual agreements and assume withdrawals are made without adverse market impact and under normal market conditions.

#### Private Equity and Real Estate Limited Partnerships

Limited partnerships are generally structured to provide distributions to participants of the fund as the holdings of the partnership are liquidated over time. In general, the Private Equity Limited Partnerships participated in the following investment strategies at December 31, 2016:

*Buyout* – This strategy acquires shares of a private company to gain a controlling interest.

*Mezzanine* – Provides mezzanine debt to finance leveraged buyouts, recapitalizations, and corporate acquisitions.

*Special Situations* – This strategy can invest in public and private companies undergoing financial distress, a turnaround in business operations, or which are believed to be undervalued because of a discrete extraordinary event.

*Venture Capital* – This strategy invests in companies with potential for significant growth (generally small to early stage emerging firms).

The Real Estate Limited Partnerships generally consisted of the following investment strategies at December 31, 2016:

*Core* – Core investments are expected to deliver a significant percentage of their return from income and should demonstrate lower volatility than Opportunistic and Value investments due to lower leverage, higher occupancy, and asset location.

*Value* – Value investments typically have significant near-term leasing, repositioning, and/or renovation risk. This strategy is expected to have modest initial operating revenues with potential for substantial income growth and will likely encounter greater volatility than Core strategies, but lower volatility than Opportunistic strategies.

*Opportunistic* – Opportunistic investments usually have significant development, lease-up, financial restructuring, and/or liquidity risk with little or no initial operating income. This strategy typically uses the highest leverage, is expected to achieve most of its return from future capital gains, and is likely to encounter greater volatility than Core and Value strategies.

#### **Hedge Funds**

Hedge Fund investments are private investment funds that seek to produce absolute returns using a broad range of strategies. When redeeming Hedge Fund investments, the agreements governing the investment vehicle oftentimes require advanced notice and may restrict the timing of withdrawals. Hedge Fund agreements can also include “lock-up” periods, which restrict investors from redeeming their investment during a specified time frame. The lock-up period helps portfolio managers avoid liquidity problems. Lock-ups can be “hard,” where redemptions are not permitted for a specified time period, or “soft,” where redemptions are permitted provided the investor pays a penalty. In addition, hedge fund managers can also institute a “rolling” lock-up. A fund with a rolling lock-up period requires investors to commit to an initial lock-up period, and, if the investor does not submit a redemption notice within a set time prior to expiration of the lock-up, the lock-up is reset.

The Retirement Funds participated in the following Hedge Fund strategies at December 31, 2016:

*Equity Long-Short* – This strategy invests both long and short in publicly-traded stocks. These managers vary in their use of short selling and leverage.

*Event-Driven*– The funds in this strategy seek to gain an advantage from pricing inefficiencies that may occur before or after a corporate action or related event, such as a merger, spinoff, earnings call, bankruptcy, or restructuring.

*Global Macro* – The funds in this category invest their holdings in indexes, commodities, interest rate instruments, and currencies as a result of relative value or directional forecasts from a systematic or discretionary approach.

*Market Neutral/Arbitrage* – This strategy uses a range of fixed income, convertible instruments, and/or statistical arbitrage strategies that seek to hedge market-related risks to earn consistent returns.

*Multistrategy* – The funds in this category employ a wide range of strategies and instruments in managing assets.

#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**Primary Government** (excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))

The primary government, except for the Various Funds discussed later, follows Wisconsin Statutes, program policy provisions, appropriate governing boards, and general resolutions contained in revenue bond indenture documents limits investments in public housing bonds issued by public agencies or municipalities, the State of Wisconsin, interest-bearing time deposits, certificates of deposit or other similar banking arrangement, shares of a diversified open-end management investment company repurchase agreements and investment agreements to a rating no lower than the rating assigned to the bonds. Investments in all other permitted debt securities are required to bear the highest rating available from each nationally recognized rating agency. In addition, credit risk of certain funds such as the Retiree Life Insurance Fund is minimized by monitoring portfolio diversification by asset class, creditor and industry and by complying with investment limitations governed by insurance laws and regulations.

Regarding the Various Funds, investment guidelines require that the bond portfolios shall maintain an average quality rating of A- or better at time of purchase, using the lower of split ratings at the time of purchase.

Investment credit quality ratings as of June 30, 2017, from Standard and Poor's, Moody's Investors Service, and Fitch Ratings are presented below using the Standard and Poor's rating scale (in millions):

<b>Primary Government</b> (excluding the Various Funds, UWS, WRS and SIF)	
<b>Credit Quality Ratings</b>	<b>Fair Value</b>
AAA	\$ 284.6
AA	727.4
A	16.8
Not Rated	1,851.0
<b>Total</b>	<b>\$ 2,879.7</b>

The following schedule displays the credit ratings at June 30, 2017, for the Various Funds (fair values in millions):

	<b>Various Funds</b>			
	<b>SLF</b>	<b>IPFCF</b>	<b>Historical Society</b>	<b>Tuition Trust</b>
AAA	\$ 1.2	\$ 26.8	\$ --	\$ 2.2
AA	53.7	613.4	--	--
A	35.8	130.3	--	--
BBB	22.7	287.1	--	--
BB	1.7	27.4	--	--
B	--	6.2	--	--
Not Rated	--	0.0	--	--
Short-term Investment Fund (Not Rated)	--	15.1	--	--
Bond Fund (Not Rated)	--	--	3.7	--
<b>Totals</b>	<b>\$ 115.2</b>	<b>\$ 1,106.4</b>	<b>\$ 3.7</b>	<b>\$ 2.2</b>

**University of Wisconsin System (UWS)**

UWS asset allocation targets and guidelines limit the percentage of the overall portfolio that may be invested in fixed income securities of broadly defined credit quality classifications. Additionally, fund level asset allocation constraints can further limit credit risk exposures to targeted levels based on the credit ratings of independent credit ratings agencies.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2017 (in millions). Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the Aaa rating.

<b>UWS</b>	
<b>Ratings</b>	<b>Fair Value</b>
Aaa	\$ 57.9
Aa1	0.7
Aa2	1.3
Aa3	1.4
A1	3.5
A2	3.7
A3	2.2
Baa1	6.2
Baa2	4.3
Baa3	1.7
Ba2	12.6
B2	19.0
Caa2	1.6
No Rating	0.5
Unrated Pooled Cash	36.9
<b>Total</b>	<b>\$ 153.5</b>

**Wisconsin Retirement System (WRS)**

With the exception of derivative instrument credit risk, there are no fund-wide or system-wide investment guidelines related to credit risk exposures for investments of the WRS. Fixed income

credit risk investment guidelines outline the minimum ratings required at the time of purchase by individual portfolios, or groups of portfolios, based on the portfolios' investment objectives. In addition, some fixed income portfolios are required to carry a minimum weighted average rating at all times.

The following schedule displays the lowest credit rating assigned by nationally recognized statistical rating organizations on debt securities held as of December 31, 2016 (in millions).

WRS	
Rating	Fair Value
F1/A-1	\$ 10.9
AAA/Aaa	444.0
AA/Aa	14,644.8
A	2,891.0
P-2/A-2	176.8
BBB/Baa	2,635.1
BB/Ba	912.7
B	941.9
CCC/Caa or below	320.3
Commingled Fixed Income Funds	6,846.6
Not Rated	1,180.6
Total	<u>\$ 31,004.6</u>

## Reverse Repurchase Agreements

### Wisconsin Retirement System (WRS)

SWIB held \$1.8 billion in reverse repurchase agreements at December 31, 2016. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase the securities in the future at the same price plus a stated rate of interest. The market value of the securities underlying reverse repurchase agreements exceeds the cash received, providing the counterparty a margin against a decline in market value of the securities. If the counterparty defaults on their obligations to sell these securities back to SWIB or provide cash of equal value, SWIB could suffer an economic loss equal to the difference between the market value of the underlying securities plus accrued interest and the agreement obligation, including accrued interest. This credit exposure at December 31, 2016 was \$48.5 million.

SWIB enters into reverse repurchase agreements with various counterparties and such transactions are governed by Master Repurchase Agreements (MRA). MRAs are negotiated contracts and contain terms in which SWIB seeks to minimize counterparty credit risk. SWIB also controls credit exposures by limiting trades with any one counterparty to stipulated amounts. The counterparty credit exposure is monitored daily and managed through the transfer of margin, in the form of cash or securities, between SWIB and the counterparty.

The cash proceeds from reverse repurchase agreements are reinvested by the Board. The maturities of the purchases made with the proceeds of reverse repurchase agreements are not necessarily matched to the maturities of the agreements. The agreed-upon yields earned by the counterparty were between 0.65 percent and 1.20 percent. The reverse repurchase agreements had open maturities, whereby a maturity date is not established upon entering into the agreement; however, interest rates on the agreements are negotiated daily. The agreements can be terminated at the will of either SWIB or the counterparty.

### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

**Primary Government** (excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))

The primary government, including the Various Funds, does not have an investment policy specifically for custodial credit risk. As of June 30, 2017, the primary government did not have any direct investment securities exposed to custodial credit risk.

### University of Wisconsin System (UWS)

The UWS's investments are registered in the name of the UWS and the UWS does not participate in any securities lending programs through its custodian bank. Investment securities underlying the UWS's investment in shares of external investment pools or funds are in custody at those entities. The shares owned in these external investment pools are registered in the name of the UWS. The University does not have a formal policy for custodial credit risk.

### Wisconsin Retirement System (WRS)

The WRS's custodial credit risk policy addresses the primary risks associated with safekeeping and custody. It requires that custodial institutions be selected through a competitive bid process and that the institution be designated a 'Systemically Important Financial Institution' by the U.S. Federal Reserve. The policy also requires that the WRS be reflected as beneficial owner on all securities entrusted to the custodian and that the WRS have access to safekeeping and custody accounts. The custodian is also required to be insured for errors and omissions and must provide the WRS with an annual report on internal controls. The WRS's current custodial bank was selected in

accordance with these guidelines and meets all requirements stipulated in the custodial credit risk policy.

As of December 31, 2016, the WRS held 8 repurchase agreements totaling \$455.9 million. All of these repurchase agreements were tri-party agreements held in short-term cash management portfolios managed by SWIB's custodian. The underlying securities for these repurchase agreements were held by the tri-party's agent, not in SWIB's name.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

**Primary Government** (excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))

Although the primary government, except for the Various Funds discussed later, does not have a formal policy on limiting the exposure to concentrations of credit risk, it is the primary government's policy to comply with the provisions contained within the general resolutions of revenue bond indentures and other program policy investment criteria.

Debt securities issued by the State of Wisconsin represent the largest concentration of investments in a single issuer. In total \$158.1 million of the reported investments of the primary government were issued by the State of Wisconsin which represents 5.8 percent of total investments. These investments were held by the non-major governmental funds and it represents 18.6 percent of those funds' investments. The non-major governmental funds also hold investments in debt securities issued by the Farm Credit System, and the Federal Home Loan Bank totaling \$112.1 million and \$125.0 million respectively. The dollar figures represent 13.2 percent, and 14.7 percent of non-major governmental funds' investments respectively.

The Various Funds' investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. Generally, the guidelines require that no single issuer may exceed 5 percent of the fund investments, with the exception of U.S. Government and its Agencies, whose exposure is unlimited. The LGPIF further limits AAA-rated U.S. mortgage-backed, AAA-rated asset-backed and individual corporate issuers to 3 percent of the market value of the fund investments. No investments from these issuers were owned at fiscal year-end.

Excluding investments issued or explicitly guaranteed by the U.S. government and pooled investments, as of June 30, 2017, none of the Various Funds had more than 5 percent of their total investments in a single issuer.

### University of Wisconsin System (UWS)

Actively-managed, fixed income separate accounts are limited to holding no more than 7.0 percent in any one issuer (U.S. Government/Agencies are exempted).

### Wisconsin Retirement System (WRS)

For investments of the WRS, concentration of credit risk is limited by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict issuer concentrations in any one company or Rule 144A securities to less than 5 percent of the portfolio's market value.

The WRS did not hold any investments with a single issuer, exclusive of investments issued or explicitly guaranteed by the U.S. government, representing 5% or more of the value of the total WRS investments' value at December 31, 2016.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

**Primary Government** (excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))

Although the primary government, except for the Various Funds discussed later, does not have a formal policy on limiting the exposure to changes in interest rates, it is the primary government's policy to comply with the provisions contained within the general resolutions of revenue bond indentures and other program policy investment criteria. For example, the Lottery Fund acquires investments with maturity dates that significantly coincide with scheduled payment dates of prize annuities. Investments are held to maturity unless an annuitant requests premature termination of an annuity, then any loss or gain due to market fluctuations are passed through to the redeeming annuitant. Therefore, the Lottery Fund has minimal interest rate risk exposure. Further, as a means of limiting its exposure to interest rate risks, certain funds are required to limit at least half of the fund's investment portfolio to maturities of less than one year. In addition, interest rate risk of certain other funds such as the Retiree Life Insurance Fund is minimized by maintaining a diversified portfolio of investments and monitoring cash flow patterns in order to approximately match the expected maturity of liabilities.

The following table provides information about the interest rate risks associated with the primary government's investments, except those of the Various Funds. The investments include certain short-term cash equivalents, and various long-term items.

At June 30, 2017, the primary government's investments were (in millions):

Investment Type	Investment Maturities				Fair Value
	Less Than 1 Year	1 to 5 Years	6 to 10 years	More Than 10 Years	
U.S. Government and U.S. agency holdings	\$ 216.6	\$ 14.3	\$ 3.9	\$ 0.9	\$ 235.7
State and municipal bonds and notes	98.0	5.5	53.6	394.5	551.6
Corporate notes and bonds	0.3	--	--	--	0.3
Money market funds	289.9	--	--	--	289.9
Mutual funds – open ended	--	597.3	1059.0	--	1,656.3
Guaranteed Investment Contracts	--	170.1	--	--	170.1
<b>Total</b>	<b>\$ 604.9</b>	<b>\$ 787.3</b>	<b>\$ 1,116.5</b>	<b>\$ 395.4</b>	<b>\$ 2,904.1</b>

The Various Funds, which are managed by the Board, use the duration method to identify and manage interest rate risk. Three of the Various Funds have investment guidelines relating to interest rate risk. The LGPIF guidelines require that a bond's maturity must not exceed ten years. The SLF guidelines require the Weighted Average Maturity (WAM) of the portfolio, including cash, to be a minimum of ten years. The IPFCF guidelines require that effective duration of the bond portfolio shall remain within 15% of the assigned benchmark's duration.

As of June 30, 2017, the Various Funds had interest rate risk statistics as detailed below (in millions):

Investment Type	Various Funds Duration or WAM (in years) for Fixed Income Securities							
	SLF		IPFCF		Historical Society		Tuition Trust	
	Fair Value	WAM	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Govt/Agency	\$ 48.4	10.75	\$ 575.0	5.21	\$ --	--	\$ 2.2	0.83
Corporate	66.7	10.46	516.3	7.56	--	--	--	--
Bond Fund	--	--	--	--	3.7	6.36	--	--
Short-Term Investment Fund	--	--	15.1	0.16	--	--	--	--
<b>Total/Wtd Ave</b>	<b>\$ 115.2</b>	<b>10.58</b>	<b>\$ 1,106.4</b>	<b>6.24</b>	<b>\$ 3.7</b>	<b>6.36</b>	<b>\$ 2.2</b>	<b>0.83</b>

**External Investment Pools**

The Injured Patients and Families Compensation Fund, has investments totaling \$15.1 million at June 30<sup>th</sup>, 2017 in the Short-Term Investment Fund, a pooled short-term investment fund. This balance is reported as cash and cash equivalents on the Statement of Net Position. The weighted average maturity of this external investment pool is 0.16 years.

Investments for the Retiree Life Fund and Local Retiree Life Fund are held with the insurance carrier. Interest is calculated and credited to the Retiree Life Insurance Funds based on the rate of return for a segment of the insurance carrier's general fund, specifically 10 Year A- Bonds (as a proxy and not tied to any specific investments). The funds invested during the year earn interest based on that year's rate of return for 10 Year A- Bonds.



The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

#### University of Wisconsin System (UWS)

The UWS uses the option adjusted modified duration method to analyze interest rate risk. As of June 30, 2017, the UWS had interest rate risk statistics as detailed below (in millions):

<b>UWS</b>		
<b>Fixed Income Sector</b>	<b>Fair Value</b>	<b>Effective Duration</b>
Treasury Inflation Protected Securities	\$ 16.8	5.38
U.S. Government	20.0	5.34
U.S. Government Mortgages	4.7	4.92
Corporates and Other Credit	17.5	2.95
Collateralized Mortgage Obligations: U.S. Agencies	2.5	1.67
Commercial Mortgage Backed Securities	3.1	4.39
U.S. Private Placements	8.3	2.89
Total	<u>\$ 72.9</u>	
<b>Fixed Income Commingled Funds</b>		
<b>Fixed Income Commingled Funds</b>	<b>Fair Value</b>	<b>Modified Duration</b>
Seix Advisors High Yield Fund	\$ 35.4	3.42
Intermediate Fund Multi Asset	9.2	2.62
Total	<u>\$ 44.6</u>	

#### Wisconsin Retirement System (WRS)

Generally, analysis of long or intermediate term portfolios' interest rate risk is performed using various duration calculations. Modified duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. The calculation is based on the weighted average of the present values for all cash flows. Some pooled investments are analyzed using an option adjusted duration calculation which is similar to the modified duration method. Option adjusted duration incorporates the duration shortening effect of any embedded call provisions in the securities.

Short term portfolios' interest rate risk is analyzed using the weighted average maturity to next reset. Weighted average

maturity is the maturity of each position in a portfolio weighted by the dollar value of the position to compute an average maturity for the portfolio as a whole. This measure indicates a portfolio's sensitivity to interest rate changes: a longer weighted average maturity implies greater volatility in response to interest rate changes.

SWIB's investment guidelines related to interest rate risk vary by portfolio. Some fixed income portfolios are required to be managed within a range of a targeted duration, while others are required to maintain a weighted average maturity at or below a specified number of days or years.



Aggregated interest rate risk exposure as of December 31, 2016, stated in terms of modified duration (for long term instruments) and weighted average maturity (for repurchase agreements and short term pooled investments), is presented below (in millions):

WRS		
Investment Type*	Fair Value	Modified Duration (Years)
Asset Backed Securities	\$ 28.3	1.8
Corporate Bonds & Private Placements	5,351.7	6.0
Corporate Bonds & Private Placements	3.8	N/A
Foreign Government/Agency Bonds	4,288.3	7.1
Municipal Bonds	117.5	9.6
U.S. Government Agencies	294.3	4.1
U.S. Treasury Inflation Protected Securities	9,296.5	7.5
U.S. Treasury Securities	4,160.6	5.2
U.S. Treasury Securities - Short Positions	(55.4)	0.2
Commingled Funds:		
Domestic Fixed Income	5,240.4	6.7
Emerging Market Fixed Income	582.6	6.3
Exchange Traded Funds – Short Positions	(0.5)	N/A
Subtotal	<u>\$ 29,308.1</u>	
Investment Type	Fair Value	Weighted Average Maturity (days)
Commercial Paper	\$ 216.5	18
Repurchase Agreements	455.9	3
Commingled Funds:		
Short Term Cash Management	1,024.1	67
Subtotal	<u>1,696.5</u>	
Total	<u>\$ 31,004.6</u>	

\*Excludes Derivatives which are separately disclosed

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

**Primary Government** (excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))

The primary government, except for the Various Funds discussed later, does not have a formal policy to limit foreign currency risk, however, certain funds such as the Environmental Improvement Fund are not permitted to invest in foreign currency based on provisions contained in its bond indenture general resolution. However, foreign currency risk of the Retiree Life Insurance Fund is minimized by utilizing short-duration spot forward contracts to minimize the adverse impact of foreign currency exchange rate risks inherent in the elapsed time between trade processing and trade settlement. At June 30, 2017, the primary government, excluding the Various Funds, did not own any issues denominated in a foreign currency.

The Various Funds' investment guidelines do not specifically address foreign currency risk with the exception that the SLF only allows investments in U.S. dollar denominated instruments. As of June 30, 2017, the Various Funds did not directly own any issues denominated in a foreign currency.

### University of Wisconsin System (UWS)

As of June 30, 2017, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$115.6 million and \$6.3 million, respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For the Long Term and Intermediate Term Funds, it is generally expected and desired that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments.

**Wisconsin Retirement System (WRS)**

The WRS held foreign currency denominated cash and securities directly in designated actively managed portfolios and indirectly through its investment in certain commingled invest funds. As of December 31, 2016, the WRS had the following currency exposure (all assets stated in millions of United States Dollars):

<b>Currency Exposures by Investment Type</b>									
Currency	Cash & Cash Equivalents	Stocks	Fixed Income	Limited Partnerships	Preferred Securities	Short Sales	Futures	Total	
Argentina Peso	\$ 1.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.9
Australian Dollar	18.4	1,006.6	58.2	-	-	(3.9)	1.4	1,080.7	
Brazilian Real	0.7	45.5	-	-	21.9	-	-	68.1	
British Pound Sterling	41.6	2,677.4	292.6	97.8	-	-	3.5	3,112.9	
Canadian Dollar	20.7	1,415.7	70.2	-	-	(1.8)	(0.2)	1,504.7	
Chilean Peso	-	0.4	-	-	-	-	-	0.4	
Colombian Peso	-	0.4	-	-	-	-	-	0.4	
Danish Krone	2.8	288.6	22.9	-	-	-	-	314.4	
Euro Currency Unit	63.8	4,722.8	1,512.2	659.5	72.4	(9.3)	3.8	7,025.2	
Hong Kong Dollar	5.1	605.1	-	-	-	-	-	610.2	
Hungarian Forint	0.2	-	-	-	-	-	-	0.2	
Indian Rupee	-	80.9	-	-	-	-	-	80.9	
Indonesian Rupiah	0.6	13.9	2.4	-	-	-	-	16.9	
Israeli New Shekel	0.4	29.4	-	-	-	-	-	29.8	
Japanese Yen	345.8	3,581.8	1,285.7	-	-	(22.8)	2.5	5,192.9	
Malaysian Ringgit	0.6	24.4	14.6	-	-	-	-	39.5	
Mexican New Peso	49.4	11.0	43.5	-	-	-	-	103.8	
New Zealand Dollar	0.3	27.3	4.5	-	-	-	-	32.1	
Norwegian Krone	0.9	82.9	10.1	-	-	(3.2)	-	90.7	
Philippine Peso	0.5	0.6	-	-	-	-	-	1.2	
Polish Zloty	0.3	19.3	21.3	-	-	-	-	40.9	
Russian Ruble	-	-	-	-	-	-	-	-	
Singapore Dollar	2.1	168.6	12.4	-	-	(1.9)	-	181.2	
South African Rand	0.5	33.2	17.3	-	-	-	-	51.0	
South Korean Won	0.1	153.8	-	-	-	-	-	153.8	
Swedish Krona	4.8	360.1	15.2	12.2	-	(0.2)	-	392.1	
Swiss Franc	6.2	1,251.6	-	-	-	(5.8)	-	1,251.9	
Taiwan New Dollar	-	76.4	-	-	-	-	-	76.4	
Thailand Baht	-	51.2	-	-	-	-	-	51.2	
Turkish Lira	0.1	39.4	-	-	-	-	-	39.5	
<b>Total</b>	<b>\$ 567.8</b>	<b>\$ 16,768.2</b>	<b>\$ 3,383.1</b>	<b>\$ 769.5</b>	<b>\$ 94.3</b>	<b>\$ (49.0)</b>	<b>\$ 11.0</b>	<b>\$ 21,545.0</b>	

## Securities Lending Transactions

### Wisconsin Retirement System (WRS)

*Securities Lending Transactions* – State statutes and Board policies permit the use of investments of the WRS to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities in exchange for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for identical securities in the future. The securities custodian is an agent in lending the domestic and international securities. When securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral equal to 102 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. In the event that securities are loaned against collateral denominated in a different currency, the borrower is required to place collateral totaling 105 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level. On December 31, 2016, the fair value of the securities on loan was approximately \$12.0 billion.

Cash collateral is reinvested by the lending agent in two separate pools, a U.S. dollar cash collateral pool and a pool denominated in Euros, in accordance with contractual investment guidelines, which are designed to minimize the risk of principal loss and provide a modest rate of return. Investment guidelines limit credit and liquidity risk by restricting new investments to overnight repurchase agreements collateralized with high quality U.S. government, U.S. government agencies, and sovereign debt securities. The earnings generated from the collateral investments, plus or minus the rebates received from or paid to the dealers and less fees paid to agents, results in the net earnings from lending activities, which are then split on a percentage basis with the lending agent.

At December 31, 2016, minimal credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires it to indemnify the WRS if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. Losses resulting from violations of investment guidelines are also indemnified.

The majority of security loans are open-ended and can be terminated on demand. The risk that SWIB would be unable to return collateral to securities borrowers upon termination of the loan is low because the majority of investments made with cash collateral mature within seven business days. The average maturities of the loans and the average maturity of the assets held in collateral reinvestment pools did not materially differ at December 31, 2016.

Securities lending is allowed in certain commingled fund investments. All earnings of these funds are reported in the Statement of Changes in Fiduciary Net Position.

## Derivative Instruments

### Wisconsin Retirement System (WRS)

Derivatives may be used to implement investment strategies for the Core and Variable Funds. All derivative instruments are subjected to risk analysis and monitoring processes at the portfolio, asset class and fund levels. Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been approved by the Board. Where derivatives are permitted, guidelines stipulate allowable instruments and the manner and degree to which they are to be used.

Gains and losses for all derivative instruments are reported in the Statement of Changes in Fiduciary Net Position.

SWIB seeks to mitigate counterparty credit risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring techniques. Additionally, policies have been established which seek to implement master netting arrangements with counterparties that permit the closeout and netting of transactions with the same counterparty. Agreements may also require daily collateral postings to further mitigate credit risk. At December 31, 2016, SWIB had \$3.1 million posted as collateral for uncleared OTC counterparties. No securities were pledged relating to uncleared OTC positions.

Certain investments and cash deposits were posted as collateral for exchange-traded and cleared OTC derivatives positions. At December 31, 2016, the Core and Variable Funds posted \$374.3 million in cash and \$237.8 million in securities as collateral with exchange clearing brokers.

The aggregate fair value of receivables relating to OTC derivative contracts at December 31, 2016 was \$5.1 billion. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. This maximum exposure is reduced to \$19.3 million when counterparty collateral and master netting arrangements are taken into account.

The table below summarizes, by credit rating, the retirement fund's exposure to OTC derivative instruments' counterparty credit risk as of December 31, 2016 (in millions), without respect to any collateral or netting arrangement.

**OTC Derivative Investments Subject to  
Counterparty Credit Risk**

Counterparty Credit Rating	Payable	Receivable	Fair Value
AA	\$ (0.2)	\$ 0.2	\$ --
A	(4,569.6)	4,638.2	68.5
BBB	(443.7)	464.8	21.1
Total	\$ (5,013.6)	\$ 5,103.2	\$ 89.6

*Foreign Currency Spot and Forward Contracts* — Foreign Currency Spot and Forward contracts are OTC agreements between two counterparties to exchange designated currencies at a specific time in the future. No cash is exchanged when a foreign exchange spot or forward contract is initiated. Amounts due are paid or received on the contracted settle date.

Currency exposure management is permitted through the use of currency derivative instruments. Direct hedging of currency exposure back to the U. S. dollar is permitted when consistent with the strategy of the portfolio. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. In some portfolios, currencies of non-benchmark countries may be held through the use of forward contracts, provided that the notional value of any single non-benchmark currency does not exceed 5 percent of the market value of the portfolio. Discretionary currency overlay strategies at the total fund and asset class level may be employed when currency market conditions suggest such strategies are warranted.

The net receivable or payable for spot and forward contracts is included in Foreign Currency Contracts on the Statement of Fiduciary Net Position. Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract. Spot and forward contracts are valued daily with the changes in fair value included in the Net Appreciation (Depreciation) in Fair Value of Investments on the Statement of Changes in Fiduciary Net Position.

During the year, currency exposure management involved the use of foreign currency spot and forward contracts. The following table presents the fair value of foreign currency spot and forward contract assets and liabilities held as of December 31, 2016 (in millions):

<b>Foreign Currency Spot and Forward Contracts</b>						
<b>Currency</b>	<b>Foreign Currency Contract Receivables</b>			<b>Foreign Currency Contract Payables</b>		
	Notional	Fair Value	Unrealized	Notional	Fair Value	Unrealized
	(local currency)	\$US	Gain/(Loss) \$US	(local currency)	\$US	Gain/(Loss) \$US
Australian Dollar	308.7	223.4	(0.6)	(77.5)	(56.1)	0.4
Brazilian Real	70.8	21.5	1.2	(11.0)	(3.3)	(0.2)
British Pound Sterling	237.6	293.8	1.3	(123.3)	(152.5)	0.3
Canadian Dollar	257.0	191.7	1.0	(80.5)	(60.0)	(0.3)
Chilean Peso	630.0	0.9	--	(10,650.0)	(15.9)	0.3
Colombian Peso	3,682.1	1.2	--	(11,492.8)	(3.8)	--
Danish Krone	206.2	29.3	0.3	(411.7)	(58.5)	(0.8)
Euro Currency Unit	375.2	396.3	0.3	(365.3)	(385.8)	2.0
Hong Kong Dollar	334.0	43.1	--	(111.5)	(14.4)	--
Hungarian Forint	1,947.1	6.7	(0.2)	(3,304.2)	(11.3)	0.2
Indian Rupee	2,137.0	31.3	0.1	(178.2)	(2.6)	--
Indonesian Rupiah	151,688.8	11.2	(0.1)	--	--	--
Israeli New Shekel	23.3	6.1	--	(86.7)	(22.5)	(0.1)
Japanese Yen	37,070.5	318.4	(4.1)	(84,333.0)	(727.2)	63.0
Malaysian Ringgit	15.8	3.5	(0.1)	(15.5)	(3.5)	0.1
Mexican New Peso	127.8	6.2	(0.4)	(1,252.7)	(60.5)	0.6
New Zealand Dollar	9.4	6.6	0.1	(8.3)	(5.8)	0.2
Norwegian Krone	305.8	35.5	0.4	(21.3)	(2.5)	--
Peruvian Nuevo Sol	20.1	6.0	0.1	--	--	--
Philippine Peso	140.6	2.8	(0.1)	(140.7)	(2.8)	0.1
Polish Zloty	35.5	8.5	(0.5)	(35.5)	(8.5)	--
Russian Ruble	1,575.4	25.6	1.4	(182.6)	(3.0)	--
Singapore Dollar	36.7	25.4	0.1	(33.9)	(23.5)	--
South African Rand	260.9	19.0	0.3	(172.7)	(12.6)	(0.6)
South Korean Won	--	--	--	(9,083.1)	(7.5)	0.2
Swedish Krona	886.4	97.7	1.2	(253.4)	(27.9)	(0.4)
Swiss Franc	123.9	122.1	0.7	(35.2)	(34.7)	(0.4)
Taiwan New Dollar	--	--	--	(390.1)	(12.1)	0.1
Thailand Baht	460.9	12.9	--	(462.4)	(12.9)	0.1
Turkish Lira	--	--	--	(38.9)	(11.0)	0.1
United States Dollar	1,787.0	1,787.0	--	(1,924.1)	(1,924.1)	--
<b>Totals</b>		<b>3,733.8</b>	<b>2.4</b>		<b>(3,666.8)</b>	<b>64.6</b>
<b>Net Foreign Currency Contract Receivable / (Payable)</b>					<b>67.0</b>	<b>67.0</b>

**Futures Contracts** – A futures contract is an exchange-traded agreement to buy or sell a financial instrument, index or commodity at an agreed upon price and time in the future.

The fair value of futures contracts represents the unrealized gain/(loss) on the contracts, since trade inception, and is reflected as a portion of Financial Futures Contracts and Swaps on the Statement of Fiduciary Net Position. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. Gains and losses resulting from investments in futures contracts are included in the Net Appreciation (Depreciation) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Position.

The following table presents the investments in futures contracts as of December 31, 2016 (in millions).

Futures Contracts			
Futures Contract Description	Expiration	Notional Amount	Fair Value*
Long Positions:			
Commodity	Jan - Mar 17	\$ 1,906.8	\$ (34.8)
Equity	Mar 17	7,297.8	(41.3)
Fixed Income	Mar 17	7,074.9	(5.0)
Short Positions:			
Equity	Mar 17	(6.7)	0.1
Fixed Income	Mar 17	(562.7)	1.9
<b>Total</b>		<b>\$15,710.2</b>	<b>\$ (79.1)</b>

\* Fair Value includes foreign currency gains/(losses).

Futures contracts involve, to varying degrees, risk of loss in excess of margin deposited with the broker. Losses may arise from future changes in the value of the underlying instrument.

Futures contracts may be entered into to efficiently gain or adjust market exposures for purposes that include trust fund rebalancing, sector, interest rate, or duration types of exposure adjustments; the securitization of cash or as a substitute for cash market transactions.

**Swap Contracts** - Swaps are negotiated contractual agreements between two counterparties which can be cleared on uncleared OTC investments. Throughout the calendar year, the WRS held

positions in Total Return Swaps (TRS), Interest Rate Swaps (IRS) and Credit Default Swaps (CDS).

As is specified in SWIB's investment guidelines, swaps, may be used as an alternative to physical securities when it is deemed advantageous for portfolio construction. In addition, swaps may be used to adjust asset class exposures for the Retirement Funds. Guideline limits and soft risk parameters for each portfolio are applied to the aggregate exposures which includes both physical and synthetic securities. A synthetic security is created by combining securities to mirror the properties of another security.

The following table presents the investments in open Swap Positions as of December 31, 2016 (in millions).

Open Swap Positions			
Description / Reference Rates	Maturity Date	Notional Amount	Fair Value
Total Return Swap Pay 3-month LIBOR, Receive Equity Index Return	Apr 2017	\$ 548.2	\$ 31.4
Total Return Swap Pay 3-month LIBOR, Receive Equity Index Return	Sept 2017	\$ 797.6	\$ (7.8)
<b>Total</b>		<b>\$ 1,345.8</b>	<b>\$ 23.6</b>

\* Denotes an instrument that is highly sensitive to interest rate changes

TRS positions represent uncleared OTC contracts where fair value is determined based on the change in quoted market price of the underlying equity index. The fair value of swaps represents the unrealized gain/(loss) on the contracts, since trade inception, and is reflected in "Financial Futures Contracts and Swaps" on the Statement of Fiduciary Net Position. Any interest owed but not yet paid relating to TRS contracts is reported within the category "Other Liabilities" on the Statement of Fiduciary Net Position.

Gains and losses resulting from investments in all swap are included in the Net Increase (Decrease) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Position. Interest Expense relating to TRS contracts is reported as "Investment Expense" on the Statement of Changes in Fiduciary Net Position.

**Options** – An option contract gives the purchaser of the contract the right, but not the obligation, to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price

on or before the expiration of the option contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk, to the extent of the premium paid to enter into the contract.

Rebalancing policies and portfolio investment guidelines permit the use of exchange-traded and uncleared over-the-counter options. Options may be used to improve market exposure efficiency, enhance expected returns, or provide market exposure hedges. Exchange rules require that the seller of exchange-traded call option contracts cover these positions either by collateral deposits in the form of cash or securities or by pledging,

in escrow, the actual securities that would be transferred to the option purchaser in the event the option contract were exercised.

The fair value of option contracts is based upon the closing market price of the contract and is reflected as Options on the Statement of Fiduciary Net Position. Gains and losses as a result of investments in option contracts are included in the Net Appreciation (Depreciation) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Position.

The table below presents the fair value of option contracts as of December 31, 2016 (in millions):

#### Option Contracts

Security Description	Contract Type	Position	Exchange-Traded vs. OTC	Expiration	Notional	Fair Value	Unrealized Gain (Loss)
Equity	Call	Long	Exchange	Jan 17 - Jul 17	\$ 30.1	\$ 0.8	\$ 0.3
	Call	Short	Exchange	Jan 17 - Jul 17	(12.1)	(0.1)	0.1
	Put	Long	Exchange	Mar 17	1.5	--	--
	Put	Short	Exchange	Jan 17 - May 17	(49.5)	(0.5)	--
Total Option Contracts					<u>\$ (30.0)</u>	<u>\$ 0.3</u>	<u>\$ 0.4</u>

#### Short Sell Obligations

##### Wisconsin Retirement System (WRS)

The WRS may sell a security it does not own in anticipation of purchasing the security later at a lower price. This is known as a short sale transaction. For the duration of the short sale transaction, a liability is recorded under "Short Sales of Securities" on the Statement of Fiduciary Net Position. The liability presented represents the fair value of the shorted securities necessary for delivery to the purchaser and is marked-to-market daily. Realized and unrealized gains and losses associated with short sales are recorded on the Statement of Changes in Fiduciary Net Position within the "Net Appreciation (Depreciation) in Fair Value of Investments" category. While the transaction is open, the WRS incurs expenses for securities borrowing costs. In addition, as a security borrower, the WRS may incur dividend and interest expense as such payments must be remitted to the security lender during the course of the loan. Such expenses are included in "Investment Expense" on the Statement of Changes in Fiduciary Net Position.

Risks arise from short sales due to the possible illiquidity of the securities markets and from potential adverse movements in security values. The cost to acquire the securities sold short may exceed the amount of proceeds initially received, as well as the amount of the liability recorded as "Short Sales of Securities" in

the Statement of Fiduciary Net Position. Short sales expose the short seller to potentially unlimited liability because there is no upward limit on the price a shorted security could attain. Certain portfolio guidelines permit short sales and, to mitigate risks in various ways, such as: limiting the total value of short sales as a percentage of portfolio value, establishing portfolio vs. benchmark tracking error limits, and monitoring other statistical and economic risk measures of the portfolio. Investment performance and risk associated with each portfolio is measured against benchmarks and monitored by management.

When a short sale occurs, the shorting portfolio must borrow the security and deliver it to the buyer. If the shorted security is owned by another WRS portfolio, investment policies allow the borrowing of the shorted securities from other WRS portfolios.

Except in the case of borrowings within the same trust fund, the WRS is required to post collateral to the lender, at the required rate of 102% for in-currency loans and 105% for cross-currency loans. At December 31, 2016, the WRS posted \$552.4 million in collateral to security lenders. This represented \$26.2 million in excess of the fair market value of the securities borrowed. If the security lender recalled the security and SWIB was not able to supply the lender with the security, the lender would be permitted to use SWIB's collateral to fund the purchase of the security.



## Unfunded Capital Commitments

### University of Wisconsin System (UWS)

The UWS has unfunded limited partnership commitments of \$24.4 million for the fiscal year ending June 30, 2017.

### Wisconsin Retirement System (WRS)

The Board has entered into a number of agreements that commit the WRS to make investment purchases up to predetermined amounts over certain investment time periods. The unfunded capital commitments for private equity, real estate and multi-asset investments not reported on the Statement of Fiduciary Net Position total \$6.3 billion as of December 31, 2016.

## 2. State Investment Fund

The State Investment Fund (SIF) functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. In the State's Comprehensive Annual Financial Report, the SIF is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." Shares of the SIF belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund.

Wis. Stat. Secs. 25.17(3)(b), (ba), (bd) and (dg) enumerate the various types of securities in which the SIF can be invested, which include obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin and bankers acceptances. The State of Wisconsin Investment Board's (the Board) Board of Trustees may specifically approve other prudent legal investments.

For financial statement purposes, the carrying value of securities depends on asset class. Repurchase Agreements and non-negotiable Certificates of Deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value.

All remaining short-term debt investments (U.S. Government/Agency securities, Banker's Acceptances, Commercial Paper, and negotiable Certificates of Deposit) are carried at fair value. Because quoted market prices for SIF securities are often not available at month end, BNY Mellon, as

SWIB's custodial bank, compiles fair values from third party pricing services which use matrix pricing models to estimate a security's fair value.

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, income is distributed to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method does not distribute to participants any unrealized gains and losses generated by the pool's investments.

SIF pool shares are bought and redeemed at \$1.00 based on the amortized cost of the investments in the SIF. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares.

## Fair Value Reporting

The SIF 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. Investments held at cost or amortized cost are not reported within the fair value hierarchy.

The following table presents the recurring fair value measurements as of June 30, 2017 (in millions).

	Fair Value	Fair Value Measurement Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level:				
Government & Agencies	\$ 8,534.2	\$ 599.6	\$ 7,934.6	\$ --
Commercial Paper	100.0	--	100.0	--
Certificates of Deposit (negotiable)	91.6	--	91.6	--
Banker's Acceptances	9.2	--	--	9.2
<b>Total By Fair Value Level</b>	<b>\$ 8,735.0</b>	<b>\$ 599.6</b>	<b>\$ 8,126.2</b>	<b>\$ 9.2</b>
Short-Term Reported at Cost or Amortized Cost:				
Repurchase Agreements	\$ 1,374.0			
Certificates of Deposit	30.0			
<b>Total</b>	<b>\$ 10,138.9</b>			

Debt securities categorized as Level 2 are valued by third party pricing services using a matrix-pricing technique that values



securities based on their relationship to quoted market prices for securities with similar interest rates, maturities, and credit ratings. The Majority of debt securities are classified as Level 2 because they are generally traded using a dealer market, with lower trading volumes than Level 1 securities.

Level 3 investments are generally valued using significant outputs that are unobservable to the marketplace. Banker's Acceptances included in Level 3 represent securities that derive their fair value from cost. Typically, due to their short-term nature, cost approximates fair value for these investments. Investments held at cost (Repurchase Agreements and non-negotiable Certificates of Deposit) are not reported within the fair value hierarchy.

### Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty or by the counterparty's trust department or agent but not in the name of the Board. The SIF held four repurchase agreements totaling \$1.37 billion as of June 30, 2017. All the repurchase agreements were tri-party agreements. The underlying securities (collateral) for these repurchase agreements were held by the tri-party's agent, not in SWIB's name.

The SIF's custodial credit risk policy addresses the primary risks associated with safekeeping and custody. It requires that custodial institutions be selected through a competitive bid process and that the institution be designated a 'Systemically Important Financial Institution' by the U.S. Federal Reserve. The policy also requires that the SIF be reflected as beneficial owner on all securities entrusted to the custodian and that the SIF have access to safekeeping and custody accounts. The custodian is also required to be insured for errors and omissions and must provide the SIF with an annual report on internal controls. The SIF's current custodial bank was selected in accordance with these guidelines and meets all requirements stipulated in the custodial credit risk policy.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. Treasury or Agency discount notes. As of June 30, 2017, the SIF has more than five percent of its investments in FNMA (27.1 percent), FHLB (25.3 percent),

FHLMC (23.9 percent), U.S. Treasury (7.9 percent) and Repurchase Agreement collateral (13.6 percent) consisting of various securities issued by these same U.S. Agencies. Since the Repurchase Agreements generally mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each night.

### Credit Quality Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board established investment guidelines with maximum exposure limits by security type based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs).

The following table presents these credit ratings and aggregate exposures by investment type as of June 30, 2017 (in millions):

Investment Type	Ratings	Fair	
		Value	Percent
Repurchase Agreements (Collateral):			
U.S. Government Debt & Agencies	AA	1,374.0	13.6
U.S. Treasury:			
Short-Term (Bills)	A-1+	799.5	7.9
Government Sponsored Entity			
U.S. Agency:			
Federal Home Loan Bank (FHLB)	A-1+	2,564.2	25.3
Federal Home Loan Mortgage Corporation (FHLMC)	A-1+	2,400.3	23.7
Federal Home Loan Mortgage Corporation (FHLMC)	AA	25.0	0.2
Federal National Mortgage Association (FNMA)	A-1+	2,745.1	27.1
Certificates of Deposit:			
Negotiable	A-1+	65.6	0.6
Negotiable	A-1	26.0	0.3
Non-Negotiable (Wisconsin CD Program)	NR	30.0	0.3
Banker's Acceptances	A-1+	9.2	0.1
Commercial Paper	A-1+	75.0	0.7
Commercial Paper	A-1	25.0	0.2
Total Investments		<u>\$ 10,138.9</u>	<u>100.0</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Weighted Average Maturity (WAM) method is used to analyze interest rate risk. Investment guidelines mandate that the WAM for the entire portfolio will not exceed one year.

At June 30, 2017, the following table shows the investments by investment type, amount and the weighted average maturities (in millions):

Investment Type	Fair Value	Weighted Average Maturity (Days)
Repurchase Agreements	\$ 1,374.0	3
Government & Agencies	8,534.2	33
Certificates of Deposit	121.6	41
Banker's Acceptances	9.2	10
Commercial Paper	100.0	8
Total Investments	<u>\$ 10,138.9</u>	
Portfolio Weighted Average Maturity (Days)		29

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SIF guidelines allow the investment in U.S. dollar denominated issues only.

**3. Lottery Investments and Related Future Prize Obligations**

Investments of the State Lottery Fund totaling \$24.5 million are held to finance grand prizes payable over a 20-year, 25-year or 30-year period. The investments in prize annuities are debt obligations of the U.S. government backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included in Accounts Payable and Other Accrued Liabilities.

The following is a schedule of future prize obligations (in millions):

Fiscal Year	Amount
2018	5.6
2019	4.6
2020	4.1
2021	3.7
2022	2.7
Thereafter	<u>5.7</u>
Total future value	26.4
Less: Present value adjustment	<u>(4.4)</u>
Present value of payments	<u>\$ 22.0</u>

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**NOTE 6. RECEIVABLES AND NET REVENUES**

**A. Receivables**

Receivables at June 30, 2017 were as follows (in thousands):

	Loans to		Other Loans Receivable				Other Receivables	Due From Other Governments	Due From Component Units	Total Receivables
	Taxes	Local Governments	Student Loans	Veterans Loans	Mortgage Loans	Other Loans				
<b>Governmental Activities:</b>										
General	\$ 1,328,233	\$ -	\$ -	\$ -	\$ -	\$ 8,097	\$ 669,233	\$ 925,145	\$ -	\$ 2,930,708
Transportation	105,879	-	-	-	-	15,677	3,545	225,372	-	350,473
Capital Improvement	-	-	-	-	-	-	34	-	-	34
Nonmajor Governmental	22,601	443,012	-	-	-	-	81,215	22,072	-	568,899
Total Governmental:	1,456,713	443,012	-	-	-	23,774	754,027	1,172,589	-	3,850,114
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	2,689	54	-	2,743
Accrual Adjustments	-	-	-	-	-	-	2,667	-	-	2,667
Fiduciary Receivables	-	-	-	-	-	-	66,784	-	-	66,784
<b>Total – Governmental Activities</b>	<b>\$ 1,456,713</b>	<b>\$ 443,012</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,774</b>	<b>\$ 826,167</b>	<b>\$ 1,172,643</b>	<b>\$ -</b>	<b>\$ 3,922,308</b>
Related revenue not recognized in the funds because it is not available										
	\$ 210,808	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,038	\$ -	\$ -	\$ 231,847
<b>Business-type Activities:</b>										
Current:										
Injured Patients and Families Compensation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,139	\$ -	\$ -	\$ 17,139
Environmental Improvement	-	184,399	-	-	-	-	127	19,576	-	204,102
University of Wisconsin System Unemployment Reserve	-	-	28,618	-	-	-	147,279	71,301	36	247,235
Nonmajor Enterprise	-	242	-	118	1,083	-	113,989	9,529	-	124,962
Total Current:	-	184,641	28,618	118	1,083	-	468,205	102,401	36	785,103
Noncurrent:										
Environmental Improvement	-	1,814,630	-	-	-	-	-	-	-	1,814,630
University of Wisconsin System Unemployment Reserve	-	-	166,584	-	-	-	149	-	140	166,873
Nonmajor Enterprise	-	1,782	-	649	28,667	3,203	42,156	189	-	34,491
Total Noncurrent	-	1,816,413	166,584	649	28,667	3,203	42,494	-	140	2,058,150
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	160,830	-	-	160,830
<b>Total – Business-type Activities</b>	<b>\$ -</b>	<b>\$ 2,001,053</b>	<b>\$ 195,202</b>	<b>\$ 768</b>	<b>\$ 29,750</b>	<b>\$ 3,203</b>	<b>\$ 671,530</b>	<b>\$ 102,401</b>	<b>\$ 176</b>	<b>\$ 3,004,083</b>

**B. Net Revenues**

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2017, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	\$ 220,565
Sales and Services of Auxiliary Enterprises	39,021
Total	<u>\$ 259,586</u>

**NOTE 7. CAPITAL ASSETS****Primary Government**

Capital asset activity for the fiscal year ended June 30, 2017 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and Land Improvements	\$ 2,772,756	\$ 71,238	\$ (986)	\$ 2,843,008
Buildings and Improvements	166,934	43	-	166,977
Library Holdings	74,310	750	-	75,060
Equipment	125	39	-	164
Construction and Software in Progress	3,189,214	593,710	(308,898)	3,474,025
Infrastructure	15,435,339	432,089	(24,527)	15,842,901
Total capital assets, not being depreciated	21,638,677	1,097,869	(334,411)	22,402,135
Capital assets, being depreciated:				
Land Improvements	176,080	7,182	(199)	183,063
Buildings and Improvements	2,289,990	104,039	(13,202)	2,380,827
Equipment	948,323	74,192	(29,283)	993,232
Totals	3,414,392	185,413	(42,684)	3,557,121
Less accumulated depreciation for:				
Land Improvements	124,185	8,631	(199)	132,617
Buildings and Improvements	1,093,763	74,145	(7,157)	1,160,751
Equipment	594,395	81,144	(17,450)	658,090
Totals	1,812,343	163,920	(24,805)	1,951,458
Total Capital Assets, being depreciated, net	1,602,049	21,492	(17,878)	1,605,663
Governmental activities capital assets, net	\$ 23,240,727	\$ 1,119,361	\$ (352,290)	\$ 24,007,798
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land and Land Improvements	\$ 161,747	\$ 650	\$ -	\$ 162,398
Library Holdings	1,124,134	20,056	(24,038)	1,120,152
Construction and Software in Progress	240,184	160,725	(139,140)	261,769
Total Capital Assets, not being depreciated	1,526,065	181,432	(163,178)	1,544,318
Capital assets, being depreciated:				
Land Improvements	22,471	591	-	23,062
Buildings	7,687,848	241,912	(156)	7,929,604
Equipment	1,202,970	77,476	(54,862)	1,225,584
Totals	8,913,288	319,979	(55,018)	9,178,250
Less accumulated depreciation for:				
Land Improvements	13,168	954	(1)	14,121
Buildings	3,309,368	233,963	(604)	3,542,727
Equipment	893,419	73,152	(48,046)	918,524
Totals	4,215,955	308,068	(48,651)	4,475,372
Total Capital Assets, being depreciated, net	4,697,333	11,911	(6,367)	4,702,877
Business-type activities capital assets, net	\$ 6,223,398	\$ 193,343	\$ (169,545)	\$ 6,247,196

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of \$29.0 million, with accumulated depreciation totaling \$3.2 million.

Depreciation Expense

Depreciation expense was charged to the primary government as follows (in thousands):

<b>Governmental Activities</b>		<b>Business-type Activities</b>	
Commerce	\$ 499	University of Wisconsin System	\$ 292,442
Education	5,346	Lottery	27
Transportation	12,706	Veterans Mortgage Loan Repayment	10
Environmental Resources	15,838	Injured Patients and Families Compensation	353
Human Relations and Resources	75,731	Environmental Improvement	-
General Executive	15,433	Other Business-Type	15,236
Judicial	1,964	Total depreciation expense -	
Internal Service Funds	36,403	business-type activities	<u>\$ 308,068</u>
Total depreciation expense - governmental activities	<u>\$ 163,920</u>		

Construction and Software in Progress

Construction and software in progress of the primary government reported in the government-wide statement of net position at June 30, 2017 included the following projects (in thousands):

Governmental Activities	Allotments	Expended to June 30, 2017	Encumbrances Outstanding	Unencumbered Allotment Balance
Reported through capital projects funds:				
BCPL Land Sale/Transfer To DNR	\$ 14,000	\$ 10,908	\$ -	\$ 3,092
CCI Segregation Unit Expansion	12,472	399	271	11,802
Capitol Heating and Power Plant - Facility Renovate & Upgrade	28,268	28,127	45	102
General Land Acquisition	69,471	53,756	290	15,425
General Land Acquisition – 2010	38,300	36,942	-	1,358
Stillwater/St Croix Crossing Bridge	51,322	51,322	-	-
Major Highway and Rehabilitation	39,298	39,298	-	-
Interstate 94 North & South Corridor Reconstruction	48,513	48,513	-	-
Preservation Storage Building	46,724	36,410	5,720	4,598
Wisconsin Resource Center - Female Treatment Center	16,106	15,993	-	112
Zoo Interchange	507,958	507,958	-	-
Other projects with allotments totaling less than \$10 million		77,389		
Subtotal		907,015		
Projects funded through sources other than capital projects funds:				
Transportation-related		2,511,465		
Department of Natural Resources		9,346		
Department of Health Services		11,782		
Department of Children and Families		31,478		
Other agency projects		2,939		
Total construction and software in progress – governmental activities		3,474,025		

**Business-type Activities**

Reported through capital projects funds - University of Wisconsin System:

Science Labs Building – La Crosse	82,000	25,456	45,919	10,624
New Residence Hall and Renovation – Eau Claire	69,221	2,821	597	65,803
Garfield Corridor Improvement – Eau Claire	12,424	4,363	6,230	1,831
Children Center Renovation – Milwaukee	11,981	10,052	18	1,911
Babcock Hall Renovation – Madison	34,420	2,019	55	32,345
Lot 75 Parking Lot – Madison	32,670	26,077	696	5,897
Meat Science & Muscle Biology Lab – Madison	46,377	7,126	32,982	6,268
Multi-Building Energy Conservation – Madison	12,032	10,659	419	955
Music Performance Facility – Madison	55,800	8,151	35,903	11,746
Sellery and Witte Hall Renovation – Madison	52,797	5,342	42,486	4,969
Southeast Recreation Facility Replacement – Madison	96,541	3,663	1,651	91,227
Chemistry Addition and Renovation – Madison	93,800	3,562	3,152	87,086
Fletcher Hall Renovation – Oshkosh	26,412	18,770	2,169	5,474
Rodi Hall Renovation - River Falls	15,100	422	30	14,648
Chemistry Biology Building - Stevens Point	74,756	36,318	19,879	18,559
North Hall Addition and Renovation – Stout	22,435	465	4	21,967
Williams Field House Addition – Platteville	15,272	729	259	14,284
New Residence Hall Design – Whitewater	34,000	1,242	947	31,811
Projects with allotments totaling less than \$10 million:				
University of Wisconsin System		63,808		
Other projects with allotments totaling less than \$10 million		30,726		
Total construction and software in progress – business type activities		\$ 261,769		

Construction and software in progress of the University of Wisconsin System and of the other business-type activities as reported in the financial statements totaled \$231.0 million and \$30.7 million as of June 30, 2017, respectively.

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**NOTE 8. ENDOWMENTS**

**Primary Government**

**University of Wisconsin System**

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a 12-quarter moving average market value of the fund. The annual spending rate is currently 4.0 percent. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2017, net appreciation of \$126.0 million was available to meet spending rate distributions, of which \$16.4 million was actually authorized for expenditure.

For University of Wisconsin System-controlled, donor-restricted endowments, the Uniform Prudent Management of Institutional Funds Act as adopted, permits the Board of Regents of the University of Wisconsin System to appropriate for current spending, an amount of realized and unrealized endowment appreciation as they determine to be prudent. Realized and unrealized appreciation in excess of that amount appropriated for current spending is retained by the endowments.

University of Wisconsin System investment policies and guidelines for the Long Term Fund and Intermediate Term Fund are governed and authorized by the Board of Regents. The approved asset allocation policy for the Long Term Fund sets a general target of 35.0 percent marketable equities, 30.0 percent fixed income, and 35.0 percent alternatives. The approved asset allocation for the Intermediate Term Fund is 15.0 percent marketable equities, 70.0 percent fixed income, 10.0 percent alternatives, and 5.0 percent cash.

The fair value of Endowments as of June 30, 2017 was \$488.1 million including an unrealized gain of \$30.4 million when fair values as of June 30, 2017 are compared to asset acquisition costs.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments since realized gains and losses are based on the difference between the selling price and the acquisition cost of the asset. Therefore, when assets are reported at fair value much of the realized gain or loss may have already been included in prior years as part of the overall change in the fair value of investments.

At June 30, 2017, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	\$ 264.6
Realized Gains – Undistributed	193.1
Book Value	457.7
Unrealized Net Gains/Losses - Undistributed	30.4
Fair Value	<u>\$ 488.1</u>

On June 30, 2017, the portfolio at market, for the Long Term Fund, contained 37.3 percent in common stock and convertible securities, 12.1 percent in bonds and preferred stock, 21.2 percent in alternative assets, 20.3 percent in tactical allocation strategies, 7.6 percent in short-term investments, and 1.6 percent in real assets. The total return (loss) on the principal Long Term Fund including capital appreciation was 12.67 percent.

On June 30, 2017, the portfolio at market, for the Intermediate Fund, contained 14.0 percent in common stock and convertible securities, 79.8 percent in bonds and preferred stock, and 6.3 percent in short-term investments. The total return on the principal Intermediate Fund including capital appreciation was 3.37 percent.

External investment counsel was furnished for funds representing 89.8 percent of market value principal.

**NOTE 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund balances as of or for the year ended June 30, 2017 consists of the following (in thousands):

**A. Due from/to Other Funds:**

Due from Other Funds and the Due to Other Funds represent short-term interfund accounts receivable and payable. The balances in these accounts at June 30, 2017 were as follows (in thousands):

<b>Due to Other Funds:</b>												
	General	Transportation	Capital Improvement	Nonmajor Governmental	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	Total
<b>Due from Other Funds:</b>												
General	\$ -	\$ 33,391	\$ 11	\$ 7,840	\$ 49	\$ 1,674	\$ 45,822	\$ 1,928	\$ 2,245	\$ 10,207	\$ 66,520	\$ 169,686
Transportation	39,495	-	12,145	30,577	-	-	313	-	-	184	-	82,715
Capital Improvement	-	-	-	-	-	-	-	-	2,198	3,201	-	5,400
Nonmajor Governmental	11,159	13,224	-	3,453	-	930	93	2	663	-	-	29,523
Environmental Improvement	27	-	168	19	-	-	-	-	-	-	-	214
University of Wisconsin System	20,017	1,660	-	2,023	-	20	-	-	1	13	18	23,753
Unemployment Reserve	305	-	-	-	-	-	-	-	-	-	-	305
Nonmajor Enterprise	2,085	22	-	0	-	-	12	-	10,540	-	77,763	90,422
Internal Service	20,583	5,124	-	3,970	-	-	771	-	2,277	83	264	33,071
Fiduciary	13,801	2,072	-	1,140	4	3	28,384	-	17,490	284	16,103	79,280
<b>Total</b>	<b>\$ 107,471</b>	<b>\$ 55,493</b>	<b>\$ 12,324</b>	<b>\$ 49,022</b>	<b>\$ 53</b>	<b>\$ 2,628</b>	<b>\$ 75,394</b>	<b>\$ 1,930</b>	<b>\$ 35,413</b>	<b>\$ 13,973</b>	<b>\$ 160,668</b>	<b>\$ 514,368</b>

The balances in the Due from Other Funds and Due to Other Funds accounts typically result from the time lag between the dates that  
 (1) interfund goods and services were provided and when the payments occurred, and  
 (2) interfund transfers were accrued and when the liquidations occurred.

Most of the State's funds are presented on a fiscal year ended June 30. However, some funds are presented on a fiscal year ended December 31. As a result, inconsistencies may occur in amounts reported as interfund receivables or payables between funds with different fiscal year ends.

**B. Interfund Receivables/Payables**

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2017 were as follows (in thousands):

	<u>Interfund Receivable:</u>		
	General	Nonmajor Enterprise	Total
<b>Interfund Payables:</b>			
Nonmajor			
Governmental	\$ 1,990	\$ -	\$ 1,990
Nonmajor			
Enterprise	25,422	-	25,422
Internal Service	51,522	-	51,522
Fiduciary	-	82,013	82,013
<b>Total</b>	<b>\$ 78,934</b>	<b>\$ 82,013</b>	<b>\$ 160,947</b>

**C. Advances to/from Other Funds**

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2017 were as follows (in thousands):

	<u>Advances from Other Funds (liability):</u>		
	General	Nonmajor Governmental	Total
<b>Advances to Other Funds (asset)</b>			
Injured Patients and Families Compensation	-	\$ 50	\$ 50
Environmental Improvement	-	6,271	6,271
Nonmajor Enterprise	\$ 735	-	735
<b>Total</b>	<b>\$ 735</b>	<b>\$ 6,321</b>	<b>\$ 7,056</b>

**D. Interfund Transfers**

Interfund Transfers in and out that occurred during Fiscal Year 2017 were as follows (in thousands):

<b>Transfers In:</b>		General	Transportation	Capital Improvement	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Total
<b>Transfers Out:</b>										
General	\$	-	\$ 39,875	\$ 70,711	\$ 715,456	\$ -	\$ 830,466	\$ 88,195	\$ 3,749	\$ 1,748,451
Transportation		1,605	-	31,749	126,422	-	-	-	29	159,806
Capital Improvement		-	-	-	-	8,214	102,232	10,726	-	121,172
Nonmajor Governmental		26,983	27,259	2,091	148,540	-	2,766	1,897	16	209,552
Injured Patients and Families Compensation		-	-	-	17	-	-	-	-	17
Environmental Improvement		17,202	-	-	8,012	-	-	-	-	25,213
University of Wisconsin System		20,303	-	297	65,345	-	-	-	-	85,945
Unemployment Reserve		320	-	-	-	-	-	-	-	320
Nonmajor Enterprise		23,100	-	3	4,760	-	-	9,047	-	36,910
Internal Service		10,129	-	25	1,170	-	10	-	625	11,959
Fiduciary		-	-	-	543	-	-	-	-	543
<b>Total</b>	<b>\$</b>	<b>99,643</b>	<b>\$ 67,134</b>	<b>\$ 104,875</b>	<b>\$ 1,070,265</b>	<b>\$ 8,214</b>	<b>\$ 935,474</b>	<b>\$ 109,865</b>	<b>\$ 4,419</b>	<b>\$ 2,399,887</b>

Transfers are typically used to move: (1) revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations, and (4) accumulated surpluses from other funds to the General Fund when authorized by statute.

Most of the State's funds are presented on a fiscal year ended June 30. However, some funds are presented on a fiscal year ended December 31. As a result, inconsistencies may occur in amounts reported as interfund transfers between funds with different fiscal year ends.

**Nonroutine and Other Transfers**

Transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Transfer out from the General Fund:

<b>Funds Reporting the Transfer In</b>	<b>Amount</b>
Transportation	\$ 39,137
Environmental	11,144
Local Government Property Insurance	11,100

Transfers in to the General Fund:

<b>Funds Reporting the Transfer Out</b>	<b>Amount</b>
University of Wisconsin System	\$ 11,495
Facilities Operations and Maintenance	7,850
Financial Services	1,000

Transfers out from the Petroleum Inspection Fund:

<b>Fund Reporting the Transfer In</b>	<b>Amount</b>
Transportation	\$ 21,000

**NOTE 10. CHANGES IN LONG-TERM LIABILITIES**

During the year ended June 30, 2017, the following changes occurred in long-term liabilities (in thousands):

**Primary Government**

<b>Governmental Activities</b>	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>	<b>Amounts Due Within One Year</b>
Bonds and Long Term Notes Payable:					
General Obligation Bonds & Notes for:					
Governmental Funds	\$ 5,446,809	\$ 861,886	\$ 822,170	\$ 5,486,525	\$ 533,125
Internal Service Funds	141,106	67,689	24,037	184,758	17,478
Annual Appropriation Bonds	3,036,350	1,532,675	1,472,030	3,096,995	69,060
Revenue Bonds	2,031,205	346,965	302,520	2,075,650	172,839
Less: Issuance Premiums and Discounts	688,717	249,483	163,186	775,014	-
Total Bonds and Long Term Notes Payable	11,344,187	3,058,698	2,783,943	11,618,942	792,502
Other Liabilities:					
Future Benefits and Loss Liability	99,376	55,401	41,858	112,920	48,800
Capital Leases	111,000	5,265	18,557	97,708	20,177
Installment Contracts	472	-	472	-	-
Compensated Absences	155,418	50,166	52,461	153,122	52,007
Net Pension Liability	210,150	-	102,751	107,399	-
Other Postemployment Benefits	239,146	16,359	-	255,505	-
Claims, Judgments and Commitments	581	-	26	556	-
Pollution Remediation Obligations	7,700	670	388	7,982	302
Total Governmental Activities Long-term Liabilities	\$ 12,168,030	\$ 3,186,558	\$ 3,000,454	\$ 12,354,134	\$ 913,788

Repayment of the general obligation bonds and notes is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2017. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. Most of the compensated absences and other postemployment benefits liabilities are attributed to the General, Transportation and Conservation funds. Long-term liabilities for claims, judgments and commitments are generally liquidated with resources of the governmental activities.

<b>Business-type Activities</b>	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>	<b>Amounts Due Within One Year</b>
Bonds Payable:					
General Obligation Bonds	\$ 1,504,377	\$ 194,705	\$ 196,230	\$ 1,502,852	\$ 91,309
Revenue Bonds	674,950	290,575	637,090	328,435	90,550
Less: Issuance Premiums and Discounts	185,941	69,959	104,705	151,195	-
Total Bonds Payable	2,365,269	555,238	938,025	1,982,482	181,859
Other Liabilities:					
Future Benefits and Loss Liability	901,531	87,196	134,896	853,832	155,520
Capital Leases	34,265	1,949	5,153	31,061	2,061
Compensated Absences	145,757	76,868	70,515	152,111	72,910
Net Pension Liability	245,318	-	119,929	125,388	-
Other Postemployment Benefits	301,765	24,393	-	326,158	-
Total Business-type Activities					
Long-term Liabilities	\$ 3,993,905	\$ 745,645	\$ 1,268,518	\$ 3,471,031	\$ 412,350

**NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS**

The following schedule summarizes outstanding bonds and long-term notes payable at June 30, 2017 (in millions):

**Primary Government****Governmental Activities:**

General Obligation Bonds and Notes	\$	6,190.4
Annual Appropriation Bonds		3,113.9
Revenue Bonds:		
Transportation		2,235.8
Petroleum Inspection		78.9
Total Governmental Activities		<u>11,618.9</u>

**Business-type Activities:**

General Obligation Bonds and Notes:		
University of Wisconsin System		1,543.9
Other Business-type		76.6
Revenue Bonds:		
Environmental Improvement		362.0
Total Business-type Activities		<u>1,982.5</u>
Total Primary Government	\$	<u>13,601.4</u>

**A. General Obligation Bonds**

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. To date, the Commission has authorized and issued general obligation bonds and notes primarily to provide funds for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Occasionally, general obligation bonds are also issued for the purpose of providing funds for veterans housing loans and to refund general obligation bonds. All general obligation bonds and notes authorized and issued by the State are secured by a pledge of the full faith, credit and taxing power of the State of Wisconsin and are customarily repaid over a period of twenty to thirty years.

Article VIII of the Wisconsin Constitution and Wis. Stat. Section 18.05 set limits on the amount of debt that the State can contract in total and in any calendar year. In total, debt outstanding cannot exceed five percent of the value of all taxable property in the State. Annual debt issued cannot exceed the lesser of three-quarters of one percent or five percent of the value of all taxable property in the State less net indebtedness at January 1.

At June 30, 2017, \$3.2 billion of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2017 were as follows (in thousands):

<b>Fiscal Year Issued</b>	<b>Series</b>	<b>Dates</b>	<b>Interest Rates</b>	<b>Maturity Through</b>	<b>Amount Issued</b>	<b>Amount Outstanding</b>
2001	2001 Series A	2/01	7.0	5/31	\$ 15,000	\$ 1,210
2002	2002 Series B, D	3/02; 6/02	6.25	5/33	35,000	3,165
2003	2002 Series E, F, and H; 2003 Series 2	9/02; 9/02; 12/02; 4/03	4.5 to 5.25	5/33	43,740	5,130
2004	2003 Series B, and 3;	7/03; 10/03;	4.35 to 5.0	11/33	97,890	8,965
2005	2004 Series C; 2005 Series C	8/04; 4/05	5.15 to 5.4	5/35	6,000	670
2007	2006 Series B, and C; 2007 Series 1;	7/06; 8/06; 2/07	4.6 to 5.65	5/37	362,690	187,635
2008	2007 Series 2, and C; 2008 Series 1, A, and B	10/07; 12/07; 6/08; 4/08; 5/08	4.13 to 5.0	5/28	358,580	26,165
2009	2008 Series C, and D; 2009 Series A, and B	9/08; 12/08; 6/09; 6/09	4.0 to 6.0	5/30	504,175	85,880
2010	2009 Series C, D; 2010 Series 1, A and B	9/09; 9/09; 3/10; 4/10; 4/10	4.0 to 5.9	5/40	946,885	542,635
2011	2010 Series C, and D; 2011 Series A, and 1	9/10; 9/10; 2/11; 6/11	3.45 to 5.25	5/41	1,160,535	604,130
2012	2011 Series 2, B, and C; 2012 Series 1, 2, and A	10/11; 8/11; 12/11; 3/12; 5/12; 6/12	2.45 to 5.0	5/42	1,347,620	884,990
2013	2012 Series B; 2013 Series A	11/12; 5/13	2.55 to 5.0	5/33	703,320	550,130
2014	2013 Series 1; 2014 Series 1, 2, and A	11/13; 2/14; 4/14; 2/14	1.5 to 5.0	5/34	1,060,455	845,660
2015	2014 Series 3, 4 and B; 2015 Series 1, A, and B	9/14; 1/15; 7/14 4/15; 2/15; 6/15	2.0 to 5.0	5/35	1,318,765	1,134,970
2016	2015 Series C; 2016 Series 1 and A	9/15; 3/16; 3/16	1.75 to 5.0	5/36	977,435	964,615
2017	2016 Series B, C, D, 2; 2017 Series A	7/16; 7/16, 10/16, 8/16; 3/17	0.8 to 5.0	5/37	1,124,280	1,124,280
Total					10,062,370	6,970,230
Premiums/Discounts					--	636,700
Total General Obligation Bonds					<u>\$ 10,062,370</u>	<u>\$ 7,606,930</u>



As of June 30, 2017, general obligation bond debt service requirements for principal and interest for governmental activities and business -type activities are as follows (in thousands):

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 379,921	\$ 262,627	\$ 60,859	\$ 69,668
2019	413,783	242,844	68,077	66,486
2020	404,830	222,725	69,840	63,197
2021	375,386	201,317	67,654	59,205
2022	389,747	182,090	77,018	55,698
2023-2027	1,734,412	650,876	468,478	219,668
2028-2032	1,234,242	297,753	410,278	115,387
2033-2037	561,687	69,843	196,628	35,017
2038-2042	--	--	57,390	7,173
Total	5,494,009	2,130,075	1,476,221	691,499
Premiums/Discounts	519,090	--	117,610	
Total	\$ 6,013,099	\$ 2,130,075	\$ 1,593,831	\$ 691,499

#### Qualified Build America Bonds

The State has issued four series of general obligation bonds, in the aggregate amount of \$769.2 million, that are "qualified Build America Bonds" pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Code). Based on the credit allowed for "qualified Build America Bonds", the State has elected to receive from the United States Treasury on each payment date a direct payment in the amount of 35 percent of the interest payable by the State with respect to such date, and the credit will not be allowed to the taxpayers holding the bonds.

With respect to the direct payments the State expects to receive, since such payments are not program Income and not pledged to the payment on the Bonds, there is no direct impact on the Bonds with these direct payments being subject to the mandated across-the-board cuts to the Federal budget for the federal fiscal year that started October 1, 2016 and ends September 30, 2017. The impact of these cuts for the current federal fiscal year is a 6.9% reduction in the direct payment amount that the State expected to receive.

- The interest rates on the 2009 Series B bonds, in the amount of \$54.5 million, range from 5.15 percent to 5.40 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of November 1, 2009. These bonds are callable at par on May 1, 2019 or any date thereafter. The bonds mature beginning May 1, 2023 through 2030.
- The interest rates on the 2009 Series D bonds, in the amount of \$225.8 million, range from 4.9 percent to 5.9 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of May 1, 2010. These bonds are callable at par on May 1, 2020 or any date thereafter. The bonds mature beginning May 1, 2023 through 2040.
- The interest rates on the 2010 Series B bonds, in the amount of \$179.1 million, range from 4.3 percent to 5.65 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of November 1, 2010. These bonds are callable at par on May 1, 2020 or any date thereafter. The bonds mature beginning May 1, 2020 through 2030.
- The interest rates on the 2010 Series D bonds, in the amount of \$309.7 million, range from 3.45 percent to 5.1 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of May 1, 2011. These bonds are callable at par on May 1, 2021 or any date thereafter. The bonds mature beginning May 1, 2020 through 2041.

**B. General Obligation Long-term Notes**

In April 2015, the State issued \$279.8 million of General Obligation Long-term Notes Payable for the purpose of refunding General Obligation Bonds. The face value of the notes are reported as part of General Obligation Bonds and Notes in the Statements of Net Position and bear interest at rates from 1.94 percent to 3.43

percent, payable semi-annually on each May 1 and November 1 until their maturity dates. Principal outstanding at year end totaled \$203.9 million.

As of June 30, 2017, long-term general obligation note debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in millions):

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 72,664	\$ 5,025	\$ 10,216	\$ 765
2019	34,241	3,279	5,079	519
2020	45,387	2,320	6,073	377
2021	24,983	869	5,262	183
Total	\$ 177,274	\$ 11,493	\$ 26,631	\$ 1,845

**C. Annual Appropriation Bonds**

**2003 Annual Appropriation Bonds**

In December 2003, the State issued \$1.8 billion of General Fund Annual Appropriation Bonds consisting of Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates). These appropriation obligations were authorized by Wisconsin Statutes to obtain proceeds to pay the State’s anticipated unfunded accrued prior service (pension) liability under Wis. Stat. Section 40.05(2)(b) and its unfunded accrued liability for sick leave conversion credits under Wis. Stat. Section 40.05(4)(b), (bc), and (bw) and Subchapter IX of Chapter 40. In April and June 2008, the State issued \$1.0 billion of General Fund Annual Appropriation Refunding Bonds to refund the Series B (Taxable Auction Rate Certificates) that were issued in 2003. The 2008 issuance consisted of Series A (Taxable Fixed Rate) and Series B and C (Taxable Floating Rate Notes). In November 2012, the State issued \$251.6 million bonds to refund a portion of the 2003 Series A bonds. In August 2016, the State issued \$400.1 million of General Fund Annual Appropriation Refunding Bonds (Taxable) to refund the May 2018 maturities of the 2008 Series A Bonds.

Legislature’s recognition of a moral obligation, however, does not create a legally enforceable obligation.

The General Fund Annual Appropriation Bonds of 2003, Series A (Taxable Fixed Rate) in the outstanding principal amount of \$528.1 million (“2003 Series A Bonds”), bear interest at rates from 5.20 percent to 5.70 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Bonds of 2008, Series B (Taxable Floating Rate Notes), in the outstanding principal amount of \$300.0 million, bear interest at rates 120 basis points over the one-month LIBOR, computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

The General Fund Annual Appropriation Bonds of 2008, Series C (Taxable Floating Rate Notes), (“2008 Series C Bonds”) in the outstanding principal amount of \$186.2 million, bear interest at rates 110 basis points over the one-month LIBOR computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

These appropriation obligations are not general obligations of the State, and do not constitute “public debt” of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the obligations is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on such obligations, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The

The General Fund Annual Appropriation Refunding Bonds of 2012, Series A (Taxable Fixed Rate) in the outstanding principal amount of \$150.3 million (“2012 Series A Bonds”), bear interest at rates from 1.644 percent to 4.019 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Refunding Bonds of 2016, Series A (Taxable) in the outstanding principal amount of \$400.1 million (2016 Series A Bonds), bear interest at rates from 1.44 percent to 2.48 percent computed on the basis of a 30-day

month and a 360-day year and for the number of days actually elapsed, payable semiannually on May 1 and November 1 until their maturity dates.

As of June 30, 2017, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2018	\$ 66.0	\$ 74.4
2019	41.0	72.2
2020	99.0	69.9
2021	107.8	66.2
2022	118.3	62.9
2023 – 2027	745.1	229.8
2028 – 2032	387.6	62.8
Total	1,564.7	638.3
Unamortized Prem./Discount	(0.6)	--
Total, net	<u>\$ 1,564.1</u>	<u>\$ 638.3</u>

### Derivatives

The State has entered into interest rate exchange agreements, or swap agreements, to modify interest rates for nearly all of the 2008 Series B bonds and 2008 Series C bonds. All interest rate agreements at June 30, 2017, are classified as effective cash flow hedges. Since the interest rate exchange agreements qualify as an effective hedge, changes to fair value are not reported in the Statement of Activities. The State has contracted with a third-party advisor to provide estimates of the fair value of the aggregate swap agreements as of June 30, 2017.

Objective – In December 2003, the State entered into four interest rate exchange agreements with four different counterparties in order to reduce the interest rate risk in connection with \$595.2 million of the Series B (Taxable Auction Rate Certificates) issued in 2003. In June 2005, the State entered into four additional interest rate exchange agreements with three counterparties in order to reduce the interest rate risk on the balance of the Series B (Taxable Auction Rate Certificates) issued in 2003, (\$349.7 million). In April and June 2008, the State issued \$509 million of annual appropriation refunding bonds as floating rate notes having variable interest rate set every month (2008 Series B Bonds and 2008 Series C Bonds). In conjunction with issuance in April 2008, at its option the State terminated and made corresponding termination payments in the aggregate amount of \$40.0 million on some, and a portion of other, interest rate exchange agreements previously entered into in December 2003 and June 2005. As of June 30, 2017, interest rate exchange agreements remain to reduce the interest rate risk in connection with \$478.1 million in floating rate notes.

Terms – Nearly all of the outstanding 2008 Series B Bonds and 2008 Series C Bonds are subject to the interest rate exchange agreements with a notional amount totaling \$478.1 million as of June 30, 2017. 2008 Series B Bonds and Series C Bonds mature and a related notional amount of the related interest rate exchange agreements decline from May 1, 2016 through 2032. Based on the interest rate exchange agreements, the State owes to the counterparties an amount calculated at fixed rates ranging from 4.661 percent to 5.47 percent and the counterparties owe the State interest on an amount based on a variable rate, which is the one-month LIBOR. The net amount is paid monthly.

Fair Value – As of June 30, 2017, the aggregate fair value of the interest exchange agreements was negative \$150.5 million, an increase of \$66.3 million compared to the aggregate fair value of negative \$216.8 million reported as of June 30, 2016. Since the interest rate exchange agreements qualify as effective cash flow hedges, a deferred outflow of resources and a liability are reported in the statement of net position for the fair value of the swap agreements. Changes in the fair value are not reported in the statement of activities.

The fair value was determined by a third party consultant based on information contained in the broker Interest Rate Swap Confirmations supplied by the three counterparties -- JP Morgan Chase, Citigroup N.A. New York, and UBS AG. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the interest rate exchange agreement. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate exchange agreements, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the interest rate exchange agreements. The fair value may vary throughout the life of the swap agreements due to any changes in fixed swap interest rates and swap market conditions.

Associated Debt – Using rates as of June 30, 2017, debt service requirements are presented for the 2008 Series B Bonds and 2008 Series C Bonds that are subject to the interest rate exchange agreements and the net swap payments assuming that interest rates remain the same for their term. As rates vary, interest payments on the floating rate notes and net swap payments will vary.

(in millions)

Fiscal Year Ended June 30	Interest Rate			
	Principal	Interest	Swaps, Net	Totals
2018	\$ 1.1	\$ 11.6	\$ 19.8	\$ 32.5
2019	1.1	11.6	19.7	32.4
2020	1.1	11.6	19.7	32.3
2021	8.5	11.5	19.6	39.6
2022	10.1	11.3	19.3	40.7
2023 – 2027	167.4	51.4	88.9	307.7
2028 – 2032	288.8	19.4	33.6	341.8
	<u>\$ 478.1</u>	<u>\$ 128.2</u>	<u>\$ 220.7</u>	<u>\$ 827.0</u>

Interest Rate Risk – Currently, the State does not have interest rate risk because it is paying a fixed-rate of interest on the interest rate exchange agreements. However, if for some unforeseen reason any of the swap agreements are terminated prior to maturity, the State will have interest rate risk associated with the outstanding 2008 Series B Bonds and 2008 Series C Bonds until their maturity.

Credit Risk – As of June 30, 2017, the State was exposed to only a minimal amount of credit risk, as the fair values of all of the four interest rate exchange agreements were negative. Should rates change, the State could have increased exposure in the future. The State has entered into four interest rate agreements with three different counterparties. The lowest rating assigned to these counterparties is, as of June 30, 2017, A1 by Moody's, A by Standard & Poor's, and A by Fitch Ratings. Under the interest rate exchange agreements and to mitigate the potential for credit risk, if any of the counterparties' credit quality falls below A2 by Moody's Investors Service or A- by either Standard & Poor's or Fitch Ratings, the fair value of the interest rate exchange agreement for that respective counterparty will be fully collateralized by that counterparty. In addition, an event of termination occurs if any of the counterparties' credit quality falls below Baa2 by Moody's Investors service or BBB by either Standard & Poor's or Fitch Ratings.

Basis Risk – The interest rate exchange agreements expose the State to basis risk (i.e., a shortfall or surplus between the variable interest rate received on the interest rate exchange agreements and the interest rate paid on the floating rate notes), however this risk is fixed at the spreads for the respective series.

Termination Risk – The interest rate exchange agreements may be terminated by the State, upon two business days' written notice,

designating to the counterparty the termination date. In addition, the State or the counterparties may terminate the interest rate exchange agreements if the other party fails to perform under the terms of the interest rate exchange agreements or if other various events occur. As of June 30, 2017, there have not been any such events. If any interest rate exchange agreement is terminated, the State would be unhedged and exposed to additional interest rate risk on the 2008 Series B Bonds and the 2008 Series C Bonds. In addition, if the interest rate exchange agreement has a negative fair value at the time of termination, the State would incur a loss and would be required to make a settlement payment to the related counterparty. Actual termination payments, if required to be made, can be made, at the State's discretion, from the Stabilization Fund, or delayed until funds are available in the Subordinated Payment Obligations Fund or until the next biennium when appropriations can be made in the biennial budget for the termination payments.

Market-Access Risk and Rollover Risk – The State's swap agreements are for the term (maturity) of the 2008 Series B-Bonds and the 2008 Series C Bonds and, therefore, there is no market-access risk or rollover risk.

Foreign Currency Risk – The State's swap agreements are not subject to foreign currency risk.

### 2009 Annual Appropriation Bonds

In April 2009, the State issued \$1.5 billion of General Fund Annual Appropriation Bonds. These appropriation obligations were authorized by Wisconsin Statutes for the purpose of purchasing the tobacco settlement revenues that had been sold by the Secretary of Administration to the Badger Tobacco Asset Securitization Corporation pursuant to Wis. Stat. Section 16.63. In August 2016, January 2017, and May 2017, the State issued an aggregate \$1.1 billion of General Fund Annual Appropriation Refunding Bonds (Taxable and Tax Exempt) to refund a portion of the appropriation obligations issued in 2009.

The 2009 General Fund Annual Appropriation Bonds bear interest rates from 4.00 percent to 6.25 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1, until their maturity dates.

The 2016 Series B (Taxable) General Fund Annual Appropriation Bonds bear interest rates from 1.44 percent to 3.29 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1, until their maturity dates.

The 2017 Series A Taxable General Fund Annual Appropriation Bonds bear interest rates from 1.86 percent to 3.95 percent computed on the basis of a 30-day month and a 360-day year,

payable semiannually on each May 1 and November 1, until their maturity dates.

The 2017 Series B General Fund Annual Appropriation Bonds bear interest rates from 4.00 percent to 5.00 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1, until their maturity dates.

The 2017 Series C (Taxable) General Fund Annual Appropriation Bonds bear interest rates from 1.20 percent to 3.15 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1, until their maturity dates.

These appropriation obligations are not general obligations of the State, and do not constitute “public debt” of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the obligations is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on such obligations, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The Legislature’s recognition of a moral obligation, however, does not create a legally enforceable obligation.

As of June 30, 2017, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2018	\$ 3.0	\$ 67.4
2019	2.5	62.2
2020	36.9	62.2
2021	40.3	60.6
2022	250.7	272.8
2023 – 2027	599.8	154.9
2028 – 2032	452.3	94.0
2033 – 2037	146.7	4.8
Total	1,532.3	778.9
Unamortized Premium/Discount	17.5	
Total, net	\$ 1,549.8	\$ 778.9

**D. Revenue Bonds**

Chapter 18, Wisconsin Statutes, authorizes the State to issue revenue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance

of these obligations. The resulting bond obligations are not general obligations of the State.

**Transportation Revenue Bonds**

Transportation Revenue Bonds are issued to finance part of the costs of certain transportation facilities and major highway projects. Chapter 18, Subchapter II of the Wisconsin Statutes as amended, Wis. Stat. Sec. 84.59 and a general bond resolution and series resolutions authorize the issuance of these bonds.

The Department of Transportation is authorized to issue a total of \$3.9 billion of revenue bonds. Presently, there are fourteen issues of Transportation Revenue Bonds outstanding totaling \$2.0 billion. Debt service payments are secured by driver and vehicle registration fees and the program resolution provides for a reserve fund, which if funded, will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 2017 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2017 1	5/17	5.0	7/37	\$ 284,520	\$ 284,520
2015 A	12/15	3.0 to 5.0	7/36	225,000	225,000
2015 1	4/15	5.0	7/29	207,240	189,685
2014 2	12/14	5.0	7/27	94,130	94,130
2014 1	4/14	4.5 to 5.0	7/34	339,745	162,280
2013 1	3/13	4.0 to 5.0	7/33	259,680	207,375
2012 2	6/12	4.0 to 5.0	7/24	116,400	116,400
2012 1	4/12	3.5 to 5.0	7/32	343,725	207,040
2010 B	12/10	4.7 to 6.0	7/31	123,925	123,925
2010 A	12/10	5.0	7/21	76,075	21,165
2009 B	10/09	4.15 to 5.84	7/30	147,130	134,125
2008 A	8/08	5.0	7/29	185,000	16,140
2007 1	3/07	5.0	7/22	206,900	189,235
2005 A	3/05	5.0	7/21	235,585	28,575
				2,845,055	1,999,595
Unamortized Premium / Discount				--	236,183
Total				\$ 2,845,055	\$ 2,235,778

**Petroleum Inspection Fee Revenue Bonds**

Petroleum Inspection Fee (PIF) Revenue Bonds are issued to finance claims made under the Petroleum Environmental Cleanup Fund Award (PECFA) Program for reimbursement of cleanup costs to soil and groundwater contamination. The program reimburses owners for 75 percent to 99 percent of cleanup costs associated with soil and groundwater contamination. As of June 30, 2017, PIF Bonds outstanding are \$76.1 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2017 were as follows (in thousands):

Issue	Issue Date	Interest Rate	Maturity Through	Issued	Outstanding
2016-1	10/16	4.0 to 5.0	7/19	\$ 62,445	\$ 62,445
2009-1	10/09	3.0 to 5.0	7/17	117,460	13,610
				179,905	76,055
Unamortized Premium / Discount				--	2,848
Total				\$ 179,905	\$ 78,903

**Environmental Improvement Fund Revenue Bonds**

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue Clean Water Revenue Bonds and Environmental Improvement Fund Revenue Bonds up to an amount of \$2.5 billion in total.

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.

At June 30, 2017, there were three issues of Environmental Improvement Fund Revenue Bonds outstanding totaling \$328.4 million.

Bonds issued and outstanding for the Environmental Improvement Fund as of June 30, 2017 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2017-B	6/17	1.3	6/18	\$ 71,870	\$ 71,870
2017-A	6/17	3.0 to 5.0	6/35	218,705	218,705
2015-A	12/15	3.0 to 5.0	6/30	43,380	37,860
				333,955	328,435
Unamortized Premium / Discount				--	33,585
Total				\$ 333,955	\$ 362,020

As of June 30, 2017, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

Fiscal Year Ended June 30	Governmental Activities				Business-Type Activities	
	Transportation Revenue Bonds		Petroleum Inspection Fee Revenue Bonds		Environmental Improvement Fund Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 133,330	\$ 89,535	\$ 20,925	\$ 2,678	\$ 90,550	\$ 13,277
2019	111,500	90,228	27,935	1,647	84,080	11,894
2020	120,735	84,563	27,195	544	9,375	7,690
2021	130,630	78,389	--	--	8,790	7,222
2022	136,050	71,804	--	--	9,230	6,782
2023-2027	592,695	264,282	--	--	49,490	26,774
2028-2032	507,515	126,454	--	--	76,920	16,680
2033-2037	256,135	27,036	--	--	--	--
2038	11,005	550	--	--	--	--
Total	1,999,595	832,841	76,055	4,869	328,435	90,319
Unamortized Premium / Discount	236,183	--	2,848	--	33,585	--
Total	\$ 2,235,778	\$ 832,841	\$ 78,903	\$ 4,869	\$ 362,020	\$ 90,319



### Qualified Build America Bonds

The State has issued three series of revenue bonds, in the aggregate amount of \$320.8 million, that are “qualified Build America Bonds” pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Code). Based on the credit allowed for “qualified Build America Bonds”, the State has elected to receive from the United States Treasury on each payment date a direct payment in the amount of 35 percent of the interest payable by the State with respect to such date, and the credit will not be allowed to the taxpayers holding the bonds.

With respect to the direct payments the State expects to receive, since such payments are not Program Income and not pledged to the payment on the Bonds, there is no direct impact on the Bonds with these direct payments being subject to the mandated across-the-board cuts to the Federal budget for the federal fiscal year that started October 1, 2016 and ends September 30, 2017. The impact of these cuts for the current federal fiscal year is a 6.9% reduction in the direct payment amount that the State expected to receive.

The interest rates on the 2009 Series B (taxable) Transportation Revenue Bonds in the amount of \$134.1 million range from 4.15 percent to 5.84 percent payable semiannually on January 1 and July 1 beginning with the first interest payment date of July 1, 2010. These bonds are callable at par on July 1, 2019 or any date thereafter. The bonds mature beginning July 1, 2015 through 2030.

The interest rates on the 2010 Series B (taxable) Transportation Revenue Bonds in the amount of \$123.9 million range from 4.7 percent to 6.0 percent payable semiannually on January 1 and July 1 beginning with the first interest payment date of July 1, 2011. These bonds are callable at par on July 1, 2020 or any date thereafter. The bonds mature beginning July 1, 2022 through 2031.

## E. Refundings, Exchanges and Early Extinguishments

### Refunding Provisions of GASB Statement No. 23

The State implemented the provisions of GASB Statement No. 23. *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* beginning with Fiscal Year 1996. This Statement requires proprietary activities to adopt certain accounting and reporting changes for both current refunding and advance refunding resulting in defeasance of debt. GASB Statement No. 23 permits, but does not require, retroactive application of its provisions. The State has chosen not to apply the provisions retroactively to previously issued financial statements.

### Current Fiscal Year Refundings/General Obligation Bonds

In August 2016, the State issued \$370.9 million of general obligation refunding bonds (2016 Series 2), the proceeds of \$463.3 million were deposited in an escrow account to provide for future debt service payments and redemption of \$390.0 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the \$390.0 million of various general obligation bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by \$35.0 million and an economic gain of \$26.7 million.

In August 2016, the State issued \$200.5 million of general fund annual appropriation refunding bonds (2016 Series B), the proceeds of \$200.5 million were deposited in an escrow account to provide for future debt service payments and redemption of \$358.7 million of various general fund annual appropriation bonds outstanding at the time of the refunding. As a result of the advance refunding, the \$358.7 million of various general fund annual appropriation bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by \$38.8 million and an economic gain of \$34.1 million.

In January 2017, the State issued \$427.7 million of general fund annual appropriation refunding bonds (2017 Series A), the proceeds of \$427.7 million were deposited in an escrow account to provide for future debt service payments and redemption of \$769.6 million of various general fund annual appropriation bonds outstanding at the time of the refunding. As a result of the advance refunding, the \$769.6 million of various general fund annual appropriation bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by \$55.1 million and an economic gain of \$41.5 million.

In January 2017, the State issued \$102.1 million of general fund annual appropriation refunding bonds (2017 Series B), the proceeds of \$119.8 million were deposited in an escrow account to provide for future debt service payments and redemption of \$199 million of various general fund annual appropriation bonds outstanding at the time of the refunding. As a result of the advance refunding, the \$199 million of various general fund annual appropriation bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt

service payments by \$22.2 million and an economic gain of \$15.1 million.

In January 2017, the State issued \$402.1 million of general fund annual appropriation refunding bonds (2017 Series C), the proceeds of \$402.1 million were deposited in an escrow account to provide for future debt service payments and redemption of \$676.9 million of various general fund annual appropriation bonds outstanding at the time of the refunding. As a result of the advance refunding, the \$676.9 million of various general fund annual appropriation bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by \$153.1 million and an economic gain of \$77.3 million.

**Prior Year Refundings/General Obligation Bonds**

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 2017, \$1,153.1 million of general obligation bond principal has been defeased.

**Current Fiscal Year Refundings/Revenue Bonds**

In May 2017, the State issued \$284.5 million of Transportation refunding and new money bonds (2017 Series 1), the proceeds of \$200.5 million were deposited in an escrow account to provide for future debt service payments and redemption of \$172.3 million of various Transportation bonds outstanding at the time of the refunding. As a result of the advance refunding, the \$172.3 million of various Transportation bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by \$18.1 million and an economic gain of \$12.5 million.

**Prior Year Refundings/Revenue Bonds**

For financial reporting purposes, the following primary government revenue bonds have been defeased, and therefore, removed as a liability from the balance sheet:

- Environmental Improvement Fund revenue bonds – At June 30, 2017, revenue bonds outstanding of \$820.7 million have been defeased.
- Transportation Revenue Bonds – At June 30, 2017, revenue bonds outstanding of \$392.4 million have been defeased.

**F. Short-term Financing**

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the Commission has authorized the issuance of notes. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

**General Obligation Commercial Paper Notes**

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be used to pay interest due on maturing notes. On June 30, 2017, the amount of commercial paper notes outstanding was \$218.7 million which had interest rates ranging from 0.84 percent to 0.95 percent and maturities ranging from July 3, 2017 to November 6, 2017.

Short-term debt activity for the year ended June 30, 2017 for general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
\$ 138.3	\$ 136.1	\$ 55.7	\$ 218.7



**General Obligation Extendible Municipal Commercial Paper**

The State has authorized General Obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be used to pay the interest due on the maturing notes. At June 30, 2017, the amount of extendible municipal commercial paper outstanding was \$288.2 million which had interest rates ranging from 0.87 percent to 1.02 percent and maturities from July 6, 2017, to August 17, 2017.

Short-term debt activity for the year ended June 30, 2017 for general obligation extendible municipal commercial paper was as follows (in millions):

Balance		Balance	
July 1, 2016	Additions	Reductions	June 30, 2017
\$ 485.7	\$ --	\$ 197.5	\$ 288.2

**Transportation Revenue Commercial Paper Notes**

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2017, the amount of transportation revenue commercial paper notes outstanding was \$88.7 million which carries an interest rate of 0.96 percent and maturities ranging from July 6, 2017 to August 3, 2017.

Short-term debt activity for the year ended June 30, 2017 for the transportation revenue commercial paper notes was as follows (in millions):

Balance		Balance	
July 1, 2016	Additions	Reductions	June 30, 2017
\$ 117.1	\$ --	\$ 28.4	\$ 88.7

**G. Certificates of Participation**

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by state agencies. This facility is the Third Amended and Restated Master Lease between the State acting by and through the Department of Administration and U.S. Bank National Association. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination.

Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items.

The outstanding balance as of June 30, 2017 was as follows:

Balance Due	Average Life (Weighted Term)
\$110.4 million	3.32 Years

At June 30, 2017, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2013, Series A (Revolving Credit Agreement – Taxable) in the amount of \$9.1 million. This Master Lease certificate evidences the State's obligation to repay advances under a Revolving Credit Agreement, dated September 1, 2013, as amended between U.S. Bank National Association (as trustee), the State of Wisconsin, acting by and through its Department of Administration, as lessee, and PNC Bank National Association. The scheduled termination date under the Revolving Credit Agreement, as amended, is September 1, 2016. This Master Lease certificate shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement. The balance of this Master Lease certificate may include some accrued interest that will be payable at the next semi-annual interest payment date.
- Master Lease Certificates of Participation of 2010, Series B, in the amount of \$25 thousand. This series of Master Lease certificates has interest rates set at 3.0 percent and matures semi-annually through September 1, 2017.

- Master Lease Certificates of Participation of 2012, Series A, in the amount of \$550 thousand. This series of Master Lease certificates has interest rates set at 3.0 percent and matures semi-annually through September 1, 2017.
- Master Lease Certificates of Participation of 2014, Series A, in the amount of \$20.4 million. This series of Master Lease certificates has interest rates ranging from 2.75 percent to 5.0 percent and matures semi-annually through March 1, 2023.
- Master Lease Certificates of Participation of 2014, Series B in the amount of \$24.8 million. This series of Master Lease certificates has interest rates ranging from 1.65 to 5.00 percent and matures semi-annually through March 1, 2023.
- Master Lease Certificates of Participation of 2015, Series A in the amount of \$29.7 million. This series of Master Lease certificates has interest rates ranging from 3.0 to 5.0 percent and matures semi-annually through March 1, 2023.
- Master Lease Certificates of Participation of 2016, Series A in the amount of \$25.9 million. This series of Master Lease certificates has interest rates ranging from 3.0 to 5.0 percent and matures semi-annually through March 1, 2023.

The Third Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 2017, the State has not deposited with the Trustee amounts, that when invested, will terminate lease schedules.

## H. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2017, a liability for arbitrage rebate did not exist.

## I. Moral Obligation Debt

Through legislation enacted in 1999, the State authorized the creation of local districts. These districts (Wisconsin Center District, Southeast Wisconsin Professional Baseball Park District, and the Green Bay/Brown County Professional Football Stadium District)

are authorized to issue bonds for their respective purpose, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts' special debt service reserve funds. To date, the Wisconsin Center District has the authority to issue up to \$200.0 million in bonds and has issued one series with an outstanding balance of \$113.5 million that is subject to the moral obligation. The two other local districts each have authority to issue \$160.0 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. All the districts have issued revenue obligations that do not carry the moral obligation of the State.

Through legislation enacted in 1999, the State authorized the issuance of up to \$170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. One bond issue with an outstanding balance of \$29.1 million has been issued that have a special debt service reserve fund secured by the State's moral obligation.

## J. Credit Agreements

The State has entered into a credit agreement that provides the State a line of credit for liquidity support for up to \$275.0 million of general obligation commercial paper notes. As of June 30, 2017, \$275.0 million was unused and available. The line of credit expires in March 2019, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.225 percent per year.

The State has entered into a credit agreement to provide the State a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is \$120.0 million. As of June 30, 2017, \$120.0 million was unused and available. This line of credit expires in April 2019, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.33 percent per year.

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**NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES**

The State leases office buildings, space, and equipment under a variety of agreements that vary in lease term, many of which are subject to appropriation from the State Legislature to continue the lease commitment. If such funding, i.e., through legislative appropriation, is judged to be assured, and the likelihood of cancellation through exercise of the fiscal funding clause is remote, leases are considered non-cancelable and reported as either a capital lease or an operating lease.

**A. Capital Leases**

**Primary Government**

Capital lease commitments in the government-wide and proprietary funds statements are reported as liabilities at lease inception. The related assets along with the depreciation are also reported at that time. Lease payments are reported as a reduction of the liability.

For capital leases in governmental funds, "Other Financing Sources - Capital Lease Acquisitions" and expenditures are recorded at lease inception. Lease payments are recorded as expenditures.

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 2017 for capital leases (in thousands):

Fiscal Year	Governmental Activities	
	Principal	Interest
2018	\$ 20,177	\$ 4,324
2019	12,977	3,525
2020	9,809	2,992
2021	8,900	2,528
2022	6,856	2,144
2023 - 2027	38,989	1,881
2028 - 2032	-	-
2033 - 2037	-	-
2038 - 2042	-	-
2043 - 2047	-	-
Total minimum future payments	97,708	-
Total minimum interest payments	\$ -	17,393

Fiscal Year	Business-type Activities	
	Principal	Interest
2018	\$ 2,061	\$ 2,193
2019	1,080	2,117
2020	904	2,071
2021	680	2,020
2022	528	1,966
2023 - 2027	3,162	9,202
2028 - 2032	4,533	7,831
2033 - 2037	6,499	5,865
2038 - 2042	9,318	3,046
2043 - 2047	2,295	177
Total minimum future payments	31,061	-
Total minimum interest payments	\$ -	36,488

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of capital assets recorded under capital leases as of June 30, 2017 (in thousands):

	Governmental Activities	Business-type Activities
Land and Land Improvements	\$ -	\$ -
Buildings and Improvements	-	98,200
Machinery and Improvements	159,937	2,881
Construction in Progress	-	-
Less: Accumulated Depreciation	(36,966)	(53,043)
Carrying Amount	\$ 122,971	\$ 48,038

**B. Operating Leases**

Operating leases, those leases not recorded as capital leases, are not recorded in the statement of net position. These leases contain various renewal options, the effect of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals which are not included in the calculation of the future minimum lease payments. Operating lease expenditures/expenses are recognized as incurred or paid over the lease term.

Governmental and business-type activities rental expenses under operating leases for Fiscal Year 2017 were \$91.1 million. Of this amount, \$91.1 million relates to minimum rental payments stipulated in lease agreements, \$52.8 thousand pertains to contingent rental payments and \$13.1 thousand relates to sub rental payments.

The following is an analysis of the future minimum rental payments due under operating leases (in thousands):

<b>Fiscal Year</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
2018	\$ 43,735	\$ 25,344
2019	27,381	23,516
2020	18,930	21,741
2021	13,797	20,314
2022	5,676	16,752
2023 - 2027	11,768	76,689
2028 - 2032	1,237	67,383
2033 - 2037	917	28,645
2038 - 2042	675	24,738
2043 - 2047	486	19,760
2048 - 2052	353	-
2053 - 2057	163	-
Thereafter	96	-
Minimum lease payments	<u>\$ 125,213</u>	<u>\$ 324,881</u>

**C. Installment Purchases**

The State has entered into installment purchase agreements. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2017 for installment purchases (in thousands):

<b>Fiscal Year</b>	<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2018	\$ 414	6
2019	406	6
2020	406	6
2021	401	6
2022	-	-
Total minimum future installment payments	<u>\$ 1,626</u>	<u>-</u>
Total interest payments	<u>\$ -</u>	<u>24</u>

**NOTE 13. POLLUTION REMEDIATION OBLIGATIONS**

Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and financial reporting standards for pollution remediation obligations. These are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation obligations that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning.

**Measurement of Obligations**

GASB Statement No. 49 requires the State to calculate pollution remediation obligations using the expected cash flow technique. These estimates are subject to change over time. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors. Recoveries from other responsible parties may reduce the State's obligation. In accordance with the standard, if the State cannot reasonably estimate a pollution remediation obligation, it does not report a liability. Under specific circumstances capital assets may be created when pollution remediation is performed. The State has adopted a minimum reporting threshold of \$1.0 million. Therefore, only remediation sites with outlays estimated to meet or exceed that amount are reported in the financial statements.

During fiscal year 2017, the State recognized \$0.7 million of additional estimated liabilities for pollution remediation. The State expended \$0.4 million to clean up sites. Therefore, the beginning liability of \$7.7 million increased to \$8.0 million. There were no recoveries received from other responsible parties during fiscal year 2017 and none are expected for the identified obligations.

**Identified Remediation Obligations**

Pollution remediation liabilities are updated annually and are based on engineering studies and the judgment of agency officials. The following table shows liabilities included in the Statement of Net Position as of June 30, 2017 (in millions):

Nature and Source of Pollution	Estimated Liability	Estimated Recovery
Contract agreement with EPA to clean up Superfund site for former wood treatment facility	\$0.3	
Voluntary commencement by the State to clean up heavy metal contamination of canal near former industrial site	7.7	--
Total estimated obligations	\$8.0	--

In addition to the liability reported in the table above, the State expects to incur estimated costs of \$27,000 per year indefinitely to pump and treat contamination at a former chrome plating facility. The State also expects to incur estimated costs of \$70,000 per year indefinitely to operate and maintain a closed landfill. Both are Superfund sites and estimated total remediation costs for them cannot be reasonably determined. Therefore, a liability has not been reported in the Statement of Net Position for either site.

**NOTE 14. RETIREMENT PLAN**

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public employees. The WRS consists of the Core Retirement Investment Trust, the Variable Retirement Investment Trust, and the Police and Firefighters Trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin’s financial reporting entity. Copies of the separately issued financial report that includes audited financial statements and required supplementary information for the year ending December 31, 2016, is available at [www.etf.wi.gov](http://www.etf.wi.gov).

**Plan Description**

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan administered by the Department of Employee Trust Funds. Benefit terms may only be modified by the Legislature. It provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year (440 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee’s date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee’s date of hire are eligible to participate in the WRS. Note: Employees hired to work nine or ten months per year, (e.g. teachers contracts), but expected to return year after year are considered to have met the one-year requirement.

As of December 31, 2016, the number of participating employers was:

State Agencies	58
Cities	152
Counties	71
4 <sup>th</sup> Class Cities	36
Villages	266
Towns	254
School Districts	422
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	208
<b>Total Employers</b>	<b>1,495</b>

For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant’s three highest years’ earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Vested employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits, or may leave contributions on deposit and defer application until eligible to receive a retirement benefit. The WRS also provides death and disability benefits for employees.

The Employee Trust Funds Board may periodically adjust annuity payments from the WRS based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payment may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the WRS’ consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core Retirement Investment Trust fund annuities cannot be reduced to an amount below the original, guaranteed amount set at retirement.

**Accounting Policies and Plan Asset Matters**

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are paid. Employer contributions to the plan are recognized in the accounting period in which the underlying earnings on which the contributions are based are paid and the employer has made a formal commitment to provide contributions. Benefits and refunds are



recognized when due and payable in accordance with the terms of the plan.

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the Variable Retirement Investment Trust and the Core Retirement Investment Trust. The Variable Retirement Investment Trust consists primarily of equity securities. The Core Retirement Investment Trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the Core Retirement Investment Trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

The assets of the Core and Variable Retirement Investment Trusts are carried at fair value with all market value adjustments recognized in current operations. Investments are revalued monthly to current market value. The resulting valuation gains or losses are recognized as income, although revenue has not been realized through a market-place transaction.

The WRS does not have any investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5.0 percent or more of plan net position.

**Contributions Required**

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and executives and elected officials. In 2016, executives & elected officials' contributions rates were changed to match General. Required contributions for protective contributions are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates as of June 30, 2017 are:

	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.8%	6.8%
Executives & Elected Officials	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	6.8%	14.9%

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

**State of Wisconsin Net Pension Asset, Pension Contributions, Pension Expenses, and Deferred Outflows and Inflows of Resources**

At June 30, 2017, the State reported a net pension liability (asset) of \$232.79 million for its proportionate share of the WRS' net pension liability (asset). It is presented as a net pension liability on the Statement of Net Position for proprietary and fiduciary funds. On the government-wide Statement of Net Position, it is included in the noncurrent portion of long-term liabilities.

The net pension liability was measured as of December 31, 2016, and the total pension liability was based on an actuarial valuation as of December 31, 2015. Update procedures were used to roll forward the total pension liability to the measurement date. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

The State's proportionate share of the net pension liability was determined based on the average of the State's contributions to the WRS over the three most recent calendar years relative to the average contributions of all employers for the same period. At December 31, 2016, the State's proportionate share was 28.0 percent, which is a decrease of 0.1 percent from its proportionate share as of December 31, 2015.

For calendar year 2016, State employers made \$264.0 million in contributions recognized by the WRS.

For the year ended June 30, 2017, the State recognized pension expense of \$592.6 million. At June 30, 2017, the State reported deferred outflows and inflows of resources related to pensions of \$1.62 billion and \$741.4 million, respectively. More information about deferred outflows and inflows related to pensions, including the types and the amounts applicable to each type, can be found in Note 21.

A schedule presenting multi-year trend information of the State's proportionate share of the net pension liability or asset is presented as required supplementary information following the notes to the financial statements.



**Actuarial Valuation**

The pension measurements as of December 31, 2016 were based upon the following actuarial assumptions:

Actuarial Valuation Date	December 31, 2015
Measurement Date of Net Pension Asset	December 31, 2016
Actuarial Cost Method	Entry Age
Asset Valuation Method	Fair Value
Long-Term Expected Rate of Return	7.20%
Discount Rate	7.20%
Salary Increases	
Inflation	3.20%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.10%

\* Post-retirement adjustments are not guaranteed. Actual adjustments are based on recognized investment return, actuarial experience, and other factors. The assumed annual adjustment based on the investment return assumption and the post-retirement discount rate is 2.1%.

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012-2014.

*Long-Term Expected Return on Plan Assets*

The long-term expected rate of return on WRS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return, net of WRS investment expense and inflation, are developed for each major asset class. The ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The long-term expected rate of return is reviewed every three years in conjunction with the WRS experience study. For each major asset class that is included in the Core Retirement Investment Trust fund's target asset allocation as of December 31, 2016, these best estimates of geometric long-term real rates of return were used:

Asset Class	Target Allocation	Rate of Return
Global Equities	45.0%	5.4%
Fixed Income	37.0	1.4
Inflation Sensitive	20.0	1.5
Real Estate	7.0	3.6
Private Equity/Debt	7.0	6.5
Multi-asset	4.0	3.7

For each major asset class that is included in the Variable Retirement Investment Trust fund's target asset allocation as of December 31, 2016, these best estimates of geometric long-term real rates of return were used:

Asset Class	Target Allocation	Rate of Return
Domestic Equity	70.0%	4.7%
International Equity	30.0	5.6

The money-weighted rates of return on pension plan investment for the Core and Variable funds for the calendar year ended 2016 were 8.29% and 10.49%, respectively. The money-weighted rate of return expresses investment performance, net of pension plan expenses, adjusted for the changing amount actually invested.

*Discount Rate*

A single discount rate of 7.2% was used to measure the total pension liability. This rate was based on the expected rate of return of 7.2% and a long-term bond rate of 3.78%. Because of the unique structure of the WRS, the 7.2% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State's proportionate share of the net pension liability (asset), calculated using a single discount rate of 7.2%, as well as what the State's net pension liability (asset) would be if it were calculated using a single discount rate that is 100 basis points lower or 100 basis points higher:

	State's share of the net pension liability (asset)
1% Decrease (6.2%)	\$ 3,035,873,376
Current Rate (7.2%)	\$ 232,791,419
1% Increase (8.2%)	\$ (1,925,708,663)

**NOTE 15. MILWAUKEE RETIREMENT SYSTEM**

The Milwaukee Retirement System (MRS) is reported as an Investment Trust Fund. MRS participants provide assets to the State of Wisconsin, Department of Employee Trust Funds (DETF) for investing in its Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) of the Wisconsin Retirement System. Participation of the MRS in the Core Fund and Variable Fund is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the Core Fund and Variable Fund with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

The investments of the Core Fund and Variable Fund consist of a highly diversified portfolio of securities. Wis. Stat. 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by Wis. Stat. 620.22. Permitted classes of investments include bonds of governmental units or of private corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

Investments are revalued monthly to fair value, with unrealized gains and losses reflected in income.

Monthly, the DETF distributes a pro-rata share of the total Core Fund and Variable Fund earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per DETF Administrative Code, Chapter 10.12(2). Neither State statute, a legal provision nor a legally binding guarantee exists to support the value of shares.

Copies of the separately issued financial report that includes audited financial statements along with the accompanying footnote disclosures and supplementary information for the Core Fund and the Variable Fund is available at [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance) or may be obtained upon request from:

State of Wisconsin Investment Board  
P.O. Box 7842  
Madison, Wisconsin 53707-7842

**NOTE 16. POSTEMPLOYMENT BENEFITS – STATE HEALTH INSURANCE PROGRAM**

Effective Fiscal Year 2008, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in financial reports of state and local governmental employers.

**Plan Description**

The State’s Health Insurance Program, a cost-sharing multiple employer, defined benefit plan, is an employer-sponsored program (not administered as a trust) offering group medical coverage to eligible employees and retirees of State and participating local government employers. Created under Chapter 40, of the Wisconsin Statutes, the State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wis. Stat. Sections 15.165(2) and 40.03(6). As of January 2015 (most recent actuarial valuation date), there were 55,780 active, and 8,167 retirees and beneficiaries participating in the plan.

Under this plan, retired employees of the State are allowed to pay the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare when eligible), is treated as an other postemployment benefit (OPEB).

The Department of Employee Trust Funds issues a publicly available financial report. That report is available at [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance) or may be obtained upon request from:

The Department of Employee Trust Funds  
801 West Badger Road  
P.O. Box 7931  
Madison, Wisconsin 53707-7931

**Funding Policy**

The health insurance plan is currently funded on a “pay-as-you-go” basis. GASB Statement No. 45 does not require funding of the OPEB expense and the State does not currently intend to prefund the OPEB obligation. Under this plan, retirees contribute premiums directly to the plan either through “out-of-pocket” or from unused accumulated sick leave conversion credits. The value of the sick leave benefit is defined as compensated absences and reported under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Contribution requirements are established and may be amended by the Group Insurance Board. For retirees that participate in the health insurance plan, premiums, for non-Medicare retirees, are based on an effective rate structure for the health care service provider selected. Monthly Rates range from \$652.26 to \$1,400.42 for single coverage and \$1,606.48 to \$3,494.94 for family coverage.

The annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. At June 30, 2017, the ARC was \$98.4 million while the employer contributions were \$38.4 million, and the ARC adjustment, with interest, was \$38.4 million.

**Annual OPEB Cost**

The State’s annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation were as follows (in thousands):

<b>Fiscal Year</b>	<b>Annual OPEB Cost</b>	<b>Employer Contributions</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2017	\$79,393	\$38,380	48.3%	\$583,711
2016	76,803	36,650	47.7%	542,712
2015	70,510	41,802	59.3	502,559

Interest on the net OPEB obligation was \$19.3 million while the net OPEB obligation increased \$41.0 million.

**Funded Status and Funding Progress**

The funded status of the plan as of January 1, 2015 (most recent actuarial valuation date) was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 942,314
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	<u>\$ 942,314</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$3,126,936
UAAL as a percentage of covered payroll	30.1%

Effective January 1, 2012, prescription drug coverage for Medicare eligible retirees enrolled in the State group health insurance program is provided by Navitus Health Solutions through a self-funded, Medicare Part D Employer Group Waiver Plan (EGWP). A Medicare "Wrap" product is also included to provide full coverage to members, as required by uniform benefits, when they reach the Medicare coverage gap, also known as the "donut hole".

As result of the implementation of the EGWP + Wrap, the State no longer receives the Retiree Drug Subsidy; therefore, there is no liability for the State associated with their Medicare retirees.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

### **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. Actuarial assumptions included an investment rate of return of 3.56 percent, which is equal to the average 20-year AA or better municipal bond rate as of the valuation date as reported by the Federal Reserve, an inflation rate of 3.20 percent, and projected salary increases of 3.20 percent. The initial projected annual rate is (6.00) percent for medical costs and 5.50 percent for prescription drug costs. Both of these are adjusted to increments to an ultimate trend of 5.00 percent. The dental claims cost rate is 4.0% annually, and the administrative cost rate is 3.0% annually. Other assumptions used, such as mortality, disability and retirement rates for active members, are consistent with an actuarial valuation on the Wisconsin Retirement Plan dated December 31, 2014. In addition, a 30 year, level percent of pay, closed amortization period was used for the initial UAAL, while a 15 year, level percent of pay, closed amortization period was used for any future gains and losses.

Currently, the health insurance plan is not funded by assets held in a separate trust. The 3.56% discount rate (discussed above) was

based on the average 20-year AA or better municipal bond rate as of the valuation date as reported by the Federal Reserve.

A Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 17. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

The State of Wisconsin, Department of Employee Trust Funds (DETF), administers three postemployment benefit plans other than pension plans – the State Retiree Health Insurance Fund, the Duty Disability Fund, and the Retiree Life Insurance Fund.

**Plan Descriptions**

**State Retiree Health Insurance Fund**

The State *Retiree Health Insurance Fund* is a multiple-employer defined benefit OPEB plan offering group health insurance. Disclosures relating to the plan are provided in Note 16 – *Postemployment Benefits of the State Other Than Pensions – Health Insurance Program*.

**Duty Disability Fund**

The *Duty Disability Fund* is a cost-sharing multiple-employer defined benefit OPEB plan. The plan offers special disability insurance for state and local participants in protective occupations. The plan is self-insured, and risk is shared between the State and local government employers in the plan. The plan is administered under Wis. Stat. Section 40.65. The plan is reported as a pension and other employee benefit trust fund.

Contributions are actuarially determined in accordance with Wis. Stats. Section 40.05 (2)(ar). All contributions are employer paid based on a graduated, experienced-rated formula. During Calendar Year 2016 contribution rates ranged from 0.09 percent to 2.31 percent of covered payroll based on employee experience.

Eligibility for program benefits is based upon whether a duty-related injury or disease is likely to be permanent, which causes a protective occupation participant to retire, accept reduced pay or light duty assignment, or in some cases, that impairs promotional opportunities. Benefits approximate 80 percent of salary (75 percent if partially disabled and not a State Employee), less certain offsets such as; social security, unemployment compensation, worker’s compensation and other retirement benefits. Survivor benefits are also offset by certain benefits based on program requirements.

**Retiree Life Insurance Fund**

The *Retiree Life Insurance Fund* is a cost-sharing multiple-employer defined benefit OPEB plan. The plan provides post-employment life insurance coverage to all eligible employees. The plan is administered under Wis. Stats. Section 40.70. The plan is reported as a pension and other employee benefit trust fund.

Generally, members may enroll during a 30-day enrollment period once they satisfy a six-month waiting period. They may enroll after the initial 30-day enrollment period with evidence of insurability. Members under evidence of insurability enrollment must enroll in group life insurance coverage before age 55 to be eligible for Basic or Supplemental coverage.

Employers are required to pay the following contributions for active members to provide them with basic coverage after age 65. There are no employer contributions for pre-65 annuitant coverage. All contributions are actuarially determined.

	State	Local
50 percent post retirement coverage	28 percent of the employee premium	40 percent of employee premium
25 percent post retirement coverage	N/A	20 percent of employee premium

At retirement, the member must have active group life insurance coverage and satisfy one of the following:

- Wisconsin Retirement System (WRS) coverage prior to January 1, 1989, or
- At least one month of group life insurance coverage in each of five calendar years after 1989 and one of the following:
- Eligible for an immediate WRS benefit, or
- At least 20 years from their WRS creditable service as of January 1, 1990, plus their years of group life insurance coverage after 1989, or
- At least 20 years on the payroll of their last employer.

In addition, terminating members and retirees must continue to pay the employee premiums until age 65 (age 70 if active).

After retirement, basic coverage is continued for life in amounts for the insurance in force before retirement. Additional coverage may be continued until age 65 at 100 percent of the amount of the insurance in force before retirement at the employee’s expense, and spouse and dependent coverage benefits is terminated.

**Summary of Significant Accounting Policies****Basis of Accounting**

The OPEB plans are reported in accordance with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Method Used to Value Investments*****Duty Disability Fund***

Investments for the *Duty Disability Fund* are invested in the Core Retirement Investment Trust, which is managed by the State of Wisconsin Investment Board (SWIB). These investments are valued at fair value. Generally, fair value information represents actual bid prices or the quoted yield equivalent at the end of the year for securities of comparable maturity, quality, and type, as obtained from one or more major investment brokers. If quoted market prices are not available, a variety of third-party pricing methods are used, including appraisals, certifications, pricing models, and other methods deemed acceptable by industry standards.

***Retiree Life Insurance Fund***

Investments for the *Retiree Life Insurance Fund* are held with the insurance carrier. Interest is calculated and credited to the Retiree Life Insurance Fund based on the rate of return for a segment of the insurance carrier's general fund, specifically 10 Year A-Bonds (as a proxy and not tied to any specific investments). The funds invested during the year earn interest based on that year's rate of return for 10 Year A-Bonds. The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

**Required Supplementary Information**

Required Supplementary Information about the OPEB plans is presented in the Department of Employee Trust Funds audited financial statements. The December 31, 2016 financial report is available at [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance) and on request from:

The Department of Employee Trust Funds  
801 West Badger Road  
P.O. Box 7931  
Madison, Wisconsin 53707-7931

The December 31, 2017 financial report will be available later.

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**NOTE 18. PUBLIC ENTITY RISK POOLS  
ADMINISTERED BY THE  
DEPARTMENT OF EMPLOYEE  
TRUST FUNDS**

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, long-term disability insurance, and life insurance. The information provided in this note applies to the period ending December 31, 2016.

**A. Description of Funds**

The Health Insurance Fund offers group health insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Approximately 354 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The fund includes both a self-insured, fee-for-service plan as well as various prepaid plans, primarily Health Maintenance Organizations (HMO's) and a self-insured plan that provides for pharmacy benefits of covered members.

The Income Continuation Insurance Fund offers disability wage continuation insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Approximately 219 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

The Long-term Disability Insurance Fund (LTDI) offers long-term disability benefits to participants in the Wisconsin Retirement System (WRS). The long-term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long-term disability insurance coverage, while participating employees active prior to October 15, 1992, may elect coverage through WRS or the long-term disability insurance program. Since January 2014, WRS collects actuarially-determined premiums paid by employers participating in the LTDI program and remits them to the Group Insurance Board for LTDI coverage.

**B. Accounting Policies for Risk Pools**

*Basis of Accounting* - All Public Entity Risk Pools are accounted for in enterprise funds using the full accrual basis of accounting and the flow of economic resources measurement focus.

*Valuation of Investments* - Assets of the Health Insurance Fund Income Continuation Insurance and Long-term Disability Insurance funds are invested in the Core Retirement Investment Trust. Investments are valued at fair value.

*Unpaid Claims Liabilities* - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using an interest rate of 7.2 percent for income continuation and long-term disability insurance. The liabilities for income continuation, long-term disability, and health insurance were determined by actuarial methods.

*Administrative Expenses* - All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses.

*Reinsurance* - Health insurance plans provided by HMO's and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

*Risk Transfer* - Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of the fund were exhausted, participating employers would not be responsible for the fund's liabilities.

*Premium Setting* - Premiums are established by the Group Insurance Board in consultation with actuaries.



**C. Unpaid Claims Liabilities**

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 2016 (in millions):

	Income Continuation Insurance		Long-term Disability Insurance		Health Insurance		Pharmacy Benefits		Dental	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015 **
<b>Unpaid claims and claim adjustment expenses at beginning of the calendar year</b>	\$ 87.1	\$ 82.9	\$ 323.5	\$ 292.5	\$ 1.9	\$ 2.3	\$ (19.5)	\$ (9.9)	\$ 0.0	\$ 0.0
<b>Incurred claims and claim adjustment expenses:</b>										
Provision for insured events of the current calendar year	20.7	22.8	50.0	44.4	15.1	14.7	156.0	176.9	44.1	0.0
Changes in provision for insured events of prior calendar years	6.8	5.2	18.7	44.8	(0.6)	(1.0)	14.4	0.0	0.0	0.0
<b>Total incurred claims and claim adjustment expenses</b>	<b>27.5</b>	<b>27.9</b>	<b>68.7</b>	<b>89.2</b>	<b>14.5</b>	<b>13.7</b>	<b>170.4</b>	<b>176.9</b>	<b>44.1</b>	<b>0.0</b>
<b>Payments:</b>										
Claims and claim adjustment expenses attributable to insured events of the current calendar year	5.6	6.6	2.2	2.1	13.1	12.8	171.0	196.4	42.2	0.0
Claims and claim adjustment expenses attributable to insured events of prior calendar years	15.6	17.1	46.8	56.1	1.3	1.3	(5.1)	(9.9)	0.0	0.0
<b>Total payments</b>	<b>21.2</b>	<b>23.7</b>	<b>49.0</b>	<b>58.2</b>	<b>14.4</b>	<b>14.1</b>	<b>165.9</b>	<b>186.5</b>	<b>42.2</b>	<b>0.0</b>
<b>Total unpaid claims and claim adjustment expenses at end of the calendar year</b>	<b>\$ 93.4</b>	<b>\$ 87.1</b>	<b>\$ 343.1</b>	<b>\$ 323.5</b>	<b>\$ 2.0</b>	<b>\$ 1.9</b>	<b>\$ (15.0) *</b>	<b>\$ (19.5) *</b>	<b>\$ 1.9</b>	<b>\$ 0.0</b>

\* Total unpaid claims at the end of 2016 is the net of \$4.5 million in unpaid claims and \$19.5 million in rebates due from pharmaceutical companies; unpaid claims at the end of 2015 is the net of \$5.1 million in unpaid claims and \$24.6 million in rebates due from pharmaceutical companies.

\*\* Prior to 2016 Dental Benefits were included as part of fully insured HMO Coverage

**D. Trend Information**

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the year ended December 31, 2016 is available at [www.etf.wi.gov](http://www.etf.wi.gov) and on request from:

The Department of Employee Trust Funds  
801 West Badger Road  
P.O. Box 7931  
Madison, Wisconsin 53707-7931

The December 31, 2017 financial report will be available at a later date.

**NOTE 19. SELF-INSURANCE**

It is the general policy of the State not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the State believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The fund services most claims for risk of loss to which the State is exposed, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. All funds and agencies of the State participate in the Risk Management Fund.

**State Property Damage**

Property damages to State-owned properties are covered by the State's self-funded property program up to \$3.0 million per occurrence and \$5.0 million annual aggregate. When claims, which exceed \$100,000 per occurrence, total \$5.0 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a \$100,000 deductible. The amount of loss in excess of \$100,000 is covered by the State's private insurance company. During Fiscal Year 2017, the excess insurance limits were written to \$500 million.

The liabilities for State property damage are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities is based on the reserves on open claims and paid claims. Losses incurred but not reported are expected to be immaterial. Claims incurred but not paid as of June 30, 2017 are estimated to total \$15.7 million.

**Property Damages and Bodily Injuries to Third Parties**

The State is self-funded for third party liability to a level of \$4.0 million per occurrence and purchases insurance in excess of this self-funded retention. The policy limit during Fiscal Year 2017 was \$49.0 million.

The liabilities for property damages and injuries to third parties are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities for the prior fiscal year was the reserves on open claims. The estimate for future benefits and loss liabilities is calculated by an actuary based on the reserves on open claims and prior experience. No liability is reported for environmental impairment liability claims either incurred or incurred but not reported because existing case law makes it unlikely the State would be held liable for material amounts. Because actual claims liabilities depend upon complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Immaterial non-incremental claims adjustment expenses are not included as part of the liability. Claims incurred but not paid as of June 30, 2017 are estimated to total \$28.8 million.

**Worker's Compensation**

The Worker's Compensation Program was created by Wisconsin Statutes Chapter 102 to provide benefits to workers injured on the job. All employees of the State are included in the program. An injury is covered under worker's compensation if it is caused by an accident that arose out of and in the course of employment.

The responsibility for claiming compensation is on the employee. A claim must be filed with the program within two years from the date of injury; otherwise the claim is not allowable.

The worker's compensation liability has been determined by an actuary using paid claims and current claims reserves. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by external factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims incurred but not paid as of June 30, 2017 are estimated to total \$77.5 million.

Changes in the balances of claims liability for the Risk Management Fund during the current and prior fiscal years are as follows (in thousands):

	2017	2016
Beginning of fiscal year liability	\$ 99,377	\$ 107,040
Current year claims and changes in estimates	55,401	29,205
Claim payments	<u>(32,745)</u>	<u>(35,503)</u>
	122,033	100,742
Excess insurance reimbursable	<u>(9,113)</u>	<u>(1,365)</u>
Balance at fiscal year-end	<u>\$ 112,920</u>	<u>\$ 99,377</u>

Settlements have not exceeded coverages for each of the past three fiscal years.

**Annuity Contracts**

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities. The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants. Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet. The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 2017 is \$5.7 million.

**NOTE 20. INSURANCE FUNDS****A. Local Government Property Insurance Fund**

The purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2017, the Local Government Property Insurance Fund insured 181 local governmental units. The total amount of insurance in force as of June 30, 2017 was \$2.4 billion.

The dissolution of the fund was included in 2017 Wis. Act 59, the State's biennial budget act, enacted in September 2017. The fund will continue to provide coverage through December 31, 2018.

*Valuation of Cash Equivalents and Investments* - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 5-B to the financial statements. At June 30, 2017, the fund had \$756.0 thousand shares in the State Investment Fund which are considered cash equivalents.

*Premium* - Unearned premium reported as unearned revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

*Unpaid Loss Liabilities* - The Local Government Property Insurance Fund establishes the unpaid loss liability titled future benefits and loss liabilities on the financial statements based on estimates of the ultimate cost of losses (including future loss adjustment expenses) that have been reported but not settled, and of losses that have been incurred but not reported. Estimated amounts of excess-of-loss insurance recoverable on unpaid losses are deducted from the liability for unpaid losses. Loss liabilities are recomputed periodically to produce current estimates that reflect recent settlements, loss frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

*Policy Acquisition Costs* - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

*Excess-of-Loss Insurance Coverage* - The Local Government Property Insurance Fund purchases excess-of-loss insurance coverage, the operation of which is analogous to "reinsurance," to reduce its exposure to large losses on all types of insured events. Excess-of-loss insurance permits recovery of a portion of losses from the excess-of-loss insurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report excess-of-loss insured risks as liabilities unless it is probable that those risks will not be covered by excess-of-loss insurers. As of June 30, 2017, the fund had a \$1.0 million combined single limit retention for each occurrence. Only loss occurrences over \$10.0 thousand are included in the recoverable calculation. Premiums ceded to excess-of-loss insurers, which is netted against premium revenue (charges for goods and services in the financial statements), amounted to \$2.2 million during the fiscal year. Excess-of-loss and adjusting expense recoveries earned would typically reduce claims paid (benefit expense on the financial statements). During the fiscal year the losses recovered through excess-of-loss insurance was \$0.8 million.

**Unpaid Loss Liabilities**

As discussed above, the Local Government Property Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

	2017	2016
Unpaid loss liabilities		
at beginning of the year	\$12,037	\$23,733
Less: Excess-of-loss insurance recoverable	5,699	11,366
Net unpaid loss liabilities at beginning of year	6,338	12,367
Incurred losses and loss expenses:		
Provision for insured events of the current year	2,215	5,824
Increase (decrease) in provision for insured events of prior years	1,723	(3,923)
Total incurred losses and loss expenses	3,938	1,901
Payments:		
Losses and loss expenses attributable to insured events of the current year	574	2,159
Losses and loss expenses attributable to insured events prior years	7,050	5,771
Total payments	7,624	7,930
Net unpaid loss liabilities at end of year	2,652	6,338
Plus: Excess-of-loss liabilities recoverable	4,532	5,699
Total unpaid loss liabilities at end of year	\$7,184	\$12,037

**Trend Information**

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2017 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance  
 125 South Webster Street  
 Madison, Wisconsin 53703

**B. State Life Insurance Fund**

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield and mortality. The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

Issue Year	Ordinary Life Insurance in Force	Amount of Policy Liability
1913-1966	\$ 6,797	5,456
1967-1976	25,365	15,792
1977-1985	63,869	25,184
1986-1994	45,360	10,069
1995-2012	43,941	7,865
2013+	4,474	341
	<u>\$ 189,806</u>	<u>\$ 64,707</u>

**Bases of Assumptions**

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ANB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995-2008	4.0	1980 CSO, ALB, Aggregate
2009-2012	4.0	2001 CSO, ALB, Aggregate
2013+	3.5	2001 CSO, ALB, Aggregate

\* Age Next Birthday

All of the State Life Insurance Fund's life insurance in force is participating. This Fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends. Policyholder dividends are declared each year in order to achieve the required level of surplus.

The statutory assets at December 31, 2016 were \$110.8 million and statutory capital and surplus was \$8.5 million. Fund equity at June 30, 2017 was \$25.6 million.

**C. Injured Patients and Families Compensation Fund**

The Injured Patients and Families Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice coverage for claims exceeding the legal primary insurance limits prescribed in Wis. Stat. Section 655.23(4), or the maximum liability limit for which the health care provider is insured, whichever limit is greater. Management of the Fund is vested with a 13-member Board of Governors, which is chaired by the Commissioner of Insurance. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Injured Patients and Families Compensation Fund assessment fees. Risk of loss is retained by the Fund.

The Future Benefits and Loss Liability account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses recommended by a consulting actuary. The liability for incurred but not reported losses as of June 30, 2017, is determined by deducting individual case estimates of the liability for reported losses and net losses paid from inception of the Fund, and adding a risk margin to the projected ultimate loss liabilities, as follows (in thousands):

Projected ultimate loss liability	\$ 1,120,611
Less: Net loss paid from inception	(866,075)
Less: Liability for reported losses	(14,697)
Risk Margin	63,634
Liability for incurred but not reported losses	<u>\$ 303,473</u>

The Future Benefits and Loss Liability account also includes an estimate of the loss adjustment expense (LAE). Using the data available through September 30 of the fiscal year, the actuary estimated the liability for LAE as 28 percent of the estimated unpaid losses as of June 30, 2017. The percentage used in the financial statements was different, since the actuary's estimate was adjusted to reflect actual LAE payments. Specifically, the loss adjustment expenses paid from the inception of the Fund through June 30, 2017, are deducted from the projected ultimate LAE to determine the liability for LAE as June 30, 2017 as follows (in thousands):

Projected ultimate LAE liability	\$ 143,151
Less: LAE paid from inception	(99,445)
Risk Margin	10,926
Liability for LAE	<u>\$ 54,632</u>

In accordance with Section Ins. 17.27(3), Wis. Adm. Code, the liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense are maintained on a present value basis with the difference from full value being reported as a contra account to these estimated loss liabilities. These estimated loss liabilities are discounted only to the extent that they are matched by cash and invested assets. Using the actuarially determined discount factor of 0.8693, which is based on an investment yield assumption of 4.0 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2017 (in thousands):

Estimated liability for incurred but not reported losses	\$ 303,473
Estimated liability for reported losses	14,697
Estimated liability for loss adjustment expense	<u>54,632</u>
Total estimated loss liabilities	372,802
Less: Amount representing interest	<u>(48,715)</u>
Discounted loss liabilities	<u>\$ 324,087</u>

Included in the above estimates of loss liabilities, both undiscounted and discounted, is a 25 percent risk margin, which was recommended by the actuary and approved by the Board of Governors.

The Office of the Commissioner of Insurance contracts for periodic actuarial audits of the Fund. This audit includes a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's liabilities. The actuarial audits have concluded that the Fund's loss liability estimates are reasonable, although conservative. The Fund's contracted actuary has considered the recommendations made in the actuarial audits and appropriately incorporated any necessary changes based on those recommendations into the actuarial methodology and assumptions used to calculate the Fiscal Year 2017 liabilities estimate.

In addition to discounted loss liabilities, the Future Benefit and Loss Liabilities account also includes a future medical expenses liability and a contributions being held liability. The future medical expenses liability consists of those accounts required by Wis. Stat. Sec. 655.015 to be established if a settlement or judgment provides for future medical expense payments in excess of \$100,000. The accounts are managed by the Fund and earn a proportionate share of the Fund's interest. Any account balance remaining when a claimant dies reverts back to the Fund. The contributions being held liability consists of nonrefundable payments, generally in amounts equal to the primary coverage in effect for related claims, that primary insurers have voluntarily presented to the Fund and which are negotiable with the Fund in exchange for a release of payment for any future defense costs that may be incurred on the claim. This amount is held as a liability to the Fund until a payment on the claim is made.

The breakdown of Future Benefit and Loss Liabilities, including the portions that are estimated as current and noncurrent as of June 30, 2017 (in thousands), is as follows:

Discounted loss liabilities	\$ 324,088
Future medical expense liability	32,025
Contributions being held liability	<u>1,000</u>
Total estimated loss liabilities	357,113
Current portion	<u>(58,661)</u>
Noncurrent portion	<u>\$ 298,452</u>

The uncertainties inherent in projecting the frequency and severity of large claims because of the Injured Patients and Families Compensation Fund's unlimited liability coverage and extended reporting and settlement periods makes it likely that the amounts ultimately paid will differ from the recorded estimated loss liabilities. These differences cannot be quantified.

The estimated amounts included in the balance of Future Benefits and Loss Liabilities are continually reviewed and adjusted as the Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year.

The following is a reconciliation of the change in the balance of Future Benefits and Loss Liabilities during Fiscal Year 2017 (in thousands):

Liability at the beginning of the year	\$ 424,483
Incurred claims and related expenses for the current year and the change in estimated amounts for claims incurred in prior years	(58,070)
Less: current year payments attributable to claims incurred in current and prior years	<u>(9,300)</u>
Liability at the end of the year	<u>\$ 357,113</u>

**NOTE 21. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

Deferred outflows and resources and deferred inflows of resources at June 30, 2017 were as follows (in thousands):

	General	Transportation	Capital Improvement	Nonmajor Governmental	Internal Service	Full Accrual Adjustments	Total Governmental Activities
<b>Deferred Outflows of Resources</b>							
Accumulated Decreases in the Fair Value of Hedging Derivatives	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,476	\$ 150,476
Debt Refunding	-	-	-	-	3,961	277,457	281,418
Advances by the State	-	142	-	-	-	-	142
Differences Between Expected and Actual Pension Experience	-	-	-	-	731	40,213	40,944
Changes of Pension Assumption	-	-	-	-	2,132	109,092	111,224
Net Difference Between Projected and Actual Earnings on Pension Investments	-	-	-	-	9,828	521,656	531,484
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	-	-	-	-	193	10,259	10,452
Pension Contributions Subsequent to the Measurement Date	-	-	-	-	966	68,083	69,049
<b>Total Deferred Outflows of Resources</b>	<b>\$ -</b>	<b>\$ 142</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,811</b>	<b>\$ 1,177,236</b>	<b>\$ 1,195,189</b>

	General	Transportation	Capital Improvement	Nonmajor Governmental	Internal Service	Full Accrual Adjustments	Total Governmental Activities
<b>Deferred Inflows of Resources</b>							
Debt Refunding	\$ -	\$ -	\$ -	\$ -	\$ 468	\$ 12,158	\$ 12,627
Unavailable Revenue	254,151	368	-	8,606	-	(263,125)	-
Differences Between Expected and Actual Pension Experience	-	-	-	-	6,414	328,141	334,555
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	-	-	-	-	141	7,264	7,405
<b>Total Deferred Inflows of Resources</b>	<b>\$ 254,151</b>	<b>\$ 368</b>	<b>\$ -</b>	<b>\$ 8,606</b>	<b>\$ 7,023</b>	<b>\$ 84,438</b>	<b>\$ 354,586</b>

	Injured Patients and Family Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Total Business-Type Activities
<b>Deferred Outflows of Resources</b>						
Debt Refunding	\$ -	\$ 4,292	\$ 49,774	\$ -	\$ 1,010	\$ 55,077
Advances by the State	-	-	-	-	46,718	46,718
Differences Between Expected and Actual Pension Experience	11	9	42,567	-	4,396	46,982
Changes of Pension Assumption	28	14	116,721	-	13,109	129,873
Net Difference Between Projected and Actual Earnings on Pension Investments	132	71	556,378	-	61,177	617,757
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	3	2	-	-	1,150	1,155
Pension Contributions Subsequent to the Measurement Date	18	9	49,594	-	8,191	57,812
<b>Total Deferred Outflows of Resources</b>	<b>\$ 191</b>	<b>\$ 4,397</b>	<b>\$ 815,034</b>	<b>\$ -</b>	<b>\$ 135,751</b>	<b>\$ 955,373</b>

	Injured Patients and Family Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Total Business-Type Activities
<b>Deferred Inflows of Resources</b>						
Debt Refunding	\$ -	\$ -	\$ 825	\$ -	\$ 83	\$ 907
Advances to the State	-	-	62	-	-	62
Differences Between Expected and Actual Pension Experience	84	43	351,090	-	39,431	390,649
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	2	1	7,903	-	835	8,741
Other	-	-	0	-	0	0
<b>Total Deferred Inflows of Resources</b>	<b>\$ 86</b>	<b>\$ 45</b>	<b>\$ 359,879</b>	<b>\$ -</b>	<b>\$ 40,348</b>	<b>\$ 400,359</b>

The \$126,865 thousand in deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a decrease to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expenses as follows (in thousands):

<b>Fiscal Year Ended June 30</b>	<b>Amount</b>
2018	\$ 304,563
2019	304,563
2020	207,749
2021	(68,740)
2022	400
	<u>\$ 748,535</u>

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**NOTE 22. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA****Primary Government**

The State issues revenue bonds as a component of the total funding for the Direct Loan Portfolio, which is accounted for as part of the Environmental Improvement Fund. The Direct Loan Portfolio is also funded by grants from the U.S. Environmental Protection Agency (the "EPA"). Loans in this portfolio are made for water and wastewater projects. Repayments from loans in this portfolio, grants and revenue bond proceeds are used to fund new loans.

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay outstanding revenue bonds. Investors in these revenue bonds rely solely on the revenues generated from the loans within the Direct Loan Portfolio. Condensed financial statement information of the Direct Loan Portfolio as of and for the year ended June 30, 2017 is presented below (in thousands):

**Condensed Statement of Net Position**

Assets:	
Current Assets	\$ 295,286
Other Assets	1,537,973
Total Assets	<u>1,833,259</u>
Deferred Outflows of Resources	<u>4,292</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,837,551</u>
Liabilities:	
Due to Other Funds	\$ 2,238
Other Current Liabilities (Including Current Portion of Long-term Debt)	91,643
Noncurrent Liabilities	<u>272,023</u>
Total Liabilities	<u>365,904</u>
Net position:	
Restricted	<u>1,471,647</u>
Total Net Position	<u>1,471,647</u>
Total Liabilities and Net Position	<u>\$ 1,837,551</u>

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

Operating Revenues (Expenses):	
Loan Interest	\$ 28,323
Interest Income used as Security for Revenue Bonds	2,276
Interest Expense	(28,272)
Other Operating Expenses	<u>(2,937)</u>
Operating Income (Loss)	(610)
Nonoperating Revenues (Expenses):	
Investment Income	992
Investment Income used as security for Revenue Bonds	71
Intergovernmental Grants	39,561
Grants Awarded	<u>(7,058)</u>
Income (Loss) before Transfers	32,956
Transfers In (Out)	<u>39,665</u>
Change in Net Position	72,621
Beginning Net Position	1,399,026
Ending Net Position	<u>\$ 1,471,647</u>

**Condensed Statement of Cash Flows**

Net Cash Provided (Used) by:	
Operating Activities	\$ (46,150)
Noncapital Financing Activities	(188,146)
Investing Activities	<u>992</u>
Net Increase (Decrease)	(233,304)
Beginning Cash and Cash Equivalents	<u>362,014</u>
Ending Cash and Cash Equivalents	<u>\$ 128,710</u>

**NOTE 23. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION**

Significant financial data for the State's discretely presented component units for the year ended December 31, 2016 or June 30, 2017 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	Wisconsin Economic Development Corporation	University of Wisconsin Foundation	Total
<b>Condensed Statement of Net Position</b>						
<b>Assets:</b>						
Cash, Investments and Other Assets	\$ 2,157,545	\$ 51,159	\$ 1,934,374	\$ 110,179	\$ 3,915,135	\$ 8,168,392
Cash and Investments with Other						
Component Units	-	-	249,345	-	-	249,345
Capital Assets, net	12,184	-	1,188,989	934	20,202	1,222,309
Total Assets	2,169,729	51,159	3,372,708	111,113	3,935,337	9,640,046
<b>Deferred Outflows of Resources</b>						
	31,408	-	215,619	3,231	-	250,258
Total Assets and Deferred Outflows	\$ 2,201,137	\$ 51,159	\$ 3,588,327	\$ 114,344	\$ 3,935,337	\$ 9,890,304
<b>Liabilities:</b>						
Accounts Payable and Other						
Current Liabilities	\$ 91,532	\$ 2,964	\$ 464,144	\$ 5,841	\$ 142,564	\$ 707,046
Due to Primary Government	-	-	109,764	-	-	109,764
Amounts Held for Other Component Units	-	-	-	-	220,095	220,095
Other Liabilities	26,688	-	6,192	-	-	32,880
Long-term Liabilities (Current and Noncurrent portions)	1,357,446	9,511	744,067	3,145	45,048	2,159,217
Total Liabilities	1,475,666	12,475	1,324,167	8,986	407,707	3,229,002
<b>Deferred Inflows of Resources</b>						
	2,387	-	103,257	1,907	-	107,551
<b>Net Position:</b>						
Net Investment in Capital Assets	10,499	-	604,580	934	20,202	636,215
Restricted	706,642	38,684	19,462	41,739	3,405,139	4,211,666
Unrestricted	5,943	-	1,536,861	60,777	102,289	1,705,870
Total Net Position	723,084	38,684	2,160,903	103,450	3,527,629	6,553,751
Total Liabilities, Deferred Inflows and Net Position	\$ 2,201,137	\$ 51,159	\$ 3,588,327	\$ 114,344	\$ 3,935,337	\$ 9,890,304
<b>Condensed Statement of Activities</b>						
<b>Program Expenses:</b>						
Depreciation	\$ 866	\$ -	\$ 114,371	\$ 481	\$ 2,081	\$ 117,799
Payments to Primary Government	-	-	70,841	-	253,169	324,010
Other	268,399	2,015	2,787,711	43,238	84,442	3,185,805
Total Program Expenses:	269,265	2,015	2,972,923	43,719	339,692	3,627,614
<b>Program Revenues:</b>						
Charges for Goods and Services	8,066	1,769	2,885,535	224	-	2,895,593
Investment and Interest Income	65,277	2,045	-	-	324,556	391,878
Operating Grants and Contributions	185,406	-	-	36,951	338,450	560,806
Miscellaneous	16,616	-	105,700	-	7,129	129,445
Total Program Revenues	275,365	3,814	2,991,235	37,174	670,135	3,977,723
Net Program Revenue/(Expense)	6,100	1,799	18,312	(6,544)	330,444	350,110
<b>General Revenues:</b>						
Interest and Investment Earnings	17,094	-	79,009	1,823	-	97,926
Miscellaneous	-	-	13,359	702	-	14,061
Contributions to Endowments	-	-	(323)	-	-	(323)
Change in Net Position	23,194	1,799	110,357	(4,020)	330,444	461,773
Net Position, Beginning of Year	699,890	36,886	2,050,546	107,471	3,197,186	6,091,978
Net Position, End of Year	\$ 723,084	\$ 38,684	\$ 2,160,903	\$ 103,450	\$ 3,527,629	\$ 6,553,751

**NOTE 24. RESTATEMENTS OF BEGINNING FUND BALANCES/NET POSITIONS AND OTHER CHANGES**

The following reconciliations summarize restatements of the end-of-year fund balance and net position amounts as reported in the 2016 Comprehensive Annual Financial Report to the beginning-of-year amounts reported for Fiscal Year 2017 (in thousands):

**A. Fund Statements – Proprietary Funds**

	<b>Major Funds</b>							<b>Total Enterprise</b>	<b>Internal Service Funds</b>
	<b>Injured Patients and Families Compensation</b>	<b>Environmental Improvement</b>	<b>University of Wisconsin System</b>	<b>Unemploy- ment Reserve</b>	<b>Nonmajor Funds</b>				
Net Positions June 30, 2016 as reported in the 2016 Comprehensive Annual Financial Report	\$ 878,282	\$ 2,050,645	\$ 6,578,859	\$ 1,234,384	\$ 480,479	\$ 11,222,649	\$ 27,612		
Adjustments of assets and liabilities as of June 30, 2016	-	-	-	-	13	13	262		
Net Positions July 1, 2016 as restated	<u>\$ 878,282</u>	<u>\$ 2,050,645</u>	<u>\$ 6,578,859</u>	<u>\$ 1,234,384</u>	<u>\$ 480,492</u>	<u>\$ 11,222,662</u>	<u>\$ 27,874</u>		
Effect of adjustments on the amount of net change in net position of Fiscal Year 2016	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 13	\$ 262		

**B. Government-wide Statements**

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Net Positions June 30, 2016 as reported in the 2016 Comprehensive Annual Financial Report	\$ 12,079,699	\$ 11,224,845	\$ 23,304,544
Capital asset correction	11,544		11,544
Other adjustments of assets and liabilities as of June 30, 2016	(2,386)	13	(2,373)
Net Positions July 1, 2016 as restated	\$ 12,088,857	\$ 11,224,859	\$ 23,313,716
Effect of adjustments on the amount of net increase (decrease) in net positions of Fiscal Year 2016	\$ 9,158	\$ 13	\$ 9,171

## NOTE 25. LITIGATION, CONTINGENCIES AND COMMITMENTS

### A. Litigation and Contingencies

The State is a participant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations.

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling \$17.2 million on June 30, 2017 reported in the governmental activities, are discussed below:

The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid totaled \$.6 million at June 30, 2017.

In September 2008, the Internal Revenue Service (IRS) provided the State of Wisconsin Investment Board (SWIB) a Notice of Transferee Liability. This claim seeks taxes, penalties and interest relating to the sale of Shockley Communications Corporation (SCC) stock in 2001.

The IRS asserts that the shareholders' sale of SCC stock in 2001 should have been characterized as a sale of assets by SCC, on which SCC should have paid income taxes. SWIB filed a petition in the United States Tax Court contesting the proposed IRS assessment for the taxes, plus penalties and interest. In 2015, the Tax Court found that the principal shareholders of SCC were liable as putative transferees for the tax, penalties and interest owed by SCC related to its sale.

Although SWIB plans to continue to aggressively contest the IRS' assertions, the estimated minimum possible loss of \$16.6 million has been accrued. The potential liability is estimated to be between \$16.6 million and \$51.7 million.

The Injured Patients and Families Compensation Fund insures participating physicians and other health care providers in Wisconsin against medical malpractice claims that exceed the primary malpractice insurance thresholds established in statutes. There is no limit to the compensation the Fund will pay on behalf of participating providers for economic damage. However, Wis. Stats. 893.55 limits awards of noneconomic damages in medical malpractice claims to \$750,000 for incidents that have occurred on or after April 6, 2006.

An injured patient and her spouse filed a lawsuit against the Fund regarding an injury sustained in May 2011. The jury awarded noneconomic damages of \$15.0 million to the patient and \$1.5 million to the spouse. Post-verdict, the Fund moved to reduce the jury award to the \$750,000 statutory cap on noneconomic damages. The plaintiffs moved for entry of

judgment on the verdict, arguing that an application of the cap would violate their constitutional rights. The circuit court found the cap on noneconomic damages unconstitutional as it applied to the case. The decision was appealed.

In July 2017, the Wisconsin Court of Appeals affirmed the circuit court decision albeit on different grounds. The appellate court issued an opinion stating the non-economic damages cap is unconstitutional on its face by imposing an unfair and illogical burden only on catastrophically injured patients, thus denying them equal protection of the laws.

In November 2017, the Supreme Court accepted the case for review. Both the Fund and the plaintiffs appealed the circuit court's constitutionality rulings. The Fund argues that the circuit court erred when it found Wis. Stats. 893.55 unconstitutional as it applied to the case. The plaintiffs argue that the circuit court erred when it determined that Wis. Stats 893.55 was not unconstitutional on its face. The potential loss to the Fund is not determinable at this time.

An additional potential impact exists for all pending litigation that alleges noneconomic damages in excess of \$750,000. The Fund plans to file motions to stay execution for other cases where verdicts are reached prior to the Supreme Court's final resolution. The potential loss to the Fund for these cases is not determinable at this time.

### Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. The potential loss amount relating to an unfavorable outcome for certain of these proceedings could not be reasonably determined at this time. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position.

The Local Government Property Insurance Fund reported a loss estimated at \$21.5 million resulting from a fire at the Milwaukee County Courthouse in July 2013. The fund maintains excess-of-loss insurance to limit its exposure. For this loss the fund paid a deductible of \$1.8 million and received \$5.0 million from the excess-of-loss provider. The fund expects to be reimbursed by the provider for most of the remaining amount, however, there is a dispute as to the cause of the loss. The State has filed a lawsuit against the provider seeking recovery of amounts paid by the fund to Milwaukee County and for loss adjustment expenses. The Statement of Net Position reflects \$14.5 million of receivables as of June 30, 2017 related to these costs. Net position of \$9.9 million was reported as of June 30, 2017.

**B. Commitments**

**Primary Government**

As of June 30, 2017, encumbrances of the General Fund totaled \$551.8 million, encumbrances of the Transportation Fund totaled \$1.3 billion, and encumbrances of other non-major governmental funds totaled \$239.7 million. Obligations at June 30, 2017 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	\$ 271,762
Capital Improvement Fund – WisDOT Harbors, Rails and Highway Programs	43,926
Transportation Revenue Bonds Capital Projects Fund	29,284
General Fund – Housing Programs	24,073

The *Environmental Improvement Fund* (the Fund) was established to administer the Clean Water Fund Loan Program. Loans are made to local units of government for wastewater treatment projects for terms of up to 20 years. These loans are made at a number of prescribed interest rates based on environmental priority. The loans contractually are revenue obligations or general obligations of the local governmental unit. Additionally, various statutory provisions exist which provide further security for payment. The Fund has made financial assistance commitments of \$147.0 million as of June 30, 2017. These loan commitments are expected to be met through proceeds from issuance of revenue obligations and additional federal grants.

The *Injured Patients and Families Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the Fund may have ultimate responsibility for annuity payments if the annuity company defaults on annuity payments. One of the Fund's annuity providers defaulted on \$118 thousand in annuity payments through June 30, 2017, which the Fund subsequently paid. The annuity provider is currently making the majority of these annuity payments, but the Fund continues to make monthly annuity payments to cover defaulted payments. The Fund has received reimbursement for these payments, including interest of \$114 thousand through June 30, 2017. It is unclear when the annuity provider will be able to make the remaining annuity payments and whether the Fund will be able to recover the remaining annuity payments made on the behalf of the annuity provider. The total estimated replacement value of the Fund's annuities as of June 30, 2017 was \$32.8 million. The replacement value calculation includes only annuities where the Fund remains the owner. Annuities with qualified assignments are no longer included. The Fund reserves the right to pursue collection from State guarantee funds.

*State Public Deposit Guarantee* - As required by Wis. Stat. Sec. 34.08, the State is to make payments to public depositors for proofs of loss (e.g., loss resulting from a bank failure) up to \$400 thousand per depositor above the amount of federal insurance. This statutory requirement guarantees that the State will make payments in favor of the public depositor that has submitted a proof of loss. Payments would be made in the order in which satisfactory proofs of loss are received by the State's Department of Financial Institutions, until the designated appropriation is exhausted. At June 30, 2017, the appropriation available totaled \$60.8 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Department of Financial Institutions. Any recovery made by the Department of Financial Institutions under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

**NOTE 26. Tax Abatements**

Wisconsin statutes authorize tax abatements to encourage economic development and other actions beneficial to the State or its citizens resulting in a reduction in tax revenue the State would otherwise be entitled to collect. GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement agreements entered into by a reporting government, along with agreements entered into by other governments, which reduce the reporting government’s tax revenues. Most tax abatement programs meeting the criteria for disclosure in the State’s CAFR are certified by the Wisconsin Economic Development Corporation (WEDC), a separate legal entity also reported as a component unit in the CAFR. WEDC enters into the abatement agreements and administers the programs. The Wisconsin Department of Revenue (DOR) is responsible for ensuring the certified tax abatements were properly applied when processing income tax returns filed by recipients. The table below describes abatement programs that impact tax revenues for the State of Wisconsin.

State Agency Programs	Authority	Purpose	Tax Abated	Primary Criteria	Mechanism	Abatement Calculation	Recapturing Abatements
Historical Homeowners Tax Credit - Administered by Wisconsin Historical Society	Wis. Stats. 44.02(24)	Preserving or rehabilitating historic property located in Wisconsin	Income Tax	Own and occupy as personal residence property  Costs must relate only to preservation or rehabilitation work done  Costs must be more than \$10,000	Nonrefundable state income tax credit	25% of qualified expenditures for the current year for individuals	DOR may recover all or a portion of the credit if the claimant has not complied with all requirements

WEDC Programs	Authority	Purpose	Tax Abated	Primary Criteria	Mechanism	Abatement Calculation	Recapturing Abatements
Business Development Credit <sup>1</sup>	Wis. Stats. 238.308	Provides incentives for job creation, capital investment, training, and corporate location or retention for new and current businesses in Wisconsin	Income Tax	Person increases net employment in the state from net employment in the state during the year before certification	Refundable state income tax credit or offset against economic development surcharge	Up to 10% of eligible employee wages  Up to 5% of additional eligible employee wages in economically distressed area  Up to 50% of eligible training costs  For investments of \$1.0 million or greater or investments of less than \$1.0 million but at least \$10,000 per eligible employee: Up to 3% of personal property investment and up to 5% of real property investment  Certain percentage of wages paid to eligible headquarters employees	WEDC may require repayment of tax benefits claimed for a year in which the person failed to employ an eligible employee required by the agreement

WEDC Programs, continued	Authority	Purpose	Tax Abated	Primary Criteria	Mechanism	Abatement Calculation	Recapturing Abatements
Development Opportunity Zone Tax Credit	Wis. Stats. 238.395	Incent new and expanding businesses in the cities of Beloit, Janesville, and Kenosha  Incent the creation of jobs for target group members	Income Tax	Business located in or relocating to, Beloit, Janesville, or Kenosha	Nonrefundable state income tax credit	Credits ranging from \$6,000 to \$8,000 per job for an FTE paying at least 150% of federal minimum wage  Up to 3% of all eligible capital investments  Up to 50% of eligible environmental remediation costs	WEDC may revoke tax benefits if false or misleading information is provided, if the business ceases to operate in the zone or moves outside the development zone
Enterprise Zone Tax Credit	Wis. Stats. 238.399	Incent expansion of existing Wisconsin businesses or relocation of major business operations from other states to Wisconsin	Income Tax	Businesses located in, or relocating to, an enterprise zone in Wisconsin  Business that begins or expands operations in an enterprise zone  Business makes a significant capital contribution  Positions created as a result of tax credits must be maintained for at least five years	Refundable state income tax credit	WEDC determines the maximum amount of tax credits a business may claim  Credit of up to 7% of the net increase in zone payroll less certain adjustments  Credit up to 100% of job-related training costs  Up to 10% of significant capital expenditures  Up to 1% of amount paid for property, goods or services purchased from Wisconsin vendors	WEDC may require a business to repay tax benefits for which the business failed to maintain employment levels or a significant capital investment in property  WEDC may revoke tax benefits if false or misleading information is provided, if the business ceases to operate in the zone or moves outside the development zone
Qualified New Business Venture (Consists of Early Stage Seed Investment and Angel Investment Credits)	Wis. Stats. 238.15	Promote development of research and development and early-stage capital availability by providing tax credit incentives for private equity investment in technology-based Wisconsin businesses with significant long-term growth potential	Income Tax	Investor must keep investment in a certified business or with a certified fund manager for no less than 3 years unless the investment becomes worthless or the person has kept the investment for at least 12 months and a bona fide liquidity event occurs during the 3 year period  Certified businesses are those headquartered in the State and engaged in innovation within certain sectors such as manufacturing, biotechnology, agriculture, etc. or that process or assemble items such as medical devices, pharmaceuticals, computer hardware or software, etc.	Nonrefundable state income tax credit	25% of the value of the investment made in the certified company	The certified business must pay a penalty ranging from 60% to 100% of the tax credit provided if it relocates out of state during the 3 years after it received an investment
Historical Preservation Tax Credit (Supplement to Federal Historic Rehabilitation Tax Credit)	Wis. Stats. 238.17	Incentive for businesses to rehabilitate historic structures in Wisconsin used for production of income	Income Tax	Must own the historic property  Building must be depreciable property that is either nonresidential real property, residential rental property, or real property with a class life of more than 12.5 years  Rehabilitation expenditures are more than the greater of \$50,000 or the adjusted basis  Expenditure test must be met within a 24-month (or, for phased rehabilitation projects, a 60-month) period	Nonrefundable state income tax credit	20% of qualified rehabilitation expenditures for the current year	If sale or noncompliance occurs within 5 years then a prorated amount of the credit received will be added back to the individual's tax liability

<sup>1</sup> 2015 Act 55 eliminated the Economic Development and Jobs Tax Credit programs and replaced them with the Business Development Credit program.



The gross dollar amount by which the State's tax revenues were reduced as a result of abatement agreements during the fiscal year ended June 30, 2017:

<b>State Agency Administered Program</b>	<b>Amount</b>
Historical Homeowners Tax Credit	\$ 1.2 million
<b>WEDC Administered Programs</b>	
Business Development Credit <sup>2</sup>	26.6 million
Development Opportunity Zone Tax Credit	0.2 million
Enterprise Zone Tax Credit	8.8 million
Qualified New Business Venture	12.8 million
Historical Preservation Tax Credit	<u>28.6 million</u>
Total State Agency and WEDC:	<u><u>\$ 78.2 million</u></u>

<sup>2</sup> Includes Economic Development, Jobs Tax Credit and Business Development Credit abatements

**NOTE 27. SUBSEQUENT EVENTS****Primary Government****Long-term Debt**

*General Obligation Bonds* – In July 2017, the State issued \$345.3 million of 2017 Series 1 general obligation refunding bonds to be used for advance refunding of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 2.0 to 5.0 percent payable semiannually beginning November 1, 2017. The bonds mature annually beginning November 1, 2021 through November 1, 2023 and November 1, 2026 through November 1, 2031.

In November 2017, the State issued \$382.7 million of 2017 Series 2 general obligation refunding bonds to be used for advance refunding (including a crossover refunding) of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 5.0 percent payable semiannually beginning May 1, 2018. The bonds mature annually beginning November 1, 2020 through November 1, 2028.

In November 2017, the State issued \$272.7 million of 2017 Series B general obligation bonds to be used for the acquisition, construction, development, extension, enlargement or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. The interest rates associated with these bonds were set at 4.0 to 5.0 percent payable semiannually beginning May 1, 2018. The bonds mature annually beginning May 1, 2019 through May 1, 2021 and May 1, 2027 through May 1, 2038.

In December 2017, the State issued \$347.0 million of 2017 Series 3 general obligation refunding bonds to be used for advance refunding of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 4.0 to 5.0 percent payable semiannually beginning May 1, 2018. The bonds mature annually beginning November 1, 2026 through November 1, 2034.

*Revenue Bonds* – In December 2017, the State issued \$368.6 million of 2017 Series 2 transportation revenue refunding bonds to be used for advance refunding of certain principal of previously issued transportation revenue bonds. The interest rates associated with these bonds were set at 5.0 percent payable semiannually beginning July 1, 2018. The bonds mature annually beginning July 1, 2021 through November 1, 2032.

**Credit Agreements**

In November 2017, the State reduced the dollar amount of a credit agreement to provide a line of credit for liquidity support for the transportation revenue commercial paper program. The amount of the line of credit was reduced from \$120.0 million to \$63.0 million.

**Electronics and Information Technology Zone**

2017 Wis. Act 58, signed into law in September 2017, created an electronics and information technology zone in southeast Wisconsin and provided refundable tax credits of up to \$2.85 billion for a business or businesses to be located in the zone. In November 2017 the Governor, on behalf of the State of Wisconsin, acknowledged an agreement signed by the Wisconsin Economic Development Corporation and Foxconn Technology. The agreement requires that the State provide up to \$2.85 billion in state income tax credits to the company to support the development of a manufacturing campus in Racine County. Under the terms of the 15-year contract, Foxconn agrees to invest up to \$10 billion and create up to 13,000 jobs at the campus.

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## **Required Supplementary Information**

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**Required Supplementary Information**

**Postemployment Benefits - State Health Insurance Program**

The funding progress for the State of Wisconsin Health Insurance Plan is provided below (in thousands):

<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation Of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) – Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b – a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b – a) / c)</b>
1/1/2015	\$ 0	\$ 942,314	\$ 942,314	0.0%	\$ 3,126,936	30.1%
1/1/2013	\$ 0	\$ 892,844	\$ 892,844	0.0%	\$ 3,108,942	28.7%
1/1/2011	\$ 0	\$ 953,110	\$ 953,110	0.0%	\$ 3,244,518	29.4%

**Required Supplementary Information**

**State's Proportionate Share of the Net Pension Liability or Net Pension (Asset)**

The State's proportionate share of the net pension liability (NPL) or net pension (asset) (NPA) of the Wisconsin Retirement System is provided below:

<b>Fiscal Year*</b>	<b>State's Proportion of the NPL/(NPA) (a)</b>	<b>State's Proportionate Share of the NPL/(NPA) (b)</b>	<b>State's Covered Payroll (c)</b>	<b>State's Share of the NPL/(NPA) as a Percentage of Covered Payroll (b / c)</b>	<b>WRS' Net Position as a Percentage of the Total Pension Liability (d)</b>
2017	28.0%	\$ 232,791,419	\$3,806,871,835	6.1%	99.1%
2016	28.1%	\$ 455,475,378	\$3,790,475,424	12.0%	98.2%
2015	(28.0%)	\$(686,873,469)	\$3,735,598,305	(18.4%)	102.7%

\* The amounts presented were measured as of the calendar year-end or for the calendar year ended that occurred within the fiscal year listed.

GASB standards require the presentation of 10 years of information. Because fiscal year 2015 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

**Required Supplementary Information**

**State's Pension Contributions**

The State's pension contributions to the Wisconsin Retirement System are provided below:

<b>Fiscal Year*</b>	<b>State's Actuarially Determined Contributions (a)</b>	<b>State's Contributions Made (b)</b>	<b>Contribution Excess/ (Deficiency) (b - a)</b>	<b>State's Covered Payroll (c)</b>	<b>State's Contributions Made as a Percentage of Covered Payroll (b / c)</b>
2017	\$263,970,133	\$263,970,133	\$ -	\$3,806,871,835	6.9%
2016	\$270,985,300	\$270,985,300	\$ -	\$3,790,475,424	7.2%
2015	\$275,968,183	\$275,968,183	\$ -	\$3,735,598,305	7.4%

\* The amounts presented were measured for the calendar year ended that occurred within the fiscal year listed.

GASB standards require the presentation of 10 years of information. Because fiscal year 2015 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

**Required Supplementary Information**

**Infrastructure Assets Reported Using the Modified Approach**

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that these assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 centerline miles of road and 5,200 bridges.

**Road Network**

Condition assessments are completed on a two-year cycle with the most current results reported for each State road. The State completes the assessment of the Eastern half of the State in one year and the Western half of the State in the next. Numerous measures are used to assess the condition of the State's road network. The State has adopted the International Roughness Index (IRI), as defined by the Federal Highway Administration, as one of its condition measures. IRI is a direct measure of road roughness, with an IRI of 2.69 mm/m (170 inches/mile) or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment may cause negative impacts for the traveling public by decreasing driver comfort and potentially increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment.

Recent condition assessment results are as follows:

Year Ended June 30	Miles of Road	Percent Rated "Poor"	Established Percent	Variance Favorable/ (Unfavorable)
2017	11,200	7.4	15.0	7.6
2016	11,200	8.9	15.0	6.1
2015	11,200	7.3	15.0	7.7
2014	11,200	8.3	15.0	6.7
2013	11,200	6.2	15.0	8.8
2012	11,200	7.0*	15.0	8.0
2011	11,200	12.0**	15.0	3.0
2010	11,200	9.3**	15.0	5.7
2009	11,200	6.9	15.0	8.1
2008	11,200	6.9	15.0	8.1

\* The 2012 decrease in the percentage of roads rated poor is due to inclusion of new construction in the scope of the condition assessment. Without such inclusion, the percentage of poor roads would have been equivalent to the 2011 level. New construction was included because efficiencies were gained from a new van used to capture condition assessment data, resulting in new construction being included in the assessment closer to the completion date. In prior years, new construction was generally not included in condition assessments until the following year.

\*\* The 2011 and 2010 increase in the percentage of roads rated poor compared to previous years is partially attributable to the new equipment used in assessing the IRI. For 2011, all of the miles were tested using the new equipment. For 2010, approximately half of the miles were tested using the new equipment. DOT officials believe the current data collection methods provide a more accurate view of existing ride quality because of improvements in equipment and methodology.

Each year the State estimates the costs to maintain and preserve the road network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2017	\$770.3	\$629.3	\$ 141.0
2016	\$617.6	\$564.7	\$ 52.9
2015	\$603.4	\$643.3	\$ (39.9)
2014	\$619.4	\$605.9	\$ 13.5
2013	580.9	561.8	19.1
2012	611.0	585.3	25.7
2011	606.7	705.7	(99.0)
2010	660.7	669.1	(8.4)
2009	647.7	624.4	23.3
2008	531.8	537.3	(5.5)

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years. Actual costs for 2008 have



been restated from amounts reported in prior years due to an error in classification of costs on a capital project as maintenance/preservation costs.

**Bridge Network**

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The most current assessment results are reported for each State bridge, making the overall assessment a blend of measures completed in the current fiscal year and those completed in the prior year.

The structural condition rating is a broad measure of the condition of a bridge. Each bridge is rated using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings. The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. The NBI uses a 10-point scale for condition codes and appraisal ratings. A bridge is considered "structurally deficient" if any condition code is 4 or less, or if either appraisal code is 2 or less.

"Structurally deficient" bridges cause negative impacts for the public by increasing the likelihood that heavy loads will need to be rerouted to less efficient routes, thus increasing logistic costs for State businesses. It is the State's policy to ensure no more than 15 percent of its bridges are "structurally deficient".

Recent condition assessment results are as follows:

Year Ended June 30	Number of Bridges	Percent Structurally Deficient	Established Percent	Variance Favorable/ (Unfavorable)
2017	5,200	3.1	15.0	11.9
2016	5,200	3.1	15.0	11.9
2015	5,200	3.2	15.0	11.8
2014	5,100	3.3	15.0	11.7
2013	5,100	3.1	15.0	11.9
2012	5,100	3.3	15.0	11.7
2011	5,100	3.6	15.0	11.4
2010	5,000	4.1	15.0	10.9
2009	5,000	3.8	15.0	11.2
2008	4,900	4.5	15.0	10.5

Each year, the State estimates the costs to maintain and preserve the bridge network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2017	\$56.9	\$59.3	\$(2.4)
2016	\$78.6	\$128.3	\$(49.7)
2015	57.1	164.4	(107.3)
2014	261.2	131.0	130.2
2013	123.2	115.3	7.9
2012	101.9	61.1	40.8
2011	42.4	64.2	(21.8)
2010	91.7	93.0	(1.3)
2009	55.9	56.9	(1.0)
2008	61.0	46.2	14.8

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. The State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years. Estimated and actual costs for 2014 have been restated from amounts reported in prior years due to an error in classification of costs on a capital project as maintenance/preservation costs.

**Budgetary Comparison Schedule  
General Fund  
For the Fiscal Year Ended June 30, 2017**

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			\$ 2,344,661
<b>Revenues and Transfers (Inflows):</b>			
Taxes	\$ 15,679,183	\$ 15,528,168	15,542,153
Departmental:			
Tribal Gaming	24,706	26,771	27,378
Other	17,024,649 (A)	17,040,495 (A)	16,820,624
Transfers from:			
Nonmajor Governmental Funds	(A)	(A)	82,080
Nonmajor Enterprise Funds	(A)	(A)	-
<b>Total Revenues and Transfers (Inflows)</b>	<b>32,728,538</b>	<b>32,595,434</b>	<b>32,472,235</b>
Amounts Available for Appropriation			34,816,896
<b>Appropriations (Outflows):</b>			
Commerce	209,093	243,143	206,913
Education	13,441,673	14,102,225	13,381,580
Environmental Resources	319,675	391,582	319,822
Human Relations and Resources	14,042,852	17,275,613	14,371,190
General Executive	1,542,919	1,872,391	1,066,399
Judicial	137,570	141,192	139,030
Legislative	76,164	78,726	68,575
Tax Relief and Other General	2,431,739	2,430,606	2,367,031
Transfers to:			
Transportation Fund	39,458	39,458	39,458
Nonmajor Governmental Funds	-	-	11,495
Nonmajor Enterprise Funds	-	-	11,100
<b>Total Appropriations (Outflows)</b>	<b>\$ 32,241,143</b>	<b>\$ 36,574,936</b>	<b>31,982,593</b>
Fund Balances, End of Year			2,834,303
Less Encumbrances Outstanding at June 30, 2016			(527,760)
Fund Balances, End of Year Budgetary Basis			<u>\$ 2,306,543</u>
Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:			
General Purpose:			
Designated		\$	52,089
Undesignated			579,015
Total General Purpose			<u>631,104</u>
Program Revenue			<u>1,675,439</u>
Fund Balances, End of Year Budgetary Basis		\$	<u><u>2,306,543</u></u>

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2017.

**Budgetary Comparison Schedule  
Transportation Fund  
For the Fiscal Year Ended June 30, 2017**

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			\$ 622,527
<b>Revenues (Inflows):</b>			
Taxes	\$ 1,108,276	\$ 1,108,276	1,108,276
Departmental	1,325,796	1,325,796	1,325,796
Transfers from:			
General Fund	39,458	39,458	39,458
Nonmajor Governmental Funds	21,000	21,000	21,000
Total Revenues (Inflows)	2,494,530	2,494,530	2,494,530
Amounts Available for Appropriation			3,117,057
<b>Appropriations and Transfers (Outflows):</b>			
Environmental Resources	2,663,482	5,616,310	2,602,248
General Executive	1,937	1,937	1,800
Tax Relief and Other General	23,183	25,513	22,220
Total Appropriations and Transfers (Outflows)	\$ 2,688,602	\$ 5,643,760	2,626,268
Fund Balances, End of Year			490,789
Less Encumbrances Outstanding at June 30, 2016			(1,459,269)
Fund Balances, End of Year Budgetary Basis			\$ (968,480)

Notes To Required Supplementary Information

NOTE 1. BUDGETARY INFORMATION

A. Budgetary – GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule compares the legally adopted budget (more fully described in RSI Note 1-B) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2017 is presented below (in thousands):

	General Fund	Transportation Fund
<b>Fund balance June 30, 2017 (budgetary basis – budgetary fund structure):</b>		
General Purpose Revenue – fund balance per budgetary basis <i>Annual Fiscal Report</i>		
Undesignated fund balance	\$ 579,015	
Designated fund balance	52,089	
Total General Purpose Revenue fund balance	631,104	
Program Revenue – fund balance per budgetary basis <i>Annual Fiscal Report</i>	1,675,439	
<b>Fund balance June 30, 2017 (budgetary basis – budgetary fund structure)</b>		
as reported on the budgetary comparison schedule	2,306,543	\$ (968,480)
Reclassifications:		
To eliminate encumbrances reported as expenditures under budgetary reporting ( <i>basis difference</i> )	527,759	1,459,269
To eliminate noncash revenue adjustments reported under budgetary reporting ( <i>basis difference</i> )	(498,633)	--
To include activities of funds such as the Medical Assistance Trust, Hospital Assessment, Critical Hospital Assessment, Budget Stabilization, and Permanent Endowment Funds (reported as special revenue funds under budgetary reporting) as part of the General Fund ( <i>perspective difference</i> )	319,801	--
To remove activities reported in another GAAP fund type ( <i>perspective differences</i> ):		
Enterprise funds (except for the University of Wisconsin System)	(42,851)	--
University of Wisconsin System	(1,225,006)	--
Internal Service funds	8,255	--
Fiduciary funds	(4,032)	--
Transportation Revenue Bonds capital project fund	--	93
<b>Fund balance June 30, 2017 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)</b>	1,391,835	490,882
Adjustments ( <i>basis differences</i> ):		
To accrue receivables and establish payables for individual income taxes (net)	(866,742)	--
To defer revenues for gross receipts public utility taxes	(273,828)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(445,651)	(1,114)
To adjust expenditures for the municipal and county shared revenue program	(505,100)	--
To adjust expenditures for State property tax credit program	(746,575)	--
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(273,568)	--
To adjust revenues and expenditures for certain major Health Services, and Children and Families human services payments to local governments	(187,620)	--
To accrue receivable for Medicaid drug rebates (net of payable to federal government)	189,613	--
To adjust expenditures/revenues for other Health Services, Workforce Development, Children and Families, and Corrections accruals and deferrals	(38,820)	--
To recognize the tobacco settlement revenue receivable	77,981	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To adjust expenditures and revenues for State Energy Program and other revolving loan programs	8,123	--
To adjust revenues and expenditures for other items (net)	119,431	92,608
<b>Fund balance June 30, 2017 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements</b>	<b>\$(1,625,920)</b>	<b>\$582,376</b>

## B. Budgetary Basis of Accounting

The State's biennial budget is prepared using a modified cash basis of accounting. The final budget is primarily a general purpose revenue and expenditure budget. General purpose revenues consist of general taxes and miscellaneous receipts which are paid into the General Fund, lose their identity, and are then available for appropriation by the Legislature. The remaining revenues consist of program revenues, which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues which are paid into separate identifiable funds.

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenue estimates of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedules.

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

While State statutes prohibit spending beyond budgetary authority, a provision is made to include the value of accounts receivable, inventories and work in process in identifying available revenues. The State also utilizes nonbudget accounts for which no budget is established but expenditures may be incurred. As a result, actual expenditures may exceed budgeted amounts in certain categories.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activities from the statutory General and Transportation funds. In addition, funds such as the Medical Assistance Trust, Hospital Assessment, Budget Stabilization and Permanent Endowment, special revenue funds under statutory reporting, are included as part of the General Fund under GAAP reporting. As a consequence of these differences, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedules for the General and the Transportation Fund present both the original and final

appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. One special revenue fund, the Wisconsin Public Broadcasting Foundation, has been excluded from reporting because it is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School and Normal School funds are budgeted.

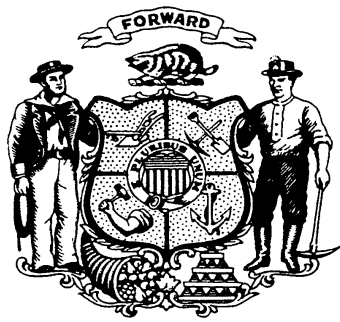
The State's biennial budget was enacted on July 12, 2015 and published on July 13, 2015. This legislation is recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedules.

While the legal level of budgetary control for the reported funds is maintained at the appropriation line as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

Appropriation unexpended balances lapse at year-end or forward to the subsequent fiscal year depending on the type of appropriation involved:

- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature.
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end.
  - *Program Revenue* - unexpended cash balances may be forwarded to the next fiscal year.
- *Biennial* - unexpended balances or deficits automatically forward to the second year. At the end of the second year all unencumbered general purpose revenue balances lapse.
- *Sum sufficient* - moneys are appropriated and expended in the amounts necessary to accomplish the purpose specified.

Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with Department of Administration approval. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance.



## PART III

### GENERAL OBLIGATIONS

Part III of the 2017 Annual Report provides information about general obligations issued by the State of Wisconsin (**State**) in the form of bonds, notes, commercial paper notes (**CP Notes**), and extendible municipal commercial paper (**EMCP**). Selected information is provided in this introduction for the convenience of the readers; however, all information presented in this Part III of the 2017 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2017)	\$7,848,952,888
Amount Outstanding of Fixed-Rate Obligations	7,342,045,000
Amount Outstanding of Variable-Rate Obligations	506,907,888
Percentage of Outstanding Obligations in the form of Variable-Rate Obligations	6.46%
Ratings <sup>(a)</sup> (Fitch/Kroll/Moody's/S&P)	
Bonds	AA+ <sup>(b)</sup> /AA+ <sup>(c)</sup> /Aa1 <sup>(d)</sup> /AA
CP Notes/EMCP	F1+/K1+/P-1/A-1+
Authority	Chapters 18 and 20, Wisconsin Statutes
Registrar/Paying Agent	The Secretary of Administration is the registrar and paying agent for all outstanding fixed-rate general obligations. U.S. Bank National Association serves as issuing and paying agent for the CP Notes and EMCP.
Security	The Wisconsin Constitution pledges the full faith, credit, and taxing power of the State to its general obligations and requires the Legislature to provide for their payment by appropriation. The Wisconsin Statutes establish additional protections, provide for the repayment of all general obligations, and establish, as security for the payment of all debt service on general obligations, an irrevocable appropriation as a first charge on all revenues of the State.
<p><sup>(a)</sup> The ratings presented are the ratings assigned to the State's general obligations without regard to any bond insurance policy. No information is provided in the 2017 Annual Report about any rating assigned to any general obligations based on any bond insurance policy.</p> <p><sup>(b)</sup> On October 19, 2017, Fitch Ratings upgraded its rating on the State's general obligations from "AA" to "AA+".</p> <p><sup>(c)</sup> On October 18, 2017, Kroll Bond Rating Agency, Inc. upgraded its rating on the State's general obligations from "AA" to "AA+".</p> <p><sup>(d)</sup> On August 4, 2017, Moody's Investors Service, Inc. upgraded its rating on the State's general obligations from "Aa2" to "Aa1".</p>	

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The State of Wisconsin Building Commission (**Commission**) supervises all matters concerning the State's issuance of general obligations. The Capital Finance Office, which is part of the Division of Executive Budget and Finance within the State of Wisconsin Department of Administration (**Department of Administration**), is responsible for managing the State's borrowing programs. The law firms of Foley & Lardner LLP and Quarles & Brady LLP provided bond counsel services in connection with the issuance of the outstanding general obligations. Requests for additional information about general obligations of the State may be directed to the Capital Finance Office.

Other than general obligation refunding notes issued in 2014 to evidence the State's repayment obligation under a term loan agreement with a bank, all outstanding fixed-rate general obligations have been issued in book-entry-only form. Two series of bonds commonly referred to as Higher Education Bonds had final maturity dates of May 1, 2011 and May 1, 2012. These Higher Education Bonds were issued in fully-registered form and U.S. Bank National Association is the registrar and paying agent. Any holder that has not presented these Higher Education Bonds for payment should contact the Capital Finance Office or U.S. Bank National Association for information on redeeming such bonds.

General obligations issued by the State have been issued as both tax-exempt obligations and taxable obligations, with some of the taxable obligations being "qualified build America bonds" pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (**Code**).

The 2017 Annual Report includes information and defined terms for different types of 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. No information or resource referred to in the 2017 Annual Report is part of the report unless expressly incorporated by reference.

General information about the State, including but not limited to operating data such as revenues, expenditures, budgets, General Fund data, information on significant pending litigation, and statistical information on the State's economic condition and the Wisconsin Retirement System, are included in Part II of the 2017 Annual Report. The State's audited general purpose external financial statements and independent auditor's report for the fiscal year ending June 30, 2017 are not available as of the date of the 2017 Annual Report. When such statements become available, they will be filed with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system and will be added to Part II of the 2017 Annual Report.

Certain statements in this Part III 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.

## **SECURITY PROVISIONS FOR GENERAL OBLIGATIONS**

### **Security**

The Wisconsin Constitution pledges the full faith, credit, and taxing power of the State to its general obligations and requires the Legislature to provide for their payment by appropriation.



The Wisconsin Statutes establish additional protections and provide for the repayment of all general obligations. The Wisconsin Statutes establish, as security for the payment of all debt service on general obligations, a first charge on all revenues of the State. Further, a sufficient amount of those revenues is irrevocably appropriated, so that no subsequent legislative action is required to release such revenues, and those amounts are held in segregated funds or accounts.

The Wisconsin Statutes also provide that the validity of general obligations shall not be affected by any defect in their contracting, that all instruments evidencing general obligations are valid and incontestable, and that any legislative, judicial, or administrative determination that proceeds of general obligations may not be spent shall not affect their validity.

The State has never defaulted in the punctual payment of principal or interest on any general obligation and has never attempted to prevent or delay a required payment. The State has reserved no right to reduce or modify any terms affecting the security or source of payment of its general obligations.

In the event of default, the Wisconsin Constitution guarantees recourse by allowing suit to be brought against the State to compel payment. Statutory provisions expedite the bringing of suit. Further, in the event of a final judgment against the State, payment will be made as specifically provided, together with interest at a rate of 10% per annum until the date of payment. The venue for all actions in which the sole defendant is the State, any State board or commission, or any State officer, employee, or agent in an official capacity shall be the county designated by the plaintiff unless another venue is specifically authorized by law.

The Wisconsin Statutes also provide that, if payment has been made or duly provided for by the date that a general obligation becomes due for payment, then interest ceases to accrue, and the general obligation is no longer outstanding. If any general obligation is not presented for payment, then the money held for its payment shall be administered under the unclaimed property statutory provisions.

#### **Flow of Funds to Pay Debt Service on General Obligations**

The State's General Fund is available for the payment of debt service on all general obligations. Should the General Fund have insufficient resources to pay debt service, there is a single irrevocable and unlimited appropriation from all revenues of the State for timely payment on all general obligations. It is this appropriation, which pledges all revenues of the State for payment of debt service, that enables the State to issue a general obligation that is undifferentiated by the purpose for which proceeds are used.

For budgetary control purposes, different internal funds flows apply to general obligations, depending on whether they are issued as bonds or notes, and in some cases depending on the purpose for which they are issued.

With respect to general obligation bonds, all funds necessary for timely payment of principal and interest are deposited in the statutorily created Bond Security and Redemption Fund at least 15 days in advance of the due date. Furthermore, if operating notes are outstanding, no impoundment payments required in connection with operating notes may be made until the amounts required to be paid into the Bond Security and Redemption Fund during the ensuing 30 days have been so deposited.

With respect to general obligation notes, funds for the payment of principal and interest are deposited in a separate and distinct account within the statutorily created Capital Improvement Fund for the repayment of notes. Proceeds of general obligations may also be used to retire notes. The Wisconsin Statutes specifically provide that if, at any time, there is not on hand in the Capital Improvement Fund sufficient money for the payment of principal and interest on general obligation notes, then the Department of Administration shall transfer to the Capital Improvement Fund, from an irrevocable and unlimited appropriation as a first charge upon all revenues of the State, the amount necessary to pay the principal of, and interest on, general obligation notes when due.

Interest on the outstanding CP Notes and EMCP is paid when due. It is collected in the same manner as other general obligation notes and is deposited by the State with the respective issuing and paying agent. The State's practice is to make deposits at regular intervals, chosen at its discretion.

### **Purposes of General Obligations**

The Wisconsin Constitution provides that the State may issue general obligations for three categories of borrowing. The first is to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, railways, buildings, equipment, or facilities for public purposes. The second is to make funds available for veterans housing loans. The third is to fund or refund any outstanding State general obligations. Subject to constitutional limitations about purposes and amounts, procedures governing the use of the borrowing authority are to be established by the Legislature. There is no constitutional requirement that the issuance of general obligations receive the direct approval of the electorate.

### **Limitations on Issuance of General Obligations**

All general obligations issued by the State fall within a debt limit set forth in the Wisconsin Constitution and the Wisconsin Statutes. There is an annual limit of three-quarters of one percent, and a cumulative limit of five percent, of the aggregate value of all taxable property in the State. Currently, the annual limit is \$3,944,884,094, and the aggregate limit is \$26,299,227,293. A funding or refunding bond issue does not count for purposes of the annual debt limit, and a funded or refunded bond issue does not count for purposes of the cumulative debt limit. Accrued interest on any general obligation that is not paid during the fiscal year in which it accrues is treated as debt and taken into account for purposes of the debt limitations. See [Table III-5 in “DEBT INFORMATION”](#).

### **Authorization of General Obligations**

Within prescribed limitations, the Wisconsin Constitution assigns to the Legislature, acting by vote of a majority of the members elected to each of the two houses, all matters relating to the issuance of general obligations. The quorum in such votes is 60% of the membership. Among these assigned powers is the authority to establish the purposes (uses) and fix the amounts for which general obligations may be issued.

To date, the Legislature has authorized the issuance of general obligations for more than 100 distinct borrowing purposes and has limited the amount of general obligations that may be issued for each purpose. In practice, as a part of the budget, these amounts are adjusted to accommodate newly budgeted activity. As of the date of the 2017 Annual Report, approximately 45 of the distinct borrowing purposes essentially have no remaining borrowing authority or are subject to statutory restrictions that keep them from being used. The Legislature has delegated to the Commission responsibility to establish the form and terms of the issuance and sale of general obligations. [Table III-1](#) describes, as of December 15, 2017, the amounts authorized, issued, and credited to the Capital Improvement Fund for each borrowing purpose.

## TABLE III-1

### GENERAL OBLIGATION ISSUANCE STATUS REPORT DECEMBER 15, 2017

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Credit to Capital Improvement Fund		Total Authorized Unissued Debt
			Interest Earnings <sup>(a)</sup>	Premium <sup>(a)</sup>	
University of Wisconsin; academic facilities.....	\$ 2,552,521,100	\$ 2,033,675,884	\$ 13,072,507	\$ 57,510,391	\$ 448,262,318
University of Wisconsin; self-amortizing facilities.....	2,740,855,400	2,158,969,724	2,911,822	47,989,836	530,984,018
Natural resources; Warren Knowles - Gaylord Nelson stewardship 2000 program.....	1,046,250,000	828,128,723	405,319	22,625,245	195,090,713
Natural resources; municipal clean drinking water grants.....	9,800,000	9,518,744	141,818		139,438
Clean water fund program.....	646,283,200	636,296,843		3,967,798	6,018,559
Safe drinking water loan program.....	71,400,000	62,756,134		1,578,011	7,065,855
Natural resources; nonpoint source grants.....	94,310,400	93,954,036	190,043	165,649	672
Natural resources; nonpoint source .....	44,050,000	29,099,339	1,454	2,509,913	12,439,294
Natural resources; environmental repair.....	57,000,000	49,097,663	203,594	272,644	7,426,099
Natural resources; urban nonpoint source cost-sharing.....	53,600,000	41,295,076	30,671	1,449,756	10,824,497
Natural resources; contaminated sediment removal.....	32,000,000	24,545,353		1,210,604	6,244,043
Natural resources; environmental segregated fund supported administrative facilities.....	19,969,200	10,655,566	143	144,257	9,169,234
Natural resources; segregated revenue supported dam safety projects.....	6,600,000	6,571,582	617	27,795	6
Natural resources; pollution abatement and sewage collection facilities, ORAP funding.....	145,060,325	145,010,325	50,000		
Natural resources; pollution abatement and sewage collection facilities.....	893,493,400	874,927,239	18,513,077		53,084
Natural resources; pollution abatement and sewage collection facilities; combined sewer overflow.....	200,600,000	194,312,599	6,287,401		
Natural resources; recreation projects.....	56,055,000	56,053,994	1,006		
Natural resources; local parks land acquisition and development.....	2,490,000	2,447,741	42,259		
Natural resources; recreation development.....	23,061,500	22,919,742	141,325	68	364
Natural resources; land acquisition.....	45,608,600	45,116,929	491,671		
Natural resources; Wisconsin natural areas heritage program.....	2,500,000	2,445,793	17,174		37,032
Natural resources; segregated revenue supported facilities.....	108,171,100	85,718,716	93,544	3,363,115	18,995,725

**TABLE III-1**  
**GENERAL OBLIGATION ISSUANCE STATUS REPORT—CONTINUED**  
**DECEMBER 15, 2017**

<b>Program Purpose</b>	<b>Credit to Capital Improvement Fund</b>					<b>Total Authorized Unissued Debt</b>
	<b>Legislative Authorization</b>	<b>General Obligations Issued to Date</b>	<b>Interest Earnings<sup>(a)</sup></b>	<b>Premium<sup>(a)</sup></b>		
Natural resources; general fund supported administrative facilities.....	\$ 16,514,100	\$ 11,317,787	\$ 21,753	\$ 9,001	\$ 5,165,559	
Natural resources; ice age trail.....	750,000	750,000				
Natural resources; dam safety projects.....	25,500,000	15,447,296	49,701	1,059,219	8,943,784	
Natural resources; segregated revenue supported land acquisition.....	2,500,000	2,500,000				
Natural resources; Warren Knowles - Gay lord Nelson stewardship program.....	231,000,000	229,243,222	1,306,849	132,869	317,060	
Transportation; administrative facilities.....	8,890,400	8,759,479	33,943		96,978	
Transportation; accelerated bridge improvements.....	46,849,800	46,849,800				
Transportation; major interstate bridge construction.....	245,000,000	213,006,877		31,972,097	21,026	
Transportation; rail passenger route development.....	79,000,000	66,084,243	3,016	1,342,987	11,569,754	
Transportation; accelerated highway improvements.....	185,000,000	185,000,000				
Transportation; connecting highway improvements.....	15,000,000	15,000,000				
Transportation; federally aided highway facilities.....	10,000,000	10,000,000				
Transportation; highway projects.....	41,000,000	41,000,000				
Transportation; major highway and rehabilitation projects.....	565,480,400	565,480,400				
Transportation; Southeast rehabilitation projects, southeast megaprojects, and high- cost bridge projects.....	1,328,550,000	1,183,791,359	3,018,078	94,920,325	46,820,238	
Transportation; state highway rehabilitation projects, southeast megaprojects.....	820,063,700	781,604,780	1,182,897	37,275,422	601	
Transportation; major highway projects.....	100,000,000	98,948,179		1,051,814	7	
Transportation; state highway rehabilitation, certain projects.....	141,000,000	134,924,101		6,075,854	45	
Transportation; major highway and rehabilitation projects subject to joint committee on finance approval.....	350,000,000	233,421,404		39,871,103	76,707,493	
Transportation; southeast Wisconsin freeway megaprojects subject to contingency.....	252,400,000				252,400,000	
Transportation; harbor improvements.....	120,000,000	87,105,500	234,581	4,382,187	28,277,732	
Transportation; rail acquisitions and improvements.....	250,300,000	163,042,078	5,187	13,891,730	73,361,005	
Transportation; local roads for job preservation, state funds.....	2,000,000	2,000,000				
Corrections; correctional facilities.....	926,679,900	827,204,133	11,467,562	3,425,482	84,582,723	

**TABLE III-1**  
**GENERAL OBLIGATION ISSUANCE STATUS REPORT—CONTINUED**  
**DECEMBER 15, 2017**

<u>Program Purpose</u>	<u>Credit to Capital Improvement Fund</u>				
	<u>Legislative Authorization</u>	<u>General Obligations Issued to Date</u>	<u>Interest Earnings<sup>(a)</sup></u>	<u>Premium<sup>(a)</sup></u>	<u>Total Authorized Unissued Debt</u>
Corrections; self-amortizing facilities and equipment.....	\$ 2,116,300	\$ 2,115,438	\$ 99		\$ 763
Corrections; juvenile correctional facilities.....	28,652,200	28,538,452	108,861	\$ 988	3,899
Health services; mental health and secure treatment facilities.....	208,646,200	168,187,866	895,124	1,330,666	38,232,544
Agriculture; soil and water.....	68,075,000	57,493,581	3,025	2,647,707	7,930,687
Agriculture; conservation reserve enhancement.....	28,000,000	17,289,862		702,538	10,007,600
Administration; Black Point Estate.....	1,600,000	1,598,655	445		900
Administration; energy conservation projects; capital improvement fund.....	220,000,000	157,817,424		10,073,413	52,109,163
Building commission; previous lease rental authority.....	143,071,600	143,068,654			2,946
Building commission; refunding tax-supported general obligation debt.....	2,102,086,430	2,102,086,530			
Building commission; refunding self-amortizing general obligation debt.....	272,863,033	272,863,033			
Building commission; refunding tax-supported and self-amortizing general obligation debt incurred before June 30, 2005.....	250,000,000	250,000,000			
Building commission; refunding tax-supported and self-amortizing general obligation debt incurred before July 1, 2011.....	474,000,000	473,651,084			348,916
Building commission; refunding tax-supported and self-amortizing general obligation debt incurred before July 1, 2013.....	264,200,000	263,420,000			780,000
Building commission; refunding tax-supported and self-amortizing general obligation debt.....	6,785,000,000	4,976,873,916			1,808,126,084
Building commission; housing state departments and agencies.....	917,767,100	697,632,851	2,356,097	32,410,788	185,367,364
Building commission; 1 West Wilson street parking ramp.....	15,100,000	14,805,521	294,479		
Building commission; project contingencies.....	47,961,200	46,869,613	64,761	100,885	925,941
Building commission; capital equipment acquisition.....	125,660,000	123,146,982	740,327	233,401	1,539,290
Building commission; discount sale of debt.....	90,000,000	72,908,307			17,091,693
Building commission; discount sale of debt (higher education bonds).....	100,000,000	99,988,833 <sup>(b)</sup>			11,167
Building commission; other public purposes.....	2,677,933,400	2,315,375,267	8,728,268	49,645,795	304,184,070

**TABLE III-1**  
**GENERAL OBLIGATION ISSUANCE STATUS REPORT—CONTINUED**  
**DECEMBER 15, 2017**

<u>Program Purpose</u>	<u>Credit to Capital Improvement Fund</u>				
	<u>Legislative Authorization</u>	<u>General Obligations Issued to Date</u>	<u>Interest Earnings<sup>(a)</sup></u>	<u>Premium<sup>(a)</sup></u>	<u>Total Authorized Unissued Debt</u>
Medical College of Wisconsin, Inc.;					
basic science education and health information technology facilities.....	\$ 10,000,000	\$ 10,000,000			
Norskedalen Nature and Heritage Center.....	1,048,300				\$ 1,048,300
Bond Health Center.....	1,000,000	983,307		\$ 16,682	10
Lac du Flambeau Indian Tribal Cultural Center..	250,000	210,495		39,504	1
Dane County; livestock facilities.....	9,000,000	7,577,838		1,422,134	28
K I Convention Center.....	2,000,000	1,725,394		274,522	84
HR Academy, Inc.....	1,500,000	1,500,000			
Medical College of Wisconsin, Inc.;					
biomedical research and technology incubator.....	35,000,000	33,820,484		910,977	268,539
AIDS Resource Center of Wisconsin, Inc.....	800,000	800,000			
Bradley Center Sports and Entertainment Corporation.....	5,000,000	4,869,946		130,053	1
Medical College of Wisconsin;					
community medical education facilities.....	7,384,300				7,384,300
Family justice center.....	10,625,000	9,109,385		1,515,566	
Marquette University;					
dental clinic and education facility.....	25,000,000	23,630,165	\$ 818	1,016,640	352,377
Civil War exhibit at the Kenosha Public Museums.....	500,000	500,000			
AIDS Network, Inc.....	300,000	300,000			
Wisconsin Maritime Center of Excellence.....	5,000,000	4,196,949		596,062	206,989
Hmong cultural centers.....	250,000	250,000			
Milwaukee Police Athletic League;					
youth activities center.....	1,000,000	1,000,000			
Children's research institute.....	10,000,000	10,000,000			
Domestic Abuse Intervention Services, Inc.....	560,000	476,330		83,327	343
Carroll University.....	3,000,000	2,240,618		386,163	373,219
Wisconsin Agricultural Education Center, Inc...	5,000,000	-			5,000,000
Eau Claire Confluence Arts, Inc.....	15,000,000	1,750,565		297,778	12,951,657
Administration;					
school educational technology infrastructure financial assistance.....	76,911,300	71,480,216	431,066		5,000,018
Myrick Hixon EcoPark, Inc.....	500,000	500,000			
Madison Children's Museum.....	250,000	250,000			
Administration;					
public library educational technology infrastructure financial assistance.....	269,000	268,918	42		41
Educational communications board;					
educational communications facilities.....	24,169,000	24,112,683	38,515	11,925	5,877
LaCrosse Center.....	5,000,000				5,000,000
St. Ann Center for Intergenerational Care, Inc., Bucyrus Campus.....	5,000,000				5,000,000

**TABLE III-1**  
**GENERAL OBLIGATION ISSUANCE STATUS REPORT—CONTINUED**  
**DECEMBER 15, 2017**

<u>Program Purpose</u>	<u>Legislative Authorization</u>	<u>General Obligations Issued to Date</u>	<u>Credit to Capital Improvement Fund</u>		<u>Total Authorized Unissued Debt</u>
			<u>Interest Earnings<sup>(a)</sup></u>	<u>Premium<sup>(a)</sup></u>	
Brown County innovation center.....	\$ 5,000,000				\$ 5,000,000
Grand Opera House in Oshkosh.....	500,000	\$ 500,000			
Aldo Leopold climate change classroom and interactive laboratory.....	500,000	485,000		\$ 14,992	8
Historical society; self-amortizing facilities.....	1,029,300	1,029,156	\$ 3,896		
Historical society; historic records.....	26,650,000	18,100,751		2,763,272	5,785,977
Historical society; historic sites.....	9,591,800	9,049,163	847	289,816	251,974
Historical society; museum facility.....	4,384,400	4,362,469			21,931
Historical society; Wisconsin history center.....	16,000,000	7,493,994		1,246,742	7,259,264
Public instruction; state school, state center and library facilities.....	12,350,600	11,845,468	32,509	467,826	4,797
Military affairs; armories and military facilities.....	56,490,800	37,977,135	195,308	1,490,972	16,827,385
Veterans affairs; veterans facilities.....	15,018,700	9,405,485	50,593		5,562,621
Veterans affairs; self-amortizing mortgage loans.....	2,127,540,000	2,122,542,395			4,997,605
Veterans affairs; refunding bonds.....	1,015,000,000	761,594,245			253,405,755
Veterans affairs; self-amortizing facilities.....	77,995,100	26,282,457	1,613	979,837	50,731,193
State fair park board; board facilities.....	14,787,100	14,769,363	1		17,736
State fair park board; housing facilities.....	11,000,000	10,999,985	15		
State fair park board; self-amortizing facilities.....	53,687,100	52,699,335	22,401	13,596	951,768
Total.....	<u>\$ 33,146,731,788</u>	<u>\$ 27,922,419,947</u>	<u>\$ 73,888,124</u>	<u>\$489,339,740</u>	<u>\$ 4,661,087,781</u>

<sup>(a)</sup> Amounts previously credited to the Capital Improvement Fund (which include interest earnings and may include sale proceeds representing purchase premium) reduce issuance authority by the same amount.

<sup>(b)</sup> Accrued interest on any obligation that is not paid during the fiscal year in which it accrues is treated as debt and taken into account for purposes of the statutory authority to issue debt.

**Source: Department of Administration.**

## DEBT INFORMATION

On December 13, 2017 the State sold \$347 million of its General Obligation Refunding Bonds of 2017, Series 3 (**2017 Series 3 Bonds**), for advance refunding purposes, pursuant to a bond purchase agreement. Closing of this bond issue is expected on or about December 28, 2017. Table III-2 and the other tables that follow do not reflect the issuance of, or the advance refunding resulting from, the 2017 Series 3 Bonds. Information concerning the 2017 Series 3 Bonds, and the State's general obligation bonds to be refunded, is included in the Official Statement for the 2017 Series 3 Bonds.

Table III-2 shows general obligations that have outstanding balances as of December 15, 2017 and history of other issuances during the past 20 years. If payment has been made or duly provided for by the date that a general obligation becomes due for payment, then interest ceases to accrue, and the general obligation is no longer outstanding for purposes of the following tables.

**Table III-2**

### OUTSTANDING GENERAL OBLIGATIONS 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>
<i>Fixed-Rate General Obligations</i>				
1997- Bonds Series 1 .....	3/15/97			
Serial Bonds .....		2006-15	\$ 17,880,000	-0-
Serial Bonds .....		2017	5,760,000	-0-
Bonds Series A .....	3/15/97			
Term Bonds .....		2021	8,065,000	-0-
Term Bonds .....		2028	13,295,000	-0-
Bonds Series B .....	7/15/97	1999-2018	101,010,000	-0-
Bonds Series C .....	9/15/97			
Serial Bonds .....		2000-01	520,000	-0-
Serial Bonds .....		2003-13	22,755,000	-0-
Term Bonds .....		2017	7,850,000	-0-
Term Bonds .....		2023	10,580,000	-0-
Term Bonds .....		2026	3,295,000	-0-
Bonds Series D (Taxable) .....	9/15/97			
Serial Bonds .....		1999-2012	13,385,000	-0-
Term Bonds .....		2017	6,760,000	-0-
Term Bonds .....		2028	24,855,000	-0-
1998- Bonds Series A .....	3/1/98	1999-2018	156,185,000	-0-
Bonds Series B .....	5/15/98			
Serial Bonds .....		2007-08	2,865,000	-0-
Term Bonds .....		2010	4,775,000	-0-
Term Bonds .....		2018	2,865,000	-0-
Term Bonds .....		2023	8,670,000	-0-
Term Bonds .....		2028	11,390,000	-0-
Bonds Series C (Taxable) .....	5/15/98			
Serial Bonds .....		1999-2008	6,245,000	-0-
Term Bonds .....		2028	27,760,000	-0-
Refunding Bonds Series 1 .....	8/15/98			
Serial Bonds .....		1999	2,820,000	-0-
Serial Bonds .....		2004-16	154,760,000	-0-
Refunding Bonds Series 2 .....	9/15/98			
Serial Bonds .....		1999-2001	17,095,000	-0-



**Table III-2 – Continued**  
**OUTSTANDING GENERAL OBLIGATIONS 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>
1998- Serial Bonds .....		2004-09	\$ 77,155,000	-0-
Bonds Series D .....	9/1/98	2000-19	74,840,000	-0-
Bonds Series E.....	10/15/98	2012-17	6,155,000	-0-
Bonds Series F (Taxable).....	10/15/98			
Serial Bonds .....		1999-2009	9,410,000	-0-
Term Bonds .....		2029	45,590,000	-0-
1999- Bonds Series A .....				
Refunding Bonds Series 1 .....	5/1/99			
Serial Bonds .....		2008-12	4,905,000	-0-
Term Bonds .....		2015	3,880,000	0-
Term Bonds .....		2020	7,005,000	-0-
Bonds Series B (Taxable).....	5/1/99			
Serial Bonds .....		2000-10	6,370,000	-0-
Term Bonds .....		2013	2,620,000	-0-
Term Bonds .....		2016	3,180,000	-0-
Term Bonds .....		2030	27,830,000	-0-
Bonds Series C.....	10/15/99	2001-20	100,000,000	-0-
Bonds Series D (Taxable).....	11/1/99			
Term Bonds .....		2010	9,465,000	-0-
Term Bonds .....		2030	55,535,000	-0-
2000-Bonds Series A.....	3/15/00			
Serial Bonds.....		2001-18	128,875,000	-0-
Term Bonds .....		2020	21,125,000	-0-
Bonds Series B (Taxable).....	7/1/00			
Term Bonds .....		2010	4,625,000	-0-
Term Bonds .....		2030	30,375,000	-0-
Bonds Series C.....	7/15/00	2012-21	87,715,000	-0-
Bonds Series D .....	11/1/00	2012-21	199,965,000	-0-
Bonds Series E (Taxable) .....	11/7/00			
Term Bonds .....		2016	5,000,000	-0-
2001- Bonds Series A (Taxable) .....	2/21/01			
Term Bonds .....		2031	15,000,000	\$ 1,210,000
Bonds Series B.....	4/1/01	2012-21	91,620,000	-0-
Bonds Series C.....	6/1/01	2002-11	92,410,000	-0-
Bonds Series D (Taxable).....	6/15/01			
Serial Bonds .....		2002-08	2,060,000	-0-
Term Bonds .....		2011	1,110,000	-0-
Term Bonds .....		2016	2,390,000	-0-
Term Bonds .....		2021	3,305,000	-0-
Term Bonds .....		2031	11,135,000	-0-
Loan Series A .....	8/24/01		50,000,000	-0-
Bonds Series F.....	10/1/01	2003-22	186,615,000	-0-
Refunding Bonds Series 1 .....	10/1/01			
Serial Bonds .....		2005	4,230,000	-0-
Serial Bonds .....		2007-15	242,875,000	-0-
Bonds Series E (Taxable) .....	10/1/01			
Term Bonds .....		2017	6,210,000	-0-
Term Bonds .....		2021	2,730,000	-0-

**Table III-2 – Continued**  
**OUTSTANDING GENERAL OBLIGATIONS 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>
2001- Term Bonds .....		2031	\$ 11,060,000	-0-
2002- Bonds Series A .....	3/1/02	2003-22	112,280,000	-0-
Refunding Bonds Series 1 .....	3/1/02	2004-20	75,000,000	-0-
Bonds Series B (Taxable) .....	3/26/02			
Term Bonds .....		2032	15,000,000	\$ 1,220,000
Bonds Series C .....	6/1/02	2003-22	143,545,000	-0-
Bonds Series D (Taxable) .....	6/12/02			
Term Bonds .....		2033	20,000,000	1,880,000
Bonds Series E (Taxable) .....	9/26/02			
Term Bonds .....		2018	2,000,000	45,000
Bonds Series F (Taxable) .....	9/26/02			
Term Bonds .....		2033	13,000,000	1,485,000
Bonds Series G .....	10/15/02	2004-23	190,550,000	-0-
Bonds Series H .....	12/30/02			
Term Bonds .....		2033	15,000,000	1,665,000
2003- Refunding Bonds Series 1 (Taxable) .....	4/3/03	2019	7,000,000	-0-
Refunding Bonds Series 2 .....	4/1/03			
Serial Bonds .....		2007-21	10,650,000	1,935,000
Term Bonds .....		2024	3,090,000	-0-
Bonds Series A .....	5/1/03	2004-23	173,900,000	-0-
Bonds Series B (Taxable) .....	7/24/03	2033	30,000,000	3,120,000
Bonds Series C .....	10/15/03		285,130,000	
Serial Bonds .....		2005-24	251,865,000	-0-
Term Bonds .....		2026	5,420,000	-0-
Term Bonds .....		2029	9,190,000	-0-
Term Bonds .....		2034	18,655,000	-0-
Refunding Bonds Series 3 .....	10/30/03			
Serial Bonds .....		2004-07	9,495,000	-0-
Term Bonds .....		2013	16,210,000	-0-
Term Bonds .....		2025	13,000,000	-0-
Term Bonds .....		2026	29,185,000	5,700,000
2004- Refunding Bonds Series 1 .....	1/28/04	2006-19	146,970,000	-0-
Refunding Bonds Series 2 .....	1/28/04	2006-20	175,830,000	-0-
Refunding Notes Series 1 .....	3/16/04	2004	175,000,000	-0-
Bonds Series A .....	4/14/04	2005-24	307,435,000	-0-
Bonds CWF Global Certificate .....	5/1/04	2009-24	116,840,688	-0- (a)
Refunding Bonds Series 3 .....	6/15/04	2006-22	175,000,000	-0-
Refunding Bonds Series 4 .....	7/29/04	2006-20	117,200,000	-0-
Bonds Series B (Taxable) .....	8/12/04			
Term Bonds .....		2014	1,000,000	-0-
Bonds Series C (Taxable) .....	8/12/04			
Term Bonds .....		2019	1,000,000	35,000
Bonds Series D (Taxable) .....	8/26/04			
Term Bonds .....		2034	20,000,000	-0-
Bonds Series E .....	10/21/04	2006-25	225,000,000	-0-
2005- Bonds Series A .....	2/10/05	2016-25	131,485,000	-0-
Refunding Bonds Series 1 .....	2/10/05	2006-21	430,240,000	-0-
Bonds Series C (Taxable) .....	4/7/05			

**Table III-2 – Continued**  
**OUTSTANDING GENERAL OBLIGATIONS 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>
2005- Term Bonds .....		2035	\$ 5,000,000	\$ 605,000
Bonds Series D .....	8/11/05	2007-25	186,640,000	-0-
Bonds Series E .....	12/8/05	2007-11	48,275,000	-0-
2006- Refunding Bonds Series 1 .....	1/31/06	2007-15	96,780,000	-0-
Bonds Series A .....	3/28/06	2015-26	331,215,000	-0-
Bonds Series B (Taxable) .....	7/7/06			
Term Bonds .....		2037	2,000,000	105,000
Bonds Series C .....	8/2/06	2008-37	61,685,000	6,345,000
Bonds Series D .....	9/13/06	2018-26	176,490,000	-0-
2007- Bonds Series A .....	2/1/07	2016-27	158,390,000	-0-
Refunding Bonds Series 1 .....	2/1/07	2014-20	299,005,000	181,145,000
Bonds CWF Series A .....	2/1/07	2026	13,148,554	-0- (a)
Bonds CWF Series B .....	2/1/07	2027	6,851,446	-0- (a)
Refunding Bonds Series 2 .....	10/31/07			
Serial Bonds .....		2008-17	13,905,000	-0-
Term Bonds .....		2022	2,510,000	2,475,000
Term Bonds .....		2027	4,155,000	4,095,000
Refunding Bonds Series 3 .....	10/31/07	2026	3,835,000	-0-
Bonds Series C .....	12/5/07	2009-28	154,890,000	8,025,000
2008- Bonds Series A .....	4/30/08	2009-28	164,535,000	8,990,000 (b)
Bonds Series B (Taxable) .....	5/30/08			
Term Bonds .....		2038	4,445,000	1,040,000
Bonds CWF Series A .....	6/17/08	2026-28	16,600,000	-0- (a)
Refunding Bonds Series 1 .....	6/26/08			
Serial Bonds .....		2009-18	3,120,000	575,000
Term Bonds .....		2018	14,680,000	470,000
Serial Bond .....		2023	175,000	-0-
Refunding Bonds Series 2 .....	6/26/08			
Term Bonds .....		2020	1,880,000	-0-
Bonds Series C .....	9/4/08	2010-29	302,200,000	16,795,000
Bonds, Series D .....	12/23/08	2012-30	100,000,000	5,375,000 (b)
2009- Bonds CWF Series A .....	1/27/09	2016-26	17,700,000	-0- (a)
Bonds Series A .....	6/18/09	2012-22	47,440,000	13,435,000 (b)
Bonds Series B (Taxable) .....	6/18/09			
Serial Bonds .....		2023-26	24,610,000	-0- (c)
Term Bonds .....		2030	29,925,000	8,040,000 (c)
Bonds Series C .....	9/3/09	2012-22	197,265,000	62,115,000 (b)
Bonds Series D (Taxable) .....	9/3/09			
Serial Bonds .....		2023-30	182,890,000	54,655,000 (c)
Term Bonds .....		2034	13,990,000	13,990,000
Term Bonds .....		2040	28,945,000	28,945,000
Refunding Bonds Series 1 .....	9/15/09	2011-16	54,355,000	-0-
2010- Refunding Bonds Series 1 .....	3/3/10	2012-29	201,165,000	34,300,000 (b)
Bonds Series A .....	4/7/10	2012-19	143,525,000	25,285,000 (b)
Bonds Series B (Taxable) .....	4/7/10	2020-30	179,105,000	59,990,000 (c)
Bonds CWF Series A .....	4/13/10	2025-31	15,243,000	-0- (a)
Bonds Series C .....	9/2/10	2012-19	146,680,000	42,195,000
Bonds Series D (Taxable) .....	9/2/10			

**Table III-2 – Continued**  
**OUTSTANDING GENERAL OBLIGATIONS 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>	
2010- Serial Bonds .....		2020-26	\$ 155,835,000	\$ 155,835,000	
Term Bonds .....		2032	118,025,000	118,025,000	
Term Bonds .....		2041	35,880,000	35,880,000	
Bonds CWF Series B .....	12/7/10	2030-31	15,000,000	-0-	(a)
2011- Bonds Series A .....	2/11/11	2012-31	428,740,000	83,085,000	(b)
Refunding Bonds Series 1 .....	6/2/11	2013-22	275,375,000	140,520,000	(b)
Bonds Series B .....	8/4/11	2013-32	329,260,000	57,705,000	(b)
Refunding Bonds Series 2 .....	10/31/11	2013-22	316,070,000	245,710,000	
Bonds Series C .....	12/22/11	2023-32	138,260,000	51,580,000	(b)
2012- Refunding Bonds Series 1 .....	3/20/12	2014-31	221,460,000	77,230,000	(b)
Bonds CWF Series A .....	4/24/12	2014-30	12,300,000	-0-	(a)
Refunding Bonds Series 2 .....	5/1/12	2018-29	143,555,000	143,555,000	
Bonds Series A .....	6/5/12				
Serial Bonds .....		2022-35	167,475,000	78,445,000	(b)
Term Bonds .....		2037	7,960,000	7,960,000	
Term Bonds .....		2042	23,580,000	23,580,000	
Bonds Series B .....	11/1/12	2022-33	293,070,000	246,965,000	(b)
2013- Bonds Series A .....	5/9/13	2014-33	410,250,000	235,440,000	(b)
Refunding Bonds Series 1 .....	11/7/13	2016-33	405,470,000	382,530,000	
2014- Refunding Bonds Series 1 .....	2/4/14	2015-20	181,595,000	68,470,000	
Bonds Series A .....	2/13/14	2015-34	231,405,000	130,800,000	(b)
Bonds CWF Series A .....	4/17/14	2014-33	10,700,000	-0-	(a)
Refunding Bonds Series 2 .....	4/24/14	2015-34	241,985,000	188,050,000	(b)
Bonds Series B .....	7/29/14	2016-31	250,990,000	73,650,000	(b)
Refunding Bonds Series 3 .....	9/3/14	2020-29	275,865,000	275,865,000	
Refunding Bonds Series 4 .....	1/15/15	2019-28	257,415,000	257,415,000	
Refunding Notes Series A-E .....	5/1/15	2017-21	279,810,000	203,905,000	
2015- Bonds Series A .....	2/19/15	2021-35	331,915,000	204,850,000	(b)
Refunding Bonds Series 1 .....	4/14/15	2015-29	171,045,000	110,510,000	
Bonds Series B .....	6/30/15	2017-21	88,830,000	71,120,000	
Bonds Series C .....	9/16/15	2017-36	387,025,000	374,205,000	
2016- Refunding Bonds Series 1 .....	3/8/16	2019-28	295,225,000	295,225,000	
Bonds Series A .....	3/16/16	2024-36	295,185,000	295,185,000	
Bonds Series B .....	7/28/16	2018-23	83,980,000	83,980,000	
Bonds Series C (Taxable) .....	7/28/16	2018-26	9,735,000	9,735,000	
Refunding Bonds Series 2 .....	8/25/16	2021-30	370,850,000	370,850,000	
Bonds Series D .....	10/25/16	2018-37	324,405,000	324,405,000	
2017- Bonds Series A .....	03/29/17	2022-37	335,310,000	335,310,000	
Refunding Bonds Series 1 .....	07/21/17	2021-31	345,275,000	345,275,000	
Refunding Bonds Series 2 .....	11/15/17	2020-28	382,680,000	382,680,000	
Bonds Series B .....	11/30/17	2019-38	272,665,000	<u>272,665,000</u>	
<i>Total Fixed-Rate General Obligations</i>				<u>\$7,342,045,000</u>	
<i>Variable-Rate General Obligations</i>					
2005- CP Notes Series A .....	12/14/05		\$ 100,350,000	\$ 16,472,000	
EMCP Series A (AMT) .....	12/29/05		61,000,000	-0-	
2006- EMCP Series A .....	2/9/06		161,905,000	-0-	
CP Notes Series A .....	8/2/06		123,510,000	30,887,000	
EMCP Series B .....	12/1/06		91,720,000	-0-	
EMCP Series C (AMT) .....	12/1/06		4,445,000	-0-	
2008- EMCP Program .....	Various		452,189,000	288,168,888	
Bonds CWF Series A .....	3/18/08		10,300,000	-0-	(a)

<u>Financing</u>	<u>Date of Financing</u>	<u>Maturity</u>	<u>Amount of Issuance</u>	<u>Amount Outstanding</u>
2013- CP Notes Series A .....	12/10/13		\$ 58,825,000	\$ 58,825,000
2016- CP Notes Series A .....	9/15/16		136,050,000	<u>112,555,000</u>
<i>Total Variable-Rate General Obligations</i>				<u>\$ 506,907,888</u>

TOTAL OUTSTANDING GENERAL OBLIGATIONS \$7,848,952,888

- (a) Approximately \$149 million of general obligations that had been issued to the Environmental Improvement Fund were cancelled, effective June 6, 2017. Those bonds had been issued to provide the required subsidy under the general resolution for the Clean Water Revenue Bond program discussed in Part VI of the 2017 Annual Report, and were released in connection with the refunding of all the State's outstanding clean water revenue bonds.
- (b) Pursuant to a refunding escrow agreement, the principal of, and interest on, all or a portion of the bonds will be paid as it comes due or will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is not treated as outstanding for purposes of this table.
- (c) Pursuant to a crossover refunding and refunding escrow agreement, the principal of all or a portion of the bonds will be paid as it comes due or will be called for redemption prior to maturity. The refunding escrow does not provide for the payment of interest on the refunded bonds. However, the principal amount of bonds for which payment is provided is not treated as outstanding for purposes of this table.

On January 16, 2014, the State of Wisconsin entered into a Term Loan Agreement with JPMorgan Chase Bank, National Association, and on April 15, 2015, terms of the agreement were met and the State drew proceeds of loans that were applied on May 1, 2015 to refund certain general obligation bonds. The Term Loan Agreement includes loans with May 1 maturities in the years 2017 to and including 2021. The interest rates on these loans are fixed. The State issued its General Obligation Refunding Notes of 2014, Series A-E to evidence its repayment obligation under the Term Loan Agreement, and these refunding notes are included in Table III-2. Pursuant to provisions of the Term Loan Agreement, any decrease in the maximum federal corporate tax rate, as defined in the Term Loan Agreement, may result in increases to the fixed interest rates under the Term Loan Agreement.

Table III-3 provides a historical view of the amount of outstanding general obligations as of December 15<sup>th</sup> for the previous ten years and the other following tables provide additional data about the State's outstanding general obligations.

**Table III-3**

**HISTORICAL SUMMARY OF OUTSTANDING GENERAL OBLIGATIONS**

<b>Year (December 15)</b>	<b>Outstanding Amount</b>
2007	\$ 5,781,428,689
2008	5,939,381,431
2009	6,222,792,743
2010	6,822,771,981
2011	7,378,610,318
2012	8,014,705,521
2013	8,027,531,244
2014	7,856,685,602
2015	7,988,224,416
2016	8,071,307,580

**Table III-4**

**PER CAPITA STATE GENERAL OBLIGATION DEBT**

<b>Year Ending December 31</b>	<b>Outstanding Indebtedness (Amounts in Thousands)</b>	<b>Debt Per Capita</b>	<b>Debt Per Capita as % of Per Capita Income</b>
2007.....	\$ 5,893,590	\$ 1,052.05	2.79%
2008.....	6,146,978	1,092.21	2.80
2009.....	6,481,078	1,146.54	2.98
2010.....	7,407,431	1,301.83	3.37
2011.....	7,878,628	1,379.79	3.39
2012.....	8,385,972	1,464.54	3.44
2013.....	8,344,530	1,452.99	3.40
2014.....	8,134,099	1,412.66	3.19
2015.....	8,239,224	1,428.36	3.11
2016.....	8,389,197	1,451.67	3.10

Sources: Legislative Audit Bureau

Tables II-31 and II-34 in Part II of the 2017 Annual Report

**Table III-5**

**LIMITATION ON ANNUAL AGGREGATE PUBLIC DEBT THAT MAY BE CONTRACTED**

The State Constitution provides that the aggregate debt contracted by the State in calendar year 2017 shall not exceed the lesser of (a) or (b):

(a)	3/4 of 1% x \$525,984,545,850		\$ 3,944,884,094
(b)	5% x \$525,984,545,850	\$26,299,227,293	
	Deduct: Net Indebtedness 1/1/2017	8,389,197,634	
			\$17,910,029,659

The amount of \$525,984,545,850 shown above is the aggregate full market value of all taxable property in the State for the year 2017 as certified by the Department of Revenue.

The amount of \$8,389,197,634 shown above is the net indebtedness as of January 1, 2017 as certified by the Legislative Audit Bureau.

The lesser of (a) or (b) is \$3,944,884,094. Aggregate debt contracted by the State in calendar year 2017 shall not exceed this amount.

**Source: Department of Administration**

**Table III-6**

**ANNUAL DEBT LIMIT COMPARED  
TO ACTUAL BORROWING**

<u>Calendar Year</u>	<u>Annual Debt Limitation</u>	<u>Actual Borrowing</u>	<u>Borrowing as Percentage of Limitation</u>
2008 .....	\$3,857,954,728	\$493,635,000	12.8%
2009 .....	3,839,339,873	542,765,000	14.1
2010 .....	3,719,281,442	809,293,000	21.8
2011 .....	3,651,481,746	896,260,000	24.6
2012 .....	3,533,193,969	735,585,000	20.8
2013 .....	3,506,269,230	642,295,000	18.3
2014 .....	3,596,099,766	598,170,000	16.6
2015 .....	3,679,519,080	750,475,000	20.4
2016 .....	3,788,432,462	713,305,000	18.8
2017 .....	3,944,884,094	607,975,000	15.4

Source: Department of Administration

**Table III-7**

**DEBT STATEMENT  
(December 15, 2017)**

	<u>Tax-Supported Debt</u>		<u>Revenue-Supported Debt<sup>(a)</sup></u>		<u>Total</u>
	<u>General Fund</u>	<u>Segregated Funds<sup>(b)</sup></u>	<u>Veterans Housing</u>	<u>Other<sup>(c)</sup></u>	
General Obligations .....	<u>\$4,433,378,005</u>	<u>\$1,658,828,354</u>	<u>\$34,005,000</u>	<u>\$1,722,741,529</u>	<u>\$7,848,952,888</u>
Total Outstanding					
Indebtedness .....	<u>\$4,433,378,005</u>	<u>\$1,658,828,354</u>	<u>\$34,005,000</u>	<u>\$1,722,741,529</u>	<u>\$7,848,952,888</u>

(a) Revenue-Supported Debt represents general obligation debt of the State issued to fund particular programs and facilities with the initial expectation that revenues and other proceeds derived from the operation of the programs and facilities will amortize the allocable debt without recourse to the General Fund.

(b) Includes the Transportation Fund and certain administrative facilities for the Department of Natural Resources.

(c) Includes university dormitories, food service, intercollegiate athletic facilities, certain facilities on the State Fair grounds, and capital equipment acquisition.

Source: Department of Administration



**Table III-8  
COMPARISON OF OUTSTANDING  
INDEBTEDNESS TO EQUALIZED VALUATION  
OF PROPERTY**

<u>Calendar Year</u>	<u>Value of Taxable Property (Amounts in Thousands)</u>	<u>Outstanding Indebtedness<sup>(a)</sup> (Amounts in Thousands)</u>	<u>Debt as Percentage of Equalized Value</u>
2007.....	\$497,920,349	\$ 5,893,590	1.18 %
2008.....	514,393,964	6,146,978	1.19
2009.....	511,911,983	6,481,078	1.27
2010.....	495,904,192	7,407,431	1.49
2011.....	486,864,233	7,878,628	1.62
2012.....	471,092,529	8,385,972	1.78
2013.....	467,502,564	8,344,530	1.78
2014.....	479,968,800	8,134,099	1.70
2015.....	490,602,544	8,239,224	1.68
2016.....	505,124,328	8,389,198	1.66

(a) As of December 31.

Sources: Department of Revenue and Wisconsin Legislative Audit Bureau

**Table III-9  
DEBT SERVICE PAYMENT HISTORY:  
AMOUNT PAID ON GENERAL  
OBLIGATIONS**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
To June 30, 1995 .....	\$2,632,788,430	\$2,424,726,973	\$5,057,515,376
1995-96.....	199,622,231	159,090,781	358,713,012
1996-97.....	205,112,886	167,659,261	372,772,147
1997-98.....	217,184,565	171,783,741	388,968,306
1998-99.....	236,344,072	173,743,794	410,087,867
1999-2000.....	244,211,911	183,158,974	427,370,884
2000-01.....	285,088,311	209,230,800	494,319,110
2001-02.....	273,060,055	202,386,510	475,446,565
2002-03.....	270,544,076	216,328,685	486,872,762
2003-04.....	310,843,832	183,991,355	494,835,186
2004-05.....	361,327,888	185,242,899	546,570,787
2005-06.....	349,172,670	216,358,460	565,531,131
2006-07.....	379,470,000	233,687,100	613,157,100
2007-08.....	350,005,000	268,124,600	618,129,600
2008-09.....	397,266,258	255,994,695	653,260,953
2009-10.....	119,029,189	251,749,918	370,779,107
2010-11.....	222,253,398	263,514,405	485,767,804
2011-12.....	159,343,712	262,202,521	421,546,232
2012-13.....	626,021,930	300,123,248	926,145,178
2013-14.....	736,319,021	322,918,374	1,059,237,395
2014-15.....	527,677,280	308,323,446	836,000,726
2015-16.....	554,334,289	316,040,351	870,374,639
2016-17.....	620,619,350	326,382,360	947,001,709
7/1/2017-12/15/2017....	<u>28,290,000</u>	<u>161,625,452</u>	<u>189,915,452</u>
Totals.....	<u>\$9,700,932,619</u>	<u>\$7,433,522,773</u>	<u>\$17,134,455,393</u>

Source: Department of Administration

Table III-10

**DEBT SERVICE MATURITY SCHEDULE:  
AMOUNT DUE ANNUALLY ON GENERAL OBLIGATION BONDS  
(Issued to December 15, 2017)**

<b>Fiscal Year (Ending June 30)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2018 <sup>(a)</sup> .....	\$ 470,740,000	\$ 172,921,589	\$ 643,661,589
2019.....	522,765,000	326,854,701	849,619,701
2020.....	537,105,000	301,837,993	838,942,993
2021.....	492,845,000	272,082,459	764,927,459
2022.....	462,860,000	246,689,584	709,549,584
2023.....	473,265,000	223,644,660	696,909,660
2024.....	447,250,000	202,370,270	649,620,270
2025.....	438,925,000	182,833,493	621,758,493
2026.....	405,550,000	160,889,284	566,439,284
2027.....	436,915,000	142,431,244	579,346,244
2028.....	358,870,000	121,816,391	480,686,391
2029.....	359,770,000	106,389,509	466,159,509
2030.....	345,690,000	89,876,628	435,566,628
2031.....	333,935,000	73,431,716	407,366,716
2032.....	297,715,000	58,588,635	356,303,635
2033.....	271,450,000	46,104,065	317,554,065
2034.....	173,940,000	34,151,951	208,091,951
2035.....	161,190,000	25,521,540	186,711,540
2036.....	126,450,000	17,477,075	143,927,075
2037.....	88,300,000	11,160,198	99,460,198
2038.....	92,550,000	6,750,450	99,300,450
2039.....	14,115,000	2,116,950	16,231,950
2040.....	14,910,000	1,404,165	16,314,165
2041.....	9,750,000	650,510	10,400,510
2042.....	5,190,000	207,600	5,397,600
<b>TOTALS.....</b>	<b>\$ 7,342,045,000</b>	<b>\$ 2,828,202,659</b>	<b>\$ 10,170,247,660</b>

<sup>(a)</sup> For the fiscal year ending June 30, 2018, the table includes debt service amounts for the period December 15, 2017 through June 30, 2018.

**Source: Department of Administration**

Table III-11

**EXPECTED AMORTIZATION SCHEDULE:  
GENERAL OBLIGATION VARIABLE RATE OBLIGATIONS<sup>(a)</sup>  
(Issued to December 15, 2017)**

<u>(Year Ending June 30)</u>	<u>Principal</u>
2018.....	\$ 101,346,939
2019.....	84,992,993
2020.....	91,222,931
2021.....	116,962,616
2022.....	80,524,357
2023.....	15,539,353
2024.....	16,318,699
	<u>\$ 506,907,888</u>

<sup>(a)</sup> In general, the State has treated each general obligation variable rate issue as if it were a long-term bond issue by making annual principal payments on May 1; in prior fiscal years, certain principal amounts that were budgeted for payment on May 1 were re-amortized.

**Source: Department of Administration**

Table III-12

**SOURCE OF DEBT SERVICE PAYMENTS  
ON GENERAL OBLIGATIONS  
(June 30, 2017)**

	<u>Fiscal Year</u>		<u>Fiscal Year</u>		<u>Fiscal Year</u>	
	<u>2016-17</u>	<u>%</u>	<u>2015-16</u>	<u>%</u>	<u>2014-15</u>	<u>%</u>
Tax-Supported Debt						
General Fund .....	\$ 634,174,417	67.0	\$ 577,731,923	65.0	\$ 561,151,621	67.1
Segregated Funds .....	<u>135,537,769</u>	<u>14.3</u>	<u>154,960,040</u>	<u>17.4</u>	<u>100,286,920</u>	<u>12.0</u>
Subtotal.....	769,712,186	81.3	732,691,963	82.3	661,438,541	79.1
Revenue-Supported Debt						
Veterans .....	15,107,801	1.6	83,250	0.0	18,654,404	2.2
University of Wisconsin .....	133,446,396	14.1	130,014,890	14.6	127,292,688	15.2
State Fair Park.....	3,538,175	0.4	3,987,088	0.4	3,333,355	0.4
Historical .....	425	0.0	2,066	0.0	2,432	0.0
Housing State Depts./Other ...	<u>25,196,727</u>	<u>2.6</u>	<u>23,674,974</u>	<u>2.6</u>	<u>25,279,305</u>	<u>3.0</u>
Subtotal.....	<u>177,289,523</u>	<u>18.7</u>	<u>157,762,538</u>	<u>17.7</u>	<u>174,562,184</u>	<u>20.9</u>
Total Debt Service.....	<u>\$ 947,001,709</u>	<u>100.0</u>	<u>\$ 890,454,501</u>	<u>100.0</u>	<u>\$ 836,000,725</u>	<u>100.0</u>

**Source: Department of Administration**

**VARIABLE RATE OBLIGATIONS**

The State has issued, and there currently remain outstanding, both general obligation CP Notes and EMCP.

**Commercial Paper Notes**

In 1997, the Commission adopted a Program Resolution for State of Wisconsin General Obligation Commercial Paper Notes (as amended, **CP Notes Program Resolution**), which governs the issuance of the State's CP Notes.

The State has appointed, to serve as **Dealers** of CP Notes, Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, and Merrill Lynch, Pierce, Fenner & Smith Incorporated. The State has appointed U.S. Bank National Association, as successor to Deutsche Bank Trust Company Americas, to serve as **Issuing and**

**Paying Agent** for the CP Notes, and The Depository Trust Company (DTC) serves as **Depository** for the CP Notes.

The State has obtained a **Liquidity Facility** in the form of a line of credit, which is provided through a **Credit Agreement** between the State and BMO Harris Bank N.A. (**Liquidity Facility Provider**). The amount available under the Credit Agreement is currently \$275 million.

Table III-13 summarizes, for each authorized and outstanding series of CP Notes, the principal amount initially issued, the date of initial issuance, and the principal amount outstanding as of December 15, 2017.

**Table III-13**

**SUMMARY OF OUTSTANDING GENERAL OBLIGATION CP NOTES  
(December 15, 2017)**

<u>Series of CP Notes</u>	<u>Amount Issued</u>	<u>Date of Initial Issuance</u>	<u>Amount Outstanding</u>
2005 Series A	\$100,350,000	December 14, 2005	\$ 16,472,000
2006 Series A	123,510,000	August 2, 2006	30,887,000
2013 Series A	58,825,000	December 10, 2013	58,825,000
2016 Series A	136,050,000	September 15, 2016	<u>112,555,000</u>
			\$ 218,739,000

Additional CP Notes may be issued pursuant to action of the Commission, but the aggregate amount of CP Notes outstanding may not exceed the principal amount of the Liquidity Facility.

*Description of CP Notes*

Each CP Note is dated the date it is issued. It is issued as an interest-bearing obligation in a denomination of \$100,000 or increments of \$1,000 above \$100,000.

The CP Notes are not callable prior to maturity.

Each CP Note matures from 1 to 270 days from its issue date. Also, the CP Note Program Resolution provides that no CP Note may be issued with a maturity date later than the expiration date of the Liquidity Facility, including any substitute Liquidity Facility.

Each CP Note bears interest from its date of issuance, at the rate determined at the date of issuance, payable at maturity. Interest is computed on the basis of a year having 365 or 366 days and the actual number of days elapsed. Payment of each CP Note is made to the Depository and then distributed by the Depository.

*Liquidity Facility*

To provide liquidity for the payment of the principal of maturing CP Notes, the State entered into the Credit Agreement with the Liquidity Facility Provider.

Pursuant to the Credit Agreement, the Liquidity Facility Provider is obligated, subject to certain conditions, to make **Advances** from time to time on any business day during the term of the Credit Agreement, only for providing funds to pay the principal of the CP Notes on the maturity date thereof to the extent that proceeds of other CP Notes or other moneys on deposit in the Note Fund for the CP Notes are not available. Payment of interest on the Notes cannot be made from the line of credit established by the Credit Agreement. The aggregate principal amount of all Advances made on any date may not exceed the commitment under the Credit Agreement (currently \$275 million), as such amount may be increased or decreased from time to time. Also, pursuant to the CP Note Program Resolution the commitment under the Credit Agreement cannot be less than the sum of the outstanding CP Notes plus the aggregate principal amount of all outstanding Advances provided by the Liquidity Facility Provider.

The Credit Agreement currently terminates on March 15, 2019. The Credit Agreement provides that the termination date may be extended, if the parties agree. Alternatively, the State is permitted to replace the

Credit Agreement with another comparable agreement or agreements with any other liquidity facility provider, provided that such substitution meets all required qualifications, including, but not limited to, written evidence from each rating agency which, at the request of the State, is then rating the CP Notes and which is then also rating the provider (or its guarantor) of the proposed substitute Liquidity Facility, to the effect that the substitution of the Liquidity Facility will not by itself result in a withdrawal, suspension, or reduction of its ratings of the CP Notes from those which then prevail.

The State has delivered a promissory note (**Promissory Note**) to the Liquidity Facility Provider, evidencing its obligation to repay all Advances. The Promissory Note is a general obligation of the State. Likewise, a new Promissory Note would be issued to the provider of any substitute Liquidity Facility.

The State will notify the Dealers of any change in the Liquidity Facility. The State will also notify the MSRB through its EMMA system of any change in the Liquidity Facility.

#### *Description of the Liquidity Facility Provider*

The following information concerning the Liquidity Facility Provider has been provided by representatives of the Liquidity Facility Provider and has not been independently confirmed or verified by the State. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

BMO Harris Bank N.A. (formerly known as Harris N.A.) (**Bank**), with executive offices in Chicago, Illinois, is a wholly owned subsidiary of BMO Financial Corp., a Delaware corporation (**BFC**). BFC is a wholly owned subsidiary of Bank of Montreal. As such, the Bank is a member of BMO Financial Group (**BFG**), a brand name representing Bank of Montreal and its subsidiaries and affiliates. The Bank is a commercial bank offering a wide range of banking and trust services to its customers throughout the United States and around the world.

Each quarter, the Bank files quarterly reports called “Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices” (**Call Reports**). Each Call Report may be obtained from the FDIC on its website at <http://www.fdic.gov>, or by a written request directed to: BMO Harris Bank N.A., 111 West Monroe Street, P.O. Box 755, Chicago, Illinois 60690, Attention: Public Relations Department. The above website is not incorporated by reference into this Part III of the 2017 Annual Report.

The Credit Agreement is an obligation of the Bank. Neither BFC nor Bank of Montreal has any obligation under the Credit Agreement or otherwise with respect to the Notes.

The financial information referenced in this paragraph is not incorporated by reference into this Part III of the 2017 Annual Report.

#### **Extendible Municipal Commercial Paper**

In 2007, the Commission adopted a Program Resolution for State of Wisconsin General Obligation Extendible Municipal Commercial Paper (**EMCP Program Resolution**), which replaced a program resolution previously adopted by the Commission in 2000 and which governs the issuance of the State’s EMCP.

General obligation EMCP is similar to CP Notes; however, rather than liquidity being provided by a bank or credit facility, the maturity date can be extended in case there is a disruption in market liquidity for the EMCP. The State has appointed, to serve as **Dealers** of EMCP, Goldman Sachs & Co. LLC and Merrill Lynch, Pierce, Fenner & Smith, Incorporated. The State has appointed U.S. Bank National Association to serve as Issuing and Paying Agent for the EMCP, and DTC serves as Depository for the EMCP.

On February 1, 2008, the State issued a single series of EMCP that replaced multiple series of outstanding EMCP that had been issued during calendar years 2000 through 2006. The total amount of EMCP authorized to be outstanding at any given time, pursuant to the EMCP Program Resolution, is \$950 million. The State may increase the principal amount of EMCP outstanding, upon adoption by the Commission of one or more authorizing resolutions, to fund various general governmental purposes or veterans housing loans. With respect to an initial issuance, specific instructions must be provided to the Issuing and Paying

Agent before a Dealer may increase the principal amount of EMCP outstanding. This has occurred five times since 2008 for an aggregate par increase of \$530 million, with the last increase occurring on December 2, 2014 in the par amount of \$105 million. EMCP is not given a series designation based on any initial issuance date.

Table III-14 summarizes, for each authorized and outstanding program under this single series of EMCP, the principal amount outstanding as of December 15, 2017.

**Table III-14**  
**SUMMARY OF OUTSTANDING GENERAL OBLIGATION EMCP**  
**(December 15, 2017)**

<u>Series of EMCP</u>	<u>Amount Outstanding</u>
Tax-Exempt Notes	\$ 288,168,888
Tax-Exempt AMT Notes	<u>-0-</u>
	\$ 288,168,888

*Description of EMCP*

Each EMCP note is dated the date it is issued and is issued as an interest-bearing obligation in a denomination of \$100,000 or increments of \$1,000 above \$100,000. Interest is computed on the basis of a year having 365 or 366 days and the actual number of days elapsed. Payment of principal of, and interest on, each EMCP note is made to the Depository and then distributed by the Depository.

Each EMCP note matures on its **Original Maturity Date**, which may range from 1 day to 180 days from its original issue date, unless the State exercises its option to extend the maturity date. In that case the EMCP note will mature on its **Extended Maturity Date**, which will be the date that is 270 days after its original issue date.

If the State exercises its option to extend the maturity date, notice of the extension must be provided to the Depository in accordance with the Depository's operational requirements.

Each EMCP note bears interest from its original issue date until the Original Maturity Date at the rate determined on the original issue date, payable on the Original Maturity Date, unless the maturity date is extended, in which case interest will be paid on the date described below. If the State exercises its option to extend the maturity date of an EMCP note, then the extended EMCP note will bear interest after the Original Maturity Date at the **Reset Rate** and be payable on the dates described below.

If the maturity date of an EMCP note is extended, accrued but unpaid interest to the Original Maturity Date will not be paid on the Original Maturity Date but will be payable on the following date (or any earlier redemption date):

- (1) if the Original Maturity Date is before the 15<sup>th</sup> day of the month, then interest will be payable on the first **Business Day** (which is a day on which banks located in Madison, Wisconsin and in each of the cities where the principal office of the Issuing and Paying Agent and Dealers are located are not required or authorized by law or executive order to close for business and on which the New York Stock Exchange is not closed) of the next month, or
- (2) if the Original Maturity Date is on or after the 15<sup>th</sup> day of the month, then interest will be payable on the first Business Day of the second succeeding month after the Original Maturity Date.

For example, if the Original Maturity Date is November 14<sup>th</sup>, interest will be payable on the first Business Day of December, and if the Original Maturity Date is November 15<sup>th</sup>, interest will be payable on the first Business Day of January.

Each EMCP note bears interest from the Original Maturity Date at the Reset Rate and is payable first on the date described above and thereafter on the first Business Day of each month and on any redemption date or the Extended Maturity Date.

The Reset Rate will be a rate of interest per annum determined by the following formula:

$$(1.35 \times BMA) + E$$

As used in the formula, the *BMA* variable will be Securities Industry and Financial Markets Association Index, or SIFMA Index (which previously was referred to as The Bond Market Association Municipal Swap Index, or BMA Index). This index is calculated weekly and released each Wednesday afternoon, effective Thursday. The *E* variable will be a fixed percentage rate expressed in basis points that is determined based on the ratings assigned to the EMCP (**Prevailing Ratings**), as follows:

<u>Prevailing Ratings</u>			
<u>Fitch</u>	<u>Moody's Investors Service, Inc.</u>	<u>S&amp;P Global Ratings</u>	<u>E Variable (basis points)</u>
F1+	P-1	A-1+	100
F1	–	A-1	150
F2	P-2	A-2	200
F3	P-3	A-3	300
Lower than F3 (or rating discontinued)	Lower than P-3 (or rating discontinued)	Lower than A-3 (or rating discontinued)	400

If at any time any rating agency announces that a lower rating is under consideration for the EMCP, then the Prevailing Rating from such rating agency will not be the rating then assigned to the EMCP; rather, it will be the next lower rating of such rating agency. If the Prevailing Ratings would indicate different *E* variables as a result of split ratings assigned to the EMCP, then the *E* variable will be the arithmetic average of those indicated by the Prevailing Ratings.

The Reset Rate applicable to any EMCP note will be determined weekly by the Issuing and Paying Agent based on the *BMA* variable and the Prevailing Ratings as of 11:00 a.m. (New York time) on its Original Maturity Date and each Thursday thereafter and will apply through the following Wednesday.

## **REVENUE SUPPORTED GENERAL OBLIGATION DEBT**

### **General**

Although all general obligations issued by the State are supported by its full faith, credit, and taxing power, a portion of these general obligations are issued with the expectation that debt service payments will not impose a direct burden on the State's taxpayers and its general revenue sources. Beneficiaries and users of revenue-supported programs and facilities pay fees and other amounts that are estimated to be at least sufficient to pay or reimburse the General Fund for the amount paid for debt service related to these revenue-supported programs and facilities.

**Table III-7** identifies the amount of outstanding general obligations designated as revenue-supported. The programs and facilities funded with these general obligations support debt service payments on approximately \$1.757 billion of State general obligations outstanding on December 15, 2017. Furthermore, **Table III-12** shows that revenue-supported debt service payments were approximately 18.7% of the total debt service cost for the fiscal year ending June 30, 2017.

### **Veterans Housing Loan Program**

The veterans housing loan program, operated by the State of Wisconsin Department of Veterans Affairs (**DVA** or **Department of Veterans Affairs**), is one of the revenue-supported general obligation bonding programs of the State. Lending activities under the veterans housing loan program began in 1974. The program is currently funded by general obligations that are either **Tax-Exempt Veterans Mortgage Bonds** or **Taxable Veterans Mortgage Bonds**, collectively referred to as **Veterans Mortgage Bonds**. The repayment of veterans housing loans funded with proceeds of the Veterans Mortgage Bonds are estimated to be at least sufficient to pay or reimburse the General Fund for the amount paid for debt service related to the Veterans Mortgage Bonds.

Approximately \$34 million in aggregate principal amount of Veterans Mortgage Bonds remain outstanding on December 15, 2017. As outlined later in this section, there are different special redemption provisions for the Tax-Exempt Veterans Mortgage Bonds and each series of Taxable Veterans Mortgage Bonds. Due to market conditions and other factors resulting in private mortgage rates being lower than mortgage rates that could be offered with funds obtained through Veterans Mortgage Bonds, the State has not issued any general obligations for this purpose since 2008, and the Department of Veterans Affairs has not made any new mortgage loans under this program since June 2010. Furthermore, the State's 2017-19 biennial budget for the Department of Veterans Affairs continues to make the assumption that no new mortgage loans under this program will be made; however, the State continues to retain statutory authority to make new veterans housing loans in the future. [Tables III-19 through III-22](#) include other unaudited information for the Veterans Mortgage Bonds and the veterans housing loan program.

#### *Default Risks and Other Information*

No prepayments have been assumed in the nominal amortization of outstanding Veterans Mortgage Bonds. Based on asset and liability balances as of July 1, 2015 and DVA assumptions, the cash flow of the mortgages on November 30, 2016 was sufficient to meet future debt service payments. A loan under the veterans housing loan program may be assumed only by another qualifying veteran.

After deducting a servicing charge (.375% per annum), the participating lender deposits the veteran's monthly loan repayments and any prepayments into the Veterans Mortgage Loan Repayment Fund of the veterans housing loan program, a segregated statutory fund. An irrevocable appropriation is provided by law as a first charge on assets of the Veterans Mortgage Loan Repayment Fund in a sum sufficient to provide for the repayment of principal of, premium, if any, and interest on, State general obligations issued to fund the program.

Program loans financed with Veterans Mortgage Bonds are not required to be insured or guaranteed (casualty insurance coverage is, however, required). Instead, the default risk with respect to such loans is borne by the program. The ability of DVA to dispose of defaulted properties and realize the amount of the outstanding principal balances of the related loans has varied in recent years depending upon the location of the properties within the State and their physical condition upon foreclosure. Although DVA expects that it will continue to experience liquidation losses, it also expects that such losses will not require recourse to the State's General Fund but rather will be covered by the Insurance Reserve Account within the Veterans Mortgage Loan Repayment Fund. As of October 31, 2017, of the 388 outstanding primary mortgage housing loans financed by the veterans housing loan program, 18 loans, with an aggregate principal amount of approximately \$1.4 million, had payments that were 60 days or longer past due. The insurance reserve requirement (4% of the principal amount of outstanding loans) is currently satisfied. See [Table III-19](#) for more complete details concerning delinquencies.

#### *Special Redemption; Tax-Exempt Veterans Mortgage Bonds*

As of December 15, 2017, approximately \$22 million of Tax-Exempt Veterans Mortgage Bonds were outstanding. All Tax-Exempt Veterans Mortgage Bonds are subject to special redemption before maturity (even if not subject to optional redemption), at the option of the Commission, on any date, in whole or in part, at a redemption price equal to par (100% of the principal amount to be redeemed), plus accrued interest to the date of redemption, from:

- Prepayments of veterans housing loans funded from, or attributed to, *any* series of Tax-Exempt Veterans Mortgage Bonds.
- Payments on veterans housing loans, or interest or income on investments in certain accounts, including money available from the Insurance Reserve Account, in excess of amounts required to meet scheduled debt service on all Tax-Exempt Veterans Mortgage Bonds and other costs associated with the veterans housing loan program.

The redemption provisions described above are commonly referred to as a "cross-call". In addition, other special redemption provisions (such as allowing redemptions funded from unexpended proceeds) may



apply to certain series of Tax-Exempt Veterans Mortgage Bonds. In the event of a partial redemption, the Capital Finance Director is authorized to direct the maturities and amounts of the Tax-Exempt Veterans Mortgage Bonds to be redeemed.

Prepayments of mortgages originated with, or attributed to, any series of Taxable Veterans Mortgage Bonds may not be used for special redemption of Tax-Exempt Veterans Mortgage Bonds, and prepayments of mortgages originated with, or attributed to, any series of Tax-Exempt Veterans Mortgage Bonds may not be used for special redemption of Taxable Veterans Mortgage Bonds.

Table III-15 presents a summary of the outstanding Tax-Exempt Veterans Mortgage Bonds as of December 15, 2017, and [Table III-21](#) presents further detailed information on these outstanding Tax-Exempt Veterans Mortgage Bonds.

**Table III-15**

**SUMMARY OF OUTSTANDING  
TAX-EXEMPT VETERANS MORTGAGE BONDS SUBJECT TO SPECIAL REDEMPTION  
(December 15, 2017)**

<u>Series</u>	<u>Dated Date</u>	<u>Original Principal Amount Subject to Special Redemption</u>	<u>Outstanding Principal Amount Subject to Special Redemption</u>	<u>Range of Interest Rates on Outstanding Bonds</u>
2003 Series 2	04/01/03	\$ 13,740,000	\$ 1,935,000	4.50%-4.65%
2003 Series 3	10/30/03	67,890,000	5,700,000	5.00
2006 Series C	08/02/06	61,685,000	6,345,000	4.60-5.00
2007 Series 2	10/31/07	16,735,000	6,570,000	4.375-4.50
2008 Series 1	6/26/08	17,975,000	1,045,000	4.125-4.75
			<u>\$ 21,595,000</u>	

The State has historically received, and expects to continue to receive, prepayments of veterans housing loans funded with Tax-Exempt Veterans Mortgage Bonds. See [Table III-22](#) for a summary of the prepayments received over the past three years. The State previously from time to time used veterans housing loan prepayments to make new veterans housing loans. However, since 2010 the State has determined that it was not feasible to make new veterans housing loans, and the State used these prepayments to purchase or redeem Tax-Exempt Veterans Mortgage Bonds, as determined by the Commission. It is likely that State will continue to use future veterans housing loan prepayments to purchase or redeem Tax-Exempt Veterans Mortgage Bonds; however, the State continues to reserve the right to use such prepayments in the future to make new veterans housing loans.

Prior to calendar year 2002, it had been the working policy of the Department of Administration, on behalf of the Commission, to call Tax-Exempt Veterans Mortgage Bonds for special redemption based on the highest estimated market price, while taking into consideration the Legislature’s mandate that the veterans housing loan program be self-amortizing. Since that time, this working policy has been modified from time to time to address both (1) the impact special redemption cross-calls have on the cash flow that supports all Veterans Mortgage Bonds and (2) compliance with applicable federal tax law restrictions. This working policy is subject to change at any time. While the Tax-Exempt Veterans Mortgage Bonds that were called for special redemption in the year 2009 were those with the highest interest rates, the Tax-Exempt Veterans Mortgage Bonds called for special redemption in and after year 2010 reflect the more recent working policy outlined above.

The last special redemption of Tax-Exempt Veterans Mortgage Bonds occurred on April 3, 2017, as summarized in [Table III-16](#). This special redemption used prepayments of veterans housing loans funded with Tax-Exempt Veterans Mortgage Bonds.

Table III-16

APRIL 3, 2017 SPECIAL REDEMPTION  
TAX-EXEMPT VETERANS MORTGAGE BONDS

<u>Bond Issue</u>	<u>Maturity Date</u>	<u>Coupon</u>	<u>Redemption Amount</u>
2006 Series C	2018	4.60%	\$ 1,375,000
	2019	4.60	1,470,000
2008 Series 1	2018	4.75%	\$ 215,000

*Special Redemption; Taxable Veterans Mortgage Bonds*

As of December 15, 2017, approximately \$12 million of Taxable Veterans Mortgage Bonds were outstanding.

In addition to optional redemption provisions, the Taxable Veterans Mortgage Bonds are subject to special redemption prior to maturity, at the option of the Commission, on any date, in whole or in part at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, from:

- Unexpended proceeds from only that series of Taxable Veterans Mortgage Bonds, as provided in the respective authorizing resolution.
- Prepayments of veterans housing loans or home improvement loan program (HILP) loans, or interest or income on investments in certain accounts, funded from or attributed to only that series of Taxable Veterans Mortgage Bonds, as provided in the respective authorizing resolution.

In the event of a partial redemption, the Commission shall direct the maturities of the Taxable Veterans Mortgage Bonds and the amounts thereof so to be redeemed; however, the Commission has stated in the respective Official Statements that it intends to apply amounts from these sources as a *pro rata* redemption on all applicable outstanding maturities of the Taxable Veterans Mortgage Bonds, subject to rounding, to reflect approximately the unexpended proceeds or prepayment from either veterans housing loans or HILP loans.

Prepayments of veterans housing loans or HILP loans originated with, or attributed to, a series of Taxable Veterans Mortgage Bonds may not be used for special redemption of any other series of Taxable Veterans Mortgage Bonds. Prepayments of mortgage loans or loans originated with, or attributed to, any series of Tax-Exempt Veterans Mortgage Bonds may not be used for special redemption of Taxable Veterans Mortgage Bonds.

The State has historically received, and expects to continue to receive, prepayments of veterans housing loans and HILP loans funded with Taxable Veterans Mortgage Bonds. See [Table III-22](#) for a summary of these prepayments received over the past three years. The State may use prepayments of veterans housing loans and HILP loans funded with Taxable Veterans Mortgage Bonds to make new veterans housing loans and HILP loans. If the State determines that it is not feasible to make new veterans housing loans or HILP loans, then the State intends to use these prepayments to purchase or redeem Taxable Veterans Mortgage Bonds, as determined by the Commission.

The Commission has made several special redemptions of Taxable Veterans Mortgage Bonds from these prepayments. A special redemption of Taxable Veterans Mortgage Bonds occurred on April 3, 2017. The redemption is summarized in [Table III-17](#).

Table III-17

**APRIL 3, 2017 SPECIAL REDEMPTION  
TAXABLE VETERANS MORTGAGE BONDS**

<u>Bond Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Redemption Amount</u>
2002 Series F	2033	5.25%	\$ 100,000
2002 Series H	2033	5.25	235,000
2003 Series B	2033	4.35	750,000
2005 Series C	2033	5.40	135,000
2006 Series B	2021	5.65	35,000
2008 Series B	2038	4.90	90,000

See [Table III-18](#) for an aggregate summary of special redemptions (from prepayments and unexpended proceeds) and optional redemptions (from allowable funds available from the veterans housing loan program) that have occurred on Taxable Veterans Mortgage Bonds for the past ten years.

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Table III-18

**SUMMARY OF SPECIAL AND OPTIONAL REDEMPTIONS  
TAXABLE VETERANS MORTGAGE BONDS  
(As of December 15, 2017)**

Bond Issue	Dated Date	Maturity Date	Original Issue Amount	Special Redemption; Calendar Year 2008	Special Redemption; Calendar Year 2009	Special Redemption; Calendar Year 2010	Special Redemption; Calendar Year 2011	Special Redemption; Calendar Year 2012	Special Redemption; Calendar Year 2013	Special Redemption; Calendar Year 2014	Special Redemption; Calendar Year 2015	Special Redemption; Calendar Year 2016	Special Redemption; Calendar Year 2017	Sinking Fund and Other Optional Redemption Payments Made	Outstanding Par Amount	Coupon		
1997 Series D	9/15/1997	11/1/1999	\$ 620,000												-	6.15%		
		11/1/2000	655,000												-	6.15%		
		11/1/2001	695,000												-	6.25%		
		11/1/2002	740,000												-	6.30%		
		11/1/2003	785,000												-	6.40%		
		11/1/2004	840,000												-	6.50%		
		11/1/2005	895,000												-	6.55%		
		11/1/2006	950,000												-	6.60%		
		11/1/2007	1,010,000												-	6.65%		
		11/1/2008	1,080,000												-	6.70%		
		11/1/2009	1,155,000												-	6.80%		
		11/1/2010	1,230,000		\$ 10,000	\$ 10,000	-								-	6.85%		
		11/1/2011	1,320,000		5,000	25,000	-								-	6.90%		
		11/1/2012	1,410,000		10,000	20,000	-	\$ 400,000							-	6.90%		
		11/1/2017	6,760,000		55,000	145,000	-	1,370,000							-	7.15%		
		11/1/2028	24,855,000		225,000	560,000	\$ 4,530,000	-							-	7.25%		
			Subtotal		45,000,000	-	305,000	760,000	4,530,000	1,770,000	-	-	-	-	-	-	-	-
		1998 Series C	5/15/1998	5/1/1999	495,000												-	5.80%
				5/1/2000	495,000												-	5.85%
5/1/2001	525,000														-	5.90%		
5/1/2002	550,000														-	6.05%		
5/1/2003	595,000														-	6.05%		
5/1/2004	625,000														-	6.10%		
5/1/2005	675,000														-	6.15%		
5/1/2006	710,000														-	6.20%		
5/1/2007	760,000														-	6.25%		
5/1/2008	815,000														-	6.30%		
5/1/2028	27,760,000			\$ 180,000	360,000	300,000	165,000	4,495,000						\$ 680,000	-	6.95%		
	Subtotal				34,005,000	180,000	360,000	300,000	165,000	4,495,000	-	-	-	-	680,000	-	-	

**Table III-18 — Continued**  
**SUMMARY OF SPECIAL AND OPTIONAL REDEMPTIONS**  
**TAXABLE VETERANS MORTGAGE BONDS**  
**(As of December 15, 2017)**

	Dated Date	Maturity Date	Original Issue Amount	Special	Special	Special	Special	Special	Special	Special	Special	Special	Special	Sinking Fund and Other	Outstanding Par Amount	Coupon	
				Redemption; Calendar Year 2008	Redemption; Calendar Year 2009	Redemption; Calendar Year 2010	Redemption; Calendar Year 2011	Redemption; Calendar Year 2012	Redemption; Calendar Year 2013	Redemption; Calendar Year 2014	Redemption; Calendar Year 2015	Redemption; Calendar Year 2016	Redemption; Calendar Year 2017	Optional Redemption Payments Made			
1998 Series F	10/15/1998	11/1/1999	\$ 355,000												-	-	
		11/1/2000	725,000												-	5.00%	
		11/1/2001	760,000												-	5.10%	
		11/1/2002	790,000												-	5.20%	
		11/1/2003	830,000												-	5.35%	
		11/1/2004	870,000												-	5.45%	
		11/1/2005	915,000												-	5.55%	
		11/1/2006	960,000												-	5.55%	
		11/1/2007	1,015,000												-	5.60%	
		11/1/2008	1,065,000												-	5.65%	
		11/1/2009	1,125,000		\$ 20,000										-	5.75%	
		11/1/2029	45,590,000		1,395,000	\$ 585,000	\$ 425,000	\$ 3,995,000	\$ 210,000						\$ 2,945,000	-	6.40%
			Subtotal	55,000,000	-	1,415,000	585,000	425,000	3,995,000	210,000	-	-			2,945,000	-	
1999 Series B	5/1/1999	11/1/2000	420,000												-	5.35%	
		11/1/2001	450,000												-	5.60%	
		11/1/2002	480,000												-	5.80%	
		11/1/2003	500,000												-	6.00%	
		11/1/2004	535,000												-	6.20%	
		11/1/2005	570,000												-	6.25%	
		11/1/2006	600,000												-	6.25%	
		11/1/2007	640,000												-	6.30%	
		11/1/2008	680,000												-	6.35%	
		11/1/2009	725,000		5,000										-	6.40%	
		11/1/2010	770,000	\$ 5,000	5,000										-	6.40%	
		11/1/2013	2,620,000	5,000	10,000	15,000		255,000						120,000	-	6.50%	
		11/1/2016	3,180,000	10,000	15,000	20,000		450,000							-	7.00%	
11/1/2030	27,830,000	70,000	145,000	165,000	2,375,000	1,570,000							-	7.25%			
	Subtotal	40,000,000	90,000	180,000	200,000	2,375,000	2,275,000	-	-	-			120,000	-			

**Table III-18 — Continued**  
**SUMMARY OF SPECIAL AND OPTIONAL REDEMPTIONS**  
**TAXABLE VETERANS MORTGAGE BONDS**  
**(As of December 15, 2017)**

Bond Issue	Dated Date	Maturity Date	Original Issue Amount	Special Redemption; Calendar Year 2008	Special Redemption; Calendar Year 2009	Special Redemption; Calendar Year 2010	Special Redemption; Calendar Year 2011	Special Redemption; Calendar Year 2012	Special Redemption; Calendar Year 2013	Special Redemption; Calendar Year 2014	Special Redemption; Calendar Year 2015	Special Redemption; Calendar Year 2016	Special Redemption; Calendar Year 2017	Sinking Fund and Other Optional Redemption Payments Made	Outstanding Par Amount	Coupon
1999 Series D	11/1/1999	11/1/2010	\$ 9,465,000					-						\$ 2,340,000	-	7.70%
		11/1/2030	55,535,000				\$ 3,935,000	-						2,990,000	-	7.70%
		Subtotal	65,000,000	-	-	-	3,935,000	-	-	-	-	-	-	5,330,000	-	
2000 Series B	7/1/2000	11/1/2010	4,625,000					-						1,130,000	-	7.50%
		11/1/2030	30,375,000					-						3,175,000	-	8.05%
		Subtotal	35,000,000	-	-	-	-	-	-	-	-	-	-	4,305,000	-	
2000 Series E	11/7/2000	11/1/2016	5,000,000									\$ 150,000	1,300,000	\$ -	7.00%	
2001 Series A	2/21/2001	5/1/2031	15,000,000	\$ 170,000	\$ 530,000	\$ 20,000	40,000		\$ 15,000	\$ 15,000		310,000	1,045,000	1,210,000	7.00%	
2001 Series D	6/15/2001	11/1/2002	320,000												-	4.50%
2001 Series D	6/15/2001	11/1/2003	255,000												-	5.00%
2001 Series D	6/15/2001	11/1/2004	265,000												-	5.30%
2001 Series D	6/15/2001	11/1/2005	280,000												-	5.50%
2001 Series D	6/15/2001	11/1/2006	295,000												-	5.60%
2001 Series D	6/15/2001	11/1/2007	315,000												-	5.75%
2001 Series D	6/15/2001	11/1/2008	330,000												-	5.90%
2001 Series D	6/15/2001	11/1/2011	1,110,000		5,000	10,000							155,000		-	6.20%
2001 Series D	6/15/2001	11/1/2016	2,390,000		20,000	30,000		\$ 300,000							-	6.60%
2001 Series D	6/15/2001	11/1/2021	3,305,000	5,000	25,000	50,000		395,000							-	6.90%
2001 Series D	6/15/2001	11/1/2031	11,135,000	15,000	90,000	175,000		1,340,000							-	7.05%
		Subtotal	20,000,000	20,000	140,000	265,000		2,035,000								-
2001 Series E	10/1/2001	11/1/2017	6,210,000		305,000			125,000	160,000					1,295,000	-	6.12%
2001 Series E	10/1/2001	11/1/2021	2,730,000		210,000	5,000	15,000	425,000							-	6.71%
2001 Series E	10/1/2001	11/1/2031	11,060,000		835,000	15,000	40,000	1,750,000							-	6.96%
		Subtotal	20,000,000	-	1,350,000	20,000	55,000	2,300,000	160,000					1,295,000	-	

**Table III-18 — Continued**  
**SUMMARY OF SPECIAL AND OPTIONAL REDEMPTIONS**  
**TAXABLE VETERANS MORTGAGE BONDS**  
**(As of December 15, 2017)**

Bond Issue	Dated Date	Maturity Date	Original Issue Amount	Special Redemption; Calendar Year 2008	Special Redemption; Calendar Year 2009	Special Redemption; Calendar Year 2010	Special Redemption; Calendar Year 2011	Special Redemption; Calendar Year 2012	Special Redemption; Calendar Year 2013	Special Redemption; Calendar Year 2014	Special Redemption; Calendar Year 2015	Special Redemption; Calendar Year 2016	Special Redemption; Calendar Year 2017	Sinking Fund and Other Optional Redemption Payments Made	Outstanding Par Amount	Coupon
2002 Series B	3/26/2002	11/1/2032	\$ 15,000,000	\$ 160,000	\$ 1,385,000	\$ 350,000	\$ 160,000	\$ 270,000	\$ 165,000	\$ 25,000	\$ 105,000	\$ 5,000		\$ 1,085,000	\$ 1,220,000	6.25%
2002 Series D	6/12/2002	5/1/2033	20,000,000	130,000	1,110,000	750,000	330,000	760,000	205,000	170,000				1,285,000	1,880,000	6.25%
2002 Series E	9/26/2002	5/1/2018	2,000,000	220,000	110,000	15,000	50,000	35,000	10,000	-				980,000	45,000	4.80%
2002 Series F	9/26/2002	5/1/2033	13,000,000	430,000	2,270,000	985,000	1,440,000	1,045,000	540,000	700,000	35,000	60,000	100,000	1,870,000	1,485,000	5.25%
2002 Series H	12/30/2002	5/1/2033	15,000,000	660,000	2,170,000	990,000	1,225,000	1,295,000	435,000	345,000	160,000	255,000	235,000	2,130,000	1,665,000	5.25%
2003 Series I	4/3/2003	11/1/2019	7,000,000	510,000	160,000	75,000	60,000	5,000	30,000	-				3,645,000	-	4.85%
2003 Series B	7/24/2003	11/1/2033	30,000,000	-	5,000,000	3,280,000	4,630,000	2,690,000	1,640,000	1,180,000	635,000	160,000	750,000	5,095,000	3,120,000	4.35%
2004 Series B	8/12/2004	11/1/2014	1,000,000	40,000	190,000	115,000	20,000	15,000	-	-				615,000	-	4.50%
2004 Series C	8/12/2004	11/1/2019	1,000,000	40,000	290,000	35,000	25,000	30,000	10,000	20,000				445,000	35,000	5.15%
2004 Series D	8/26/2004	11/1/2034	20,000,000	160,000	1,315,000	510,000	135,000	770,000	325,000	310,000	1,960,000			840,000	-	5.65%
2005 Series C	4/7/2005	5/1/2035	5,000,000	280,000	70,000	860,000	520,000	950,000	630,000	295,000			135,000	650,000	605,000	5.40%
2006 Series B	7/7/2006	11/1/2021	2,000,000		700,000	170,000	85,000	105,000		125,000		30,000	35,000	625,000	105,000	5.65%
2008 Series B	5/30/2008	5/1/2038	4,445,000		400,000	230,000	945,000	465,000	630,000	120,000	105,000		90,000	420,000	1,040,000	4.90%
Totals			\$ 469,450,000	\$ 3,090,000	\$ 19,450,000	\$ 10,515,000	\$ 21,150,000	\$ 25,305,000	\$ 5,005,000	\$ 3,305,000	\$ 3,000,000	\$ 970,000	\$ 1,345,000	\$ 36,705,000	\$ 12,410,000	

Note: The total original issue amount less all the special redemptions and sinking fund payment amounts does not equal the total outstanding par amount since the table does not show all the serial bonds that matured prior to the date of this 2017 Annual Report. In addition, certain optional redemptions that have been completed using allowable funds available from the veterans housing loan program are included within the above "special redemption" amounts.



**Other Information**

The following unaudited information and notes relate to certain facets of the veterans housing loan program. Veterans Mortgage Bonds issued to fund the program are general obligations; the bondholders have no special pledge or lien on revenues derived from this program.

**Table III-19**

**VETERANS HOUSING LOAN PROGRAM<sup>(a)</sup>  
60+ DAY LOAN DELINQUENCIES**

	<u>Month Ending</u>	<u>Principal Amount Outstanding</u>	<u>Number of Loans Outstanding</u>	<u>60+ Day Delinquent Loans</u>	<u>Percent of Total</u>
2014	July.....	\$ 68,833,897	815	21	2.58%
	August.....	66,715,539	798	24	3.01
	September.....	65,504,141	787	26	3.30
	October.....	64,016,602	772	17	2.20
	November.....	63,230,049	762	21	2.76
2015	December.....	61,697,354	745	22	2.95
	January.....	60,690,283	736	26	3.53
	February.....	59,788,431	725	26	3.59
	March.....	58,561,020	713	24	3.37
	April.....	57,321,036	700	25	3.57
	May.....	55,596,259	686	24	3.50
	June.....	53,845,177	668	24	3.59
	July.....	52,700,106	655	28	4.27
	August.....	52,037,380	649	27	4.16
	September.....	51,212,370	641	29	4.52
	October.....	50,413,730	633	25	3.95
	November.....	49,643,794	626	25	3.99
2016	December.....	48,234,947	614	22	3.58
	January.....	47,393,166	605	25	4.13
	February.....	45,447,589	590	20	3.39
	March.....	43,995,370	577	21	3.64
	April.....	42,821,428	566	22	3.89
	May.....	41,523,484	553	25	4.52
	June.....	40,696,659	543	28	5.16
	July.....	39,516,341	530	22	4.15
	August.....	38,183,208	515	21	4.08
	September.....	37,252,164	503	34	6.76
	October.....	36,335,116	494	39	7.89
	November.....	35,378,653	482	23	4.77
2017	December.....	34,293,828	468	22	4.70
	January.....	33,688,034	461	23	4.99
	February.....	32,765,560	454	21	4.63
	March.....	32,078,819	440	18	4.09
	April.....	31,766,566	434	18	4.15
	May.....	30,920,673	427	17	3.98
	June.....	29,759,863	415	19	4.58
	July.....	29,501,937	414	20	4.83
	August.....	28,981,422	404	19	4.70
	September.....	28,230,124	397	20	5.04
October.....	26,942,434	388	18	4.64	

<sup>(a)</sup> Does not include information on outstanding HILP loans.

**Source: Department of Veterans Affairs.**

Table III-20

**DEBT SERVICE SCHEDULE ON STATE GENERAL OBLIGATION BONDS ISSUED TO FUND  
VETERANS HOUSING AND HILP LOANS  
(December 15, 2017)**

<u>Fiscal Year (Ending June 30)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018 <sup>(a)</sup> ..... \$	2,270,000 \$	848,596 \$	3,118,596
2019.....	2,015,000	1,576,778	3,591,778
2020.....	2,010,000	1,466,715	3,476,715
2021.....	1,845,000	1,365,385	3,210,385
2022.....	1,925,000	1,272,491	3,197,491
2023.....	2,000,000	1,176,238	3,176,238
2024.....	2,270,000	1,070,088	3,340,088
2025.....	2,225,000	958,985	3,183,985
2026.....	3,860,000	845,724	4,705,724
2027.....	3,940,000	676,106	4,616,106
2028.....	1,960,000	486,679	2,446,679
2029.....	1,680,000	393,921	2,073,921
2030.....	1,805,000	305,005	2,110,005
2031.....	1,845,000	208,874	2,053,874
2032.....	910,000	111,503	1,021,503
2033.....	800,000	64,723	864,723
2034.....	345,000	25,601	370,601
2035.....	105,000	14,875	119,875
2036.....	65,000	9,555	74,555
2037.....	75,000	6,370	81,370
2038.....	55,000	2,695	57,695
<b>TOTALS.....</b>	<b>\$ 34,005,000</b>	<b>\$ 12,886,904</b>	<b>\$ 46,891,904</b>

<sup>(a)</sup> For the fiscal year ending June 30, 2018, the table includes debt service amounts for the period December 15, 2017 through June 30, 2018.

**Source: Department of Administration**

Table III-21

**OUTSTANDING TAX-EXEMPT VETERANS MORTGAGE BONDS  
SUBJECT TO SPECIAL REDEMPTION  
(As of December 15, 2017)**

Series	Dated Date	Maturities	Original Par Amount		Par Amount Outstanding		Interest Rate
			May	November	May	November	
2003 Series 2	04/01/03	2015	\$ 720,000				4.15%
		2016	750,000				4.25
		2017	785,000				4.35
		2018	815,000			\$ 815,000	4.50
		2019	855,000			855,000	4.60
		2020	890,000			265,000	4.65
		2021	935,000				4.80
		2024	3,090,000				5.00
2003 Series 3	10/30/03	2025		\$ 13,000,000			5.00
		2026		29,185,000		\$ 5,700,000	5.00
2006 Series C	08/02/06	2015	1,145,000				4.50
		2016	1,220,000				4.50
		2017	1,300,000				4.60
		2018	1,375,000				4.60
		2019	1,470,000				4.60
		2020	1,555,000				5.00
		2021	1,660,000				5.00
		2022	1,770,000				5.00
		2023	1,880,000				5.00
		2024	2,000,000				5.00
		2025	2,120,000				5.00
		2027	4,670,000			4,670,000	4.80
		2031	11,260,000			1,675,000	5.00
		2037	21,740,000				5.00
2007 Series 2	10/31/07	2015	180,000	570,000			4.05
		2016	195,000	6,715,000			4.13
		2017	205,000	210,000			4.25
		2022		2,510,000		2,475,000	4.38
		2027		4,155,000		4,095,000	4.50
2008 Series 1	06/26/08	2015	250,000				3.75
		2016	100,000				3.88
		2017	175,000				4.00
		2018	400,000			185,000	4.13
		2018	14,680,000			685,000	4.75
		2023		175,000		175,000	4.75

Source: Department of Administration

Table III-22

SUMMARY OF PREPAYMENTS ON VETERANS HOUSING AND HILP LOANS  
FUNDED WITH VETERANS MORTGAGE BONDS

Mortgage Pool	Interest Rate Charged to Veterans	October 2014 - March 2015	April 2015 - September 2015	October 2015 - March 2016	April 2016 - September 2016	October 2016 - March 2017	April 2017 - September 2017
<b>Tax-Exempt Veterans Mortgage Bonds</b>							
1993 Series 6	5.25%						
1993 Series 5	5.25						
1994 Series C	7.25						
1994 Series 1	6.00						
1994 Series 3	N/a						
1995 Series B	7.45						
1995 Series 1	7.45						
1995 Series 2	6.55						
1996 Series B	7.00						
1996 Series D	6.90						
1997 Series A	6.90						
1997 Series 1	6.90						
1997 Series C	6.40						
1998 Series B	6.65						
1998 Series E	6.50	\$ 33	\$ 38	\$ 25,235	\$ 6		
1999 Series 1	N/a						
2003 Series 2	5.75	68,619	2,205	52,397	71,731	\$ 95,228	\$ 12,126
2003 Series 3	5.30	512,914	529,437	238,338	441,680	367,465	208,605
2006 Series C	6.00/6.25	674,301	991,314	1,537,048	1,313,251	619,611	954,147
2007 Series 2	5.65/6.00	398,297	267,301	638,872	251,469	222,569	139,253
2007 Series 3	5.65/6.00	81,278	54,546	130,370	51,316	45,418	28,416
2008 Series 1	5.75	940,884	572,263	434,347	261,507	584,413	110,217
2008 Series 2	5.75	857,499	461,103	775,872	420,964	373,797	208,338
Equity Pool	N/A	1,152,174	1,014,524	1,072,330	1,644,935	673,569	998,824
Subtotal:		\$ 4,686,001	\$ 3,892,730	\$ 4,904,809	\$ 4,456,859	\$ 2,982,069	\$ 2,659,928
<b>Taxable Veterans Mortgage Bonds</b>							
1997 Series D	6.40%						
1998 Series C	6.65						
1998 Series F	6.50	\$ 84,050	\$ 117,383	\$ 91,611	\$ 37,623	\$ 109,605	\$ 152
1999 Series B	6.85	51,545	311	433	5,621	49,944	123
1999 Series D	7.80						
2000 Series B	7.90						
2000 Series E	6.80	4,381	3,488	269		20	81
2001 Series A	7.00	2,033	42,364	4,740	82,340	5,476	259
2001 Series D	7.00	-	50,658		47,749		0
2001 Series E	6.80	916	916	916	886	886	75,026
2002 Series B	6.50	5	114,370			170,054	
2002 Series D	6.50	1,335	106,835	670	91,751	633	2,323
2002 Series E	5.65	1	-		3,961		4,973
2002 Series F	5.65	20,481	89,919	109,962	90,101	188,115	2,473
2002 Series H	5.75	88,262	324,582	151,992	10,227	295,688	557
2003 Series 1	N/A	581	694	816	1,332	873	
2003 Series B	5.35/5.75/5.30	451,614	46,944	242,347	583,105	249,862	387,847
2004 Series B	5.35	3,681	-	177	159		
2004 Series C	5.65	3,133	-			136	
2004 Series D	6.15	156,306	802	73,768	89,772	44,772	496
2005 Series C	5.99	-	-		70,687	121,068	
2006 Series B	6.75/7.25	-	28,177	95,913	30,529		
2008 Series B	6.00	101,537	218	207	118,234	47	242,765
Subtotal:		\$ 969,860	\$ 927,661	\$ 773,822	\$ 1,264,079	\$ 1,237,179	\$ 717,078
Total:		\$ 5,655,861	\$ 4,820,391	\$ 5,678,631	\$ 5,720,937	\$ 4,219,248	\$ 3,377,005

Source: Department of Veterans Affairs.

## PART IV

### MASTER LEASE CERTIFICATES OF PARTICIPATION

Part IV of the 2017 Annual Report provides information about master lease certificates of participation (**Certificates** or **COPs**) issued under the State of Wisconsin Master Lease Program (**Program**). Selected information is provided in this introduction for the convenience of the readers; however, all information presented in this Part IV of the 2017 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2017)	\$111,373,548
Ratings <sup>(a)</sup> (Fitch/Kroll/Moody's/S&P) Certificates	AA <sup>(b)</sup> /AA <sup>(c)</sup> /Aa2 <sup>(d)</sup> /AA-
Authority	The Master Lease is authorized by Section 16.76(4), Wisconsin Statutes; Certificates are issued pursuant to the Master Indenture.
Trustee/Paying Agent	U.S. Bank National Association serves as Trustee, Paying Agent, registrar, and Lessor.
Security	The Certificates evidence a proportionate interest in Lease Payments to be made by the State under the Master Lease with regard to equipment items and service contracts. <i>The Certificates do not constitute debt of the State or any of its subdivisions. The State's obligation to make Lease Payments is not a general obligation of the State and is not supported by the full faith and credit of the State. The State is not obligated to levy or pledge any tax to make the Lease Payments, but such payments are required from legally available funds, subject to annual appropriation.</i>
<p><sup>(a)</sup> The ratings presented reflect the ratings assigned to the Certificates without regard to any bond insurance policy. No information is provided in the 2017 Annual Report about any rating assigned to any Certificates based on any bond insurance policy.</p> <p><sup>(b)</sup> On October 19, 2017, Fitch Ratings upgraded its rating on the State's master lease certificates of participation from "AA-" to "AA".</p> <p><sup>(c)</sup> On October 18, 2017, Kroll Bond Rating Agency, Inc. upgraded its rating on the State's master lease certificates of participation from "AA-" to "AA".</p> <p><sup>(d)</sup> On August 4, 2017, Moody's Investors Service, Inc. upgraded its rating on the State's master lease certificates of participation from "Aa3" to "Aa2".</p>	

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The Capital Finance Office, which is part of the Division of Executive Budget and Finance within the State of Wisconsin Department of Administration (**Department of Administration** or **DOA**), is

responsible for managing the State's borrowing and finance programs. The law firm of Foley & Lardner LLP provided bond counsel services in connection with the Program. Requests for additional information about the Certificates or the Program may be directed to the Capital Finance Office.

The 2017 Annual Report includes information and defined terms for different types of 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. No information or resource referred to in the 2017 Annual Report is part of the report unless expressly incorporated by reference.

General information about the State, including but not limited to operating data such as revenues, expenditures, budgets, General Fund data, information on significant pending litigation, and statistical information on the State's economic condition and the Wisconsin Retirement System is included in [Part II of the 2017 Annual Report](#). The State's audited general purpose external financial statements and independent auditor's report for the fiscal year ending June 30, 2017 are not available as of the date of the 2017 Annual Report. When such statements become available, they will be filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system and will be added to Part II of the 2017 Annual Report.

Certain statements in this Part IV 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 CERTIFICATES

Pursuant to the Master Indenture, dated as of July 1, 1996 (**Master Indenture**), among the State of Wisconsin, acting by and through its Department of Administration (**State or Lessee**), Firststar Bank Milwaukee, N.A., now known as U.S. Bank National Association (**Lessor**), and Firststar Trust Company, now known as U.S. Bank National Association, as trustee (**Trustee and Paying Agent**), the Trustee, with the consent of the State, has issued Certificates on the dates and in the amounts shown in Table IV-1. The table includes the outstanding principal balances as of December 15, 2017, and only includes Certificates that have an outstanding balance as of that date.

**Table IV-1**

### OUTSTANDING MASTER LEASE CERTIFICATES OF PARTICIPATION 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>	
<i>Fixed-Rate Master Lease COPs</i>					
2014- Master Lease COPs Series A .....	2/27/14	2014-23	\$ 33,180,000	\$ 18,437,856	(a)
2014- Master Lease COPs Series B.....	11/13/14	2015-23	37,635,000	18,753,902	(a)
2015- Master Lease COPs Series A .....	7/8/15	2015-23	39,960,000	26,488,841	(a)
2016- Master Lease COPs Series A .....	7/14/16	2016-23	33,645,000	<u>22,255,000</u>	
<i>Total Fixed-Rate Master Lease COPs</i>				\$ 85,935,598	
 <i>Variable-Rate Master Lease COPs</i>					
2013- Master Lease COPs Series A <sup>(b)</sup> .....	8/29/13	2021	\$ 50,000,000	\$ 25,437,949	
<i>Total Variable-Rate Master Lease COPs</i>				<u>\$ 25,437,949</u>	
<b>TOTAL OUTSTANDING MASTER LEASE COPs</b>				<b><u>\$111,373,548</u></b>	

(a) The Master Lease provides that certain Lease Schedules can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the Lease Schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the Lease Payments when due. The principal amount of Certificates for which payment has been provided is treated as not outstanding for purposes of this table.

(b) This series of Certificates evidence the State’s repayment of a revolving credit facility in the aggregate amount of \$50,000,000, which the State uses for acquisition funding for the Program. See “**SECURITY FOR CERTIFICATES; Two-Phase Financing Structure**”.

Table IV-2 provides a historical view of the amount of outstanding Certificates as of December 15<sup>th</sup> for the previous ten years.

**Table IV-2  
HISTORICAL OUTSTANDING MASTER LEASE CERTIFICATES OF PARTICIPATION**

<b>Year (December 15)</b>	<b>Total</b>
2007	\$ 84,577,160
2008	74,135,428
2009	63,871,327
2010	74,099,653
2011	68,223,080
2012	55,891,494
2013	66,795,540
2014	92,103,222
2015	111,962,060
2016	111,238,338

## THE MASTER LEASE PROGRAM

### General

The Program, which was created in 1992 for use by all State agencies, permits the State to acquire tangible property and, in certain situations, intangible property or prepaid service items (**Leased Items**), for State agencies through installment purchase contracts. Particular Leased Items are described in schedules (**Lease Schedules**) that are prepared under the Third Amended and Restated Master Lease, dated as of April 28, 2000 (**Master Lease**), between the Lessor and the State.

Through the period ending December 15, 2017, 16 State departments, the Legislature, the Supreme Court, and various other State bodies have used the Program to acquire approximately \$756 million of Leased Items.

### Program Structure

The Master Lease and the Master Indenture establish the structure of the Program. The Master Lease contains general terms and conditions applicable to both the Program and Lease Schedules entered into by the Lessor and the State. A supplemental indenture creates a particular series of Certificates. See “**SUMMARY OF THE MASTER LEASE**”.

The Master Indenture establishes a trust (**Trust**) comprising certain Lease Schedules, rents, and other payments the State is required to make under the Master Lease (**Lease Payments**), Leased Items, and other property and rights related to those Lease Schedules, including the security interest granted by the Master Lease. The Trust serves as a common pool of collateral, ratably securing all present and future Certificates. See “**SUMMARY OF THE MASTER INDENTURE**”.

### Program Operations

The Program structure places within the Department of Administration centralized control of day-to-day operations:

- Functions related to Program administration, review of requests for eligible use of the Program, and day-to-day Program operations occur in the Capital Finance Office.
- Functions related to review of requests for budgetary capacity for Lease Payments resulting from use of the Program and biennial budget preparation occur in the State Budget Office.

- Functions related to collection of Lease Payments occur in the State Controller's Office.

Each of these offices is part of the Department of Administration's Division of Executive Budget and Finance.

To use the Program to acquire a Leased Item, a State agency submits a written request to the Capital Finance Office. This request is reviewed and approved by the Capital Finance Office, the State Budget Office, and the Secretary of Administration. Requests that include information technology items, including development of software or related systems, are also reviewed by the Department of Administration's Division of Enterprise Technology. The review process includes a determination by the Capital Finance Office that lease financing is the best alternative for the particular circumstance and a determination by the State Budget Office that current resources are available to make the Lease Payments due in the current fiscal year. Upon receiving approval to use the Program, the State agency completes procurement of the Leased Item in compliance with State procurement requirements.

Upon acceptance of the Leased Item, the State agency forwards all related outstanding invoices to the Department of Administration for coordination of payment through the Program. Parallel to payment being made to the vendor, a Lease Schedule is prepared by the Department of Administration and executed by the State, the Lessor, and the State agency. This Lease Schedule is then added to the Master Lease. The Lease Schedule also identifies the budgetary appropriation from which the related Lease Payments are expected to be made.

Lease Payments are collected by the State Controller's Office. Scheduled Lease Payments are automatically withdrawn from the appropriations identified by the State agency and electronically wired to the Trustee.

### **State Appropriation Process**

Lease Payments are not included in the State budget as a separate budget line item; rather, Lease Payments are included with other expenditures in one or more of a State agency's existing budget lines. State law establishes procedures for the budget's enactment. See **"BUDGETING PROCESS AND FISCAL CONTROLS"** in **Part II of the 2017 Annual Report** for a summary of the budget enactment process and other financial procedures of the State. The State Budget Office review and approval of requests to use the Program provides for Lease Payments to be addressed during preparation of a biennial budget.

The Department of Administration maintains separate accounts for all appropriations, showing the amounts appropriated, the amounts allotted, the amounts encumbered, the amounts expended, and certain other data necessary to the financial management and control of all State accounts. The Department of Administration also maintains the general ledgers of the General Fund and all other funds of the State.

## **SECURITY FOR CERTIFICATES**

### **General**

The Certificates represent proportionate interests in Lease Payments required to be made by the State under the Master Lease. The Master Lease requires the State to make Lease Payments from any source of legally available funds, subject to annual appropriation. The scheduled Lease Payments are sufficient to pay when due the semiannual principal and interest payments on all outstanding Certificates.

*The obligation of the State to make Lease Payments does not constitute an obligation for which the State is obligated to levy or pledge any form of taxation or for which the State has levied or pledged any form of taxation. The obligation of the State to make Lease Payments does not constitute debt of the State. Lease Payments are required from legally available funds, subject to annual appropriation. See **"RISK FACTORS"**.*

### **Common Pool of Collateral**

Under the Master Indenture, the Lessor has assigned to the Trustee, for the benefit of all owners of Certificates, all its rights in the following:

- The funds and accounts created by the Master Indenture.



- The Lease Schedules specified in supplemental indentures.
- All Lease Payments, Leased Items, and other property and rights related to those Lease Schedules, including the security interest granted by the Master Lease.

*All Leased Items serve as a common pool of collateral, ratably securing all present and future Certificates.* All Certificates are secured by all Leased Items, regardless of their funding source or the time at which the Program finances them. If the Legislature fails to appropriate necessary funds for the continued performance of the State's obligations under any Lease Schedule or if an event of default occurs under the Master Lease, then an event of default exists with respect to all outstanding Certificates. Once a Lease Schedule is fully paid, the Leased Item covered by the Lease Schedule no longer serves as collateral.

In the opinion of Bond Counsel, the transfer of Lease Schedules by the Lessor to the Trustee constitutes a true sale and not a secured transaction. The State's obligation to make Lease Payments does not depend upon any service provided by the Lessor, and thus the transfer of Lease Schedules would be unaffected by any insolvency of the Lessor.

### **Reserve Fund**

The Master Indenture allows a reserve fund to be established for any specific series of Certificates. As of December 15, 2017, no reserve fund has been established for any series of outstanding Certificates. In the event that the Department of Administration were to establish a reserve fund under the Master Indenture, the amounts in the reserve fund would only be available to the series of Certificates for which the reserve fund was established.

### **Governmental Use**

In connection with each Lease Schedule, the State certifies that each Leased Item will be used to perform a governmental function. Many of the Leased Items will perform critical governmental functions, but the State does not certify that the Leased Items perform any "essential" functions. Examples of Leased Items currently existing in the Trust include components of the State's integrated tax collection and processing system, components of the State's central mainframe computer, technology upgrades and equipment for various information technology initiatives, and components of a comprehensive information technology system that allows the State to centrally manage finance, budget, procurement, business intelligence and human resource functions. See **"TABLE IV-3; Outstanding Master Lease Schedules"**.

### **Centralized Control and Review**

The Program structure allows one division within the Department of Administration to centrally administer many Program activities. Program functions related to administration, review, and day-to-day operations occur in the Capital Finance Office. Program functions related to review and biennial budget preparation occur in the State Budget Office. Program functions related to collection of Lease Payments occur in the State Controller's Office. Each of these offices is part of the Division of Executive Budget and Finance.

### **Two-Phase Financing Structure**

The State typically uses a two-phase financing structure for the Program. In the first (or acquisition) phase, all Leased Items are initially financed with proceeds from a revolving credit facility. The revolving credit facility is a line of credit, and the State, acting on behalf of the Trustee, requests draws from the revolving credit facility to pay for the acquisition of Leased Items. A Certificate has been issued to the provider of the revolving credit facility to evidence the State's repayment of balances under the facility. The provider is currently PNC Bank, National Association, and the current scheduled termination date to make draws is September 1, 2018. The State pays interest on funds drawn from the revolving credit facility based on a taxable variable interest rate, and the repayment term under the credit facility can extend for up to three years after the scheduled termination date.

In the second phase, the State, acting on behalf of the Trustee, may sell Certificates, with interest payments based on a fixed (and generally tax-exempt) interest rate to fund all, or a portion of, the Lease

Schedules previously funded with proceeds from the revolving credit facility. Since the proceeds of the Certificates being used as part of the second phase are immediately applied to acquire existing Lease Schedules, the proceeds of those Certificates are not subject to nonorigination risk. The State most recently issued fixed-rate Certificates for this purpose in July 2016, July 2015, November 2014, and February 2014, and prior to these four series, the last issuance of such fixed-rate Certificates occurred in 2012.

In connection with any refinancing, the Master Lease and the Lease Schedules provide for amendments to the terms of the Lease Schedules to match the payment dates and amounts of the Certificates.

All sources of financing for the Program are issued under the Master Indenture. See **“SECURITY FOR CERTIFICATES; Common Pool of Collateral”**.

### **Expected Refunding of Certificates**

Some of the Lease Schedules funded with fixed-rate Certificates had terms that extend beyond the final maturity date of the respective series of Certificates, including some terms that extended to March 1, 2029. The Lease Schedules have been amended to provide for rental payments sufficient to make scheduled payments of principal of, and interest on, the Certificates. Many series of Certificates currently have a maturity on March 1, 2023. The State intends to issue additional Certificates on or prior to March 1, 2023, to refund all or a portion of the principal of the Certificates maturing on March 1, 2023.

Upon issuance of these refunding Certificates, the State will further amend the Lease Schedules to provide for rental payments sufficient to make scheduled payments of principal of, and interest on, the Certificates, and to extend the payment terms in a manner consistent with their initial terms.

### **Budget Process**

The central control of the Program provides the State Budget Office with knowledge of all past, current, and pending scheduled Lease Payments due under the Master Lease. Lease Payments due under the Master Lease are not included in the State budget as a separate budget line item; rather, Lease Payments due under the Master Lease are included with other expenditures in one or more of the existing budget line items for the participating agencies. The Secretary of Administration, under the direction of the Governor and with assistance from the State Budget Office, compiles all budget information and prepares an executive budget consisting of the planned operating expenditures and revenues of all State agencies.

The failure of the Legislature to adopt a new budget before the commencement of a biennium does not result in a lack of spending authority. Under Wisconsin law an existing appropriation continues in effect until it is amended or repealed. Once a newly enacted budget becomes effective, the continuing authority of existing appropriations is superseded by the newly enacted appropriations.

The continuing authority of existing appropriations until a new budget is adopted helps to protect against the effect of a delay in the adoption of a budget. If an amount has been appropriated for the second fiscal year in one biennium, there will be continuing authority in the same amount until a new biennial budget is enacted or some other legislative action is taken to amend or repeal the appropriation. The 2017-19 biennial budget of the State was enacted on September 21, 2017, which was 82 days after the start of the biennium. Of the prior ten biennial budgets, the 2015-17 biennial budget was enacted 11 days after the start of the biennium, and the 2013-15, 2011-13, and 2009-11 biennial budgets were each enacted prior to the start of their respective biennia; however, each of the six biennial budgets prior to the 2009-11 biennium was enacted after the start of the biennium, with the latest date after the start of a biennium being October 27, 1999 (for the 1999-2001 biennium), which was nearly four months after the start of the 1999-2000 fiscal year (the first fiscal year of that biennium).

The Secretary of Administration has statutory power to order reductions in the appropriations of State agencies (which represent less than one-third of the General Fund budget). See **“BUDGETING PROCESS AND FISCAL CONTROLS”** in **Part II of the 2017 Annual Report** for additional information on the State’s budget process.

### *Priority of Claims*

The Master Lease includes representations that, if an emergency arises that requires the Department of Administration to draw vouchers for payment that will be in excess of available moneys, then the Secretary of Administration will establish a priority schedule for payments that gives a high priority to Lease Payments due under the Master Lease. However, the Secretary of Administration is required to give higher priority to payments on outstanding State general obligations, operating notes, and employee payroll. See “**GENERAL FUND INFORMATION; General Fund Cash Flow**” in **Part II of the 2017 Annual Report**.

## **RISK FACTORS**

### **Nonappropriation**

The State’s obligation to make Lease Payments is subject to appropriation of the necessary funds by the Legislature. No assurance is given that sufficient funds will be appropriated or otherwise available to make the Lease Payments. **Nonappropriation** is defined in the Master Lease as a determination by the State (or Lessee) that the Legislature has failed to appropriate necessary funds for the continued performance of the obligations of the Lessee under the Master Lease. A failure by the State to make a Lease Payment with respect to any Leased Item would cause the Master Lease to terminate with respect to all Leased Items. The State’s obligation to make Lease Payments is not a general obligation of the State, and the obligation does not involve the State of Wisconsin Building Commission. Rather, the Master Lease is a contract entered into by the Department of Administration under separate statutory authority. The owners of the Certificates could suffer a loss or fail to obtain payment on a timely basis if no appropriation were made or if an insufficient appropriation were made. This could occur either through the direct action of the Legislature or the Governor or through a failure to act.

The Master Lease does not include a nonsubstitution clause. If the Legislature fails to appropriate necessary funds for the continued performance of the State’s obligations under the Master Lease, the State is allowed to acquire and use similar items for the same function as the Leased Item for which no appropriation was made.

As described under “**SECURITY FOR CERTIFICATES; Expected Refunding of Certificates**”, some Lease Schedules funded with series of Certificates previously had scheduled Lease Payment dates extending beyond the final maturities of those Certificates. This includes approximately \$36 million of payments attributable to principal due March 1, 2023 that State agencies had intended to pay through a date that is after the final maturity for Certificates. The State intends to refund portions of the principal amounts of the Certificates that mature on March 1, 2023. However, if such refunding were not to occur for any reason, larger than normal appropriations would be needed to provide for the payment of the Certificates maturing on March 1, 2023. If provisions that are included in separate federal tax reform bills passed by both houses of Congress become law, the issuance of these additional Certificates would need to occur within 90 days of the first optional redemption date of the outstanding certificates for interest on such additional Certificates to be excludable from gross income for federal income tax purposes.

While it is possible that failure to make the Lease Payments might hinder the State’s subsequent access to the capital markets, it should not be assumed that the Legislature would regard that possible consequence to be a compelling reason to appropriate the money needed for Lease Payments. See “**SUMMARY OF THE MASTER LEASE**” and “**SUMMARY OF THE MASTER INDENTURE**” for additional information about remedies available under the Master Lease and Master Indenture if no appropriation is made.

### **Essentiality of Leased Items**

Although the State has made certain representations that each Leased Item serves a governmental function and although many Leased Items serve critical functions, it should be assumed that the State could function without any Leased Item.

### **Collateral Value of Leased Items**

Although the State has provided a security interest in the Leased Items to the Trustee (for the benefit of the owners of Certificates), the Certificates are not offered on the basis of the collateral value of the Leased Items or the value of any other pledged asset (other than the Lease Payments). The term of the Lease Schedule is not permitted to exceed the useful life of the Leased Item; however, it should not be assumed that the value of the Leased Item at any particular time will exceed the portion of the remaining Lease Payments that will be applied to principal or that the existence of any excess would motivate the State to continue making Lease Payments. Typically, it is difficult to realize the full value of collateral through sale of the collateral, and some of the Leased Items, such as service contracts, intangible property, or tangible property that is incorporated into real estate, may be impossible or difficult to sell or have little or no value to a third-party purchaser.

Records that evidence the security interest are kept by the Department of Administration, separate and apart from the central record system of security interests kept by the State of Wisconsin Department of Financial Institutions under the Uniform Commercial Code.

### **Tax Exemption**

No assurance can be given that, if the Master Lease were terminated, subsequent payments made by the Trustee with respect to the outstanding Certificates and designated as interest would be excluded from gross income for federal income tax purposes.

### **Applicability of Securities Law**

If the Master Lease were terminated, then the transfer of a Certificate might be subject to compliance with the registration provisions of applicable federal and state securities laws, which could impair the liquidity of the Certificates.

**Table IV-3**

**OUTSTANDING MASTER LEASE SCHEDULES  
(As of December 15, 2017)**

<u>Schedule Number</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Leased Item</u>	<u>Amount Financed</u>	<u>Principal Balance</u>
12-005	2/15/2012	3/1/2019	Dispatch Console Replacement	\$1,776,827.76	\$ 351,525.97
12-021	6/29/2012	3/1/2019	Wisconsin Integrated Correction System (WICS) - Phase 3	1,275,647.00	269,378.79
12-033	12/17/2012	9/1/2019	Portable Radio Replacement	1,206,063.10	340,419.96
13-008	5/31/2013	9/1/2018	Delivery Vehicles	683,508.00	123,872.33
13-009	5/31/2013	9/1/2018	Golf Course Maintenance Equipment	70,070.89	12,698.97
13-010	6/14/2013	9/1/2028	ERP Software/Hardware - STAR Project	14,315,300.00	9,678,075.52
13-011	7/1/2013	9/1/2018	ERP Software/Hardware - STAR Project	1,606,208.91	302,086.62
13-012	7/1/2013	9/1/2018	Golf Course Maintenance Equipment	14,089.00	2,606.60
13-014	7/19/2013	9/1/2018	ERP Software/Hardware - STAR Project	1,148,211.55	218,348.60
13-015	8/1/2013	3/1/2018	Golf Course Maintenance Equipment	46,720.00	4,999.68
13-017	9/16/2013	9/1/2028	ERP Software/Hardware - STAR Project	10,000,000.00	6,916,763.26
13-020	10/1/2013	9/1/2020	Fleet Vehicles	37,942.00	15,751.84
14-003	2/7/2014	3/1/2021	Potato Grader	110,000.00	53,163.82
14-004	2/28/2014	3/1/2029	Star Project	1,049,735.00	740,910.68
14-006	4/1/2014	3/1/2029	Star Project	1,266,560.00	901,688.28
14-007	4/1/2014	3/1/2029	Star Project	2,629.87	1,871.86
14-008	4/11/2014	3/1/2019	Star Project	63,111.00	18,767.86
14-010	5/2/2014	3/1/2029	Star Project	1,779,630.00	1,277,929.14
14-011	5/2/2014	3/1/2018	Golf Course Maintenance Equipment	39,060.57	5,029.21
14-013	5/30/2014	3/1/2029	Star Project	2,211,085.00	1,600,158.05
14-014	5/30/2014	3/1/2018	Golf Course Maintenance Equipment	20,159.00	2,655.61
14-016	6/30/2014	3/1/2019	Wisconsin Integrated Correction System (WICS)	1,135,814.00	356,280.40
14-017	6/30/2014	9/1/2020	Patient Lifts	101,190.50	33,900.96
14-020	6/30/2014	3/1/2029	Star Project	3,150,758.69	2,286,992.85
14-023	7/18/2014	9/1/2020	Patient Lifts	113,916.90	55,637.77
14-024	8/8/2014	3/1/2029	Storage Hardware and Software	1,862,780.00	1,382,912.60
14-025	8/8/2014	9/1/2021	Biennial Budget System	335,859.30	185,003.40
14-026	9/16/2014	3/1/2029	Storage Hardware and Software	5,995,392.20	4,454,460.88
14-028	9/16/2014	9/1/2019	Networking Equipment	380,835.80	148,458.34
14-029	10/1/2014	9/1/2018	Storage Hardware and Software	13,373,204.90	3,305,825.88
14-030	10/1/2014	9/1/2020	Patient Lifts	148,281.99	72,354.23
14-031	10/17/2014	3/1/2029	Storage Hardware and Software	2,459,415.00	1,824,259.43
14-032	6/30/2014	3/1/2019	Computer Software	941,472.00	308,298.49
14-033	11/18/2014	3/1/2029	ERP Systems Integrator	2,459,415.00	1,837,132.87
14-034	12/3/2014	3/1/2029	STAR Project - ERP Software	2,459,415.00	1,844,980.50
15-001	1/9/2015	3/1/2029	STAR Project - ERP Software	2,459,415.00	1,863,897.57
15-002	2/13/2015	3/1/2029	STAR Project ERP Software and Services	7,468,416.60	5,749,447.54
15-004	2/13/2015	9/1/2019	Wireless Mobile Microphones	282,452.10	123,912.66
15-005	2/13/2015	9/1/2021	Microwave Network Communications Equipment	1,228,998.25	731,468.46
15-006	3/16/2015	3/1/2029	STAR Project ERP Software and Services	4,405,967.00	3,388,059.96

**Table IV-3—Continued**  
**OUTSTANDING MASTER LEASE SCHEDULES**  
**(As of December 15, 2017)**

<u>Schedule Number</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Leased Item</u>	<u>Amount Financed</u>	<u>Principal Balance</u>
15-007	3/16/2015	9/1/2018	IT Storage Hardware and Software	\$1,333,701.84	\$ 379,170.67
15-008	3/16/2015	3/1/2018	Ultrasound Equipment	194,228.00	32,325.66
15-009	3/1/2015	3/1/2018	Ultrasound Equipment	137,945.50	7,979.65
15-010	4/21/2015	9/1/2018	Storage Hardware and Software	747,523.62	212,420.40
15-011	4/21/2015	9/1/2021	Microwave Network Hardware and Software	13,771.50	8,189.16
15-012	4/21/2015	3/1/2029	STAR Project ERP Software and Services	4,584,263.80	3,523,503.68
15-014	5/22/2015	9/1/2018	IT Storage Hardware and Software	151,226.85	46,335.44
15-015	5/22/2015	3/1/2018	Mainframe and Software Licences	7,189,000.00	1,306,253.35
15-016	5/22/2015	3/1/2029	STAR Project ERP Software and Services	3,557,638.40	2,794,655.27
15-017	7/2/2015	3/1/2029	STAR Project ERP Software and Services	3,139,506.40	2,465,052.40
15-018	7/2/2015	3/1/2018	Copier/Printer/MultiFunctional Devices	129,595.00	23,536.71
15-019	7/2/2015	3/1/2020	Golf Course Maintenance Equipment	111,285.12	57,325.80
15-020	7/2/2015	9/1/2018	IT Storage Hardware and Software	300,092.15	91,904.57
15-021	7/2/2015	3/1/2018	Copier/Printer/MultiFunctional Devices	264,854.00	52,798.55
15-022	7/29/2015	9/1/2019	Management Services	885,113.10	380,522.71
15-023	7/29/2015	9/1/2020	Golf Course Maintenance Equipment	27,802.62	16,001.23
15-024	7/29/2015	3/1/2029	ERP Software/Hardware - STAR Project	1,466,367.00	1,148,505.30
15-025	8/19/2015	9/1/2018	IT Storage and Hardware	102,802.21	34,951.37
15-026	8/26/2015	3/1/2029	ERP Software/Hardware - STAR Project	1,466,367.00	1,153,816.59
15-027	8/19/2015	9/1/2018	IT Storage and Hardware	99,304.00	33,762.04
15-028	8/19/2015	9/1/2016	Copier/Printer/MultiFunctional Devices	90,506.00	34,032.18
15-029	9/18/2015	9/1/2020	ERP Software/Hardware - STAR Project	1,340,408.15	786,574.94
15-030	9/18/2015	9/1/2020	ERP Software/Hardware - STAR Project	1,466,367.00	864,014.39
15-031	10/26/2015	3/1/2017	Dell Computers	27,792.00	9,853.05
15-032	10/26/2015	9/1/2020	ERP Software/Hardware - STAR Project	445,742.00	265,727.72
15-033	11/23/2015	9/1/2020	ERP Software/Hardware - STAR Project	1,595,192.00	962,084.67
15-034	11/30/2015	9/1/2018	Biochemistry Analyzer	19,693.00	11,913.79
15-035	12/22/2015	9/1/2028	IT Storage and Hardware	1,692,524.00	624,498.92
15-036	12/22/2015	9/1/2018	IT Storage and Hardware	320,952.48	1,244.13
15-037	12/22/2015	9/1/2020	ERP Software/Hardware - STAR Project	89,148.40	53,174.42
16-001	1/12/2016	9/1/2020	ERP Software/Hardware - STAR Project	45,333.20	26,629.56
16-002	1/12/2016	9/1/2020	Veterinary Nuclear Medicine System	127,500.00	78,616.70
16-003	1/12/2016	3/1/2017	Dell Computers	20,151.00	7,159.83
16-004	1/29/2016	3/1/2021	Microwave Network	734,883.72	733,567.90
16-005	1/29/2016	3/1/2018	Mass Spectrometer	979,302.57	239,686.98
16-006	2/16/2016	3/1/2023	ERP Software/Hardware - STAR Project	1,973,887.00	1,461,582.12
16-007	2/16/2016	3/1/2018	Copier/Printer/MultiFunctional Devices	3,095.00	758.57
16-008	2/16/2016	9/1/2020	ERP Software/Hardware - STAR Project	45,333.20	28,608.48
16-009	3/2/2016	3/1/2023	Microwave Network	83,388.85	61,752.59
16-010	3/2/2016	3/1/2018	IT Storage and Hardware	190,632.25	46,752.45

**Table IV-3—Continued**  
**OUTSTANDING MASTER LEASE SCHEDULES**  
**(As of December 15, 2017)**

<u>Schedule Number</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Leased Item</u>	<u>Amount Financed</u>	<u>Principal Balance</u>
16-011	3/2/2016	9/1/2020	IT Storage and Hardware	\$6,455,575.11	\$ 4,074,718.20
16-012	3/2/2016	9/1/2020	IT Storage and Hardware	925,290.10	584,032.86
16-013	3/2/2016	3/1/2021	Laptops	2,827,902.00	1,376,173.66
16-014	3/2/2016	3/1/2021	ERP Software/Hardware - STAR Project	89,148.40	58,888.66
16-015	3/28/2016	3/1/2021	ERP Software/Hardware - STAR Project	89,148.40	58,904.43
16-016	3/28/2016	3/1/2021	ERP Software/Hardware - STAR Project	253,760.00	167,670.87
16-017	3/28/2016	3/1/2023	Microwave Network	734,883.72	544,307.58
16-018	4/15/2016	3/1/2021	Mobile Radios	1,535,514.00	1,014,584.68
16-019	4/15/2016	3/1/2021	ERP Software/Hardware - STAR Project	253,760.00	167,701.95
16-020	4/22/2016	9/1/2020	Computer Hardware Systems	2,157,633.56	1,027,714.67
16-021	7/2/2015	3/1/2018	Copier/Printer/MultiFunctional Devices	912,886.50	603,472.45
16-022	5/13/2016	3/1/2022	Mobile Radios	327,721.90	232,960.95
16-023	5/13/2016	3/1/2022	ERP Software/Hardware - STAR Project	206,933.20	147,098.35
16-024	5/13/2016	3/1/2022	IT Storage and Hardware	124,314.00	88,368.51
16-025	6/13/2016	3/1/2023	IT Storage and Hardware	146,682.60	108,702.77
16-026	6/13/2016	3/1/2023	ERP Software/Hardware - STAR Project	252,593.60	187,190.71
16-027	6/13/2016	3/1/2023	ERP Software/Hardware - STAR Project	358,535.00	265,701.25
16-028	6/13/2016	9/1/2022	Mobile Radios	27,185.86	19,855.43
16-029	6/13/2016	9/1/2021	Call Center Software/Hardware System	4,067,296.13	2,799,475.93
16-030	6/13/2016	3/1/2021	Forage Merger	99,000.00	65,466.08
16-031	6/30/2016	3/1/2019	IPads	142,383.35	37,836.95
16-032	6/30/2016	9/1/2020	Computer Hardware Systems	145,499.97	107,633.40
16-033	6/30/2016	9/1/2022	Microwave Network	661,314.26	550,824.91
16-034	6/30/2016	9/1/2021	Mobile Radios	56,920.50	45,274.19
16-035	7/19/2016	3/1/2019	IPads	90,765.00	53,439.32
16-036	8/9/2016	3/1/2022	ERP Software/Hardware - STAR Project	233,416.60	193,708.24
16-037	8/9/2016	9/1/2021	Golf Course Maintenance Equipment	141,239.60	114,495.70
16-038	8/31/2016	3/1/2022	ERP Software/Hardware - STAR Project	2,185,701.00	1,830,353.88
16-039	8/31/2016	3/1/2022	IT Storage and Hardware	77,513.95	64,911.87
16-040	8/31/2016	9/1/2019	IPads	51,971.20	35,465.53
16-041	8/31/2016	3/1/2023	Industrial Equipment	167,696.58	145,215.56
16-042	10/6/2016	9/1/2020	Computer Hardware Systems	54,798.69	40,573.60
16-043	10/6/2016	9/1/2023	ERP Software/Hardware - STAR Project	63,148.40	56,025.07
16-044	10/26/2016	9/1/2023	ERP Software/Hardware - STAR Project	209,800.00	187,398.49

**Table IV-3—Continued**  
**OUTSTANDING MASTER LEASE SCHEDULES**  
**(As of December 15, 2017)**

<u>Schedule Number</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Leased Item</u>	<u>Amount Financed</u>	<u>Principal Balance</u>
16-045	10/26/2016	9/1/2021	Call Center Software/Hardware System	\$ 195,931.25	\$ 169,844.08
16-046	12/2/2016	9/1/2023	ERP Software/Hardware - STAR Project	46,000.00	41,619.20
16-047	12/16/2016	9/1/2023	IT Storage and Hardware	1,909,997.00	1,736,547.69
16-048	12/29/2016	9/1/2019	Computer Systems	796,553.00	56,035.24
16-049	6/13/2016	3/1/2021	IT Storage and Hardware	158,038.76	134,683.56
16-050	8/31/2016	9/1/2021	Industrial Equipment	81,500.00	67,489.42
16-051	6/30/2016	9/1/2020	Computer Hardware Systems	562,655.11	466,976.29
17-002	1/25/2017	9/1/2020	IT Storage and Hardware	925,290.10	495,344.61
17-003	3/2/2017	9/1/2021	Trucks	300,471.00	270,433.88
17-006	5/3/2017	3/1/2024	Scale Truck Equipment	311,841.99	294,318.70
17-007	5/15/2017	9/1/2023	ERP Software/Hardware - STAR Project	31,600.00	30,324.33
17-008	3/2/2017	9/1/2021	Trucks	296,061.00	277,618.65
17-010	6/19/2017	3/1/2021	IT Storage and Hardware	214,433.50	203,742.43
17-011	6/20/2017	3/1/2024	Scale Truck Equipment	259,715.56	253,095.17
17-012	7/28/2017	3/1/2022	Golf Course Maintenance Equipment	147,688.00	147,688.00
17-013	7/28/2017	9/1/2017	Health Records System	394,895.88	394,895.88
17-014	7/28/2017	9/1/2023	Buses	1,163,386.00	1,163,386.00
17-015	8/29/2017	3/1/2023	IT Storage and Hardware	475,315.81	475,315.81
17-016	8/29/2017	3/1/2022	IT Storage and Hardware	2,976,088.39	2,976,088.39
17-017	11/17/2017	9/1/2025	Tractors	917,500.00	917,500.00
17-018	11/17/2017	9/1/2017	Health Records System	394,895.88	394,895.88
17-019	11/30/2017	9/1/2022	IT Mainframe	11,702,855.00	11,702,855.00
					<u>\$ 112,586,076.28</u>

Note: The principal balance of each Lease Schedule reflects amortization at an assumed fixed interest rate; during the period that a Lease Schedule is funded with proceeds from a revolving credit facility, interest accrues based on a variable interest rate. As a result, the principal balances included in this table may change slightly when reconciled to reflect actual accrued interest. Final reconciliation of the actual to the assumed interest rates occurs with the last scheduled Lease Payment.

## SUMMARY OF THE MASTER LEASE

The following is a summary of certain provisions of the Master Lease.

### Acquisition, Delivery, and Lease of Leased Items

The Master Lease establishes the process for acquiring property items and service items. It requires the State to provide written notice to the Lessor, identifying:

- The items it desires to lease
- The anticipated schedule for making Lease Payments
- The anticipated date or dates on which payments to acquire the Leased Item are due and payable

The notice must also confirm that the State expects that sufficient moneys will be available to pay the acquisition costs, as arranged solely by the State. The State (or the Lessor at the State's request) orders each Leased Item from the contractor selected by the State.

The State is responsible for selecting Leased Items, reviewing the terms of purchase, and arranging for the delivery, installation, testing, servicing, and maintenance of the Leased Items.



Upon delivery and any required installation of any Leased Item that is a property item, the State is required to inspect such item, and if it meets the State's specifications, then the State, before the end of the acceptance period agreed to by the contractor, must provide the Lessor with a certificate of acceptance. At the time the property item is accepted, the State will perfect a security interest therein in favor of the Lessor or any party to which such security interest is assigned with the State's consent. Before the commencement of service for a Leased Item that is a service contract, the State must provide the Lessor with a certificate of acceptance. Any Leased Items thus acquired become subject to the Master Lease, and upon acceptance, the State becomes obligated to make the Lease Payments.

### **Lease Term and Lease Termination**

The Master Lease is in effect until all Lease Payments have been paid, unless the Master Lease is either extended or terminated earlier, as provided in the Master Lease. With respect to any Leased Item, the obligation to make Lease Payments begins:

- On the date of execution of the related Lease Schedule and the certificate of acceptance, or
- On the date that sufficient moneys are received in a particular fund from which the costs of Leased Items are to be paid.

*Subject to appropriation, the State presently intends to keep the Master Lease in effect for its entire term and to make all Lease Payments. The State agrees that the appropriate budget requests for each fiscal year will include all Lease Payments coming due in the fiscal year. In the event an emergency arises that requires the State to draw vouchers for payments that will be in excess of available moneys and the Secretary of Administration establishes a priority schedule for payments under the Wisconsin Statutes (Statutes), the Secretary will give a high priority to Lease Payments due under the Master Lease.*

In accordance with the Statutes, the continuance of the Master Lease beyond the limits of funds already available to the State is contingent upon appropriation of the necessary funds. Upon the occurrence in any fiscal year of a Nonappropriation (**Event of Nonappropriation**), the State has the right to terminate the Master Lease. Termination would affect all Leased Items and would be effective as of the last day of a fiscal year (that is, June 30<sup>th</sup>).

The State would still be obligated to make any Lease Payments due by the end of the fiscal year but would not be responsible for the payment of any Lease Payments scheduled to come due in any succeeding fiscal year. In the event of termination of the Master Lease based on an Event of Nonappropriation, if the Lessor requests, the State is required to deliver possession of all Leased Items to the Lessor and must convey to the Lessor, or release, its interest in all Leased Items.

With respect to any Leased Item, the respective Lease Schedule terminates when all Lease Payments relating to it are paid under the Lease Schedule or when the State terminates the Lease Schedule by paying the applicable purchase price for the Leased Item.

The Master Lease will terminate in its entirety (which will affect all Leased Items) if the State exercises its right to terminate upon the occurrence of an Event of Nonappropriation, or if the State defaults and the Lessor elects to terminate the Master Lease.

### **Insurance Requirements; Loss or Damage to Leased Items**

The State is required to provide insurance coverage against certain risks, through its self-funded liability and property insurance programs, for which sum-sufficient appropriations are made under the Statutes. Insured risks include:

- Damage to, or destruction of, Leased Items
- Liability for injuries to or death of any person or damage to or loss of property related to use of the Leased Items
- The employer's costs for worker's compensation relating to use of the Leased Items

The State assumes all risks and liabilities for loss or damage to any Leased Item and for injury to or death of any person or damage to any other property arising from use of the property items or arising with respect to service items, to the extent such loss, damage, injury, death, or damage to other property is caused by acts committed by an officer or employee of the State while acting within the scope of employment or any agent of the State while acting within the scope of the agency.

If any Leased Item delivered to the State is lost, then the State is required to replace the item or pay the applicable purchase price for that Leased Item.

When the State pays the purchase price for any Leased Item, the Master Lease terminates with respect to such Leased Item and the State becomes entitled to such Leased Item, as is, where is, and without any warranty, except for any warranty from the contractor that provided the Leased Item.

### **Other Obligations**

The Lessor has no responsibility for the use or maintenance of the Leased Items. The State is required to use all Leased Items carefully, properly, and lawfully. The State is required to maintain all Leased Items. The State is required to pay any charges assessed against Leased Items.

### **Rights in Leased Items; Security Interest**

The Lessor does not have legal title to Leased Items that are property items. Legal title to all property items rests in the State. Should the Master Lease terminate due to an Event of Nonappropriation or an event of default under the Master Lease, the State is required to transfer to the Lessor its interest in all Leased Items.

The State has granted to the Lessor a first priority purchase-money security interest in Leased Items to secure the State's payment of all Lease Payments.

The Lessor has no responsibility in connection with the selection of the Leased Items or the contractors providing the Leased Items. The Leased Items and contractors are selected solely by the State.

The Lessor has no responsibility for the condition or usefulness of the Leased Items. The Leased Items are leased as is, where is, and without any warranty. The Lessor also is not responsible for any damages in connection with the use of the Leased Items.

### **Assignment, Mortgaging, and Selling**

The Lessor may not, without the prior written consent of the State, assign its obligations under the Master Lease or its interest in the Leased Items or grant a security interest in or lien upon the Leased Items or enter into any financing for the Leased Items.

### **Option to Terminate Lease Schedule**

Depending on the source of funding for the Lease Schedule, the State may have the option to terminate the Lease Schedule by depositing an amount equal to the applicable purchase price, which shall be either:

- An amount equal to the outstanding principal amount of the Lease Schedule, interest to the date of redemption of the source of funding, and any redemption premium, or
- If permitted, an amount sufficient to purchase investments maturing on such dates and in such amounts to pay the Lease Payments when due (or until the source of funding may be redeemed).

### **Events of Default and Remedies**

Each of the following shall be an event of default under the Master Lease:

- Failure by the State to pay when due any Lease Payments and the continuation of such failure for five business days.
- Failure by the State to observe any covenant with respect to any Leased Item (other than a failure to make Lease Payments) for a period of thirty days after notice, unless the Lessor and the Trustee agree to an extension.

- Any representation or warranty by the State in the Master Lease was untrue in any material respect.
- An event of default shall have occurred and be continuing under the Master Indenture.

If by reason of *force majeure* the State is unable to carry out its obligations under the Master Lease with respect to any Leased Item (other than its obligation to make Lease Payments, which must still be paid when due), then the State shall not be deemed in default during the period of inability.

Whenever any event of default occurs, the Lessor has the right to take one or more of the following steps:

- The Lessor, with or without terminating the Master Lease, may declare all Lease Payments due or to become due during the fiscal year to be immediately due and payable.
- The Lessor, with or without terminating the Master Lease, may give the State written notice requiring the State to deliver all the Leased Items to the Lessor. If the State were to fail to return them within 30 days, then the Lessor may exercise all its legal rights to take possession of the Leased Items and to receive damages resulting from the State's failure. Even if the Lessor were to take possession of the Leased Items, the State would continue to be responsible for Lease Payments during the fiscal year. If the event of default were cured and the Master Lease had not been terminated with respect to such Leased Items, then the Lessor would be required to return the Leased Items to the State at the State's expense.
- If the Lessor were to terminate the Master Lease and take possession of Leased Items, then the Lessor would be required to attempt to sell the Leased Items in a commercially reasonable manner. The Lessor would be required to apply any proceeds of the sale in the following order: (1) all expenses incurred in securing possession of the Leased Items, (2) all expenses incurred in completing the sale, (3) any amounts payable to any party having a security interest in or lien against the Leased Items, (4) the applicable purchase price for the Leased Items, and (5) the balance of any Lease Payments due with respect to such Leased Items for such Fiscal Year. Any remaining proceeds of the sale would be paid to the State.
- The Lessor would be permitted to use any other remedy available at law or in equity with respect to such event of default.

If the Master Lease were terminated before all Lease Payments had been paid, then the Lessor may require the State to return the Leased Items.

## **SUMMARY OF THE MASTER INDENTURE**

The following is a summary of certain provisions of the Master Indenture.

### **General**

Pursuant to the Master Indenture, the Lessor has transferred to the Trustee without recourse (but also without limitation on its obligations under the Master Lease) all its right in the funds and accounts established under the Master Indenture, the Lease Schedules specified in supplemental indentures, and all Lease Payments, Leased Items, and other property and rights related to those Lease Schedules, including the security interest granted by the Master Lease. Except as provided in the Master Indenture, all properties and rights received by, and moneys and investments held by, the Trustee under the provisions of the Master Indenture shall be held in trust for the benefit of the owners of the Certificates.

### **Funds and Accounts; Payments to be Deposited**

The Master Indenture creates the following funds and accounts to be held and administered by the Trustee for each series of Certificates:

- Certificate Payment Fund (within which is an Interest Account, a Principal Account, and an Additional Rents Account),
- Project Fund (within which is a Project Account and an Earnings Account),

- Lease Payment Fund (within which is an Interest Account, a Principal Account, and an Additional Rents Account),
- Lease Payment Reserve Fund,
- Administrative Expense Payment Fund, and
- Insurance Fund.

The Trustee will deposit the proceeds from the issuance of a series of Certificates, net of the underwriters' discount as follows:

- If specified in the supplemental indenture providing for the issuance of that series, then the Trustee will deposit in the Principal Account and the Interest Account of the Certificate Payment Fund an amount to be used for the partial or complete redemption of one or more series of outstanding Certificates, and the Leased Items related with the redeemed Certificates will thereafter relate to the newly issued Certificates.
- If specified in the supplemental indenture, then the Trustee will pay to the Lessor the costs of acquiring Leased Items that have not been reimbursed.
- If specified in the supplemental indenture, then the Trustee will deposit in the Principal Account in the Lease Payment Fund the amount specified for payment or reimbursement of costs of issuance.
- If specified in the supplemental indenture, then the Trustee will deposit an amount in the Lease Payment Reserve Fund.
- The Trustee will deposit an amount into the Project Account of the Project Fund specified in the supplemental indenture.
- The Trustee will deposit the balance of the proceeds, if any, in the Lease Payment Fund.

Earnings on the Project Account of the Project Fund are transferred as received to the Earnings Account of the Project Fund. Moneys in the Earnings Account are transferred and used for payment of amounts due or coming due within 30 days, in the following order: (1) to the Interest Account of the Lease Payment Fund for retransfer to the Interest Account of the Certificate Payment Fund and (2) to the Administrative Expense Payment Fund.

To the extent moneys in the Earnings Account of the Project Fund exceed amounts payable as described above, the excess is deposited in the Project Account of the Project Fund.

Money available in the Project Account of the Project Fund will be disbursed to pay for the acquisition of additional Leased Items, as directed by the State.

Except as provided in the Master Indenture, any money remaining in the Project Account of the Project Fund on the date specified in the applicable supplemental indenture will be transferred by the Trustee to the Principal Account of the Lease Payment Fund, to be applied as a credit against the Lease Payments required to be paid by the State.

Upon any Event of Nonappropriation or upon an event of default under the Master Lease requiring the surrender of Leased Items, or upon any other termination of a Lease Schedule other than pursuant to the payment of all Lease Payments or the exercise by the State of its option to pay the purchase price, the Trustee is required immediately to transfer all amounts on deposit in the Project Account of the Project Fund to the Principal Account of the Lease Payment Fund.

On any day on which Certificates are to be paid or redeemed, the Trustee is required to transfer the aggregate amount on deposit in the Principal Account of the Lease Payment Fund for deposit into the Principal Account of the Certificate Payment Fund. On the date Certificates are to be redeemed in accordance with the Master Indenture as a result of deposit of moneys into the Principal Account of the Lease Payment Fund, the Trustee is required then to transfer the money for deposit into the Principal

Account of the Certificate Payment Fund. On the date that Certificates are to be redeemed due to the termination of a Lease Schedule as a result of an Event of Nonappropriation, and if funds have been transferred to the Principal Account of the Lease Payment Fund, the Trustee is required to transfer all amounts on deposit in such Principal Account for deposit into the Principal Account of the Certificate Payment Fund. On each Interest Payment Date with respect to Certificates, the Trustee is required to transfer from the Interest Account of the Lease Payment Fund (and, if necessary, from the Earnings Account of the Project Fund) for deposit into the Interest Account of the Certificate Payment Fund, an amount equal to the interest then due on the Certificates.

On each Interest Payment Date with respect to Certificates, the Trustee is required to transfer from the Lease Payment Reserve Fund to the Interest Account or the Principal Account of the Lease Payment Fund for a particular series of Certificates to the extent amounts on deposit in such Interest Account are insufficient to pay interest due on the Certificates of such series, or amounts on deposit in such Principal Account are insufficient to pay that portion of the principal of the Certificates of such series to be paid or redeemed. If at any time amounts on deposit in the Lease Payment Reserve Fund are less than the required amount, as adjusted from time to time as provided for in the Master Indenture, then the State, upon receiving notice of such deficiency from the Trustee, shall immediately pay the Trustee an amount equal to the deficiency.

The Trustee is enabled to bill the State semi-annually for all administrative expenses. If at any time the Trustee determines that payments deposited, or to be deposited, in the Administrative Expense Fund will be more or less than the expenses for the current Fiscal Year, then the Trustee is enabled to adjust the semi-annual billing. The Trustee shall disburse amounts from the Administrative Expense Fund to pay invoices rendered in accordance with the Master Indenture.

Except as provided in the Master Indenture, the Trustee is required to pay to the State any amount remaining in any Fund or Account after full payment (or redemption) of all Certificates outstanding and payment of any fees, expenses, or costs owing with respect to the Certificates or the Lease Schedules.

The Trustee is required to invest moneys it holds under the Master Indenture in **Qualified Investments**, to be selected at the direction of the State, giving consideration, however, to the times at which moneys are required to be disbursed under the Master Indenture and, in that connection, may place moneys in demand or time deposits with any bank or trust company authorized to accept deposits of public funds.

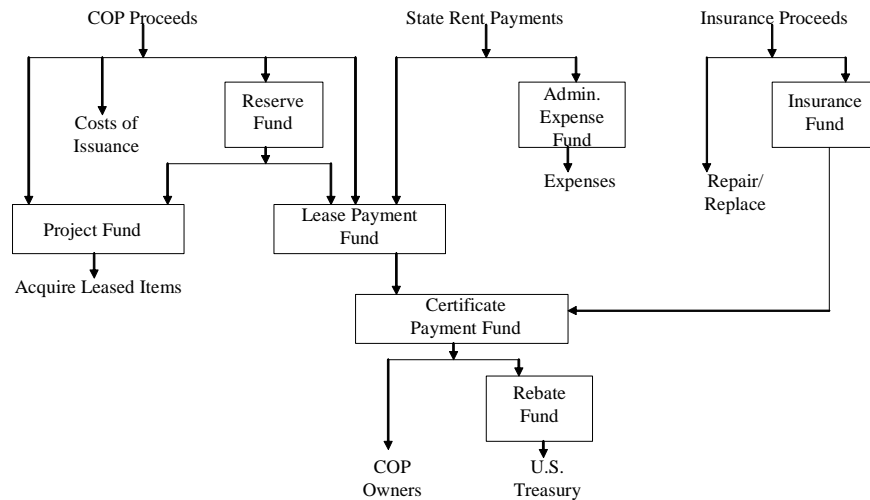
The following are Qualified Investments:

- Obligations of, or obligations guaranteed as to interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States.
- Federal Housing Administration debentures.
- Federal Home Loan Mortgage Corporation participation certificates.
- Farm Credit System consolidated system wide bonds and notes.
- Federal Home Loan Banks consolidated debt obligations.
- Federal National Mortgage Association senior debt obligations and mortgage-backed issues.
- Student Loan Marketing Association senior debt obligations and letter-of-credit-backed issues.
- Resolution Funding Corporation (**REFCORP**) debt obligations.
- Unsecured certificates of deposit, time deposits, and banker's acceptances (having maturities of not more than 365 days) of any bank, the short-term obligations of which are rated the highest classification (without regard to any suffix or numerical order) by each of those agencies selected by the State to assign a credit rating to the Certificates or the Program (**Rating Agencies**).

- Certificates of deposit or time deposits constituting direct obligations of any bank, the full amount of which is insured by the Federal Deposit Insurance Corporation.
- Debt obligations, including prerefunded municipals, rated in either of the two highest classifications (without regard to any suffix or numerical order) by each of the Rating Agencies.
- Commercial paper rated the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies.
- Securities issued by those investment companies registered under the Investment Company Act of 1940 commonly known as “money market funds” rated in the highest classification by each of the Rating Agencies that invest solely in securities which are otherwise Qualified Investments.
- Investments made through repurchase agreements with any transferor with debt or commercial paper rated in the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies, *provided* that each repurchase agreement (1) is acceptable in form and substance to the State and the Trustee, (2) provides for the registration of title to certificated government obligations in the name of the Trustee or any agent of the Trustee and the physical transfer of certificated government obligations to the Trustee or to a custodial account in the name of the Trustee at a Federal Reserve Bank and for the registration of title to book-entry government obligations in the name of the Trustee, (3) provides that the government obligations acquired pursuant to such repurchase agreement shall be valued at least monthly at the lower of the then-current fair market value or the repurchase price in the applicable repurchase agreement (except that the Lease Payment Reserve Fund shall always be valued at the then current fair market value), and (4) is with any state or national bank or foreign bank with a United States branch or agency with short-term obligations rated in the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies.
- Any stripped securities rated in the highest classification by each of the Rating Agencies, including, but not limited to, U.S. Treasury STRIPS and REFCORP STRIPS.
- Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating from each of the Rating Agencies which is equal to or higher than the rating assigned to the Certificates by the Rating Agencies and the rating is in either of the two highest classifications (without regard to any suffix or numerical order) of each of the Rating Agencies.

The following chart depicts the sources and uses of the various funds.

**State of Wisconsin Master Lease Program  
Master Indenture - Sources and Uses of Funds**



**Servicing of Lease Schedules**

The Lessor has agreed to service the Lease Schedules, and should the Lessor fail to do so, the Trustee has agreed to do so and to enforce their terms. At the time the State entered into the Master Lease and the Master Indenture, the Lessor and the Trustee were separate (but related) entities; now, as a result of successive corporate mergers, the Lessor and the Trustee are the same entity, serving in different capacities.

**Events of Default and Remedies**

The following shall constitute **Events of Default** under the Master Indenture:

- Any Event of Nonappropriation or event of default under the Master Lease or any Lease Schedule.
- Failure by the Lessor or the State to observe any covenant under the Master Indenture (other than an event specified above) for a period of 30 days after notice from the Trustee, the Lessor, or the owners of not less than 5% in aggregate principal amount of Certificates then outstanding; *provided, however*, if the failure cannot be corrected within the applicable period, then those parties may not unreasonably withhold their consent to an extension of such time if corrective action is instituted and diligently pursued.
- Any additional event designated as an Event of Default under any supplemental indenture.

If an Event of Nonappropriation or an Event of Default under the Master Lease were to occur and be continuing, then the Trustee would be required to cause the Certificates of all series to be redeemed pursuant to the Master Indenture, *pro rata*, to the extent money is available in the Lease Payment Fund. In addition, if an Event of Nonappropriation or an event of default were to occur and be continuing, then the Trustee may proceed, and upon written request of owners of not less than a majority in aggregate principal amount of Certificates then outstanding shall proceed, to take any of the remedial steps available under the Master Lease (including acceleration, if applicable) or whatever action at law or in equity may be necessary or appropriate to enforce its rights as assignee under the Master Indenture. All payments received by the Trustee with respect to the Trust upon an event of default, whether from the sale of Leased Items, damages, or otherwise, shall be applied by the Trustee, *first*, to its reasonable fees and expenses and *second*, to the Lease Payment Fund.

In the event that no action is taken to eliminate an event of default under the Master Lease, the owners of a majority in aggregate principal amount of the Certificates then outstanding may institute any suit, action, or other proceeding at law or in equity for the protection or enforcement of any right under the Master Lease or the Master Indenture, but only if such owners have first requested in writing that action be taken, have given a reasonable opportunity for such suit, action, or other proceeding to be instituted, and have offered reasonable indemnity against the costs, expenses, and liabilities to be incurred thereby.

### **Amendment**

The Master Indenture, the Master Lease, or any Lease Schedule (**Operative Documents**) may be amended, or a supplemental indenture created, without the consent of any owners of Certificates, in order to provide for the issuance of a series of Certificates, to cure any ambiguity, to correct or supplement any provision in any of the Operative Documents that may be inconsistent with any provision in any other Operative Document, or to add any other provision with respect to matters or questions arising under any Operative Document if it is not inconsistent with the provisions of any Operative Document, *provided* that such action does not, as evidenced by an opinion of counsel, adversely affect in any material respect the interests of any owner of Certificates.

Any of the Operative Documents may also be amended from time to time with the consent of the owners of not less than 51% of the aggregate outstanding principal amount of Certificates of any series affected thereby for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Operative Documents, or of modifying in any manner the rights of the owners of not less than 51% of the aggregate outstanding principal amount of Certificates; *provided, however*, that no amendment shall without the consent of the owners of all Certificates:

- Increase or reduce the amount of, or delay the timing of, or otherwise adversely affect, collections of payments under any Lease Schedule (other than modifications permitted under the Master Lease) or required to be made on any Certificate,
- Release any Lease Schedule or all or substantially all collateral securing a Lease Schedule, or
- Reduce the percentage required for consent to any amendment.

### **Limitation on Rights of Certificate Owners**

No owner of a Certificate has any right to vote (except as provided in the Master Indenture) or in any manner otherwise control the operation and management of the Trust, or the obligations of the parties to any of the Operative Documents; nor shall anything set forth in the Master Indenture, or contained in the terms of the Certificates, be construed so as to constitute the owners of Certificate as partners or members of an association; nor shall any owner of a Certificate be under any liability to any third person by reason of any action taken by the parties to the Master Indenture pursuant to any provision of the Master Indenture.

No owner of a Certificate has any right by virtue of any provision of the Master Indenture to institute any suit, action, or proceeding at law or in equity under or with respect to the Master Indenture, unless:

- Such owner of a Certificate has previously given to the Trustee a written notice of an event of default and of the continuance thereof, as provided in the Master Indenture,
- The owners of not less than 25% of the aggregate outstanding principal amount of Certificates have made written request of the Trustee to institute such action, suit, or proceeding in its own name as Trustee under the Master Indenture and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses, and liabilities to be incurred therein or thereby, and
- The Trustee, for 30 days after its receipt of such notice, request, and offer of indemnity, shall have neglected or refused to institute any such action, suit, or proceeding.



## PART V

### TRANSPORTATION REVENUE OBLIGATIONS

Part V of the 2017 Annual Report provides information about transportation revenue obligations issued by the State of Wisconsin (**State**) in the form of transportation revenue bonds (**Bonds**) and transportation revenue commercial paper notes (**Notes**). Selected information is provided in this introduction for the convenience of the readers; however, all information presented in this Part V of the 2017 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2017)	\$1,925,073,000
Amount Outstanding of Fixed-Rate Obligations	1,866,265,000
Amount Outstanding of Variable-Rate Obligations	58,808,000
Percentage of Outstanding Obligations in form of Variable-Rate Obligations	3.05%
Ratings <sup>(a)</sup> (Fitch/Kroll <sup>(b)</sup> /Moody's/S&P)	
Bonds	AA+/AAA/Aa2/AA+
Notes	F1+/P-1/A-1+
Authority	State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations General Resolution, dated June 26, 1986, as amended, and Subchapter II of Chapter 18 and Section 84.59, Wisconsin Statutes.
Trustee/Paying Agent	The Bank of New York Mellon Trust Company, N.A. serves as Trustee for all obligations, as well as Registrar and Paying Agent for the Bonds. U.S. Bank National Association, serves as Issuing and Paying Agent for the Notes.
Security	The Bonds are secured by a first lien pledge of Program Income, the Funds created by the General Resolution, as amended, and any other income of the Program. The Notes are payable from Program Income deposited into the Subordinated Debt Service Fund; this pledge is subordinate to that granted to payment of the Bonds. Program Income includes vehicle Registration Fees authorized under Section 341.25, Wisconsin Statutes (which is a substantial amount of the Program Income) and certain Other Registration-Related Fees added pursuant to 2003 Wisconsin Act 33 (including, but not limited to, vehicle title transaction fees, registration and title counter service fees, and personalized license plate issuance and renewal fees).
Audit Report and Financial Statement	<b>APPENDIX A</b> to this Part V of the 2017 Annual Report includes the independent auditor's report and the audited statement of cash receipts and disbursements.
<p><sup>(a)</sup> The ratings presented are the ratings assigned to the transportation revenue obligations without regard to any bond insurance policy. No information is provided in the 2017 Annual Report about any rating assigned to any transportation revenue obligations based on any bond insurance policy.</p> <p><sup>(b)</sup> While the State of Wisconsin applied for and received a rating on the transportation revenue bonds from Kroll Bond Rating Agency, at this time, Kroll has not been requested to rate the Notes for this credit.</p>	

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The State of Wisconsin Building Commission (**Building Commission** or **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. Requests for additional information about transportation revenue obligations may be directed to the Capital Finance Office. The law firm of Quarles & Brady LLP has provided bond counsel services in connection with the issuance of the outstanding transportation revenue obligations. The State of Wisconsin Department of Transportation (**DOT** or **Department of Transportation**) is responsible for the planning and completion of major highway projects funded, in part, with the proceeds of transportation revenue obligations.

Transportation revenue obligations have mostly been issued as tax-exempt obligations; however, in the years 2009 and 2010 a total of two series of taxable obligations were issued as "qualified build America bonds" pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (**Code**).

The 2017 Annual Report includes information and defined terms for different types of 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 V 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 V 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 OBLIGATIONS**

The State has issued transportation revenue obligations on the dates and in the amounts shown in Table V-1. The table also includes the outstanding principal balances of the transportation revenue obligations as of December 15, 2017.

On November 27, 2017 the State sold \$369 million of its Transportation Revenue Refunding Bonds, 2017 Series 2 (**2017 Series 2 Bonds**), for advance refunding purposes, including a crossover refunding. Closing of this bond occurred on December 21, 2017. Unless specifically stated, this Part V of the 2017 Annual Report does not include, or reflect the defeasance resulting from, the 2017 Series 2 Bonds. Information concerning the 2017 Series 2 Bonds, and the State's transportation revenue bonds to be refunded, is included in the Official Statement for the 2017 Series 2 Bonds

Table V-1

**OUTSTANDING TRANSPORTATION REVENUE  
OBLIGATIONS 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>
<i>Fixed-Rate Transportation Revenue Obligations</i>				
1986- Series A.....	6/15/86	1987-200	\$ 139,055,000	-0-
1988- Series A.....	4/15/88	1989-2008	51,475,000	-0-
1989- Series A.....	4/15/89			
Serial Bonds .....		1990-2004	31,165,000	-0-
Term Bonds .....		2009	20,135,000	-0-
1991- Series A.....	10/1/91	1992-2011	105,660,000	-0-
1992- Series A.....	7/1/92			
Serial Bonds .....		1999-2006	96,945,000	-0-
Term Bonds .....		2009	22,260,000	-0-
Term Bonds .....		2012	3,520,000	-0-
Term Bonds .....		2022	16,880,000	-0-
Series B .....	7/1/92			
Serial Bonds .....		1993-2006	55,155,000	-0-
Term Bonds .....		2009	18,395,000	-0-
Term Bonds .....		2012	21,770,000	-0-
Term Bonds .....		2022	104,390,000	-0-
1993- Series A.....	9/1/93	1994-2012	116,450,000	-0-
1994- Series A.....	7/1/94			
Serial Bonds .....		1995-2012	84,320,000	-0-
Term Bonds .....		2014	15,680,000	-0-
1995- Series A.....	9/1/95	1996-2015	105,000,000	-0-
1996- Series A.....	5/15/96	1997-2016	115,000,000	-0-
1998- Series A (1998 Series A Bonds) .....	8/15/98	1999-2016	130,590,000	-0-
Series B .....	10/1/98			
Serial Bonds .....		2000-17	93,905,000	-0-
Term Bonds .....		2019	16,095,000	-0-
2000- Series A.....	9/15/00	2012-21	123,700,000	-0-
2001- Series A .....	11/15/01	2003-22	140,000,000	-0-
2002- Refunding Series 1 .....	4/15/02	2003-19	241,865,000	-0-
Refunding Series 2.....	4/15/02			
Serial Bonds .....		2004-20	39,275,000	-0-
Term Bonds .....		2022	29,655,000	-0-
Series A.....	10/15/02	2004-23	200,000,000	-0-
2003- Series A.....	11/1/03	2005-24	250,000,000	-0-
2004- Refunding Series 1 .....	9/30/04	2005-17	\$ 95,905,000	-0-
2005- Series A (2005 Series A Bonds) .....	3/10/05	2006-25	235,585,000	\$ 28,575,000 (a)
Series B .....	9/29/05	2007-25	158,400,000	-0-
2007- Series A.....	3/8/07	2018-27	148,710,000	-0-
2007- Refunding Series 1 (2007 Series 1 Bonds) .....	3/8/07	2014-22	206,900,000	136,455,000
2008- Series A (2008 Bonds) .....	8/27/08	2010-29	185,000,000	8,265,000 (a)
2009- Series A .....	10/1/09	2012-14	17,870,000	-0-
2009- Series B (Taxable) (2009 Series B Bonds) .....	10/1/09			
Serial Bonds .....		2015-25	87,725,000	67,840,000
Term Bonds .....		2030	59,405,000	59,405,000 (a)
2010- Series A (2010 Series A Bonds) .....	12/9/10	2012-21	76,075,000	13,445,000 (a)
Series B (Taxable) (2010 Series B Bonds) .....	12/9/10	2022-31	123,925,000	123,925,000
2012- Series 1 (2012 Series 1 Bonds) .....	4/25/12	2013-32	343,725,000	200,530,000 (a)
Series 2 (2012 Series 2 Bonds) .....	6/28/12	2017-24	116,400,000	105,065,000
2013- Series 1 (2013 Bonds).....	3/6/13	2016,18-21		
		23-33	259,680,000	207,375,000 (a)

<u>Financing</u>	<u>Date of Financing</u>	<u>Maturity</u>	<u>Amount of Issuance</u>	<u>Amount Outstanding</u>
2014- Series 1 ( <b>2014 Series 1 Bonds</b> ) .....	4/23/14	2015-34	\$ 339,745,000	\$ 147,785,000 <sup>(a)</sup>
Series 2 ( <b>2014 Series 2 Bonds</b> ) .....	12/10/14	2019-27	94,130,000	94,130,000
2015- Series 1 ( <b>2015 Series 1 Bonds</b> ) .....	4/30/15	2016-29	207,240,000	166,430,000
Series A ( <b>2015 Series A Bonds</b> ) .....	12/10/15	2017-36	225,000,000	222,520,000
2017- Series 1 ( <b>2017 Series 1 Bonds</b> ) .....	5/31/17	2020-37	284,520,000	284,520,000
<i>Total Fixed-Rate Transportation Revenue</i>				<u>\$1,866,265,000</u>
<i>Variable-Rate Transportation Revenue Obligations</i>				
1997 - Commercial Paper Notes, Series A .....	5/7/97		\$ 157,763,000	\$ 8,803,000
2006 - Commercial Paper Notes, Series A .....	10/2/06		91,290,000	-0-
2013 - Commercial Paper Notes, Series A .....	11/5/13		70,025,000	50,005,000
<i>Total Variable-Rate Transportation Revenue Obligations</i>				<u>\$ 58,808,000</u>
<i>Total Outstanding Transportation Revenue Obligations</i>				<u>\$1,925,073,000</u>

<sup>(a)</sup> Pursuant to a refunding escrow agreement, the principal of and interest on all, or a portion of the Bonds, have been or will be paid as it comes due or will be called for redemption prior to maturity. The principal amount of Bonds for which payment is provided is treated as not outstanding for purposes of this table.

The 2005 Series A Bonds, 2007 Series 1 Bonds, 2008 Bonds, 2009 Series B Bonds, 2010 Series A Bonds, 2010 Series B Bonds, 2012 Series 1 Bonds, 2012 Series 2 Bonds, 2013 Bonds, 2014 Series 1 Bonds, 2014 Series 2 Bonds, 2015 Series 1 Bonds, 2015 Series A Bonds, and 2017 Series 1 Bonds together with the 2017 Series 2 Bonds (collectively, **Prior Bonds**), and any additional Bonds issued by the State pursuant to the General Resolution, are referred to collectively as the **Bonds**. See **“SECURITY; Sources of Payment”**. All other previously issued Bonds have been defeased or redeemed in full and are not Outstanding Bonds within the meaning of the General Resolution.

The Transportation Revenue Commercial Paper Notes (**Notes**) consist of the Transportation Revenue Commercial Paper Notes of 1997, Series A and the Transportation Revenue Commercial Paper Notes of 2013, Series A. The Notes are issued pursuant to the General Resolution on parity with each other and any other obligations to be issued on parity with the Notes, and the pledge granted to the Notes is subordinate to the pledge granted to the Bonds. See **“VARIABLE RATE OBLIGATIONS”**.

The Commission typically adopts Series Resolutions that authorize the issuance of transportation revenue obligations for refunding purposes. This authorization is generally effective for a period of one year from date of adoption. In addition, the Commission has adopted Series Resolutions that authorize the issuance of Bonds to pay for the funding of the Notes; these Series Resolutions are required pursuant to the terms of a credit agreement by which the liquidity facility providers provide a line of credit for liquidity on the Notes, and this authorization is effective for the term of the Notes. The Bonds to refund outstanding Bonds, any Bonds to fund new money purposes, and Bonds to take-out the Notes, when and if issued, are expected to be issued on a parity with the Bonds issued by the State pursuant to the General Resolution. In addition, any Notes issued to fund new money purposes are expected to be issued on a parity with the Notes.

**Table V-2** provides a historical view of the amount of outstanding Bonds and Notes as of December 15<sup>th</sup> for the previous ten years.

Table V-2

**HISTORICAL OUTSTANDING TRANSPORTATION REVENUE OBLIGATIONS**

<b>Year (December 15)</b>	<b>Outstanding Bonds</b>	<b>Outstanding Notes</b>	<b>Total</b>
2007	\$1,406,530,000	\$191,998,000	\$1,598,528,000
2008	1,511,135,000	177,618,000	1,688,753,000
2009	1,596,740,000	162,498,000	1,759,238,000
2010	1,719,545,000	146,593,000	1,866,138,000
2011	1,638,345,000	129,848,000	1,768,193,000
2012	1,693,935,000	112,218,000	1,806,153,000
2013	1,709,235,000	163,668,000	1,872,903,000
2014	1,890,880,000	144,103,000	2,034,983,000
2015	1,989,795,000	117,128,000	2,106,923,000
2016	1,887,400,000	88,723,000	1,976,123,000

**SECURITY****Sources of Payment**

The Prior Bonds have been issued on parity with each other. The Prior Bonds and any additional parity Bonds issued by the State pursuant to the General Resolution, are revenue obligations of the State payable solely from the Redemption Fund created by the General Resolution and are secured by a first lien pledge of Program Income, the Funds created by the General Resolution, and any other income of the Program pledged to the payment of interest, principal, and Redemption Price on the Bonds.

**Program Income** consists mainly of vehicle registration fees authorized under Section 341.25, Wisconsin Statutes (**Registration Fees**) but also includes certain other vehicle registration-related fees added pursuant to 2003 Wisconsin Act 33 and a supplement to the General Resolution dated October 15, 2003 (**Other Registration-Related Fees**). The Other Registration-Related Fees include many types of fees that are enumerated in Wisconsin Statutes, however, many of the Other Registration-Related Fees result in insignificant or sporadic annual revenues. Given this insignificant and sporadic nature, the State is currently providing continuing disclosure on some, but not all, Other Registration-Related Fees. These specific Other Registration-Related Fees include vehicle title transaction fees, registration and title counter service fees, and personalized license plate issuance and renewal fees. See **“OTHER REGISTRATION-RELATED FEES.”**

All Program Income is collected by the Trustee, or the Department of Transportation as agent of the Trustee, and deposited outside the State Treasury in an account with the Trustee defined as the **Redemption Fund**. Program Income is defined to include all the interest earned or gain realized from the investment of the Redemption Fund.

The Notes, and any other obligations to be issued on parity with the Notes, are also revenue obligations of the State payable from Program Income deposited into the Subordinated Debt Service Fund created by the General Resolution. The pledge of such Program Income to payment of the Notes is subordinate to the pledge of Program Income granted to payment of the Bonds. The pledge remains effective until all Bonds and Notes issued under the General Resolution are fully paid in accordance with their terms.

*The Bonds are revenue obligations of the State payable solely out of the Redemption Fund. The Notes are revenue obligations of the State payable solely out of the Subordinated Debt Service Fund. The State is not generally liable on the Bonds and Notes, and the Bonds and the Notes are not a debt of the State for any purpose whatsoever.*

**Program Income Covenant**

In the General Resolution, the State has covenanted that it will charge and cause to be deposited with the Trustee sufficient Program Income:

- To pay all interest on and principal of the Bonds as the same become due
- To maintain the Debt Service Reserve Requirement, if any, in the Reserve Fund
- To pay Program Expenses
- To pay principal of and interest on the Notes, as such amounts are deposited into the Subordinated Debt Service Fund
- To maintain the applicable requirements of such other funds and accounts specified under the General Resolution

Program Income received by the Trustee in the Redemption Fund is used in the above order. All Program Income in excess of the amounts needed for such purposes is to be transferred to the Transportation Fund held by the Department of Transportation and becomes free of the lien of the pledge of the General Resolution. DOT uses moneys in the Transportation Fund for many authorized purposes. See “**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION**”.

The State pledges and agrees with the Bondholders and holders of Notes that the State will not limit or alter its powers to fulfill the terms of any agreements (made in the General Resolution, in the Bonds, or in the Notes) with the Bondholders and holders of Notes, or in any way impair the rights and remedies of the Bondholders and holders of Notes until the Bonds and Notes, together with interest, including interest on any unpaid installments of interest thereon, Redemption Price, and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders and holders of Notes, are fully met and discharged.

### **Build America Bonds**

The direct payment the State expects to receive from the United States Treasury on each interest payment date, in connection with the 2009 Series B Bonds and 2010 Series B Bonds, which were designated as “qualified build America bonds”, is not Program Income and is not pledged to the payment of interest, principal, or Redemption Price on the Bonds or Notes.

With respect to the direct payments the State expects to receive, since such payments are not Program Income and not pledged to the payment on the Bonds or Notes, there is no direct impact on the Bonds or Notes with these direct payments being subject to the mandated across-the-board cuts to the Federal budget for the federal fiscal year that started October 1, 2017. The impact of these cuts for the current federal fiscal year is a 6.6% reduction in the direct payment amount that the State expected to receive.

With the issuance of the 2017 Series 2 Bonds, all of the 2009 Series B Bonds maturing on and after July 1, 2020 and all of the 2010 Series B Bonds maturing on or after July 1, 2022 have been advance refunded through a crossover funding on July 1, 2019 and July 1, 2020, respectively.

### **Transportation Fund Constitutional Amendment**

A constitutional amendment referendum question was approved in the State’s general election on November 4, 2014. The constitutional amendment requires most revenues generated by use of the State’s transportation system be deposited with a trustee for the benefit of the Department or the holders of transportation-related revenue bonds (such as Bondholders and holders of the Notes) or into the Transportation Fund administered by the Department for the exclusive purpose of funding the State’s transportation systems. The constitutional amendment further prohibits any transfers or lapses from this Transportation Fund.

This constitutional amendment has no direct impact on Bondholders and holders of the Notes. Pursuant to the General Resolution, Program Income will continue to be first collected by the Trustee and deposited outside the State Treasury in the Redemption Fund and Subordinated Debt Service Fund. After all General Resolution requirements are met, excess Program Income is then transferred to the State’s Transportation Fund. See “**SECURITY; Program Income Covenant**” above. At that time, the revenues will then be subject to the requirements of this constitutional amendment.



## Reserve Fund

The General Resolution creates a Reserve Fund for the Bonds; however, the balance of the Reserve Fund is \$0.00.

The State pursuant to each Series Resolution specifies the Debt Service Reserve Requirement, if any, for each Series of Bonds. The individual Debt Service Reserve Requirements for each Series of the Outstanding Bonds are combined to determine the aggregate Debt Service Reserve Requirement for the Reserve Fund. If all of the Bonds of a Series cease to be Outstanding, then the aggregate Debt Service Reserve Requirement is reduced by the Debt Service Reserve Requirement attributable to that Series of Bonds. Since 2003, the State has not specified a Debt Service Reserve Requirement for any Series of Bonds that have been issued. Furthermore, the State does not currently expect to specify a Debt Service Reserve Requirement for any future Series of additional Bonds; however, the State reserves the right to change its practice and no representation is made as to the amount of the Debt Service Reserve Requirement that the State may specify for any future Series of additional Bonds.

In the event that the Reserve Fund were to be funded in connection with a future Series of Bonds, the General Resolution provides that it shall be used to make up any deficiency in the Redemption Fund for the payment of principal of and interest on all of the-then Outstanding Bonds. If there is a deficiency in the Reserve Fund, the Trustee shall, after setting aside in the Principal and Interest Account the applicable amount required to be deposited therein, deposit Program Income into the Reserve Fund in an amount sufficient to remedy such deficiency.

## Additional Bonds

The General Resolution authorizes the issuance of additional Bonds for the purpose of paying the costs of Projects, funding reserves, paying costs of issuance, and refunding Outstanding Bonds. Except in the case of additional Bonds being issued to refund Outstanding Bonds, the Series of additional Bonds may be issued only if Program Income for any 12 consecutive calendar months of the preceding 18 calendar months was at least equal to 2.25 times the maximum aggregate Principal and Interest Requirement in any Bond Year for all Outstanding Bonds, which includes the Bonds to be issued. The General Resolution defines Outstanding Bonds, as of any particular date, as all Bonds theretofore and thereupon being delivered except:

- Any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Registrar
- Any Bond deemed to have been defeased pursuant to the General Resolution
- Any Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to the requirements of the General Resolution or any Series Resolution

Statutory authority exists for the issuance of a total of \$4.055 billion of transportation revenue obligations to finance a portion of major highway projects. Approximately \$210 million of legislative authority remains unissued. The issuance of transportation revenue obligations beyond the legislative authorized amount would require additional legislative authorization, which has customarily happened with each biennial budget of the State.

In addition, upon the issuance of additional Bonds the amount on deposit in the Reserve Fund must at least equal the aggregate Debt Service Reserve Requirement. See **“SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION; Additional Bonds”** and **“Reserve Fund”**.

## Forecasted Debt Service Coverage

**Table V-3** provides a summary of annual debt service due on the Outstanding Bonds and shows the forecasted coverage of annual debt service on the Outstanding Bonds upon delivery of, and resulting defeasances and refunding by, the 2017 Series 2 Bonds on December 21, 2017, based on the Department of Transportation’s estimated total Program Income for fiscal years 2018 through 2027. The estimated Program Income includes both Registration Fees and certain Other Registration-Related Fees for this

period. See “REGISTRATION FEES; Estimated Future Registration Fees” and “OTHER REGISTRATION-RELATED FEES”. There can be no assurance that the following estimates will be realized in the amounts shown.

In addition, Table V-3 also provides the expected amortization of the Outstanding Notes and shows the forecasted coverage of annual debt service on both the Outstanding Bonds and the Outstanding Notes, with the latter reflecting the Subordinated Debt Service Fund Requirement for each respective series of Notes with interest calculated at an assumed interest rate of 5% per annum. While other tables in this Part V of the 2017 Annual Report do not, Table V-3 does reflect the issuance of the 2017 Series 2 Bonds and the resulting crossover refunding of a portion of Outstanding Bonds (**Crossover Refunded Bonds**) and refunding and defeasance of another portion of Outstanding Bonds (**Defeased Refunded Bonds**), as described in the Official Statement dated November 27, 2017 for the 2017 Series 2 Bonds.



Table V-3

**DEBT SERVICE ON OUTSTANDING TRANSPORTATION REVENUE OBLIGATIONS AND ESTIMATED REVENUE COVERAGE**

Maturity (July 1)	Estimated Program Income <sup>(a)</sup>			Outstanding Bonds <sup>(b)(c)(e)</sup>				Outstanding Notes <sup>(c)(d)(e)</sup>				
	Estimated Registration Fees (Millions)	Estimated Certain Other Registration- Related Fees (Millions)	Total Program Income (Millions)	Total Principal	Total Interest	Total Debt Service	Coverage Ratio	Total Principal- Notes	Estimated Total Interest - Notes	Estimated Total Debt Service - Notes	Estimated Total Debt Service - Bonds and Notes	Coverage Ratio
2018	\$587.29	\$107.21	\$694.50	\$103,235,000	\$94,145,832	\$197,380,832	3.52	\$16,153,000	\$2,940,400	\$19,093,400	\$216,474,232	3.21
2019	589.12	107.21	696.33	114,555,000	87,490,772	202,045,772	3.45	7,720,000	2,132,750	9,852,750	211,898,522	3.29
2020	608.15	107.21	715.36	122,805,000	80,568,358	203,373,358	3.52	8,105,000	1,746,750	9,851,750	213,225,108	3.35
2021	609.65	107.21	716.86	133,820,000	73,227,425	207,047,425	3.46	8,510,000	1,341,500	9,851,500	216,898,925	3.31
2022	628.59	107.21	735.80	133,385,000	66,573,325	199,958,325	3.68	8,935,000	916,000	9,851,000	209,809,325	3.51
2023	631.14	107.21	738.35	120,035,000	59,904,075	179,939,075	4.10	9,385,000	469,250	9,854,250	189,793,325	3.89
2024	651.50	107.21	758.71	121,740,000	53,972,325	175,712,325	4.32					
2025	654.70	107.21	761.91	110,180,000	47,885,325	158,065,325	4.82					
2026	675.73	107.21	782.94	98,340,000	42,489,825	140,829,825	5.56					
2027	679.62	107.21	786.83	112,325,000	37,811,125	150,136,125	5.24					
2028				100,040,000	32,194,875	132,234,875						
2029				105,370,000	27,192,875	132,562,875						
2030				97,335,000	21,924,375	119,259,375						
2031				88,615,000	17,057,625	105,672,625						
2032				77,095,000	12,765,925	89,860,925						
2033				66,660,000	9,106,575	75,766,575						
2034				53,995,000	6,033,325	60,028,325						
2035				28,465,000	3,468,000	31,933,000						
2036				29,890,000	2,044,750	31,934,750						
2037				11,005,000	550,250	11,555,250						
				<u>\$1,828,890,000</u>	<u>\$776,406,961</u>	<u>\$2,605,296,961</u>		<u>\$58,808,000</u>	<u>\$9,546,650</u>	<u>\$68,354,650</u>		

(a) The estimated fees for 2018 through 2027 reflect revenue projections completed by the Department in April 2017. Excludes interest earnings.

(b) Reflects the 2017 Series 2 Bonds and assumes, as of the date of this 2017 Annual Report, all Defeased Refunded Bonds have been defeased or, in the case of the interest due January 1, 2018, payment has been provided for. Pursuant to the General Resolution, the Crossover Refunded Bonds will remain outstanding until their respective redemption dates because payment of interest thereon has not been provided. For purposes of this table, the principal of Crossover Refunded Bonds and interest on the 2017 Series 2 Bonds for the portion of such 2017 Series 2 Bonds allocable to the Crossover Refunded Bonds through their respective first optional redemption date, is not included, and interest on the Crossover Refunded Bonds is included.

(c) Does not reflect or include the direct payment the State is expected to receive from the United States Treasury on each interest payment date in the estimated amount of 35% of the interest payable by the State on such date for the 2009 Series B Bonds and the 2010 Series B Bonds, each designated as "qualified build America bonds", which are not considered to be Crossover Refunded Bonds.

(d) Reflects principal component of the respective Subordinated Debt Service Fund Requirement and assumed interest rate of 5.00%.

(e) Assumes that no additional Bonds will be issued and continuation of current Registration Fees and Other Registration-Related Fees. Estimates of Program Income and coverage beyond 2027 are not currently available.

The Department of Transportation will monitor Registration Fee and Other Registration-Related Fee revenues as they relate to scheduled debt service payments on the Bonds and payments on the Notes and recommend appropriate adjustments in Registration Fees or Other Registration-Related Fees to the Governor and the Legislature. The State has covenanted in the General Resolution that as long as Bonds and Notes are Outstanding it will charge and cause to be deposited with the Trustee sufficient Program Income, including Registration Fees and Other Registration-Related Fees, to pay principal and interest on such Bonds, as the same become due, to maintain the Reserve Fund at the Debt Service Reserve Requirement, to pay Program Expenses, and to make payments into the Subordinated Debt Service Fund.

Neither the State’s independent auditors nor any other independent accountants have compiled, examined, or performed any procedures with respect to the prospective financial information shown above, nor have they expressed any opinion or any other form of assurance on such information or its achievability and assume no responsibility for and disclaim any association with the prospective financial information.

## REGISTRATION FEES

### Current Fees and Registered Vehicles

Registration Fees as enumerated under Section 341.25 Wisconsin Statutes are highway user fees collected by the Department of Transportation from owners of most motor vehicles. **Table V-4** summarizes the types of major Registration Fees and the specific fee.

**Table V-4**

<b>REGISTRATION FEES</b> <b>(Section 341.25, Wisconsin Statutes)</b>	
Vehicle	Annual Fee
Automobile	\$75
Trucks	Weight-based fee ranging from \$75 to \$2,560.
Bus	Fee equal to the fee for a truck of the same weight.
Trailer 12,000 lbs. and under	Fee equal to one-half of the fee for a truck of the same weight.
Trailer over 12,000 lbs.	Fee equal to the fee for a truck of the same weight.
Motor Homes	Weight-based fee ranging from \$48.50 to \$119.50.
Mobile Homes and Camping Trailers	\$15
Motorcycle/Moped	\$23 biennial fee.
Hybrid-electric Vehicles	\$75 in addition to the vehicle type.
Electric Vehicles	\$100 in addition to the vehicle type.

**Source: Department of Transportation**

**Table V-5** summarizes the number of motor vehicle registrations in the State, subject to Registration Fees under Section 341.25, Wisconsin Statutes, for the past ten years.

Table V-5

**ACTUAL NUMBER OF MOTOR VEHICLE REGISTRATIONS<sup>(a)</sup>**  
(Millions of Vehicles)

<b>Fiscal Year (June 30)</b>	<b>Automobiles<sup>(b)</sup></b>	<b>Trucks<sup>(c)</sup></b>	<b>Other Vehicles <sup>(d)</sup></b>	<b>Total</b>	<b>% Change</b>
2008	3.52	1.14	.98	5.64	1.0%
2009	3.51	1.13	1.07	5.71	1.2
2010	3.52	1.11	1.07	5.70	(0.2)
2011	3.52	1.12	1.14	5.78	1.4
2012	3.53	1.12	1.12	5.77	(0.2)
2013	3.59	1.14	1.20	5.92	2.7
2014	3.62	1.15	1.17	5.94	0.3
2015	3.66	1.18	1.27	6.11	2.8
2016	3.69	1.21	1.24	6.14	0.5
2017	3.72	1.24	1.34	6.30	2.6

(a) In fiscal year 2005, the methodology for reporting vehicle registrations was changed from vehicle frame-based to vehicle registration-type. All of the information in this table reflects the use of the new vehicle registration-type methodology.

(b) “Automobiles” include autos, minivans, and sport utility vehicles.

(c) “Trucks” includes trucks and other vehicles that pay Registration Fees based on the vehicle’s gross weight.

(d) “Other Vehicles” include mobile homes, motorcycles, mopeds, buses, and several other vehicle types.

**Source: Wisconsin Department of Transportation**

Table V-6 summarizes the total amount of Registration Fee revenues, under Section 341.25, Wisconsin Statutes, for the past ten years.

Table V-6

**ACTUAL REGISTRATION FEE REVENUES**  
(Amounts in Millions)

<b>Fiscal Year (June 30)</b>	<b>Non-IRP Fees</b>	<b>Pledged IRP Fees</b>	<b>Total</b>	<b>% Change</b>
2008 <sup>(a)</sup>	\$385.4	\$71.8	\$457.2	18.8%
2009 <sup>(a)</sup>	435.5	75.3	510.8	11.7
2010	444.4	75.3	519.7	1.7
2011	433.0	76.8	509.8	(1.9)
2012	445.0	81.1	526.1	3.2
2013	440.1	82.8	522.8	(0.6)
2014	458.9	85.5	544.4	4.1
2015	459.5	87.9	547.4	0.6
2016	475.3	90.1	565.4	3.3
2017	475.8	97.3	573.2	1.4

(a) The increase in fiscal years 2008 and 2009 reflects the \$20 increase in registration fees for automobiles, along with other fee increases for other vehicle types, which went into effect on January 1, 2008.

**Source: Wisconsin Department of Transportation**

Interstate truck registration revenues are collected through the International Registration Plan (IRP) and is a component of Registration Fees. Wisconsin is one of 48 states, the District of Columbia, and ten

Canadian provinces that participate in the IRP, which is a multi-state compact for the collecting and sharing of large truck registration fees. Under the IRP, the registration fees on trucks involved in multi-state commercial activity are split between the participating states on the basis of proportionate mileage.

The total amount of Registration Fee revenues for fiscal year 2017 are generated from three broad categories of vehicles:

- (1) 54.4% of total revenues generated from registration of passenger vehicles (automobiles, mini-van, conversion vans, and sport-utility vehicles).
- (2) 15.7% of total revenues generated from registration of small trucks (8,000 pounds or less gross weight).
- (3) 29.9% of total revenues generated from registration of large trucks (over 8,000 pounds gross weight plus IRP vehicles).

Table V-6 reflects the steady rate of growth that has occurred in non-IRP Registration Fee revenues over the past ten years. In fiscal years 2008 and 2009 the percentage change reflects an increase in Registration Fees that occurred during that specific fiscal year.

The 2017-19 biennial budget (2017 Wisconsin Act 59) created new additional Registration Fees for hybrid-electric vehicles at \$75 annually and \$100 annually for electric vehicles, effective January 1, 2018. These fees are in addition to existing annual vehicle registration fees for passenger vehicles designed for highway use that are powered by hybrid-electric or electric engines. The new fees are pledged Registration Fees under Section 341.25, Wisconsin Statutes, and therefore Program Income under the General Resolution.

The 2007-09 biennial budget (2007 Wisconsin Act 20) increased the Registration Fees for most vehicle types effective January 1, 2008. Registration Fee increases authorized in the 2007-09 budget include:

- \$20 increase in the automobile fee.
- Increase in truck fees ranging from \$22.50 to \$590.
- Increase in various truck and trailer fees ranging from \$6.75 to \$590.50.

In addition, the 2003-05 biennial budget previously increased the automobile fees from \$45 to \$55, effective October 1, 2003.

Finally, the pattern of Registration Fees being lower in odd-numbered fiscal years reflects, in part, some vehicle types such as motorcycles and mopeds being registered only on a biennial basis. In a period of relatively flat vehicle registrations, the effect of this biennial registration becomes more apparent.

### **Estimated Future Registration Fees**

Future Registration Fee revenues depend on the size of the vehicle fleet in subsequent years and the level of fees imposed on the various vehicle types. The methodology for Registration Fee revenue projections consists of two components:

- Projection of registration by vehicle type by an econometric model developed by DOT, which relates the size of the vehicle fleet to anticipated changes in certain key economic variables
- Application of the relevant registration fee to the projection of registered vehicle type

The Department of Transportation's model has two distinct components:

- Anticipated changes in the size of the State's automobile fleet
- Anticipated changes in the size of the State's truck fleet

The econometric model relates the size of the automobile fleet and truck fleet to the disposable income in the State, the relative price of new autos and light trucks, the level of unemployment, the size of the driving age 18-64 population, historical rates of vehicle scrappage, construction employment in the State,

total industrial production and a measure of consumer sentiment. The long-range economic data used in the model are based on the projections published by IHS Global Insight, Inc., as well as the State of Wisconsin Department of Revenue.

**Table V-7** summarizes projected Registration Fee revenues pursuant to Section 341.25, Wisconsin Statutes, until fiscal year 2027. These projections were completed by DOT in April 2017.

**Table V-7**

**PROJECTED REGISTRATION FEE REVENUES**  
(Amounts in Millions)

<b>Fiscal Year (June 30)</b>	<b>Revenues<sup>(a)</sup></b>	<b>% Change</b>
2018	\$587.3	2.5%
2019	589.1	0.3
2020	608.2	3.1
2021	609.7	0.3
2022	628.6	3.0
2023	631.1	0.4
2024	651.5	3.1
2025	654.7	0.5
2026	675.7	3.2
2027	679.6	0.6

<sup>(a)</sup> Includes both International Registration Plan (IRP) and non-IRP Registration Fees pursuant to Section 341.25, Wisconsin Statutes. Does not include Other Registration-Related Fees, which are addressed later in this Part V of the 2017 Annual Report. Does not include projections related to new additional Registration Fees, effective January 1, 2018, for hybrid-electric and electric vehicles.

Source: Department of Transportation, April 2017

Neither the State’s independent auditors nor any other independent accountants have compiled, examined, or performed any procedures with respect to the prospective financial information shown above, nor have they expressed any opinion or any other form of assurance on such information or its achievability and assume no responsibility for and disclaim any association with the prospective financial information.

**Registration Fee Collection Procedures**

Registration Fees are collected throughout the fiscal year. In order to smooth out the Department of Transportation’s vehicle registration workload, it has staggered vehicle registrations throughout the year. As a result, in fiscal year 2017 the flow of quarterly collections of annual Registration Fee revenues ranged from a low of 23.2% to a high of 27.4%. Any future adjustment of Registration Fees may change the monthly distribution of Registration Fees collected.

The Department of Transportation is the agent of the Trustee with respect to the collection of Registration Fees, pursuant to an agreement between these parties. The non-IRP Registration Fees are collected in a number of ways:

- By mail to a lock-box system operated by U.S. Bank, National Association (**Bank**)
- Over the counter in field registration stations
- By mail to the Department of Transportation’s Central office in Madison (**Central Office**)
- At vehicle emission testing stations
- By State auto, light truck, and motorcycle dealers
- Via internet charge card renewal system

- By financial institutions
- By private financial service centers
- By various retailers, such as grocery stores and convenience stores
- By law enforcement agencies
- By municipal and County Clerk offices, as well as some municipal courts

Regardless of the method of collection, all Registration Fees are initially deposited with the Trustee for deposit in the Redemption Fund.

The principal method of collecting non-IRP Registration Fees is registration renewals by mail, which are sent directly to the Bank operating the lock-box system as agent for the Trustee. Under this lock-box system the vehicle owner mails the renewals to the Bank. The renewal includes a check payable to "Registration Fee Trust" and an enclosure with relevant registration information on it. The Bank is to deposit its receipts of Registration Fees daily with the Trustee for deposit in the Redemption Fund.

Over-the-counter collections take place in 33 Division of Motor Vehicle Customer Service Centers (DMV CSC) throughout the State. These DMV CSCs collect Registration Fees on behalf of the Trustee, as well as driver license fees, title fees, lien fees, salesman's license fees, permit fees, disabled identification card fees, and various other Department of Transportation charges. The Department of Transportation's financial system is a transaction-based computer system with the field stations linked to the DOT's Central Office by terminal. All transactions are summarized daily and reported to the Central Office. The DMV CSCs deposit their collections in an account in the Trustee's name for deposit in the Redemption Fund.

Collections at the Department of Transportation's Central Office differ from DMV CSC collections in that it is primarily IRP payments and mail applications that are processed. IRP payments consist of checks submitted by individual truck operators, as well as checks generated by other states transmitting IRP payments to the State. Mail applications handled through the Central Office are primarily associated with the registration of vehicles that involve the transfer of ownership. All checks and cash collected through the Central Office are delivered to the Trustee for deposit in the Redemption Fund.

The Department of Transportation has a contract with a vehicle emission contractor to collect Registration Fees at any of the emission testing facilities. Currently, there are around 200 independently owned facilities throughout the seven county emission program area. A registrant may choose to renew their registrations at a testing station. Under this method, the emission testing station is treated like a field registration station with a direct connection to the Central Office's terminal. The vendor retains a service fee charged to registrants who use this option.

Licensed motor vehicle dealers are required by law to process vehicle title and registration transactions for their customers, unless exempted by the Department. The Department of Transportation has a series of contracts with car, light truck, and motorcycle dealers to process vehicle title and registration and transmit such information electronically to it through an interface managed by a third-party vendor. The contracts provide an electronic interface between the Department of Transportation and the dealer's data processing systems. The dealer collects registration and other fees that are electronically transferred daily from their bank accounts to the Department of Transportation by the third-party vendor. The vendor retains a service fee charged to registrants who use this option. In addition, dealers may choose to process title and registration applications electronically through an internet-based system managed by the Department.

Internet charge card renewal is a system available to motorists who prefer to charge their vehicle registration renewals. Under this system, motorists can renew their registrations through the internet. The Department of Transportation has contracted with a banking vendor to handle the interfaces and transmission of data to a credit card processing vendor. The vendor transfers all monies collected from these transactions daily, through a wire transfer to the Department of Transportation's account and then to the Trustee for deposit in the Redemption Fund. The vendor retains a service fee charged to registrants

who use this option. Charge cards are also accepted at DMV CSCs. The Department of Transportation has contracted with the same banking vendor and credit card processing vendor to provide the necessary interfaces. The processing vendor charges a service fee and this fee is passed onto customers who use this option.

Financial institutions are required by law to process stand-alone lien add and release transactions electronically for customers, unless exempted by the Department of Transportation. Lenders may use contracted third party vendors or a free electronic interface provided by the Department of Transportation. In addition, the Department of Transportation runs a voluntary program for financial institutions, State agencies, and small businesses to contract in order to process titles and registrations and transmit the information through an electronic interface, provided by a separate vendor, to itself and the approved business. These contracted agents collect registration and other fees that are electronically transferred daily from the financial institution to the Trustee for deposit into the Redemption Fund. The vendor retains a service fee charged to registrants who use this option.

Registrants may renew vehicle registrations at private financial service centers. The Department of Transportation has contracted with a separate vendor to handle the electronic interface and transmission of data. The financial service centers collect Registration Fees that are electronically transferred daily from the center to the Trustee for deposit into the Redemption Fund. The vendor retains a service fee charged to registrants who use this option.

Registrants may also renew vehicle registration at participating retailers, law enforcement agencies, and municipal and County Clerk offices as well as some municipal courts. The Department of Transportation has contracted with a separate vendor to handle the electronic interface and transmission of data. The retailers, law enforcement agencies, and County Clerk offices collect Registration Fees that are electronically transferred daily from the participating agent to the Trustee for deposit into the Redemption Fund. The vendor retains a service fee charged to registrants who use this option.

## **OTHER REGISTRATION-RELATED FEES**

### **General**

Pursuant to provisions of 2003 Wisconsin Act 33 and the supplement to the General Resolution, adopted by the Commission on October 15, 2003, Other Registration-Related Fees are pledged as Program Income. The Other Registration-Related Fees include approximately 60 types of fees that are enumerated in Wisconsin Statutes, however, many of the Other Registration-Related Fees result in insignificant or sporadic annual revenues. Given this insignificant and sporadic nature, the State is currently providing continuing disclosure on some, but not all, Other Registration-Related Fees. These specific Other Registration-Related Fees include vehicle title transaction fees, registration and title counter service fees, and personalized license plate issuance and renewal fees.

#### *Vehicle Title Transaction Fees*

The Wisconsin Statutes require all motor vehicles and trailers exceeding 3,000 pounds to be titled. Titling occurs prior to vehicle registration and the resulting Certificate of Title is evidence of vehicle ownership. The Department of Transportation issues a title when ownership of the vehicle has been confirmed. This occurs when a vehicle is purchased from a dealer, or when vehicles are transferred between individuals in a non-dealer sale. Titling occurs only when vehicle ownership changes and is not an annual reoccurring fee.

The Certificate of Title document is issued on secured paper stock and contains the following information: name and address of owner, description of vehicle (make, year, color, vehicle type, and vehicle identification number), name of the secured party or lien holder, odometer reading information, and other required information.

The title fees are enumerated in Section 342.14, Wisconsin Statutes and is currently \$69.50. The title fee is comprised of two components; \$62 title fee and \$7.50 supplemental title fee. The \$69.50 title fee is paid by the owner when filing an application for first Certificate of Title, and by the buyer when filing an

application for Certificate of Title after transfer of ownership of the vehicle. The titling fees are paid to the Department of Transportation at the same time the vehicle is registered. The replacement, or duplicate, title fee is currently \$20. Replacement titles are issued for lost, stolen, or mutilated titles.

From fiscal year 2013 to 2017, the Department of Transportation averaged the issuance of approximately 1.3 million titles each year, whereby a title fee was collected. In fiscal year 2017, the Department of Transportation issued 1.4 million titles.

#### *Registration and Title Counter Service Fees*

Customers have the option of processing their vehicle titling and registration transactions by mail or in person at a DMV CSC. If the transaction is processed at the DMV CSC, the customer is charged an additional fee for that service. The additional fee is intended to recover some of the cost of providing face-to-face service. Before the customer receives the various products, the counter fee, and titling and/or vehicle Registration Fees are collected.

The counter fee is enumerated in Section 341.255, Wisconsin Statutes. For transactions that renew a vehicle registration, the counter fee is \$3, however a \$5 counter fee is charged for transactions relating to the issuance of a Certificate of Title, issuance of temporary license plates, issuance of temporary or permanent parking permits for disabled persons, transactions involving both titling and registration for the same vehicle, or transactions relating to only vehicle registration (but not renewals).

The average volume of registration renewals for calendar years 2012 through 2016 was 417,758 transactions at the DMV CSCs. The calendar year 2016 volume at the DMV CSC for renewals was 472,216. The average volume of titling, temporary plates, and registrations for calendar years 2012 through 2016 was 1,505,758 transactions at the DMV CSCs. The calendar year 2016 volume at the DMV CSCs for titling, temporary plates and registrations was 1,756,481.

#### *Personalized License Plate Fees*

Personalized license plates are license plates whereby the registration number is composed of a maximum set of numbers or letters or both specifically requested by the customer. The personalized license plate is only available for certain vehicle types: automobiles, motorcycles, motor homes, motor trucks with a gross weight of no more than 8,000 pounds, and farm trucks with a gross weight of no more than 12,000 pounds.

During the initial vehicle registration process or any time a registrant desires to change a license plate message, an applicant must complete and return to the Department of Transportation a special application form specifying the desired personalized message and provide two alternate messages. Subject to approval by the Department of Transportation, the customized license plate is then manufactured and sent to the customer.

The personalized license plate fee is enumerated in Section 341.145, Wisconsin Statutes. The \$15 annual fee must be submitted with the application and is also due annually at the time of vehicle registration renewals. This fee is in addition to the regular Registration Fees. For motorcycles and farm trucks that receive biennial license plates, the personalized license plate fee is also \$15 a year, due with the initial application. The fee to maintain a personalized plate issued on a biennial basis is \$30, payable during registration renewal and is in addition to the regular biennial Registration Fee.

The average number of requests for new personalized license plates processed for calendar years 2012 through 2016 was 21,539. The average number of annual personalized license plate registrations during calendar years 2012 through 2016 was 230,038. At the end of calendar year 2016, the State had 230,837 registered personalized license plates.

#### **Actual and Estimated Other Registration-Related Fees**

Table V-8 provides further information on the amount of Other Registration-Related Fees described above in **“OTHER REGISTRATION-RELATED FEES; General”**. These amounts include actual collections for



the past ten years and projections for the upcoming ten years; the projected Other Registration-Related Fees are for fiscal years 2018 through 2027.

The Other Registration-Related Fees include many types of fees that are enumerated in the Wisconsin Statutes; while all are Program Income, the certain Other Registration-Related Fees outlined by the box in Table V-8 are those fees for which the State is currently providing continuing disclosure. See [Table V-3](#) for the total of Registration Fees and the Other Registration-Related Fees being used for ratings and continuing disclosure.

**Table V-8  
ACTUAL AND PROJECTED OTHER REGISTRATION-RELATED FEES<sup>(a)</sup>**

Fiscal Year (June 30)	Counter Service Fees and Personalized License Plates			Other Miscellaneous Vehicle Registration-Related Fees	Total Registration-Related Fees
	Title Transaction Fees	Subtotal	Subtotal		
2008 <sup>(b)</sup>	\$ 63,825,116	\$ 8,504,542	\$ 72,329,658	\$ 8,690,501	\$ 81,020,159
2009 <sup>(b)</sup>	73,326,881	8,065,590	81,392,471	8,300,302	89,692,773
2010	72,424,499	8,356,113	80,780,612	9,873,154	90,653,766
2011	73,817,627	7,736,294	81,553,921	12,201,959	93,755,880
2012 <sup>(b)</sup>	86,902,864	8,082,787	94,985,651	13,046,048	108,031,699
2013	88,495,799	7,650,431	96,146,230	13,240,815	109,387,045
2014	92,478,346	7,838,553	100,316,899	14,053,506	114,370,405
2015	97,129,227	7,678,806	104,808,033	14,821,529	119,629,562
2016	99,096,834	8,131,116	107,227,950	15,466,786	122,694,736
2017	102,512,996	8,094,194	110,607,190	15,721,118	126,328,308
2018	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2019	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2020	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2021	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2022	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2023	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2024	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2025	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2026	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081
2027	99,336,400	7,876,400	107,212,800	15,132,281	122,345,081

(a) Projections provided by the Department of Transportation in April 2017.

(b) Reflects (i) effective date of January 1, 2008 for additional \$24.50 increase in title transaction fees, and (ii) effective date of July 1, 2011 for no increase in the actual title transaction fee, but a \$9 increase in the portion of the title transaction fee that is now considered to be Program Income.

Source: Wisconsin Department of Transportation.

Neither the State's independent auditors nor any other independent accountants have compiled, examined, or performed any procedures with respect to the prospective financial information shown above, nor have they expressed any opinion or any other form of assurance on such information or its achievability and assume no responsibility for and disclaim any association with the prospective financial information.

## RISK FACTORS

### Revenue Obligations

The Bonds are limited obligations of the State, payable from and secured by a first lien pledge of Program Income, the Funds created by the General Resolution, and any other income of the Program. The Notes are limited obligations of the State, payable from Program Income deposited into the Subordinated Debt Service Fund. The pledge of Program Income to the Subordinated Debt Service Fund for the Notes is

junior and subordinate to the pledge of Program Income to the payment of the Bonds. See “**SECURITY**” above.

No representation or assurance can be made that Program Income will be realized in amounts sufficient to pay principal of, and interest on, the Bonds and Notes when due. The Program Income and the other amounts held by the Trustee under the General Resolution, and for the Notes, under the Transportation Revenue Commercial Paper Note Program Resolution (**CP Program Resolution**), constitute the only property pledged to secure the payment of the Bonds and Notes. No physical collateral secures the payment of the Bonds or Notes. Moreover, in the event the amount of the Program Income is inadequate for payment of the Bonds and Notes, the Trustee cannot compel the State to impose taxes to address such inadequacy.

The amount of Program Income collected is expected to be sufficient to pay debt service on the Bonds and Notes. However, no assurance can be given that such expected results will in fact be achieved, nor can there be any assurance that the sufficiency of historic Program Income collections indicates that future Program Income will similarly be sufficient.

Neither the full faith and credit nor the taxing power of the State or any political subdivision of the State will be pledged to the payment of the principal of, premium, if any, or interest on the Bonds or Notes.

### **Parity Debt**

The Bonds are issued pursuant to the General Resolution on parity with each other and any other obligations to be issued on parity with the Bonds.

The Notes are issued pursuant to the General Resolution, as supplemented by the CP Program Resolution, on a parity with each other and any other obligations to be issued on a parity with the Notes. The pledge of Program Income granted to the Notes is junior and subordinate to the pledge granted to the Bonds.

The State may issue additional Bonds on a parity with existing Bonds, and additional Notes on a parity with existing Notes, under the General Resolution, and with respect to the Notes, the CP Program Resolution, if certain conditions are met. See “**SECURITY; Additional Bonds**” above. Any such additional Bonds or Notes will be entitled to share ratably with the holders of the Bonds or Notes, respectively, in any moneys realized from the exercise of remedies under the General Resolution and, with respect to the Notes, the CP Program Resolution, in the event of a default.

### **Impact of General Economic Factors**

The amount of Program Income available to be collected depends on economic activity related to the registration of motor vehicles and related fee-generating activities. A reduction in the number of motor vehicle registrations, title transactions and related fee-generating activities could lead to a reduction in the amount of Program Income collected. Various economic, climatic, political, or civil disruptions could affect the State’s economy and economic conditions, resulting in reduced Program Income. These include, without limitation, adverse changes in income levels, adverse changes in the availability of financing options for automobile and truck purchases, and fluctuations in the price of oil and gasoline.

### **Industry Demand Factors**

The number of motor vehicle registrations, title transactions and related fee-generating activities depend in large part on demand for and use of automobiles, trucks and other motor vehicles in the State. In addition to adverse general economic factors, longer term trends in automobile, truck and other motor vehicle demand could be adversely affected by various factors, including increased reliance on alternative methods to trucking for business and industrial transport, increased reliance on public transportation, stagnation in or lack of acceptance of new motor vehicle product offerings, demographic changes in the driving age population, and increased alternative transportation options including rideshare services.

## **Registration Fee Collection Procedures**

All Program Income is collected by the Trustee, or the Department of Transportation as agent of the Trustee, and deposited outside the State Treasury in an account with the Trustee defined as the Redemption Fund. Disruptions with respect to the collection of Program Income could adversely affect the Bonds and Notes.

## **Potential Future Reduction of Registration Fees and Other Registration-Related Fees**

Registration Fees and Other Registration-Related Fees may be reduced by Legislative decisions, which may be influenced by many factors. While under the General Resolution the State has pledged and agreed that the State will not limit or alter the ability of the State to fulfill the terms of its agreements with respect to the Bonds and Notes, or impair the rights and remedies of holders of the Bonds and Notes, and has covenanted that it will charge sufficient Program Income to pay principal and interest on the Bonds and Notes, no guarantee can be made that the Legislature will not reduce the Registration Fees or Other Registration-Related Fees pledged to the Bonds and Notes. While a failure to make payments of the principal of, and premium, if any, and interest on, any of the Bonds or Notes could hinder the State's subsequent access to the capital markets, it should not be assumed that the Legislature would regard that possible consequence to be a compelling reason to raise fees needed for those payments.

Future occurrences could adversely affect legislative support for the current level of the Registration Fee and Other Registration-Related Fees. Political factors may also come to bear on such fees.

## **Future Changes in Law**

Future changes in applicable law by the Legislature could be adverse to holders of the Bonds and Notes. Legislative changes relating to the amount and timing of vehicle registration and related fees and collection procedures could lead to a reduction in or delay in receipt of Program Income. State law also allows for consideration of constitutional amendment referendum questions, which occurred for the Transportation Fund as recently as November 2014.

## **Liquidity Facility Risk for Notes**

In order to provide liquidity for the payment of the principal of and interest on maturing Notes, the CP Program Resolution requires a liquidity facility. The State has obtained a Credit Agreement from the Liquidity Facility Provider in satisfaction of this requirement.

The ability of the Liquidity Facility Provider to honor draws on the Credit Agreement is based solely on the Liquidity Facility Provider's general credit. Declines and disruptions in the financial markets may adversely affect the municipal bond market and banking business, and may adversely affect the financial condition of financial institutions including the Liquidity Facility Provider, weakening its credit status as reflected in its credit ratings.

The Credit Agreement will not, and is not intended to, protect holders of the Notes from events affecting the Liquidity Facility Provider or its creditworthiness, including, without limitation, the insolvency of the Liquidity Facility Provider. No claim may be asserted for federal deposit insurance against the Federal Deposit Insurance Corporation in respect to the Notes or the Credit Agreement, and owners of the Notes should not assume any such insurance coverage is available with respect to the Notes or the Credit Agreement. If an event of termination or event of suspension occurs under the Credit Agreement, the obligation of the Liquidity Facility Provider will immediately and automatically terminate or suspend, without notice or demand and without payment of any Notes.

The Credit Agreement is subject to renewal or replacement from time-to-time. There can be no guarantee that the Credit Agreement will be renewed or replaced in the future, and failure to renew or replace the Credit Agreement may adversely affect the Notes. Any substitute liquidity facility may have covenants, events of default, conditions to borrowing, and other provisions different from the current Credit Agreement, and the Notes are not required to be tendered in connection with delivery of such substitute

liquidity facility, as long as it meets the requirements of the Program Resolution. See “**VARIABLE RATE OBLIGATIONS; Liquidity Facility**” below.

### **Issuance of Additional Bonds to Fund Notes**

The Commission has adopted Series Resolutions authorizing the issuance of Bonds to pay for the funding of the Notes. The State’s ability to issue such Bonds, if necessary, will depend on the State’s future market access for such Bonds and general market conditions, and no assurance can be given that such Bonds can be successfully marketed in the future.

### **Tax Matters**

There are or may be pending in the Congress of the United States legislative proposals relating to the federal tax treatment of interest on obligations of the nature of the Bonds and Notes. The State cannot predict whether and in what form any such proposal might be enacted or how such proposals, if enacted, would apply to the Bonds or Notes. A change in the federal tax status of Bonds or Notes issued on a tax-exempt basis may cause the value of such Bonds or Notes to fall. In addition, interest on such Bonds or Notes could become includible in gross income for federal income tax purposes as a result of future acts or omissions of the State.

A defeasance of any Bonds issued on a taxable basis may cause recognition of a gain or loss, for federal tax purposes, at the time of defeasance. Owners of such Bonds should consult their tax advisors regarding the tax consequences of any defeasance of such Bonds.

## **PROJECTS**

Security on the Bonds or Notes is not dependent upon projects built with Bond or Note proceeds.

Bond and Note proceeds are used to finance a portion of major highway projects enumerated in the Wisconsin Statutes for construction. A major highway project is defined as a project which has a total cost of more than \$30 million and which involves one or more of the following:

- Constructing a new highway 2.5 miles or more in length
- Reconstructing or reconditioning 2.5 miles or more of an existing highway
- Adding one or more lanes, 5 miles or more in length to an existing highway
- Improving 10 miles or more of existing multi-lane divided highway to freeway standards
- Total cost of \$75 million, has been approved for construction by the Transportation Projects Commission, but does not address any of the above specific mileage threshold requirements.

All state highway improvement projects, including authorized major highway projects, are scheduled in the Department of Transportation’s six-year highway improvement program. The six-year program, updated on a biennial basis, serves as a basic tool for the Department of Transportation’s long-term improvement plans and construction programs.

Construction of major highway projects uses moneys from the following sources:

- Bond or Note proceeds
- Federal aid
- Moneys in the Transportation Fund which may be appropriated for such purposes

The Transportation Projects Commission approves major construction projects for enumeration. Major highway projects must be enumerated prior to construction. The Department of Transportation is actively working on 15 major highway projects with an estimated cost to complete of \$1.628 billion in 2017 dollars. See “**SECURITY; Additional Bonds**”.

Requests for additional information about the major highway projects funded or to be funded with proceeds of transportation revenue obligations may be directed as follows:

*Contact:* Wisconsin Department of Transportation  
 Attn: Office of Policy, Finance and Improvement  
*Phone:* (608) 264-9522  
*Mail:* 4802 Sheboygan Avenue  
 P.O. Box 7910  
 Madison, WI 53707-7910  
*E-mail:* [tricia2.etzler@dot.wi.gov](mailto:tricia2.etzler@dot.wi.gov)  
*Web site:* [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

## VARIABLE RATE OBLIGATIONS

The State has issued, and there currently remains outstanding, transportation revenue commercial paper notes, or Notes.

### General

The State has appointed Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, and Morgan Stanley & Co. LLC to serve as **Dealers** and U.S. Bank National Association, as successor to Deutsche Bank Trust Company Americas, to serve as **Issuing and Paying Agent** for the Notes. The Depository Trust Company (**DTC**) serves as **Depository** for the Notes.

The State has obtained a **Liquidity Facility** in the form of a line of credit, which is provided for in the Second Amended and Restated Credit Agreement, dated as of April 20, 2016 (**Credit Agreement**) between the State and State Street Bank and Trust Company (**Liquidity Facility Provider**) which provides a current commitment of \$63 million. Table V-9 summarizes, for each authorized and outstanding series of Notes, the principal amount initially issued, the date of initial issuance, and the principal amount outstanding as of December 15, 2017.

Table V-9

### SUMMARY OF OUTSTANDING TRANSPORTATION REVENUE NOTES (December 15, 2017)

<u>Series Designation</u>	<u>Initial Principal Amount</u>	<u>Outstanding Principal Amount</u>	<u>Date of Initial Issuance</u>
1997 Series A	\$ 157,763,000	\$ 8,803,000	May 7, 1997
2013 Series A	70,025,000	<u>50,005,000</u>	November 5, 2013
Total		\$ 58,808,000	

Additional Notes may be issued pursuant to action of the Commission subject to meeting certain conditions as described in the CP Program Resolution, such as an additional bonds test. In addition, the aggregate principal amount of Notes outstanding, plus the interest to accrue on such Notes to maturity, plus the aggregate principal amount of all outstanding Advances made by the Liquidity Facility Provider, may not exceed the commitment amount of the Liquidity Facility.

### Description of the Notes

Each Note will be dated the date it is issued. It will be issued as an interest-bearing obligation in a denomination of \$100,000 or increments of \$1,000 above \$100,000.

The Notes are not callable prior to maturity.

Each Note will mature from 1 to 270 days from its issue date but no Note may be issued with a maturity date later than two (2) business days prior to the expiration date of the Liquidity Facility.

Each Note will bear interest from its date of issuance, at the rate determined at the date of issuance, payable at maturity. Interest is computed on the basis of a year having 365 or 366 days and the actual number of days elapsed. The interest rate on the Notes cannot exceed 12% per annum. Payment of each Note will be made to the Depository and then distributed by the Depository.

### **Liquidity Facility**

In order to provide liquidity for the payment of the principal of and interest on maturing Notes, the State has entered into the Credit Agreement with the Liquidity Facility Provider.

Pursuant to the Credit Agreement, the Liquidity Facility Provider is obligated, subject to certain conditions, to make advances from a line of credit (**Advances**) from time to time on any business day during the term of the Credit Agreement, which Advances may only be used to provide funds to pay the principal of and interest on the Notes on the maturity date thereof to the extent that proceeds of roll-over Notes, or other moneys on deposit in the **Note Fund** held by the Issuing and Paying Agent for the Notes, are not available. The aggregate principal amount of all Advances made on any date may not exceed the outstanding commitment amount under the Credit Agreement (currently \$63 million), as such amount may be increased or decreased from time to time. The CP Program Resolution requires that the commitment amount cannot be less than the sum of the outstanding Notes, plus the interest to accrue on such Notes to maturity, plus the aggregate principal amount of all outstanding Advances provided by the Liquidity Facility Provider.

*If the amounts on deposit in the Note Fund are insufficient for payment of principal or interest on the Notes when due, then the Issuing and Paying Agent shall make a draw on the line of credit under the Credit Agreement to provide money for such payment. The obligation of the Liquidity Facility Provider to make advances when a draw is made is subject to certain conditions and may be terminated or be suspended immediately without notice or demand and without payment of Notes outstanding upon the occurrence of certain events.*

The Credit Agreement currently terminates on April 20, 2019. The Credit Agreement provides that the termination date may be extended, if the parties agree. Alternatively, the State is permitted to replace the Credit Agreement with another comparable agreement or agreements with any other liquidity facility provider provided that such substitution meets all required qualifications set forth in the CP Program Resolution, including, but not limited to, written evidence from each rating agency (two at a minimum) which, at the request of the State, is then rating the Notes and which is then also rating the provider (or its guarantor) of the proposed substitute liquidity facility to the effect that the substitution of the Liquidity Facility will not by itself result in a withdrawal, suspension, or reduction of its ratings of the Notes from those which then prevail.

The State has delivered a promissory note (**Promissory Notes**) to the Liquidity Facility Provider evidencing its obligation to repay all Advances. The Promissory Note ranks equally with the Notes and is payable solely from Program Income deposited into the Subordinated Debt Service Fund, as provided for in the resolutions authorizing the Notes. Likewise, new Promissory Notes would be issued to the provider of any substituted Liquidity Facility. Any such substituted Liquidity Facility Agreement may have covenants, events of default, conditions to borrowing and other provisions different from those referred to above for the existing Liquidity Facility.

The State will notify the Dealers of any change in the Liquidity Facility or provider thereof. The State will also notify the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system of any change in the Liquidity Facility or provider thereof.

Investors should obtain and review a copy of the Credit Agreement in order to understand all of the terms and provisions of the document. A copy of the Credit Agreement can be obtained from the State at the address included on the first page of this Part V of the 2017 Annual Report.

## **Description of the Liquidity Facility Provider**

The following information concerning State Street has been provided by representatives of State Street and has not been independently confirmed or verified by the State. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

State Street Bank and Trust Company (**Bank**) is a wholly-owned subsidiary of State Street Corporation (**Corporation**). The Corporation (NYSE: STT) provides financial services to institutional investors, including investment servicing, investment management and investment research and trading. With \$28.77 trillion in assets under custody and administration and \$2.47 trillion in assets under management as of December 31, 2016, the Corporation operates in more than 100 geographic markets worldwide. As of December 31, 2016, the Corporation had consolidated total assets of \$242.70 billion, total deposits (including deposits in non-U.S. offices) of \$187.16 billion, total investment securities of \$97.17 billion, total loans and leases, net of unearned income and allowance for loan losses, of \$19.70 billion and total shareholders' equity of \$21.22 billion.

The Bank's Consolidated Reports of Condition and Income for A Bank With Domestic and Foreign Offices Only -- FFIEC 031 (**Call Reports**) through December 31, 2016 have been submitted through the Federal Financial Institutions Examination Council and provided to the Board of Governors of the Federal Reserve System, the primary U.S. federal banking agency responsible for regulating the Corporation and the Bank. Publicly available portions of those Call Reports, and future Call Reports so submitted by the Bank, are available on the Federal Deposit Insurance Corporation's website at [www.fdic.gov](http://www.fdic.gov). The Call Reports are prepared in conformity with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles.

Additional financial and other information related to the Corporation and the Bank, including the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016 and additional annual, quarterly and current reports subsequently filed or furnished by the Corporation with the U.S. Securities and Exchange Commission (**SEC**), can be accessed free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov). The above website is not incorporated by reference into this Part V of the 2017 Annual Report.

Any statement contained in any document referred to above shall be deemed to be modified or superseded for purposes of this Part V of the 2017 Annual Report to the extent that a statement contained herein or in any subsequently submitted, filed, or furnished document that also is referred to above modifies or supersedes such statement. The delivery hereof shall not create any implication that there has been no change in the affairs of State Street since the date hereof, or that information contained or referred to is correct as of any time subsequent to that date.

A copy of any or all of the publicly available documents referred to above, other than exhibits to such documents, may be obtained without charge on written request to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

The Credit Agreement is an obligation solely of State Street and is not an obligation of, or otherwise guaranteed by, the Corporation or any of its affiliates (other than State Street). Neither State Street nor its affiliates make any representation as to the contents of this Part V of the 2017 Annual Report (except as to this section), the suitability of the Notes for any investor, the feasibility or performance of any project, or compliance with any securities or tax laws or regulations.

## **SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION**

The General Resolution contains various covenants and security provisions, certain of which are summarized below. In general, this Section does not summarize any provisions of the Series Resolutions. Reference should be made to the General Resolution for a full and complete statement of its provisions.



A copy of the General Resolution or any Series Resolution may be obtained by contacting the State at the address provided in the [introduction to this Part V of the 2017 Annual Report](#).

### **Resolution to Constitute Contract**

The provisions of the General Resolution shall be a part of the contract of the State with the holders of Bonds and shall be deemed to be and shall constitute a contract among the State, the Trustee and the holders from time to time of the Bonds and shall be for the equal benefit, protection and security of the holders of any and all of such Bonds.

### **Provisions for Issuance of Bonds**

The General Resolution authorizes Bonds of a Series to be issued from time to time in accordance with the terms of the General Resolution without limitation as to amount except as provided by law. Bonds shall be issued pursuant to authorization by a Series Resolution containing the provisions specified by the General Resolution. Following issuance of the initial Series of Bonds, the Commission must determine that the additional obligations test set forth in the General Resolution is met prior to issuing Bonds for other than refunding purposes. The Bonds of a Series may be authenticated and delivered only upon receipt by the Trustee of, among other things:

- A Bond Counsel's opinion to the effect, among other things, that the Bonds of such Series have been duly and validly authorized and issued in accordance with the Wisconsin Constitution and the Wisconsin Statutes and in accordance with the General Resolution; and,
- The proceeds of the Bonds of such Series to be deposited with the Trustee pursuant to the General Resolution.

### **Additional Bonds**

Following the initial issuance of Bonds, the State will not create or permit the creation of, or issue any obligations or create any indebtedness which shall be secured by a superior or equal charge and lien on the Program Income, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds on a parity with the Bonds of such initial Series of Bonds and secured by an equal charge and lien on the Program Income. However, no additional Series of Bonds shall be issued subsequent to the initial Series of Bonds unless:

- The principal amount of the additional Bonds together with the principal amount of the Outstanding Bonds will not exceed in aggregate principal amount any limitation thereon imposed by law;
- Except in the case of refunding Bonds, there shall be filed with the Trustee a Certificate of an Authorized Officer of the Commission and the Department of Transportation stating that Program Income, including interest earnings on amounts deposited in the Funds or Accounts held by the Trustee and available for debt service, for any twelve (12) consecutive calendar months of the preceding eighteen (18) calendar months, was equal to at least 2.25 times the maximum aggregate Principal Requirement and Interest Requirement for any Fiscal Year for all Outstanding Bonds (the General Resolution defines Outstanding Bonds to include the Bonds being issued upon the delivery of such Certificate);
- Upon the issuance and delivery of the additional Bonds, the amount credited to the Reserve Fund shall be at least equal to the Debt Service Reserve Requirement immediately after issuance; and
- All requirements with respect to adoption of Series Resolutions and conditions precedent to delivery of Bonds set forth in the General Resolution have been complied with.

### **Refunding Bonds**

The State may issue refunding Bonds of one or more Series to refund any Outstanding Bonds of one or more Series whether by payment at maturity or by redemption. Refunding Bonds shall be issued pursuant to and in accordance with the provisions of a Series Resolution authorizing such refunding Bonds.



### **Application of Bond Proceeds**

The proceeds of sale of a Series of Bonds shall be deposited as follows:

- To the Principal and Interest Account of the Redemption Fund, the amount of any accrued interest on the Series of Bonds to their date of delivery;
- To the Principal and Interest Account of the Redemption Fund, the amount of any premium determined by the applicable Series Resolution, or specified in a certificate of an authorized officer of the Commission;
- To the Principal and Interest Account of the Redemption Fund, the proceeds of any Series of refunding Bonds to the extent provided in the applicable Series Resolution;
- To the Reserve Fund, the amount specified in the Series Resolution as necessary to establish or increase the amount set aside therein to the Debt Service Reserve Requirement;
- To any other Fund or Account to the extent permitted by the Revenue Obligations Act and provided for by a Series Resolution; and
- To the Program Capital Fund, the balance of the proceeds of any Series of Bonds, which shall be allocated:
  - (a) to the Capitalized Interest Account, the amount of capitalized interest, if any, determined by the applicable Series Resolution to be deposited; and
  - (b) to the Program Account, the balance of the proceeds of any Series of Bonds.

### **Establishment of Funds**

All Program Income and other moneys or securities held by the Trustee pursuant to the General Resolution are revenues of the Trustee and are revenues outside of the State Treasury which shall be held in trust and applied only in accordance with the provisions of the General Resolution. The General Resolution establishes and creates the following trust funds that are to be held by the Trustee:

- Program Capital Fund, which consists of a Capitalized Interest Account and a Program Account;
- Redemption Fund, which consists of a Principal and Interest Account and a Program Income Account;
- Reserve Fund; and
- Program Expense Fund.

The General Resolution authorizes the creation of other Funds and Accounts for a particular Series of Bonds by the applicable Series Resolution.

### **Capitalized Interest Account**

Amounts in the Capitalized Interest Account, if any, shall be transferred to the Principal and Interest Account of the Redemption Fund to be used for payment of capitalized interest on the Bonds in accordance with the schedule set forth in a Series Resolution or in a Certificate of an Authorized Officer of the Building Commission delivered to the Trustee. Amounts in the Capitalized Interest Account shall also be transferred to the Principal and Interest Account of the Redemption Fund for redemption of Bonds (1) upon receipt by the Trustee of a Certificate of an Authorized Officer of the Building Commission stating that such redemption is necessary for compliance with the covenants contained in the General Resolution concerning tax exemption of the interest on certain of the Bonds, and (2) in accordance with the provisions of the terms of a Series Resolution with respect to the Series of Bonds authorized by such Series Resolution.

### **Program Account**

Amounts in the Program Account shall be used solely for the following purposes:

- Paying the Costs of Issuance;
- Financing Projects in accordance with the Act and the General Resolution; and

- Transfers to the Principal and Interest Account of the Redemption Fund to pay interest on the principal of or Redemption Price of Outstanding Bonds (a) upon receipt by the Trustee of a Certificate of an Authorized Officer of the Building Commission stating that such redemption is necessary for compliance with the covenants contained in the General Resolution concerning tax exemption of the interest on certain of the Bonds, (b) in accordance with the provisions of the terms of a Series Resolution, and (c) upon receipt by the Trustee of a Certificate of an Authorized Officer of the Building Commission stating that there are no further Projects to be funded from the Program Account.

### **Redemption Fund**

There shall be deposited into the Principal and Interest Account of the Redemption Fund from the proceeds of the sale of the Bonds, immediately upon receipt thereof, an amount equal to the accrued interest and any premium (if so specified in a certificate of an authorized officer of the Commission) paid upon the sale of the Bonds and the proceeds of any Series of refunding Bonds. All Program Income shall be deposited promptly with the Trustee (or with national banking associations, state banks or trust companies acting as agents of the Trustee for transfer daily to the Trustee) and such amounts shall be deposited in the Program Income Account of the Redemption Fund. There shall also be deposited in the Program Income Account of the Redemption Fund any other amounts required or permitted to be deposited therein pursuant to the General Resolution or a Series Resolution.

The amounts deposited in the Principal and Interest Account of the Redemption Fund from the proceeds of a Series of Bonds representing accrued interest and any specified premium shall be set aside and applied to the payment of interest on the next succeeding Interest Payment Date and any additional Interest Payment Dates specified in the Series Resolution or a Certificate of an Authorized Officer of the Building Commission.

The amounts deposited in the Principal and Interest Account of the Redemption Fund from the proceeds of a Series of refunding Bonds shall be applied to the payment or redemption of Bonds as provided in the Series Resolution.

Commencing on the date of issuance of the Bonds and continuing each succeeding business day until the amounts required in (1) through (5) of this paragraph are deposited and thereafter on each Redemption Fund Deposit Day (the 1<sup>st</sup> day of January, April, July, and October), and continuing each succeeding business day until the amounts required in (1) through (5) of this paragraph are deposited, the Trustee shall immediately transfer aside from the amounts deposited in the Program Income Account, in the following order of priority:

- (1) To the Principal and Interest Account, after giving effect to:
  - (a) amounts to be available from accrued interest and premium, if specified, and in the Capitalized Interest Account, and
  - (b) any balance in the Principal and Interest Account on each Redemption Fund Deposit Day, and
  - (c) amounts transferred from the Reserve Fund, and
  - (d) amounts transferred from the Program Expense Fund, an amount equal to the Interest Requirement with respect to Outstanding Bonds;
- (2) To the Principal and Interest Account, after giving effect to any balance in the Principal and Interest Account in excess of the Interest Requirement an amount equal to the Principal Requirement on the Outstanding Bonds;
- (3) To the Reserve Fund, an amount equal to any deficiency in the Reserve Fund;
- (4) To the Program Expense Fund created in the General Resolution, an amount equal to any unfunded portion of the Program Expenses payable over the next three months according to the General Resolution; and

- (5) To the Subordinated Debt Service Fund created for the Notes, an amount equal to the Subordinated Debt Service Fund Requirement.

Immediately upon meeting the requirements set forth above, amounts in the Program Income Account of the Redemption Fund, including any interest earned thereon, in excess of the amounts required to be set aside above, shall be paid by the Trustee to the State Treasury for deposit into the Transportation Fund free and clear of the lien of the General Resolution in accordance with the Revenue Obligations Act and the Act.

To the extent not otherwise provided for in the Series Resolution applicable to any Series of Bonds, on the first day of each Fiscal Year and prior to any of the transfers by the Trustee that day specified above, all amounts in the Principal and Interest Account shall be paid by the Trustee to the State Treasury for deposit into the Transportation Fund free and clear of the lien of the General Resolution in accordance with the Revenue Obligations Act and the Act.

### **Payment of Bonds**

The Trustee is required to pay to the Registrar and Paying Agent for the Bonds on or before each Interest Payment Date, (1) the amount equal to interest due on the Outstanding Bonds on such date, (2) the amount equal to the principal amount of Outstanding Bonds maturing on such date and (3) the amount equal to the Redemption Price of any Outstanding Bonds to be redeemed on such date, and in each such case, such amounts shall be applied by such Registrar and Paying Agent to such payments.

There shall be deposited in the Principal and Interest Account of the Redemption Fund any amounts which are required to be deposited therein pursuant to the General Resolution, a Series Resolution and any other amounts available therefor and determined by the Building Commission to be deposited therein for the purpose of redeeming Bonds. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective resolutions authorizing the issuance thereof and authorizing the issuance of refunding Bonds, all amounts deposited in the Principal and Interest Account of the Redemption Fund in accordance with the provisions described in this paragraph shall be set aside and applied to the payment, purchase or redemption of Bonds.

### **Purchase of Bonds**

Except as may be otherwise provided in connection with the issuance of refunding Bonds, at any time prior to the 45<sup>th</sup> day upon which Bonds are to be paid or redeemed from the amounts described in the preceding paragraph, the Trustee may upon receipt of written instructions signed by an Authorized Officer of the Building Commission apply such amounts to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit in the Principal and Interest Account of the Redemption Fund. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as the Building Commission shall direct. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond or the Redemption Price of such Bond on the next Redemption Date for such Bond.

### **Program Expense Fund**

On the 1<sup>st</sup> day of January, April, July, and October, the Trustee shall immediately transfer amounts on deposit in the Program Income Account to the Program Expense Fund for the purpose of paying Program Expenses for the succeeding three months as set forth in the annual budget prepared by the Department of Transportation, but only upon a Certificate of an Authorized Officer of the Department of Transportation, stating that the amounts are required and have been or will be expended for purposes for and to which the Program Expense Fund may be used and applied.

### **Reserve Fund**

If on any Interest Payment Date, Principal Installment Date, or Redemption Date for the Bonds, the amount in the Principal and Interest Account of the Redemption Fund shall be less than the amount

required for the payment of interest, principal or Redemption Price on Outstanding Bonds on such date, the Trustee shall apply assets in the Reserve Fund to the extent necessary to make good the deficiency.

In the event there is a deficiency in the Reserve Fund, it shall be made up from the Redemption Fund after both the Interest Requirement and the Principal Requirement with respect to Outstanding Bonds have been met. Monies flow to the Redemption Fund commencing on the date of issuance of a Series of Bonds or on a Redemption Fund Deposit Day, whichever is earlier.

On the first day of each Fiscal Year or on the maturity or redemption date of any Bonds, income and earnings from Investment Obligations in the Reserve Fund shall be transferred to the Principal and Interest Account to the extent such transfer will not reduce the amount in the Reserve Fund below an amount equal to the Debt Service Reserve Requirement.

### **Investments and Deposits**

Subject to instructions from time to time received from an Authorized Officer of the Building Commission and to the provisions of the General Resolution, monies in any Fund or Account shall be continuously invested and reinvested or deposited and redeposited by the Trustee in the highest yield Investment Obligations that may be reasonably known to the Trustee to the extent the same are authorized by the applicable Series Resolution and at the time legal for investment of funds under the Act, the Revenue Obligations Act and other applicable law. Investments shall be made with a view toward maximizing yield (with proper preservation of principal) and minimizing the instances of uninvested funds.

Investment Obligations purchased as an investment of moneys in any Fund or Account held by the Trustee under the provisions of the General Resolution shall be deemed at all times to be part of such Fund or Account but the income or interest earned and gains realized from Investment Obligations held by the Reserve Fund and Program Expense Fund in excess of the requirements of said Funds shall be transferred to the Principal and Interest Account on the first day of each Fiscal Year or on the maturity or redemption date of any Bonds.

The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Obligations purchased by it pursuant to the General Resolution whenever it shall be necessary in order to provide moneys to meet any payments or transfers from the Fund or Account for which such investment was made.

In computing the amount in the Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at par if purchased at par value or at amortized value if purchased at other than par value. Valuation shall be made on the 20<sup>th</sup> day of each March, June, September and December and as otherwise required under the General Resolution and on any particular date shall not include the amount of interest then earned or accrued to such date on any deposit or investment.

The Trustee shall invest and reinvest the moneys in any Fund or Account in available Investment Obligations so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which monies are needed to be so expended.

Investment Obligations means any of the investments described under “**GLOSSARY**”.

### **Powers as to Bonds and Pledge**

The State covenants that it is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the General Resolution and to pledge the Program Income purported to be pledged by the General Resolution in the manner and to the extent provided in the General Resolution.

### **Payment Covenant**

The State covenants that it will duly and punctually pay or cause to be paid, but solely from sources as provided in the General Resolution, the principal and Redemption Price of every Bond and the interest thereon, on the dates and at the places and in the manner stated in the Bonds according to the true intent and meaning thereof.

## **Tax Covenants**

The State and the Trustee shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

The State and the Trustee shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the State to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an “arbitrage bond” as defined in Section 148 of Code.

The State and the Trustee shall not permit at any time or times any proceeds of any Bonds or any other funds of the State to be used, directly or indirectly, in a manner which would result in the exclusion of any Bond from the treatment afforded by Section 103 of the Code, as from time to time amended, by reason of the classification of such Bond as a “private activity bond” within the meaning of Section 141 of the Code.

The State reserves the right to elect to issue Bonds, the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants as to tax exemption shall not apply to such Bonds.

## **Funds and Reports**

The Department of Transportation covenants that it will keep, or cause to be kept and maintained proper books of account relating to the Program and within 120 days after the end of each Fiscal Year shall cause such books of account to be audited by an Accountant. A copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of the Program (including a schedule of monthly Program Income) as of the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for such year, including the transaction relating to the Funds, shall be filed promptly with the Trustee and shall be available for inspection by any Bondholder. See “**AUDITED FINANCIAL STATEMENTS**” in **APPENDIX A**.

## **Budgets**

The Department of Transportation must file an annual budget broken down on a quarterly basis covering the fiscal operations of the Program for the succeeding Fiscal Year not later than the first day of each Fiscal Year with the Trustee. The annual budget shall at least set forth for such Fiscal Year the estimated Program Income, the debt service due and payable or estimated to become due and payable during such Fiscal Year and estimated Program Expenses. The Department of Transportation may at any time file with the Trustee an amended annual budget for the remainder of the then current Fiscal Year in the manner provided for the filing of the annual budget. Copies of the annual budget as then amended and in effect shall be made available by the Trustee during normal business hours in the Trustee’s office for inspection by any Bondholder.

## **The Program**

The State covenants from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the Revenue Obligations Act, the provisions of the General Resolution and sound banking practices and principles to:

- Use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program, to finance Projects, pursuant to the Act, the Revenue Obligations Act and the General Resolution;
- Do all such acts and things as shall be necessary to charge and cause to be deposited with the Trustee Program Income sufficient to pay interest and principal and redemption premium on all Outstanding Bonds, to maintain the Debt Service Reserve Requirement in the Reserve Fund, to maintain any Credit Support and Liquidity Fund Requirement provided for in a Series Resolution, to pay Program Expenses; and maintain any Subordinated Debt Service Fund Requirement provided for in a Series Resolution.

## **Power of Amendment**

The Building Commission may, from time to time and without the consent and concurrence of any holder of any Bond, adopt a Supplemental Resolution modifying or amending the General Resolution if the modification or amendment does not adversely affect the rights of the holders of the Outstanding Bonds.

Any modification of or amendment to the General Resolution which does affect the rights and obligations of the State and of the holders of the Bonds, in any particular, may be made by a Supplemental Resolution with the written consent given as provided in the General Resolution, (1) of the holders of at least two-thirds in principal amount of the Outstanding Bonds at the time such consent is given, (2) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (3) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the General Resolution or Series Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment.

## **Events of Default**

It is an Event of Default if:

- (1) Payment of any installment of interest on the Outstanding Bonds shall not be made after the same shall become due;
- (2) Payment of the principal of, Redemption Price or any Sinking Fund Installment on any Bond when and as the same shall become due and payable, whether at maturity or upon call for redemption or otherwise, shall not be made when and as the same shall become due; or
- (3) The State shall fail or refuse to comply with the provisions of the General Resolution including replenishment of the Reserve Fund, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained in the General Resolution or in any Supplemental or Series Resolution or the Bonds, and such failure, refusal or default shall continue for a period of thirty (30) days after written notice thereof by the Trustee or the holders of not less than 25% in principal amount of the Outstanding Bonds.

## **Remedies**

Upon the happening and continuance of any Event of Default specified in clauses (1) and (2) under Events of Default above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in clause (3) under Events of Default above, the Trustee may proceed and, upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds, shall proceed, in its own name, subject to the General Resolution, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights: (a) by mandamus or other suit, action, or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require the State to charge and cause to be deposited with the Trustee sufficient Program Income and to require the State to carry out the covenants and agreements with Bondholders and to perform its duties under the Act, the Revenue Obligations Act and the General Resolution; (b) by bringing suit upon the Bonds; (c) by action or suit in equity, to require the State to account as if it were the trustee of an express trust for the holders of the Bonds; (d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation

of the rights of the holders of the Bonds; (e) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or (f) in the event that all Bonds are declared due and payable, by selling Investment Obligations.

Before declaring the principal of Bonds due and payable upon an Event of Default, the Trustee shall first give thirty (30) days notice in writing to the Governor and Attorney General of the State.

### **Priority of Bonds After Default**

In the event that upon the happening and continuance of an Event of Default, the Funds or Accounts held by the Trustee, Registrar and Paying Agent are insufficient for the payment of interest, principal or Redemption Price then due on the Bonds, such Funds or Accounts (other than portions of Funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the Act, the Revenue Obligations Act and the General Resolution, after making provisions for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or the Registrar and Paying Agent in the performance of their respective duties under the General Resolution, are to be applied as follows:

- (1) If the principal of all of the Bonds has not become or been declared due and payable:

*First:* To the payment to the persons entitled thereto of all installments of interest then due in the order or maturity of such installments, and, if the amount available is not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference.

*Second:* To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

- (2) If the principal of all of the Bonds has become or been declared due and payable, to the payment of the principal and interest then due and unpaid upon the 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 Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

### **Limitation on Rights of Bondholders**

No individual Bondholder shall have any right to initiate legal proceedings to enforce rights under the General Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Outstanding Bonds have made written request of the Trustee after the right to exercise such right of action has occurred, and shall have afforded the Trustee a reasonable opportunity either to exercise the powers granted to it under the General Resolution or under the law or to institute such proceedings in its name and unless, also, there has been offered to the Trustee reasonable security and indemnity against costs, expenses and liabilities and the Trustee has refused or neglected to comply with such request within a reasonable time. No provision in the General Resolution on defaults and remedies affects or impairs the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of the State to pay the same from the source, at the time and place specified in said Bond.

### **Compensation of Fiduciaries**

Each Fiduciary is entitled to such fees and reimbursement as shall be established in an agreement between the Commission and such Fiduciary by the Trustee from the Program Expense Fund (except that the agreement for Registrar shall be between the Secretary of Administration and the Registrar). Each Fiduciary shall have a lien for such fees and reimbursement on any and all Funds at any time held by it under the General Resolution.

### **Removal of Trustee**

The Trustee is required to be removed if so requested by the holders of a majority in principal amount of the Outstanding Bonds excluding any Bonds held by or for the account of the State. The State may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as the State may determine in its sole discretion. In either such event, a successor is required to be appointed.

### **Defeasance**

If the State shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then the pledge of Program Income and other monies, securities and funds thereby pledged and all other rights granted thereby shall be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which monies have been set aside and shall be held in trust by Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) shall, at the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in the above paragraph. Any Bonds shall, prior to maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect so expressed if:

- In case any of the Bonds to be redeemed on any date prior to their maturity, the State has given to the Trustee in form satisfactory to it, irrevocable instructions to publish, as provided in the General Resolution, notice of redemption on said date of such Bonds;
- There has been deposited with the Trustee either monies in an amount which are sufficient, or Investment Obligations which are direct obligations of or obligations guaranteed by the United States of America or other obligations, the payment of which is provided for by an irrevocable escrow deposit invested in direct obligations of the United States of America, the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal of, Redemption Price and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be; or
- In the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the State has given the Trustee, in form satisfactory to it, irrevocable instructions to publish, as soon as practicable, at least once in an Authorized Newspaper a notice to the holders of such Bonds that the deposit required above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or Redemption Date upon which monies are to be available for the payment of the principal of and Redemption Price on said Bonds.

Neither the Investment Obligations nor the monies so deposited with the Trustee nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than (and shall be held in trust for) the payment of the principal of, Redemption Price and interest on said Bonds, but any cash received from such principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose may, to the extent practicable and legally permitted, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal of, Redemption Price and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such



reinvestments may be paid over to the State, as received by the Trustee, free and clear of any trust, lien or pledge.

## GLOSSARY

This Glossary includes definitions from the General Resolution and the Series Resolutions that apply to capitalized terms used in Part V of the 2017 Annual Report.

**Accountant** means such reputable and experienced independent certified public accountant or firm of independent certified public accountants of nationally recognized standing as may be selected by the Department of Transportation and be satisfactory to the Trustee which may be the accountant or firm of accountants who regularly audit the books and accounts of the Department.

**Act** means Section 84.59, Wisconsin Statutes.

**Authorized Newspaper** means either The Wall Street Journal or The Bond Buyer, or such other financial newspaper or financial journal of general circulation, printed in the English language and customarily published (except in the case of legal holidays) at least once a day for at least five days in each calendar week, in the Borough of Manhattan, City and State of New York.

**Authorized Officer** when used with reference to the Department of Transportation means the Secretary or other person designated from time to time by the Secretary, and when used with reference to the Commission, means the Chairperson of the Commission or other person designated from time to time by the Chairperson of the Commission and, in the case of any act to be performed or duty to be discharged, any other member, staff, officer or employee of the foregoing Department of Transportation or Commission then authorized to perform such act or discharge such duty.

**Bond** or **Bonds** means any bond or any other evidence of revenue obligation authorized under the General Resolution and issued pursuant to a Series Resolution.

**Bond Counsel's Opinion** means an opinion executed by the Attorney General of Wisconsin or an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the State.

**Bondholder** and the term **Holder** or **holder** means the registered owner of any Outstanding Bond or Bonds, if registered to a particular person or persons, or the holder of any Outstanding Bond or Bonds in bearer form or registered as to principal only, or his duly authorized attorney in fact, representative or assigns.

**2005 Series A Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2005 Series A, issued on March 10, 2005.

**2007 Series 1 Bonds** means the State of Wisconsin Transportation Revenue Refunding Bonds, 2007 Series 1, issued on March 8, 2007.

**2008 Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2008 Series A, issued on August 27, 2008.

**2009 Series B Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2009 Series B (Taxable), issued on October 1, 2009.

**2010 Series A Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2010 Series A, issued on December 9, 2010.

**2010 Series B Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2010 Series B (Taxable), issued on December 9, 2010.

**2012 Series 1 Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2012 Series 1, issued on April 25, 2012.

**2012 Series 2 Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2012 Series 2, issued on June 28, 2012.

**2013 Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2013 Series 1, issued on March 6, 2013.

**2014 Series 1 Bonds** means the State of Wisconsin Transportation Revenue Bonds, 2014 Series 1, issued on April 23, 2014.

**2014 Series 2 Bonds** means the State of Wisconsin Transportation Revenue Refunding Bonds, 2014 Series 2, issued on December 10, 2014.

**2015 Series 1 Bonds** means the State of Wisconsin Transportation Revenue Refunding Bonds, 2015 Series 1, issued on April 30, 2015.

**2015 Series A Bonds** mean the State of Wisconsin Transportation Revenue Bonds, 2015 Series A, issued on December 10, 2015.

**2017 Series 1 Bonds** mean the State of Wisconsin Transportation Revenue Bonds, 2017 Series 1, issued on May 31, 2017.

**2017 Series 2 Bonds** mean the State of Wisconsin Transportation Revenue Refunding Bonds, 2017 Series 2, issued on December 21, 2017.

**Building Commission or Commission** means the State of Wisconsin Building Commission established and existing pursuant to Section 13.48, Wisconsin Statutes, and any successor thereto to whom the powers and duties granted to or imposed by the General Resolution shall be given by law.

**Capitalized Interest Account** shall mean the account established by Section 402 of the General Resolution.

**Certificate** means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the General Resolution, or (ii) the report of an Accountant as to audit or other procedures called for by the General Resolution.

**Commercial Paper Notes or Notes** means, in aggregate, the State of Wisconsin Transportation Revenue Commercial Paper Notes of 1997, Series A, and the State of Wisconsin Transportation Revenue Commercial Paper Notes of 2013, Series A.

**Costs of Issuance** means all items of expense, directly or indirectly payable or reimbursable by or to the State which are related to the authorization, sale, credit support, liquidity or issuance of Bonds.

**Credit Support and Liquidity Fund Requirement** means as of any date of calculation, an amount equal to the aggregate Credit Support and Liquidity Fund Requirements for each Series of Outstanding Bonds as specified with respect to each such Series in the applicable Series Resolution.

**Debt Service Requirement** means as of any particular date of calculation, the aggregate Interest Requirement and Principal Requirement for Outstanding Bonds as specified in each Series Resolution authorizing the issuance of a Series of Bonds.

**Debt Service Reserve Requirement** means, as of any particular date of computation, an amount equal to the aggregate of the amounts specified in each Series Resolution authorizing the issuance of a Series of Bonds (any of which are Outstanding on the date of computation) as the amount to be the Debt Service Reserve Requirement, provided that, with respect to any Series of Bonds, in lieu of a deposit to the Reserve Fund of an amount equal to the applicable Series Debt Service Reserve Requirement, the State may provide for a letter of credit, municipal bond insurance policy, surety bond or other type of agreement or arrangement with an entity having, at the time of entering into such agreement or arrangement, a credit rating equal to or greater than the Bonds which provides for the availability, at the times required pursuant to the provisions of any Series Resolution, of an amount at least equal to such

Series Debt Service Reserve Requirement and such method of funding shall be deemed to satisfy all provisions of the Series Resolution with respect to the Debt Service Reserve Requirement and the amount required to be on deposit in the Reserve Fund with respect to such Series of Bonds.

**Department of Transportation** or **Department** or **DOT** means the State of Wisconsin Department of Transportation established and existing pursuant to Section 15.46, Wisconsin Statutes, and any successor thereto to which the powers and duties granted to or imposed by the General Resolution shall be given by law.

**Fiduciary** means the Trustee, the Registrar and any Paying Agent, or any or all of them as may be appropriate.

**Fiscal Year** means the annual period beginning on July 1<sup>st</sup> of each year and ending on June 30<sup>th</sup> of the following year.

**Fund** means one or more, as the case may be, of the funds or accounts created and established pursuant to the General Resolution.

**General Resolution** means the General Resolution as the same may from time to time be amended, modified or supplemented by a Supplemental Resolution.

**Interest Payment Dates** means any date on which is due the payment of interest on any Series of Bonds as specified in each Series Resolution authorizing the issuance of the Series of Bonds.

**Interest Requirement** means as of any particular date of calculation, the amount equal to any unpaid interest then due, plus an amount to the interest accruing or payable during the period between the date of calculation and the next Redemption Fund Deposit Day with respect to each Series of Outstanding Bonds.

**Investment Obligations** means and includes any of the following obligations to the extent the same are at the time legal for investment of funds of the State under the Act, the Revenue Obligations Act, or under other applicable law:

1. Direct obligations of or obligations guaranteed by the United States of America;
2. Obligations the payment of principal and interest on which, by act of Congress or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the United States of America;
3. Bonds, debentures, notes, participation certificates or other similar evidences of indebtedness issued by any of the following: Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, the Federal Financing Bank, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Export Import Bank of the United States, Student Loan Marketing Association, Farmer's Home Administration, Government National Mortgage Association, Small Business Administration, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of Congress of the United States as an agency or instrumentality thereof or sponsored thereby (including but not limited to the fully guaranteed portion of an obligation partially guaranteed by any of the foregoing, if the State's ownership of such portion is acknowledged in writing by an officer of the guaranteeing agency or instrumentality);
4. Public Housing Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
5. Obligations of any state within the United States or of any political subdivision of any state, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency;

6. Bankers acceptances drawn on and accepted by banks (including the Trustee and Paying Agent) and certificates of deposit by banks (including the Trustee and Paying Agent), with a combined capital and surplus aggregating at least \$100,000,000 and securities of which are currently rated within the two highest rating categories assigned by a nationally recognized rating agency, or the international branches or banking subsidiaries thereof;
7. Interest-bearing time deposits, or certificates of deposit of a bank (including the Trustee and Paying Agent) or trust company, continuously secured and collateralized by obligations of the type described in clauses (1), (2), (3) and (4) hereof, having a market value at least equal at all times to the amount of such deposit or certificate, to the extent such deposit or certificate is not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or any successors thereto;
8. Commercial paper given the highest rating by S&P Global Ratings and Moody's Investors Service at the time of such investments;
9. Investment agreements with banks or bank holding companies the senior long-term debt securities of which are rated within the two highest categories by a nationally recognized rating agency and which have a capital and surplus of at least \$100,000,000;
10. Repurchase agreements, with banks or other financial institutions (including the Trustee and Paying Agent) (**Repurchaser**) provided that each such repurchase agreement (a) is in a commercially reasonable form and is for a commercially reasonable period, and (b) result in transfer to the Trustee of legal and equitable title to, or the granting to the Trustee of a prior perfected security interest in, identified obligations referred to in clauses (1), (2), (3) and (4) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held either by the Trustee or by a third party (other than the Repurchaser) as the agency solely of, or in trust solely for the benefit of the Trustee, provided that obligations acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such obligations or the repurchase prices thereof set forth in the applicable repurchase agreement, such investments shall be made so as to mature on or prior to the date or dates that the Trustee anticipates that moneys therefrom be required;
11. Shares of beneficial interests in an investment fund or trust substantially all of whose assets consist of those identified obligations referred to in clauses (1) and (2) above; and
12. Any short term government fund whose assets consist of those identified obligations referred to in clauses (1), (2), (3), (4) and (10) above.

**Notes or Commercial Paper Notes** means, in aggregate, the State of Wisconsin Transportation Revenue Commercial Paper Notes of 1997, Series A, and the State of Wisconsin Transportation Revenue Commercial Paper Notes of 2013, Series A.

**Outstanding**, when used with reference to Bonds and as of any particular date, describes all Bonds that have been delivered and are expected to be delivered except (a) any Bond cancelled by the Trustee, or proven to the satisfaction of the Trustee to have been cancelled by the Registrar, at or before said date, (b) any Bond deemed to have been paid in accordance with the provisions of Section 1201 of the General Resolution, and (c) any Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to the requirements of the General Resolution or any Series Resolution.

**Paying Agent** for the payment of the principal of, Redemption Price and interest on the Bonds of a particular Series means the Treasurer or any bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the General Resolution.

**Principal and Interest Account** means the account established by Section 502 of the General Resolution.

**Principal Installment** means (a) the principal amount of Outstanding Bonds that mature on a single future date, and (b) the amount of any Sinking Fund Installment required to be paid on a single future date.

**Principal Installment Dates** means any dates designated in a Series Resolution as a day a Principal Installment is to be paid.

**Principal Requirement** means, as of any particular date of calculation, the amount of money equal to any unpaid Principal Installment then due with respect to each Series of Outstanding Bonds and the amount of the next succeeding Principal Installment divided by the number of Redemption Fund Deposit Days prior to the next Principal Installment Date with respect to each Series of Outstanding Bonds.

**Program** means the State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations Program financed under the Act, the Revenue Obligations Act and the General Resolution in accordance with any other enactment of the State which may hereafter specify an extension, expansion, addition or improvement of and for said Program pursuant to the Act, the Revenue Obligations Act and the General Resolution but not financed under the provisions of any other bond resolution or indenture of trust.

**Program Account** means the account so designated by Section 402 of the General Resolution.

**Program Capital Fund** means the Fund that is established and created by Section 402 of the General Resolution and pursuant to Section 18.57 of the Revenue Obligations Act.

**Program Expense Fund** means the Fund that is established and created by Section 514 of the General Resolution.

**Program Expenses** means the reasonable and proper costs and expenses of the Department of Transportation for the operation and maintenance of the Program, including, without limitation, the administrative expenses allocable to the Program and the fees and expenses of the Trustee and the Paying Agents and Registrars of the Bonds.

**Program Income** means moneys derived under Sections 341.25, 341.09(2)(d), (2m)(a)1., (4), and (7), 341.14(2), (2m), (6)(d), (6m)(a), (6r)(b)2., (6w), and (8), 341.145(3), 341.16(1)(a) and (b), (2), and (2m), 341.17(8), 341.19(1)(a), 341.255(1), (2)(a), (b), and (c), (4), and (5), 341.26(1), (2), (2m)(am)and(b), (3), (3m), (4), (5), and (7), 341.264(1), 341.265(1), 341.266(2)(b) and (3), 341.268(2)(b) and (3), 341.30(3), 341.305(3), 341.308(3), 341.36(1) and (1m), 341.51(2), and 342.14, except Section 342.14(lr), of the Wisconsin Statutes or any other moneys that the State is authorized to pledge, which is to be deposited by the Department of Transportation under Section 18.562(3) and (5) of the Revenue Obligations Act in a separate and distinct fund outside of the State Treasury in an account maintained by the Trustee as the Redemption Fund and all interest earned or gain realized from the investment of amounts in said fund.

**Program Income Account** means the account established by Section 502 of the General Resolution.

**Projects** means the projects authorized under the Act and funded with proceeds of Bonds authorized by one or more Series Resolutions.

**Redemption Date** means the date upon which Bonds are to be called for redemption.

**Redemption Fund** means the Fund that is established and created by Section 502 of the General Resolution pursuant to Section 18.562(3) of the Revenue Obligations Act.

**Redemption Fund Deposit Day** means January 1<sup>st</sup>, April 1<sup>st</sup>, July 1<sup>st</sup>, and October 1<sup>st</sup> of each Fiscal Year.

**Redemption Price** when used with respect to a Bond or portion thereof, means the principal amount of such Bond or portion plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms pursuant to the General Resolution and to the Series Resolution.

**Registrar** means, with respect to Bonds of a particular Series, the Treasurer or any person with whom he has contracted with for the performance of any of his functions under Section 18.10(5) and (7), Wisconsin Statutes.

**Reserve Fund** means the Fund that is established and created by Section 508 of the General Resolution pursuant to Section 18.562 of the Revenue Obligations Act.

**Revenue Obligations Act** means Subchapter II of Chapter 18 of the Wisconsin Statutes, as amended.

**Secretary** means the Secretary of the Department of Transportation or any other officer, board, body, commission or agency succeeding to the powers, duties and functions thereof.

**Serial Bonds** means the Bonds so designated in a Series Resolution.

**Series**, when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the General Resolution or a Series Resolution.

**Series Resolution** means any resolution adopted by the Commission pursuant to and in accordance with the terms of Article II of the General Resolution, providing for the issuance of a particular Series of Bonds.

**Sinking Fund Installment** means the amount of money unconditionally required by or pursuant to a Series Resolution to be paid toward the retirement of any particular Term Bonds prior to their respective stated maturities.

**State** means the State of Wisconsin, including the Commission, or Department of Transportation, as the case may be, acting on behalf of the State pursuant to the Act or the Revenue Obligations Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of any of the foregoing.

**Statutes** means the Wisconsin Statutes.

**Subordinated Debt Service Fund** means an account established in Section 5.1 of 1997 State of Wisconsin Building Commission Resolution 7, adopted by the Commission on April 23, 1997, as amended, pursuant to Section 714(C) of the General Resolution, and pledged to the payment of the Commercial Paper Notes.

**Subordinated Debt Service Fund Requirement** means, as of any date of calculation, an amount equal to the aggregate Subordinated Debt Service Fund Requirements for each Subordinated Indebtedness Series of Outstanding Bonds (or Commercial Paper Notes) as specified with respect to each such Series in the applicable Series Resolution.

**Subordinated Indebtedness** means a Series of Bonds issued pursuant to Section 714 (C) of the General Resolution, and includes the Commercial Paper Notes.

**Supplemental Resolution** means any resolution adopted by the Commission pursuant to and in accordance with the terms of Article VIII of the General Resolution amending or supplementing the provisions of the General Resolution as originally adopted or as amended or supplemented prior to the amending or supplementing affected by the particular Supplemental Resolution.

**Term Bonds** means the Bonds so designated in a Series Resolution.

**Transportation Fund** means the fund established in Section 25.40, Wisconsin Statutes.

**Treasurer** means the State Treasurer or any other officer, board, body, commission or agency succeeding to any of the powers, duties and functions thereof.

**Trustee** means The Bank of New York Mellon Trust Company, N.A., as trustee appointed by or pursuant to Section 1101 of the General Resolution, and its successor or successors and any other corporation or association that may at any time be substituted in its place pursuant to the General Resolution.

## **APPENDIX A**

### **AUDITED FINANCIAL STATEMENTS**

The following are the independent auditor's report and audited statement of cash receipts and disbursements for the years ended June 30, 2017 and June 30, 2016, for the Transportation Revenue Bond Program, and includes the Independent Auditors' Report, dated November 8, 2017, together with unaudited information pertaining to the Program Income.

{This page number is the last sequential page number of the 2017 Annual Report to be used in Part V of the 2017 Annual Report. The following uses page numbers from the independent auditor's reports, audited statements of cash receipts and disbursements, and unaudited supplementary information pertaining to Program Income. The sequential page numbers for the 2017 Annual Report continue in Part VI.}



**WISCONSIN TRANSPORTATION  
REVENUE OBLIGATION PROGRAM**

**Statements of Cash Receipts and Disbursements  
for the Fiscal Years Ended June 30, 2017 and 2016  
with Independent Auditors' Report**

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

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## INDEPENDENT AUDITORS' REPORT

To the Wisconsin Department of Transportation  
State of Wisconsin  
Madison, Wisconsin

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

We have audited the accompanying financial statements of cash receipts and disbursements of the Wisconsin Transportation Revenue Obligation Program (the "Program"), for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Program's statements of cash receipts and disbursements 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 the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of 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 auditors consider internal control relevant to the Program'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 Program'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.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of cash receipts and disbursements of the Wisconsin Transportation Revenue Obligation Program for the years ended June 30, 2017 and 2016, in accordance with the cash basis of accounting as described in Note 2.

## ***Basis of Accounting***

We draw attention to Note 2 of the notes to the statements of cash receipts and disbursements, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

## ***Change in Reporting Entity***

As discussed in Note 1, the Wisconsin Transportation Revenue Obligation Program combined the cash receipts and disbursements of the Revenue Bonds and Commercial Paper Notes which issued separate statements of cash receipts and disbursements in prior years. Our opinion is not modified with respect to that matter.

## ***Other Matters***

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

Management has omitted the 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.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the statements of cash receipts and disbursements of the Program as a whole. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary 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. Such 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The schedule of the program's revenue on page 33 has not been subject to the auditing procedures applied in the audits of the statements of cash receipts and disbursements and, accordingly, we do not express an opinion or provide any assurance on the schedule.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017, on our consideration of the Program'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 the 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 Program's internal control over financial reporting and compliance.



Certified Public Accountants  
Green Bay, Wisconsin  
November 8, 2017

**WISCONSIN TRANSPORTATION  
REVENUE OBLIGATION PROGRAM**

**STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS  
FISCAL YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>FY 2017</u>	<u>FY 2016</u>
CASH AND INVESTMENTS, BEGINNING OF FISCAL YEAR	\$ 333,230,461	\$ 343,380,244
RECEIPTS:		
Motor vehicle registration fees retained by Trustee	227,316,107	226,313,966
Investment income	1,658,283	2,427,600
Revenue bond proceeds - par value	95,975,000	225,000,000
Revenue bond proceeds - accrued interest and original issuance premium, net of underwriter's discount	15,223,530	36,213,169
Revenue refunding bond proceeds - par value	188,545,000	-
Revenue refunding bond proceeds - accrued interest and original issuance premium, net of underwriter's discount	38,066,007	-
Total receipts	<u>566,783,928</u>	<u>489,954,735</u>
DISBURSEMENTS:		
Debt Service - Revenue Bonds - interest	96,418,536	92,190,645
Debt Service - Revenue Bonds - principal	102,395,000	107,690,000
Program expenses	699,387	737,982
Debt Service - CP Notes - interest	641,154	149,471
Debt Service - CP Notes - principal	28,405,000	26,975,000
Net premium paid/(discount earned) on investments	1,464,449	1,452,340
Highway program expenditures	88,014,672	181,915,750
Bond issuance costs	121,862	593,329
Defeasance of debt - payment to current bondholders	-	88,400,000
Defeasance of debt - purchase of securities for escrow account	200,532,518	-
Total disbursements	<u>518,692,578</u>	<u>500,104,518</u>
CASH AND INVESTMENTS, END OF FISCAL YEAR	<u>\$ 381,321,811</u>	<u>\$ 333,230,461</u>
Cash and investments reserved for debt service	\$ 207,384,255	\$ 182,487,717
Cash and investments reserved for program expenses	178,996	127,302
Cash and investments reserved for highway expenditures	<u>173,758,559</u>	<u>150,615,443</u>
CASH AND INVESTMENTS, END OF FISCAL YEAR	<u>\$ 381,321,811</u>	<u>\$ 333,230,461</u>

See notes to statements of cash receipts and disbursements.

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 1. NATURE OF PROGRAM

The Wisconsin Transportation Revenue Obligation Program (the "Program") provides financing for the construction, maintenance and repair of certain major highway projects and administrative facilities. The Program is currently authorized to issue the following revenue obligations:

The State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations (the "Revenue Bonds") originated in June 1986 pursuant to the adoption of the General Resolution, as amended, by the State of Wisconsin Building Commission (the "Building Commission"). The Program has issued, and may issue in the future, Revenue Bonds that are revenue obligations of the State, payable solely from the Redemption Fund created by the General Resolution.

The Commercial Paper Notes (the "CP Notes") originated in April 1997 pursuant to the adoption of a Program Resolution, as amended, by the Building Commission. The Program has issued, and may issue in the future, commercial paper notes that are revenue obligations of the State, payable solely from the Subordinated Debt Service Fund created by the General Resolution.

All Revenue Bonds and CP Notes are issued pursuant to Subchapter II of Chapter 18 of the Wisconsin Statutes, as amended and a General Resolution and Series Resolutions adopted by the Building Commission. The Department has statutory authority (as amended) as of June 30, 2017, to issue a total of \$3,931,472,900 of revenue obligations (excluding refunded Revenue Bonds), in order to partially finance the costs of the authorized projects, in addition to proceeds from State of Wisconsin ("State") general obligation debt, federal aid and other money in the State Transportation Fund. Of that statutory amount, the Program has authority to issue CP Notes in an aggregate outstanding principal amount not to exceed \$275,000,000. As of June 30, 2017, the Wisconsin Department of Transportation (the "Department") has remaining statutory authority to issue \$86,305,980 of additional revenue obligations.

Receipts provided from motor vehicle registration fees and certain other vehicle registration-related fees are used to service borrowing obligations, with debt service for Revenue Bonds having a first lien pledge of receipts and debt service for CP Notes having a subordinate pledge of receipts. The Department is responsible for managing the construction projects and the collection of motor vehicle registration fees and certain other vehicle registration-related fees.

The Department combined the cash receipts and disbursements of the Revenue Bonds and CP Notes, which had issued separate financial statements in prior years. This change was made to reflect all revenues obligations of the Program, and the Program's statutory authority, as discussed in the previous paragraph, and had no effect on the cash receipts and disbursements reported in prior years.

As part of the State's reporting entity, the Program's financial information is included in the State of Wisconsin Comprehensive Annual Financial Report.

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Cash Receipts and Disbursements Basis of Accounting*** - The statements of cash receipts and disbursements present the Program's cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, cash receipts are recorded when received and disbursements are recorded when paid. The cash and investments balance is presented at cost.

The Department has entered into trust agreements, as amended, with The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), relating to the creation and administration of the Bonds: 2005 Series A, 2007 Series 1, 2008 Series A, 2009 Series B (Taxable), 2010 Series A, 2010 Series B (Taxable), 2012 Series 1, 2012 Series 2, 2013 Series 1, 2014 Series 1, 2014 Series 2, 2015 Series 1, 2015 Series A, and 2017 Series 1, and CP Notes: 1997 Series A, 2006 Series A and 2013 Series A. Among other provisions, the trust agreements, in conjunction with the General Resolution, specify those funds to be created and maintained, the timing and flow of monies through the funds, the determination of the debt service reserve requirements (see Note 6) and the procedure to be followed for the redemption of the Bonds and CP Notes. It is the Department's view that the statements of cash receipts and disbursements along with the related notes meet the reporting requirements of the trust agreements.

#### ***Receipts and Disbursements:***

***Motor Vehicle Registration Fees Retained by Trustee*** - Motor vehicle registration fees and certain other vehicle registration-related fees retained by the Trustee are recorded at time of impounding, when transfer of possession occurs.

***Investment Income*** - Investment income is recorded when received.

***Bond Proceeds*** - Bonds proceeds are recorded as receipts on the date of closing at gross value of the issuance. All related fees are reported as bond issuance costs within disbursements.

***CP Note Proceeds*** - Proceeds are recorded as receipts on the date of closing at gross value of the issuance when new CP Notes are issued by the program to finance highway related project costs. CP Notes maturing and subsequently reissued during the year are not reported as cash receipts and disbursements in the financial statements. All related fees are reported as issuance costs within disbursements.

***Redemption Fund/Debt Service - Principal and Interest*** - Debt service payments on Bonds are recorded when paid.

***Program Expenses*** - Represents payments for program expenses.

***Subordinated Debt Service Fund/Debt Service - Principal and Interest*** - Debt service payments on CP Notes are recorded when paid. CP Notes payable that mature and are replaced with new CP Notes are not reflected in the statements of cash receipts and disbursements as there is no cash receipt or cash disbursement.



# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Net Premium Paid/(Discount Earned) on Investments* - The net of the premium paid on investments purchased at more than face value and the discount earned on investments purchased at less than face value.

*Highway Program Expenditures* - Highway program expenditures are recorded when paid by the Program to the Transportation Fund of the State of Wisconsin.

*Bond Issuance Costs* - Costs associated with issuing Bonds and CP Notes, such as legal, financial advisor and accounting fees, are recorded when paid. For Bonds issued late in the fiscal year, subsequent payment of the related issuance costs may occur and be reported in the fiscal year following issuance of the obligations and recording of the proceeds.

*Defeasance of Debt* - Bonds are periodically retired before their maturity by the Program. In a current refunding, a disbursement is recorded when the refunded Bonds are paid, which may differ from when the refunding Bond proceeds are received. In an advance refunding, a disbursement is recorded at the settlement of the refunding Bonds when the payment to an escrow account occurs and the Program has defeased its obligation. The refunded Bonds are fully retired at a later date using the investments of the escrow account.

### 3. CASH AND INVESTMENTS

The Program's investment policies are governed by the General Resolution and Wisconsin Statutes. The Program is authorized to invest in direct obligations of or obligations guaranteed by the United States, obligations of agencies created or sponsored by an Act of Congress, obligations of any state or municipality that are rated in either of the two highest rating categories by a nationally recognized bond rating agency, bankers acceptances and certificates of deposit from banks with combined capital and surplus aggregating at least \$100 million whose securities are rated within the two highest rating categories assigned by a nationally recognized rating agency, corporate commercial paper given the highest rating by S&P Global Ratings and Moody's Investors Service, Inc., and a fund whose assets consist of direct obligations or obligations guaranteed by the United States or obligations of agencies created or sponsored by Congress. Program assets are to be invested in the highest yielding authorized securities, with maturity or redemption dates coinciding as closely as possible with cash flow and liquidity needs of Program operations.

During fiscal years 2017 and 2016, the Program's assets were held in deposit accounts or invested in a money market fund, U.S. Treasury securities, and federal agency securities by the Trustee. The money market fund invests exclusively in obligations of the U.S. Treasury, including Treasury bills, bonds and notes. Program assets are reported at cost, which approximates fair value.

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 3. CASH AND INVESTMENTS (Continued)

The following tables summarizes the cost and fair market value for each of the investments:

<u>Investment</u>	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Bank of New York Cash	\$ 297,606	\$ 297,606	\$ 535,939	\$ 535,939
Bank of New York Cash Reserve (deposit account)	119,070,592	119,070,592	128,498,966	128,498,966
Money Market Funds:				
• Dreyfus Treasury Cash Management	59,854,508	59,854,508	50,928,420	50,928,420
• Fidelity Institutional - Treasury Portfolio	1,166,018	1,166,018	1,354,282	1,354,282
• Goldman Sachs Financial Sq Funds	104,322	104,322	550,062	550,062
Federal Agency Securities:				
• Freddie Mac Discount Notes	33,312,654	33,431,000	-	-
• Federal Home Loan Bank Discount Notes	56,722,773	56,807,001	-	-
• Federal National Mortgage Association Discount Notes	-	-	57,930,533	58,073,000
• United States Treasury Note/Bond	<u>110,793,338</u>	<u>110,789,843</u>	<u>93,432,259</u>	<u>92,320,838</u>
Total	<u>\$381,321,811</u>	<u>\$381,520,890</u>	<u>\$333,230,461</u>	<u>\$332,261,506</u>

Investments of the Program are subject to various risks:

- Custodial credit risk is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, the Program will not be able to recover the value of investments or collateral securities that are in the possession of another party. Securities of the U.S. government and its agencies were registered and held by the Program's agent in the Program's name. The deposit account is FDIC-insured up to \$250,000 but is not collateralized. Money market funds are not insured or collateralized.
- Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as S&P Global Ratings, Moody's Investors Service, Inc., and Fitch Ratings. As of June 30, 2017, the deposit account was rated Aa1 by Moody's, AA- by S&P and AA by Fitch. S&P's rating for U.S. government securities was AA+. Fitch rated one money market fund with an A. All remaining investments were rated AAA.

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 3. CASH AND INVESTMENTS (Continued)

- Concentration of credit risk may be a concern if investments in any one issuer represent 5 percent or more of net Program assets, excluding investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments. Concentration of credit risk is not addressed in the investment requirements. As of June 30, 2017, 31 percent of the Program's assets were held in a deposit account. 53 percent of the Program's assets were invested in federal agency securities and 16 percent in money market funds; however, this fund solely invests in U.S. government securities.
- Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Freddie Mac (FHLMC) Discount Notes will mature on July 3, 2017.
- Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. Foreign currency holdings are not specifically addressed in the Program's investment requirements; however, no investments denominated in foreign currency were held by the Program as of June 30, 2017.

#### Fair Value Measurements

The Program categorizes the 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 observable inputs; Level 3 inputs are significant unobservable inputs.

The Program has the following fair value measurements as of June 30, 2017 and 2016:

	<u>Fair Value Measurements Using:</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments – June 30, 2017:			
Federal Home Loan Bank			
Discount Notes	\$ 56,807,001	\$ -	\$ -
Freddie Mac Discount Notes	33,431,000	-	-
United States Treasury Note/Bond	<u>110,789,843</u>	-	-
Total investments by fair value level	<u>\$ 201,027,844</u>	<u>\$ -</u>	<u>\$ -</u>
Investments – June 30, 2016:			
Federal National Mortgage			
Association Discount Notes	\$ 58,703,000	\$ -	\$ -
United States Treasury Note/Bond	<u>92,320,838</u>	-	-
Total investments by fair value level	<u>\$ 151,023,838</u>	<u>\$ -</u>	<u>\$ -</u>

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 4. BONDS

Revenue obligations in the form of Revenue Bonds are collateralized by a first lien pledge of income derived from vehicle registration fees under Section 341.25 of the Wisconsin Statutes and certain other vehicle registration-related fees, as collected by the Trustee ("Program Income"). The State has covenanted in the General Resolution that it will charge motor vehicle registration fees and certain other vehicle registration-related fees sufficient to pay principal and interest on the Bonds, as they become due, to pay program expenses, to maintain the Debt Service reserve requirement, and to pay principal and interest on CP Notes. Remaining Program Income is transferred to the Department free of the lien pledge of the General Resolution. The State is not generally liable on the Revenue Bonds nor are the projects financed by the Revenue Bonds pledged as collateral.

A summary of the revenue obligations in the form of Revenue Bonds outstanding as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Transportation Revenue Bonds, 1998 Series A, fixed interest rate of 5.5%, interest payable semiannually, annual principal payments of variable amounts through 2016	-	\$ 8,825,000
Transportation Revenue Bonds, 2005 Series A, varying fixed interest rates of 5.0% interest payable semiannually, annual principal payments of variable amounts through 2021	28,575,000	43,440,000
Transportation Revenue Refunding Bonds, 2007 Series 1, varying fixed interest rates of 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2022	189,235,000	200,070,000
Transportation Revenue Bonds, 2008 Series A, fixed interest rate of 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2018	16,140,000	23,640,000
Transportation Revenue Bonds, 2009 Series B (Taxable), varying fixed interest rates from 4.15% to 5.84%, interest payable semiannually, annual principal payments of variable amounts through 2030	134,125,000	140,740,000
Transportation Revenue Bonds, 2010 Series A, fixed interest rate of 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2021	21,165,000	50,005,000

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 4. BONDS (Continued)

Transportation Revenue Bonds, 2010 Series B (Taxable), varying fixed interest rates from 4.7% to 6.0%, interest payable semiannually, annual principal payments of variable amounts through 2031	123,925,000	123,925,000
Transportation Revenue Bonds, 2012 Series 1, varying fixed interest rates from 3.5% to 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2032	207,040,000	272,235,000
Transportation Revenue Bonds, 2012 Series 2, varying fixed interest rates from 4.0% to 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2024	116,400,000	116,400,000
Transportation Revenue Bonds, 2013 Series 1, varying fixed interest rates from 4.0% to 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2033	207,375,000	259,680,000
Transportation Revenue Bonds, 2014 Series 1, varying fixed interest rates from 4.5% to 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2034	162,280,000	244,465,000
Transportation Revenue Bonds, 2014 Series 2, fixed interest rates of 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2027	94,130,000	94,130,000
Transportation Revenue Bonds, 2015 Series 1, varying fixed interest rates of 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2029	189,685,000	207,240,000
Transportation Revenue Bonds, 2015 Series A, varying fixed interest rates from 3.0% to 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2036	225,000,000	225,000,000
Transportation Revenue Bonds, 2017 Series 1, varying fixed interest rates 5.0%, interest payable semiannually, annual principal payments of variable amounts through 2037	284,520,000	-

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 4. BONDS (Continued)

Total principal amount of Bonds outstanding at June 30	1,999,595,000	1,989,795,000
Less: current maturities		
Available bond proceeds for current refunding	29,980,000	-
Program Income Deposits	<u>103,350,000</u>	<u>102,395,000</u>
Subtotal	<u>133,330,000</u>	<u>102,395,000</u>
Principal of Revenue Bonds outstanding at June 30 due beyond one year	\$ <u>1,866,265,000</u>	\$ <u>1,887,400,000</u>

At June 30, 2017, the Program had cash and investments totaling \$29,980,000 from Revenue Bond proceeds to be used to retire principal payments due July 1, 2017.

Additional series of obligations may be issued on par with the Revenue Bond series outstanding and collateralized by an equal charge and lien on the Program Income. However, no additional series may be issued unless, among other things, Program Income, including interest, for 12 consecutive months within the preceding 18-month period is at least 2.25 times the maximum aggregate principal and interest requirement in any bond year for all outstanding Revenue Bonds.

Future maturities of Revenue Bonds payable as of June 30, 2017 are as follows:

Fiscal Year Ending June 30,	
2018	\$ 133,330,000
2019	111,500,000
2020	120,735,000
2021	130,630,000
2022	136,050,000
2023 - 2027	592,695,000
2028 - 2032	507,515,000
2033 - 2037	256,135,000
2038	<u>11,005,000</u>
	<u>\$1,999,595,000</u>

The 2009 Series B (Taxable) and 2010 Series B (Taxable) Bonds are "qualified build America Bonds" pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended. The State expects to receive 35% of the interest payable to bondholders from the United States Treasury. Interest subsidies from the United States Treasury received in connection with these "build America Bonds" are not pledged to the payment of principal, interest, or redemption price on the Bonds and are not reported as income to the Program. The \$4.5 million subsidy for interest due January 1 and July 1, 2017, was received and deposited in the State Transportation Fund. The subsidy was reduced by \$.03 million (6.9%), as required by the Budget Control Act of 2011 (federal budget sequestration).

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 5. DEFEASED REVENUE BONDS

From time to time, the Program bonds to defease older Revenue Bonds in order to generate debt service savings. The proceeds from the issuance of Revenue Bonds, together with assets transferred from the refunded bond series, are deposited with an escrow agent in a separate Escrow Account. These funds are invested by an escrow agent in U.S. Treasury obligations and certain other government securities so that sufficient monies are available to pay the principal, interest and redemption price of the defeased Revenue Bonds.

A summary of the debt service savings and economic gain (present value of debt service savings) as a result of refunding transactions during the fiscal years ended June 30, 2017 and 2016 follows:

Refunding Issue	Debt Service Savings	Economic Gain
2017 Series 1	\$ 13,145,714	\$ 12,547,708
2015 Series 1	\$ 23,817,151	\$ 20,482,348
2014 Series 2	\$ 8,217,454	\$ 6,656,361

Defeased Revenue Bonds, totaling \$392.4 million as of June 30, 2017, are not included in the outstanding Revenue Bonds summarized in Note 4. Also, the related securities in the Escrow Accounts are not included in the Program's cash and investments balance. Once defeased, no related activity in the Escrow Accounts is reported in the Program's Statements of Cash Receipts and Disbursements. The following is a summary of these defeased Bonds at June 30, 2017.

The Bonds defeased by 2014 Series 2 that remain outstanding were as follows:

Series	Maturity	Principal Amount	Redemption Date	Redemption Price
2008 Series A	July 1, 2019	\$8,680,000		
	July 1, 2020	9,115,000		
	July 1, 2021	9,570,000		
	July 1, 2022	10,045,000		
	July 1, 2023	10,550,000		
	July 1, 2024	11,075,000		
	July 1, 2025	11,630,000		
	July 1, 2026	<u>12,210,000</u>	July 1, 2018	Par
		<u>\$82,875,000</u>		

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 5. DEFEASED REVENUE BONDS (Continued)

The Bonds defeased by 2015 Series 1 that remain outstanding were as follows:

Series	Maturity	Principal Amount	Redemption Date	Redemption Price
2008 Series A	July 1, 2027	\$12,825,000	July 1, 2018	Par
	July 1, 2028	13,465,000		
	July 1, 2029	<u>14,140,000</u>		
		40,430,000		
2014 Series 1	July 1, 2021	13,285,000	July 1, 2019	Par
	July 1, 2022	15,115,000		
	July 1, 2023	15,870,000		
	July 1, 2024	16,665,000		
	July 1, 2025	17,495,000		
	July 1, 2026	<u>18,375,000</u>		
	<u>96,805,000</u>			
		<u>\$137,235,000</u>		

The Bonds defeased by 2017 Series 1 that remain outstanding were as follows:

Series	Maturity	Principal Amount	Redemption Date	Redemption Price
2010 Series A	July 1, 2018	\$8,105,000	July 1, 2020	Par
	July 1, 2019	4,000,000		
	July 1, 2021	<u>9,385,000</u>		
		21,490,000		
2012 Series 1	July 1, 2023	8,675,000	July 1, 2022	Par
	July 1, 2024	9,105,000		
	July 1, 2025	9,560,000		
	July 1, 2026	10,040,000		
	July 1, 2027	10,540,000		
	July 1, 2028	<u>11,070,000</u>		
	<u>58,990,000</u>			
2013 Series 1	July 1, 2024	9,880,000	July 1, 2023	Par
	July 1, 2025	10,375,000		
	July 1, 2026	10,895,000		
	July 1, 2027	<u>11,440,000</u>		
	<u>42,590,000</u>			



# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 5. DEFEASED REVENUE BONDS (Continued)

2014 Series 1	July 1, 2020	9,715,000	July 1, 2019	
	July 1, 2027	19,285,000	July 1, 2022	
	July 1, 2028	<u>20,255,000</u>	July 1, 2022	Par
		<u>49,255,000</u>		
		<u>\$172,325,000</u>		

Total defeased Bonds outstanding  
at June 30, 2017: \$392,435,000

### 6. DEBT SERVICE RESERVE FUND REQUIREMENT

The General Resolution creates a Reserve Fund for the Revenue Bonds; however, the balance as of June 30, 2017 is zero. The State, pursuant to each Series Resolution, specifies the Debt Service Reserve Requirement ("DSRR"), if any, for each series of Bonds. The individual DSRRs for each series of outstanding obligations are combined to determine the aggregate DSRR for the Reserve Fund. If all of the obligations cease to be outstanding, then the aggregate DSRR is reduced by the individual DSRR attributable to that obligation. Since 2003, the State has not specified a DSRR for any obligation that has been issued. Furthermore, the State does not currently expect to specify a DSRR for any future Series of additional Revenue Bonds; however, the State reserves the right to change its practice and specify a DSRR for any future series of additional obligations.

### 7. CP NOTES

A summary of the CP Notes outstanding as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Commercial Paper Notes of 1997, Series A	\$ 20,458,000	\$ 31,468,000
Commercial Paper Notes of 2006, Series A	11,260,000	21,985,000
Commercial Paper Notes of 2013, Series A	<u>57,005,000</u>	<u>63,675,000</u>
Total CP Notes Payable as of June 30	\$ <u>88,723,000</u>	\$ <u>117,128,000</u>

The CP Notes consist of interest-bearing obligations issued in initial denominations of \$100,000 and additional increments of \$1,000 above \$100,000. The CP Notes are issued pursuant to Subchapter II of Chapter 18 of the Wisconsin Statutes as amended, Section 84.59 of the Wisconsin Statutes, the General Resolution, a Program Resolution and Series Resolutions adopted by the State of Wisconsin Building Commission. The CP Notes are revenue obligations of the State, payable solely from the Subordinated Debt Service Fund (see Note 8). The State is not generally liable on the notes, nor are the projects financed by the notes pledged as collateral.

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## NOTES TO STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

### 7. CP NOTES (Continued)

In order to assure the timely payment of principal and interest on the notes, the State has entered into a Second Amended and Restated Credit Agreement, dated April 20, 2016, (the liquidity facility agreement) with State Street Bank and Trust Company (the "Credit Agreement") As of June 30, 2017, the commitment amount is \$120,000,000, an amount not less than CP note principal outstanding at that time. This Credit Agreement expires April 20, 2019, but may be extended upon agreement of both parties. The Credit Agreement describes events which, if they occur, would cause early termination.

The CP Notes will mature no later than 270 days from the date of issuance provided that a liquidity facility agreement is in effect. No CP Notes may be issued with a maturity date after the stated expiration of the liquidity facility agreement or after the stated date of a substitute liquidity facility agreement. The principal of and interest on the notes will be paid at maturity and the CP Notes are not callable prior to maturity. The State expects to pay the principal on the notes with the proceeds of additional notes until the State provides permanent financing through the issuance of long-term obligations. Each note bears interest from its date of issuance, at the rate determined on the date of issuance (which may not exceed 12% per annum).

As of June 30, 2017, the CP Notes of 1997, Series A had maturities ranging from July 6 to August 3, 2017 and a weighted average interest rate of .8983%. The CP Notes of 2006, Series A had maturities of July 6, 2017 with a weighted average interest rate of .8758%. The CP Notes of 2013, Series A had maturities ranging from July 6 to July 11, 2017 and for a weighted average interest rate of 0.9582%.

As of June 30, 2016, the CP Notes of 1997, Series A had maturities ranging from July 5 to July 20, 2016. The CP Notes of 2006, Series A had maturities ranging from July 7 to July 20, 2016. The CP Notes of 2013, Series A had maturities ranging from July 7 to July 19, 2016. The weighted average interest rate for notes 1997, Series A and 2006, Series A was 0.48%. The 2013, Series A notes had a weighted average interest rate of 0.4758%.

### 8. SUBORDINATED DEBT SERVICE FUND

The General Resolution creates a Subordinated Debt Service Fund which is intended to be used to provide for the payment of principal and interest on the notes from Program Income deposited into this fund. The pledge of such Program Income to make payments for CP Notes is subordinate to the pledge of Program Income payments for outstanding Bonds.

### 9. ADMINISTRATIVE EXPENSES

The Program is not charged for certain departmental administrative expenses incurred by the State of Wisconsin related to the operation of the Program. All such costs are charged to the Transportation Fund of the State of Wisconsin. Costs charged to the Program include Revenue Bonds and CP Notes expenses of the trustee, audit fees and other direct expenses of the Program.

## **SUPPLEMENTARY INFORMATION**

**WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM**

**SUPPLEMENTARY INFORMATION - SCHEDULE OF MOTOR VEHICLE REGISTRATION  
AND REGISTRATION-RELATED FEES RETAINED BY TRUSTEE**

FOR THE YEAR ENDED JUNE 30, 2017

	<u>July 2016</u>	<u>October 2016</u>	<u>January 2017</u>	<u>April 2017</u>	<u>Total</u>
Program Expense	\$ 182,000	\$ 165,000	\$ 205,000	\$ 199,000	\$ 751,000
Program Income					0
1998 Series A	(17,155)				(17,155)
2005 Series A	327,410	357,188	357,188	357,188	1,398,974
2007 Series 1	7,988,735	8,016,720	8,016,720	8,016,720	32,038,895
2008 Series A	2,155,947	2,170,500	2,170,500	2,170,500	8,667,447
2009 Series B (Taxable)	3,485,179	3,502,876	3,502,876	3,502,876	13,993,807
2010 Series A	2,447,916	2,463,188	2,463,188	2,463,188	9,837,480
2010 Series B (Taxable)	1,698,939	1,704,171	1,704,171	1,704,171	6,811,452
2012 Series 1	4,921,813	4,943,500	4,943,500	4,943,500	19,752,313
2012 Series 2	4,219,201	4,223,488	4,223,488	4,223,488	16,889,665
2013 Series 1	2,982,219	2,982,225	2,982,225	2,982,225	11,928,894
2014 Series 1	6,171,386	6,171,394	6,171,394	6,171,394	24,685,568
2014 Series 2	1,114,169	1,176,625	1,176,625	1,176,625	4,644,044
2015 Series 1	8,144,924	8,184,813	8,184,813	8,184,813	32,699,363
2015 Series A	3,337,067	3,344,550	3,344,550	3,344,550	13,370,717
1997 Series A CP	2,893,848	2,913,750	2,913,750	2,913,750	11,635,098
2006 Series A CP	2,795,607	2,815,000	2,815,000	2,815,000	11,240,607
2013 Series A CP	1,737,939	1,750,000	1,750,000	1,750,000	6,987,939
<b>Total</b>	<b><u>\$ 56,587,143</u></b>	<b><u>\$ 56,884,988</u></b>	<b><u>\$ 56,924,988</u></b>	<b><u>\$ 56,918,988</u></b>	<b><u>\$ 227,316,107</u></b>

**WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM**

**SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2005 SERIES A  
JUNE 30, 2017**

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2020	5.00	\$ 28,575,000
		<u>\$ 28,575,000</u>

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2007 SERIES 1 JUNE 30, 2017

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2017	5.00	\$ 22,800,000
2018	5.00	50,180,000
2019	5.00	52,735,000
2020	5.00	<u>33,540,000</u>
		<u>\$ 159,255,000</u>

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2008 SERIES A

<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2017	5.00	\$ 7,875,000
2018	5.00	<u>8,265,000</u>
		<u>\$ 16,140,000</u>

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2009 SERIES B (TAXABLE) JUNE 30, 2017

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2017	4.15	\$ 6,880,000
2018	4.44	7,165,000
2019	4.54	7,485,000
2020	4.74	7,825,000
2021	4.89	8,200,000
2022	5.04	8,600,000
2023	5.19	9,040,000
2024	5.29	9,510,000
2025	5.44	10,015,000
2026	5.84	10,555,000
2027	5.84	11,180,000
2028	5.84	11,840,000
2029	5.84	12,545,000
2030	5.84	13,285,000
		<hr/>
		\$ 134,125,000
		<hr/> <hr/>



**WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM**

**SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2010 SERIES A  
JUNE 30, 2017**

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2017	5.00	\$ 7,720,000
2019	5.00	4,510,000
2020	5.00	<u>8,935,000</u>
		<u>\$ 21,165,000</u>

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2010 SERIES B (TAXABLE) JUNE 30, 2017

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2022	4.70	\$ 9,850,000
2023	4.90	10,345,000
2024	5.10	10,865,000
2025	5.30	11,405,000
2026	5.50	11,975,000
2027	5.60	12,575,000
2028	5.70	13,205,000
2029	5.80	13,865,000
2030	5.85	14,555,000
2031	6.00	15,285,000
		<hr/>
		\$ 123,925,000
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# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2012 SERIES 1 JUNE 30, 2017

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2017	5.00	\$ 6,510,000
2018	5.00	6,840,000
2019	5.00	7,180,000
2020	3.50 & 5.00 (3)	7,530,000
2021	5.00	39,575,000
2022	5.00	41,590,000
2023	5.00	30,370,000
2024	5.00	17,350,000
2029	5.00	11,620,000
2030	5.00	12,205,000
2031	5.00	12,815,000
2032	5.00	13,455,000
		<hr/>
		\$ 207,040,000
		<hr/>

(3) \$2,500,000 @ 3.50% and \$5,030,000 @ 5.00%

**WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM**

**SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2012 SERIES 2  
JUNE 30, 2017**

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2017	4.00	\$ 11,335,000
2018	4.00	11,575,000
2019	4.00 & 5.00 (1)	12,035,000
2020	5.00	12,700,000
2021	5.00	13,425,000
2022	5.00	27,315,000
2023	5.00	13,665,000
2024	5.00	14,350,000
		<hr/>
		\$ 116,400,000
		<hr/> <hr/>

(1) \$3,195,000 @ 4.00% and \$8,840,000 @ 5.00%

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2013 SERIES 1 JUNE 30, 2017

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Maturity July 1,	Rate (%)	Principal
2018	4.00 & 5.00 (1)	\$ 10,675,000
2019	4.00 & 5.00 (2)	11,290,000
2020	4.00 & 5.00 (3)	11,940,000
2021	4.00 & 5.00 (4)	12,585,000
2023	4.00 & 5.00 (5)	15,255,000
2024	5.00	16,055,000
2025	5.00	32,160,000
2026	5.00	16,080,000
2028	5.00	12,010,000
2029	5.00	12,610,000
2030	5.00	13,240,000
2031	4.00	13,905,000
2032	4.50	14,460,000
2033	4.00 & 5.00 (6)	15,110,000
		\$ 207,375,000

- (1) \$2,500,000 @ 4.00% and \$8,175,000 @ 5.00%
- (2) \$3,500,000 @ 4.00% and \$7,790,000 @ 5.00%
- (3) \$6,000,000 @ 4.00% and \$5,940,000 @ 5.00%
- (4) \$3,690,000 @ 4.00% and \$8,895,000 @ 5.00%
- (5) \$7,000,000 @ 4.00% and \$8,255,000 @ 5.00%
- (6) \$13,110,000 @ 4.00% and \$2,000,000 @ 5.00%

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2014 SERIES 1 JUNE 30, 2017

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Maturity July 1,	Rate (%)	Principal
2017	5.00	\$ 14,495,000
2018	5.00	1,830,000
2019	5.00	1,670,000
2029	5.00	21,270,000
2030	5.00	22,330,000
2031	5.00	23,450,000
2032	4.50	24,620,000
2033	4.50	25,730,000
2034	4.50	<u>26,885,000</u>
		<u>\$ 162,280,000</u>

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2014 SERIES 2 JUNE 30, 2017

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2019	5.00	\$ 8,040,000
2020	5.00	8,440,000
2021	5.00	8,860,000
2022	5.00	9,300,000
2023	5.00	9,770,000
2024	5.00	10,255,000
2025	5.00	10,770,000
2026	5.00	11,305,000
2027	5.00	<u>17,390,000</u>
		<u>\$ 94,130,000</u>

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2015 SERIES 1 JUNE 30, 2017

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2017	5.00	\$ 23,255,000
2018	5.00	12,390,000
2019	5.00	13,105,000
2021	5.00	26,605,000
2022	5.00	13,940,000
2023	5.00	14,640,000
2024	5.00	15,370,000
2025	5.00	16,135,000
2026	5.00	16,950,000
2027	5.00	11,830,000
2028	5.00	12,420,000
2029	5.00	13,045,000
		<hr/>
		\$ 189,685,000
		<hr/> <hr/>



# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2015 SERIES A JUNE 30, 2017

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2017	5.00	\$ 2,480,000
2018	5.00	2,580,000
2019	5.00	2,685,000
2020	5.00	2,790,000
2021	5.00	2,930,000
2022	5.00	9,805,000
2023	5.00	10,295,000
2024	5.00	10,805,000
2025	4.00	11,350,000
2026	3.00	11,915,000
2027	5.00	12,510,000
2028	5.00	13,135,000
2029	5.00	13,795,000
2030	5.00	14,485,000
2031	5.00	15,205,000
2032	5.00	15,970,000
2033	5.00	16,765,000
2034	5.00	17,605,000
2035	5.00	18,485,000
2036	5.00	19,410,000
		<hr/>
		\$ 225,000,000
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# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - BONDS OUTSTANDING - 2017 SERIES A JUNE 30, 2017

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<b>Maturity July 1,</b>	<b>Rate (%)</b>	<b>Principal</b>
2020	5.00	\$ 8,355,000
2021	5.00	23,870,000
2022	5.00	15,210,000
2023	5.00	8,675,000
2024	5.00	18,985,000
2025	5.00	19,935,000
2026	5.00	20,935,000
2027	5.00	48,015,000
2028	5.00	38,415,000
2029	5.00	7,450,000
2030	5.00	7,820,000
2031	5.00	8,210,000
2032	5.00	8,620,000
2033	5.00	9,055,000
2034	5.00	9,505,000
2035	5.00	9,980,000
2036	5.00	10,480,000
2037	5.00	11,005,000
		<hr/>
		\$ 284,520,000
		<hr/>
<b>Total Bonds Outstanding</b>		<b>\$ 1,969,615,000</b>
		<hr/>

# WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM

## SUPPLEMENTARY INFORMATION - CP NOTES OUTSTANDING - JUNE 30, 2017

### 1997 SERIES A

Maturity July 1,	Rate (%)*	Principal
2017	VR	\$ 11,655,000
2018	VR	8,803,000
		<u>\$ 20,458,000</u>

### 2006 SERIES A

Maturity July 1,	Rate (%)*	Principal
2017	VR	\$ 11,260,000
		<u>\$ 11,260,000</u>

### 2013 SERIES A

Maturity July 1,	Rate (%)*	Principal
2017	VR	\$ 7,000,000
2018	VR	7,350,000
2019	VR	7,720,000
2020	VR	8,105,000
2021	VR	8,510,000
2022	VR	8,935,000
2023	VR	9,385,000
		<u>\$ 57,005,000</u>

Total CP Notes Outstanding	<u>\$ 88,723,000</u>
Total Revenue Obligations Outstanding	<u>\$ 2,058,338,000</u>

\*The CP Notes will mature no later than 270 days from the date of issuance provided that a liquidity facility agreement is in effect. The State expects to pay the principal on the CP Notes with the proceeds of additional CP Notes until the State provides permanent financing through the issuance of long-term Bonds or funds deposited in the Subordinate Debt Service Fund. Each CP Note bears interest from its date of issuance, at the rate determined on the date of issuance (which may not exceed 12% per annum).

## **UNAUDITED INFORMATION**

The following information has been prepared by the Wisconsin Department of Transportation and is unaudited.

Unaudited Information

**WISCONSIN TRANSPORTATION REVENUE OBLIGATION PROGRAM**

Schedule of Program Revenue (Unaudited)  
For the Fiscal Years Ended June 30, 2017 and 2016

Date	Section 341.25 Registration Fees			Title Transaction Fees	Counter Service Fees and Personalized License Plates	Subtotal (1)	Other Miscellaneous Vehicle Registration & Related Fees	Total Program Revenues
	Registration Non-IRP	IRP Revenues (2)	Subtotal					
July, 2016	\$ 35,433,617	\$ 4,344,496	\$ 39,778,113	\$ 8,151,659	\$ 690,558	\$ 48,620,330	\$ 1,286,000	\$ 49,906,329
August, 2016	37,264,174	4,342,738	41,606,912	9,507,568	743,298	51,857,779	1,431,713	53,289,491
September, 2016	34,018,007	5,938,960	39,956,967	8,933,051	675,000	49,565,018	1,349,429	50,914,447
October, 2016	33,939,275	6,585,008	40,524,283	8,140,326	622,997	49,287,606	1,259,295	50,546,901
November, 2016	43,465,955	5,625,103	49,091,058	7,822,231	571,026	57,484,314	1,289,030	58,773,344
December, 2016	56,333,585	8,059,619	64,393,204	7,666,484	557,097	72,616,785	1,134,390	73,751,175
January, 2017	38,428,483	6,599,583	45,028,066	7,095,725	568,211	52,692,002	1,128,772	53,820,773
February, 2017	33,068,159	9,458,355	42,526,514	6,923,036	579,514	50,029,064	1,099,226	51,128,290
March, 2017	44,405,063	7,985,543	52,390,606	9,751,108	785,914	62,927,628	1,453,794	64,381,422
April, 2017	39,663,560	12,074,803	51,738,362	8,810,522	752,586	61,301,470	1,358,514	62,659,984
May, 2017	40,384,728	19,466,766	59,851,495	9,987,534	790,621	70,629,650	1,478,945	72,108,594
June, 2017	39,438,419	6,860,352	46,298,771	9,723,752	757,372	56,779,895	1,452,012	58,231,907
<b>TOTAL for Fiscal Year ended June 30, 2017</b>	<b>\$ 475,843,027</b>	<b>\$ 97,341,325</b>	<b>\$ 573,184,352</b>	<b>\$ 102,512,996</b>	<b>\$ 8,094,194</b>	<b>\$ 683,791,542</b>	<b>\$ 15,721,118</b>	<b>\$ 699,512,660</b>

Date	Section 341.25 Registration Fees			Title Transaction Fees	Counter Service Fees and Personalized License Plates	Subtotal (1)	Other Miscellaneous Vehicle Registration & Related Fees	Total Program Revenues
	Registration Non-IRP	IRP Revenues (2)	Subtotal					
July, 2015	\$ 37,227,861	\$ 4,627,480	\$ 41,855,341	\$ 9,094,181	\$ 745,417	\$ 51,694,939	\$ 1,382,069	\$ 53,077,008
August, 2015	33,887,210	3,507,309	37,394,519	8,441,154	668,661	46,504,334	1,280,107	47,784,441
September, 2015	35,482,994	6,673,878	42,156,872	8,678,770	656,151	51,491,794	1,327,949	52,819,743
October, 2015	32,262,512	5,638,478	37,900,990	8,306,520	633,822	46,841,331	1,252,598	48,093,930
November, 2015	42,228,457	5,491,781	47,720,238	7,156,986	532,840	55,410,064	1,178,886	56,588,950
December, 2015	53,710,405	7,460,779	61,171,184	6,970,237	526,571	68,667,992	1,095,603	69,763,594
January, 2016	37,854,648	8,055,173	45,909,821	6,733,807	544,080	53,187,708	1,076,726	54,264,435
February, 2016	37,368,614	7,639,398	45,008,012	7,298,288	637,028	52,943,327	1,105,329	54,048,656
March, 2016	46,789,033	10,299,897	57,088,930	9,643,578	876,598	67,609,106	1,448,573	69,057,679
April, 2016	40,773,438	13,705,532	54,478,970	8,514,694	802,472	63,796,137	1,303,039	65,099,176
May, 2016	38,326,307	10,948,487	49,274,794	8,831,890	752,162	58,858,846	1,478,613	60,337,458
June, 2016	39,431,370	6,020,928	45,452,298	9,426,729	755,315	55,634,342	1,537,293	57,171,635
<b>TOTAL for Fiscal Year ended June 30, 2016</b>	<b>\$ 475,342,850</b>	<b>\$ 90,069,121</b>	<b>\$ 565,411,970</b>	<b>\$ 99,096,834</b>	<b>\$ 8,131,116</b>	<b>\$ 672,639,921</b>	<b>\$ 15,466,786</b>	<b>\$ 688,106,706</b>

- (1) This is the amount of Program Revenue for which the State has undertaken to provide continuing disclosure and the amount of Program Revenue that will be used for determining the debt service coverage ratio and the additional bonds test.
- (2) IRP - The International Registration Plan is a multi-state compact for collecting and sharing large truck registration fees. Under the IRP, the registration fees on trucks involved in multi-state commercial activity are collected by the state in which the company is headquartered and are split between the participating states on the basis of proportionate mileage.

## PART VI

### CLEAN WATER REVENUE BONDS

Part VI of the 2017 Annual Report provides information about clean water 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 VI of the 2017 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2017)	\$45,080,000
Ratings <sup>(a)</sup> (Fitch/Moody's/S&P) Bonds	AA+/Aa1/AA+
Authority	Clean Water Revenue Bond General Resolution adopted by the Commission on March 7, 1991, as supplemented and amended ( <b>General Resolution</b> ), 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	All Bonds, other than outstanding Clean Water Revenue Bonds, 2010 Series 3 (Taxable) ( <b>2010 Series 3 Bonds</b> ), have been legally defeased, and all Pledged Loans have been released from the General Resolution.  The 2010 Series 3 Bonds have been economically defeased and are payable from amounts on deposit in the Revenue Fund and the Subsidy Fund under the General Resolution. See " <b>SECURITY AND SOURCE OF PAYMENT FOR THE BONDS.</b> "
Audit Report and Financial Statements	<b>APPENDIX A</b> of this Part VI of the 2017 Annual Report includes independent auditor's report and the financial statements for the Environmental Improvement Fund.
<sup>(a)</sup> The ratings presented are the ratings assigned to the State's clean water revenue bonds without regard to any bond insurance policy. No information is provided in the 2017 Annual Report about any rating assigned to any clean water revenue bonds based on any bond insurance policy.	

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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 clean water revenue bonds. Requests for additional information about the Bonds, the State's Environmental Improvement Fund, or the State's Clean Water Fund Program may be directed to the Capital Finance Office.

Most Bonds have been issued as tax-exempt obligations; however, the 2010 Series 3 Bonds were issued as “build America bonds” pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended, for which the State is allowed a refundable tax credit.

The State previously issued Bonds to finance the State’s Clean Water Fund Program pursuant to the General Resolution. 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. See “**FINANCING PLAN**” for a summary of the two different revenue bond programs the State has used to fund loans from the State’s Clean Water Fund Program. This Part VI of the 2017 Annual Report addresses the Bonds; [Part VII of the 2017 Annual Report](#) addresses environmental improvement fund revenue bonds. The pledged revenues and source of payment 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.

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 VI of the 2017 Annual Report.

Certain statements in this Part VI 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**

The State has issued Bonds on the dates and in the amounts shown in Table VI-1. The table also shows the outstanding principal balances of Bonds as of December 15, 2017. 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 VI-1

**OUTSTANDING CLEAN WATER 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>
1991- Series 1 .....	3/1/91			
Serial Bonds .....		1994-2008	\$ 167,555,000	-0-
Term Bonds .....		2011	57,445,000	-0-
1993- Series 1 .....	8/15/93	1996-2013	84,345,000	-0-
Series 2 .....	8/15/93	1994-2008	81,950,000	-0-
1995- Series 1 .....	7/1/95	1997-2015	80,000,000	-0-
1997- Series 1 .....	1/15/97	1999-2017	80,000,000	-0-
1998- Series 1 .....	1/15/98	1999-2018	90,000,000	-0-
Refunding Series 2 .....	8/15/98			
Serial Bonds .....		1999	1,800,000	-0-
Serial Bonds .....		2003	12,160,000	-0-
Serial Bonds .....		2009-17	90,400,000	-0-
1999- Series 1 .....	8/15/99			
Serial Bonds .....		2001-18	67,965,000	-0-
Term Bonds .....		2020	12,035,000	-0-
2001- Series 1 .....	4/2/01	2002-21	70,000,000	-0-
2002- Series 1 .....	5/1/02	2003-23	100,000,000	-0-
Refunding Series 2 .....	8/1/02	2003-16	85,575,000	-0-
2004- Series 1 .....	3/3/04	2006-24	116,795,000	-0-
Refunding Series 2 .....	1/22/05	2009-20	\$107,025,000	-0-
2006- Series 1 .....	3/16/06	2008-27	80,000,000	-0-
Series 2 .....	11/7/06	2008-27	100,000,000	-0-
2008- Series 1 .....	2/12/08	2009-28	100,000,000	-0- (a)
Refunding Series 2 .....	2/12/08	2016-18	27,335,000	-0- (a)
Series 3 .....	12/11/08			
Serial Bonds .....		2010-21	60,745,000	-0- (a)
Term Bonds .....		2025	24,825,000	-0- (a)
Serial Bonds .....		2026	6,640,000	-0- (a)
2010- Series 1 Bonds .....	2/25/10			
Serial Bonds .....		2012-16	20,180,000	-0-
Serial Bonds .....		2026-31	47,235,000	-0- (a)
Series 2 Bonds .....	2/25/10	2019-21	14,070,000	-0- (a)
Series 3 Bonds (Taxable) .....	2/25/10	2017-25	49,690,000	\$ 45,080,000 (b)
Series 4 Bonds .....	11/18/10	2012-31	116,290,000	-0- (a)
Series 5 Bonds .....	11/18/10	2018-23	36,760,000	-0- (a)
2012- Series 1 Bonds .....	7/26/12	2014-33	55,000,000	-0- (a)
Series 2 Bonds .....	7/26/12	2015-24	92,450,000	-0- (a)
2013- Series 1 Bonds .....	3/20/13	2016-27	82,845,000	-0- (a)
2015- Series 1 Bonds .....	7/15/15	2017-28	133,235,000	-0- (a)
2016- Series 1 Bonds .....	4/12/16	2021-31	120,890,000	-0- (a)
<i>Total Outstanding Clean Water Revenue Bonds</i>				<u>\$45,080,000</u>

(a) The Bonds that have been defeased in accordance with the provisions of the General Resolution are not treated as outstanding for purposes of this table or the General Resolution. Pursuant to a refunding escrow agreement, the principal of, and interest on, such Bonds will be paid as it comes due on and prior to the respective maturity or redemption dates.

(b) The Bonds that have not been defeased in accordance with the provisions of the General Resolution are treated as outstanding for purposes of this table and the General Resolution. Amounts are held under the General Resolution sufficient to pay the principal of, and interest on, such Bonds as it comes due on and prior to the respective maturity or redemption dates. Such Bonds will continue to be treated as outstanding under the General Resolution until their maturity or redemption date (unless otherwise defeased in accordance with the General Resolution).



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

**Table VI-2**

**HISTORICAL OUTSTANDING CLEAN WATER REVENUE BONDS**

<b>Year (December 15)</b>	<b>Outstanding Bonds</b>
2007	\$729,575,000
2008	866,035,000
2009	805,305,000
2010	968,165,000
2011	897,475,000
2012	885,510,000
2013	822,940,000
2014	764,745,000
2015	698,160,000
2016	634,815,000

**FINANCING PLAN**

In response to the Federal Water Quality Act of 1987, as amended, which established a joint federal and state program commonly referred to as the State Revolving Fund Program, 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. From 1991 through 2012, the State issued Bonds to fund such loans. In 2015, the Commission approved and the State created, the environmental improvement fund revenue obligations program, and bonds were issued under that new program to provide financing for the Clean Water Fund Program.

In connection with the issuance in 2017 of environmental improvement fund revenue bonds, all Bonds under the General Resolution were either legally defeased (in accordance with the terms of the General Resolution) or economically defeased (by depositing sufficient funds under the General Resolution to provide for their payment), and all the Loans previously pledged to secure the Bonds under the General Resolution, which were then outstanding in the amount of approximately \$543 million, were released from the General Resolution. A portion of the proceeds of those environmental improvement fund revenue bonds, together with certain other funds, were used as provided pursuant to the General Resolution to:

- defease all outstanding Bonds other than the 2010 Series 3 Bonds, as described under “**SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION; Defeasance**”,
- make a deposit to the Subsidy Fund as described below under “**SECURITY AND SOURCE OF PAYMENT FOR THE BONDS**”, and
- obtain the release of all Loans made under the State’s Clean Water Fund Program that previously secured the Bonds, and release of all funds in the Loan Credit Reserve Fund,

The other funds used to obtain the release of the Loans to accomplish the legal or economic defeasance of the Bonds included funds held in the Equity Fund under the General Resolution, and funds released from the State’s equity fund held under the environmental improvement fund revenue obligations program.

The 2010 Series 3 Bonds will continue to be treated as outstanding under the General Resolution until their maturity or redemption date (unless they are otherwise defeased in accordance with the General Resolution). Upon the redemption of the 2010 Series 3 Bonds on June 1, 2020, the General Resolution

will then be discharged. The State does not intend to issue any additional Bonds under the General Resolution.

## **SECURITY AND SOURCE OF PAYMENT FOR BONDS**

The 2010 Series 3 Bonds in the amount of \$45,080,000 remain outstanding under, and are payable pursuant to the terms of, the General Resolution, which are described below under “**SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION**”. However, the 2010 Series 3 Bonds are expected to be paid solely from amounts on deposit in the Revenue Fund and the Subsidy Fund under the General Resolution, which are invested in Investments Obligations under the General Resolution. Those amounts, together with investment earnings, will be sufficient to pay:

- interest when due on the 2010 Series 3 Bonds to and including their June 1, 2020 redemption date or earlier maturity dates; and
- principal or redemption price of the 2010 Series 3 Bonds when due, on the June 1, 2020 redemption date or earlier maturity dates.

No Loans made under the Clean Water Fund Program serve as security for the Bonds, nor are any receipts from such loans available to pay debt service on the Bonds.

## **SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION**

The terms and provisions of the General Resolution are summarized below. Certain capitalized terms are defined in either the General Resolution or the “**GLOSSARY**”. As indicated earlier in this Part VI of the 2017 Annual Report, all Loans have been released from the General Resolution and Bonds outstanding are being paid from funds on deposit in the Revenue Fund and Subsidy Fund under the General Resolution. A copy of the General Resolution may be obtained by contacting the State at the address provided on [the first page of this Part VI of the 2017 Annual Report](#).

In addition, as indicated earlier in this Part VI of the 2017 Annual Report, the State has established a separate program for the issuance of environmental improvement fund revenue bonds to provide financing for the Clean Water Fund Program. A description of those environmental improvement fund revenue bonds, and a summary of the program resolution for environmental improvement fund revenue obligations, is included in [Part VII of the 2017 Annual Report](#).

### **Resolution to Constitute a Contract**

The provisions of the General Resolution are deemed to be a contract among the State, the Trustee, and the owners from time to time of the Bonds. The provisions, covenants, and agreements set forth in the General Resolution (except for those relating to funds pledged to defease any specific Bonds) to be performed by, or on behalf of, the State are for the equal benefit, protection, and security of the owners of the Bonds, all of which are of equal rank without preference, priority, or distinction of any of the Bonds over any other Bonds except as expressly provided in the General Resolution.

### **Pledge**

Under the General Resolution, the State pledges to the Trustee, for the benefit of all current and future Bondowners and any owner of a Parity Reimbursement Obligation, the Pledged Receipts, all funds and accounts established in connection with the issuance of the Bonds (except the Rebate Fund and the State Equity Fund), the investments of the funds and accounts and the proceeds of such investments for the payment of the principal and redemption price of, and interest on, the Bonds and the payment of any Parity Reimbursement Obligation, subject only to the provisions of the General Resolution permitting or further limiting the application thereof. Subject to the provisions of the General Resolution providing for defeasance of Bonds, the pledge is valid and binding, and the lien of such pledge is valid and binding, as against all parties having claims of any kind in tort, contract, or otherwise against the State, irrespective of whether such parties have notice of the lien.

## **Establishment of Funds and Accounts**

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

- (1) Loan Fund
- (2) Revenue Fund
- (3) Debt Service Fund
  - (a) Interest Account
  - (b) Principal Account
  - (c) Redemption Account
  - (d) Capitalized Interest Account
- (4) Loan Credit Reserve Fund
  - (a) SRF Account
  - (b) Non-SRF Account
- (5) Subsidy Fund
- (6) Administrative Fund
  - (a) Costs of Issuance Account
  - (b) Expense Account
- (7) State Equity Fund
- (8) Rebate Fund

Each of the funds and accounts, or assets for each of the funds and accounts, are deposited with, and held by, a Depository and maintained by the Trustee pursuant to the provisions of the General Resolution, except for the State Equity Fund, which is held and maintained by the State.

### **Loan Fund**

Each Series 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. Amounts in the Loan Fund shall be applied by the State from time to time as follows:

- (1) For financing Pledged Loans to Municipalities under the Clean Water Fund Program, including transfers of Pledged Loan capitalized interest to the Revenue Fund;
- (2) As directed in a certificate of an Authorized Officer, for deposit into the Revenue Fund; and
- (3) To the extent that other moneys are not available, for deposit into the Debt Service Fund.

Moneys may be withdrawn from the Loan Fund for financing a Pledged Loan upon a requisition of an Authorized Officer certifying: (1) that the aggregate amount of the requisition is equal to the sum of amounts disburseable to Municipalities pursuant to properly submitted and approved requisitions of such Municipalities; (2) that the amount requisitioned for each Municipality does not exceed the amount available to be disbursed pursuant to that Municipality's Financial Assistance Agreement and Municipal Obligation; (3) the identity of the Municipalities receiving disbursements from the requisition, the amount of the requisition allocable to each such Municipality, and the designation of the Municipal Obligations evidencing the applicable Pledged Loan; (4) that there is on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement; and (5) that the Contribution Amount has been transferred (or deemed transferred) to the Loan Credit Reserve Fund.

Prior to the initial transfer of amounts to a Municipality with respect to a Pledged Loan, the State shall deliver to the Trustee: (1) a copy of the original executed Financial Assistance Agreement evidencing the

Pledged Loan to be so made and (2) a copy of the Municipal Obligation evidencing or securing such Pledged Loan in an aggregate principal amount equal to the maximum permissible Pledged Loan amount.

In addition, money and earnings in the Loan Fund may be transferred to the Revenue Fund, *provided* that the amount in the Subsidy Fund is at least equal to the Subsidy Fund Requirement.

### **Revenue Fund**

The Trustee shall promptly deposit the following into the Revenue Fund:

- (1) Transfers of capitalized interest on a Pledged Loan from the Loan Fund (which shall be deemed to be Pledged Loan disbursements), as directed in a certificate of an Authorized Officer;
- (2) Other transfers of moneys from the Loan Fund;
- (3) All Pledged Loan Repayments (excluding prepayments of Pledged Loans, which shall be deposited in the Redemption Account of the Debt Service Fund) received by the Trustee; and
- (4) On the business day preceding an interest payment date, interest earned on Investment Obligations in the Loan Credit Reserve Fund (less amounts required to be transferred to the Rebate Fund).

The Revenue Fund shall be applied as follows:

- (1) First, to the Interest Account of the Debt Service Fund for the payment of interest due or to become due on the next succeeding interest payment date;
- (2) Second, to the Principal Account of the Debt Service Fund for the payment of principal and sinking fund installments, if any, on the next succeeding interest payment date; and
- (3) Third, to the Rebate Fund so that the balance in the Rebate Fund shall equal the amount required to be deposited therein.

### **Debt Service Fund**

The Trustee shall promptly deposit the following receipts in the Debt Service Fund:

- (1) Any accrued interest received as proceeds of a Series of Bonds as set forth in the applicable Series Resolution, which shall be deposited in the Interest Account;
- (2) All amounts required to be transferred from the Revenue Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;
- (3) The Subsidy Fund Transfer Amount transferred from the Subsidy Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;
- (4) All amounts required to be transferred from the Loan Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;
- (5) Any amounts directed by the State to be transferred from the Administrative Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;
- (6) Any amounts received by the Trustee for the purpose of redeeming Bonds, which shall be deposited in the Redemption Account; and

(7) Any portion of Bond proceeds designated by a Series Resolution as capitalized interest on the Bonds, which shall be deposited into the Capitalized Interest Account.

The Trustee shall transfer from the Capitalized Interest Account to the Interest Account on the business day preceding each interest payment date the amount required for the payment of capitalized interest on such Bonds due on such interest payment date.

The Trustee shall pay out of the Interest Account of the Debt Service Fund (1) on each interest payment date, the amount required for the payment of interest on Bonds due on such interest payment date and (2) on any redemption date, the amount required for the payment of accrued interest on Bonds redeemed, unless the payment of such accrued interest shall be otherwise provided for.

The Trustee shall pay out of the Principal Account on each principal payment date or sinking fund redemption date, as applicable (as set forth in a Series Resolution), the amounts required for the payment of such principal on such date or such sinking fund redemption price on such date, as applicable.

The amount accumulated in the Principal Account for each sinking fund redemption may, and if so directed by the State shall, be applied (together with amounts accumulated in the Interest Account of the Debt Service Fund with respect to interest on the Bonds subject to sinking fund redemption) by the Trustee prior to the 45<sup>th</sup> day preceding the sinking fund redemption date, or such shorter period as shall be acceptable to the Trustee, to:

- (1) the purchase of Bonds of the Series and maturity of such Bonds subject to such sinking fund redemption, at prices (including any brokerage and other charges) not exceeding the redemption price payable for such Bonds pursuant to such sinking fund redemption plus unpaid interest accrued to the date of purchase, or
- (2) the redemption of such Bonds if then redeemable by their terms, at the redemption price referred to in paragraph (1) above.

Upon any such purchase or redemption of Bonds of any Series and maturity, for which sinking fund installments shall have been established, an amount equal to the applicable redemption prices thereof shall be credited toward any one or more of such sinking fund installments, as directed by the State in an Authorized Officer's certificate, or failing such direction toward such sinking fund installments in inverse order of their due dates. The portion of any such sinking fund installment remaining after the deduction of any such amounts credited toward such installment (or the original amount of any such sinking fund installment if no such amounts shall have been so credited) shall constitute the unsatisfied balance of such sinking fund installment for the purpose of the calculation of Principal Installments due on a future date.

If, after all transfers provided for above have been made, the moneys in the Debt Service Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds on any interest payment date, the Trustee shall apply amounts from the following funds to the extent necessary to cure the deficiency in the order of priority as provided below:

- (1) First, from the Loan Credit Reserve Fund;
- (2) Second, from the Subsidy Fund;
- (3) Third, from the Loan Fund, which transfers shall not be deemed to be a Pledged Loan disbursement subject to the requirements applicable to Pledged Loan disbursements; and
- (4) Fourth, from any other fund or account (except the Rebate Fund and the State Equity Fund).

As soon as practicable after the 45<sup>th</sup> day preceding the date of any sinking fund redemption, the Trustee shall proceed to call for redemption on such redemption date Bonds of the Series and maturity for which such sinking fund redemption was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such sinking fund redemption. The Trustee shall pay out of the Redemption Account of the Debt Service Fund to the Paying Agents on each redemption date (as set forth in a Series Resolution) for any such Bonds for which there have not been made sinking fund

installments, the amounts required for the payment of such redemption price on the redemption date and such amounts shall be applied by the Paying Agents to such payments.

### **Loan Credit Reserve Fund**

If at any time the moneys in the Debt Service Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall apply amounts from the Loan Credit Reserve Fund to the extent necessary to cure the deficiency. The State may designate the amounts from the SRF Account and Non-SRF Account, respectively, to be applied by the Trustee for such payment.

Whenever moneys and securities in the Loan Credit Reserve Fund (excluding earnings required to be transferred to the Revenue Fund) shall exceed the Loan Credit Reserve Fund Requirement, the Trustee may, at the direction of an Authorized Officer, transfer all, or any portion of, such surplus from the SRF Account to any account within the Clean Water Fund Program or from the Non-SRF Account to the State Equity Fund. However, if any Municipality is in default with respect to Pledged Loan Repayments, no such transfer shall be made to the extent it would cause the balance in the Loan Credit Reserve Fund to be less than the sum of the Loan Credit Reserve Fund Requirement plus the amount of Pledged Loan Repayments then in default and not otherwise provided for. After a defaulting Municipality has cured its default and has fully resumed its payment obligations under the Financial Assistance Agreement, such surplus amounts may be withdrawn from the Loan Credit Reserve Fund.

See “**GLOSSARY**” for a definition of the Loan Credit Reserve Fund Requirement.

### **Subsidy Fund**

Whenever the money in the Debt Service Fund and money available in the Loan Credit Reserve Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall transfer amounts from the Subsidy Fund to the Debt Service Fund to the extent necessary to cure the deficiency.

The Trustee shall transfer any amount in the Subsidy Fund in excess of the Subsidy Fund Requirement upon the direction of an Authorized Officer:

- (1) First, to the Loan Credit Reserve Fund to replenish the Loan Credit Reserve Fund to the then-current Loan Credit Reserve Fund Requirement; and
- (2) Second, to the State Equity Fund or for any Program purpose.

See “**GLOSSARY**” for definitions of the Subsidy Fund Requirement and the Subsidy Fund Transfer Amount.

### **Notes**

Whenever the Commission shall authorize the issuance of a Series of Bonds, the Commission is authorized to issue Notes (including renewals thereof) in anticipation of such Series. The principal of, and interest on, such Notes and renewals thereof shall be payable solely from the proceeds of such Notes or from the proceeds of the sale of the Series of Bonds in anticipation of which such Notes were issued. The proceeds of such Bonds may be pledged for the payment of the principal of, and interest on, such Notes, and any such pledge shall have a priority over any other pledge of such proceeds created by the General Resolution. Notes shall not be secured by any fund or account established under the General Resolution.

### **Issuance of Additional Bonds Other Than Refunding Bonds**

The State may issue additional Series of Bonds from time to time on a parity with all other Bonds issued pursuant to the General Resolution and secured by an equal charge and lien on the Pledged Receipts and any other security pledged under the General Resolution.

No additional Series of Bonds shall be issued unless:

- (1) The principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) All other requirements applicable to the issuance of Bonds are met, including the requirement that there be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there be in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement; and

(3) Evidence satisfactory to the Trustee that any credit rating assigned to the proposed Series of Bonds is no lower than the lowest credit rating then assigned by the applicable Rating Agency to any Outstanding Bonds of similar tenor, and no notice has been received from any Rating Agency that the issuance of the proposed Series of Bonds will cause such Rating Agency to lower, suspend, remove, or otherwise modify adversely the credit ratings then assigned by it to any Outstanding Bonds.

### **Refunding Bonds**

The General Resolution authorizes the Commission to issue one or more Series of Refunding Bonds to refund all, or any part of, one or more Series of outstanding Bonds. Refunding Bonds may be issued only upon receipt by the Trustee (in addition to the other requirements applicable to the issuance of Bonds) of:

(1) Irrevocable instructions to the Trustee to give notice of redemption to the owners of the Bonds being refunded; and

(2) Either Investment Obligations described below under “Defeasance” in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, or such amount of moneys, as shall be necessary to comply with the defeasance provisions of the General Resolution.

### **Payment of Bonds**

The State covenants that it shall duly and punctually pay or cause to be paid the principal or redemption price of, and interest on, the Bonds, but only from the Pledged Receipts and other revenues or receipts, funds, or moneys pledged therefor as provided in the Act and the General Resolution, at the dates and places and in the manner provided in the Bonds according to the true intent and meaning thereof, and shall duly and punctually satisfy all sinking fund installments becoming payable with respect to any Series of Bonds.

### **Power to Issue Bonds and Make Pledges**

The State represents that it is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the General Resolution and to pledge the Pledged Receipts and other revenues, receipts, funds, or moneys purported to be pledged by the General Resolution in the manner and to the extent provided in the General Resolution. The State represents that the Pledged Receipts and other revenues, receipts, funds, and moneys so pledged are, and will be, free and clear of any pledge, lien, charge, or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the General Resolution, and that all action on the part of the State to that end has been duly and validly taken. The State further represents that the Bonds and the provisions of the General Resolution are, and will be, the valid and legally enforceable obligations of the State in accordance with their terms and the terms of the General Resolution. The State covenants that it shall at all times, to the extent permitted by law, defend, preserve, and protect the pledge of the Pledged Receipts and revenues, receipts, funds, and moneys pledged under the General Resolution and all the rights of the Bondowners under the General Resolution against all claims and demands of all persons whomsoever.

### **Agreement of the State**

The State pledges and agrees with the Bondowners that the State will not limit or alter the terms of any agreements made with Bondowners or in any way impair the rights and remedies of the Bondowners until the Bonds, together with the interest thereon, with 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 Bondowners, are fully met and discharged.

## **Federal Tax Covenant**

The State covenants that it shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excluded from the gross income of the recipients thereof.

The State shall not permit at any time any of the proceeds of the Bonds or other funds of the State to be used, directly or indirectly, to acquire any asset or obligation the acquisition of which would cause any Note or Bond to be an “arbitrage bond” for the purposes of Section 148 of the Internal Revenue Code of 1986, as amended.

Notwithstanding the foregoing, the State reserves the right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the federal tax covenants contained in the General Resolution shall not apply to such Bonds.

## **Accounts and Reports**

The State shall keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Pledged Loan Repayments, Municipal Obligations, the Fees and Charges, if any, and all funds and accounts established by the General Resolution.

The State shall annually, on or before January 1 in each year, file with the Trustee and with the Rating Agencies a copy of the audited financial statements for the preceding Fiscal Year with respect to the Leveraged Portfolio, accompanied by an Accountant’s Certificate, setting forth in complete and reasonable detail: (1) its receipts and expenditures during such Fiscal Year in accordance with the categories or classifications established by the State for its operating and capital outlay purposes; (2) its assets and liabilities at the end of such Fiscal Year, including a schedule of its Pledged Loan Repayments, Municipal Obligations, and Fees and Charges, a list of Municipalities in default, and the status of the funds and accounts established by the General Resolution; and (3) a schedule of its Bonds and Notes outstanding and other obligations outstanding at the end of such Fiscal Year, together with a statement of the amounts paid, redeemed, and issued during such Fiscal Year.

## **Clean Water Revenue Bond Program**

To provide sufficient moneys with which to pay the principal and interest and sinking fund installments when due and payable on its Bonds, the State covenants that it shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act and the Water Quality Act as then amended and as interpreted in regulations adopted by EPA and DNR and in effect and with the provisions of the General Resolution, use and apply the proceeds of the Bonds to finance Pledged Loans pursuant to the Act as so amended and the General Resolution, to earn sufficient interest on its funds and accounts established within the General Resolution to generate income which when combined with moneys received with respect to the Municipal Obligations shall at least equal the principal and interest and sinking fund installments on the Bonds. The State further covenants that it shall do all such acts and things necessary to receive and collect the Pledged Loan Repayments and the interest on all funds and accounts established within the General Resolution and shall diligently enforce, and take all steps, actions, and proceedings for the enforcement of, all terms, covenants, and conditions of the Pledged Loans. However, the State has the authority to modify those terms and conditions, subject to the limitations in the General Resolution.

## **Events of Default**

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

- (1) The State shall default in the payment of the principal or redemption price of any Bond when and as the same shall become due whether at maturity or upon call for redemption; or
- (2) The State shall default in the payment of any installment of interest on any Bonds; or
- (3) The State shall fail or refuse to comply with the provisions of the Act or shall default in the performance or observance of any other of the covenants, agreements, or conditions contained in the



General Resolution, any Series Resolution, any Supplemental Resolution, or the Bonds, and such failure, refusal, or default shall continue for a period of 45 days after written notice thereof is given to the State by the Trustee or the owners of not less than 25% in principal amount of Bonds outstanding.

### **Remedies**

Upon the occurrence and continuance of any Event of Default specified in clauses (1) or (2) immediately above, the Trustee shall proceed, or upon the occurrence and continuance of any Event of Default specified in clause (3) immediately above, the Trustee may proceed, and upon the written request of the owners of not less than 25% in principal amount of the outstanding Bonds shall proceed, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (1) By mandamus or other suit, action, or proceeding at law or in equity, enforce all rights of the Bondowners, including the right to require the State to collect Pledged Loan Repayments adequate to carry out the covenants and agreements as to, and the pledge of, such Pledged Loan Repayments, and other properties and to require the State to carry out any other covenant or agreement with Bondowners and to perform its duties under the Act;
- (2) Bring suit upon the Bonds;
- (3) By action or suit in equity, require the State to account as if it were the trustee of an express trust for the owners of the Bonds; or
- (4) By action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Bonds.

In the enforcement of any remedy under the General Resolution, the Trustee shall be entitled to sue for, enforce payment on, and receive, any and all amounts due from the State for principal, redemption price, interest, or otherwise under any provision of the General Resolution or a Series Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the General Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgment or decree against the State for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

### **Program Expenses**

The State covenants to pay all program expenses when due and payable, but only from the sources provided in the General Resolution.

The State covenants to pay to the Fiduciaries from time to time reasonable compensation for all services rendered under the General Resolution, and also all reasonable expenses, charges, counsel fees, and other disbursements, including those of their attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the General Resolution. The State further agrees to indemnify and save each Fiduciary harmless against any liabilities that it may incur in the exercise and performance of its powers and duties under the General Resolution, and which are not due to its willful misconduct, negligence, or bad faith.

### **Defeasance**

If the State shall pay or cause to be paid to the owners of all Bonds then outstanding, the principal or redemption price and interest to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then, at the option of the State, the covenants, agreements, and other obligations of the State to the Bondowners shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the State, execute and deliver to the State all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the State all money, securities, and funds held by them pursuant to the General Resolution which are not

required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Bonds or interest installments for the payment at maturity or redemption of which moneys or securities shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) shall be deemed to have been paid within the meaning and with effect expressed in the immediately preceding paragraph. All outstanding Bonds of any Series shall be deemed to have been paid within the meaning and with the effect expressed in the immediately preceding paragraph if all the following conditions apply:

(1) In case any of such Bonds are to be redeemed on any date prior to their maturity, the State shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to give notice of redemption of such Bonds as provided in the General Resolution.

(2) There shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Obligations, the principal of, and the interest on, which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or redemption price of, and interest on, such Bonds on, and prior to, the redemption date or maturity date thereof, as the case may be.

(3) In the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the State shall have given the Trustee irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in Authorized Newspapers a notice to the owners of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price on said Bonds. Neither Investment Obligations nor moneys deposited with the Trustee nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than the payment of the principal or redemption price, if applicable, and interest on said Bonds. Any cash received from such principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal or redemption price and interest due and to become due on such Bonds on, and prior to, such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the State, as received by the Trustee, free and clear of any trust, lien, or pledge.

For the purposes of the defeasance provisions of the General Resolution, Investment Obligations shall mean and include direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this paragraph.

Any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the State, be repaid by the Fiduciary to the State, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the State for the payment of such Bonds; *provided*, however, that before being required to make any such payment to the State, the Fiduciary shall, at the expense of the State, cause to be published at least once in Authorized Newspapers a notice that said moneys remain unclaimed and that, after a date named in said notice, which

date shall not be less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the State.

### **Right to Adopt Another General Resolution**

The State expressly reserves the right to adopt one or more other general resolutions and reserves the right to issue bonds and notes and any other obligations so long as the same are not a charge or lien on the Pledged Receipts or payable from any fund or account (except for the State Equity Fund or the Rebate Fund) established under the General Resolution. As discussed above, the State has exercised that right through the establishment of a separate program resolution for environmental improvement fund revenue bonds.

## **GLOSSARY**

The following definitions apply to capitalized terms used in this Part VI of the 2016 Annual Report:

**Accreted Value** means, with respect to any Capital Appreciation Bond, the initial principal amount at which such Capital Appreciation Bond is sold to the initial purchaser by the State without reduction to reflect underwriter's discount, compounded from the date of delivery of such Bonds semiannually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation is an interest payment date) at the original issue yield to maturity less, with respect to Bonds with interest payable on a current basis, interest paid and payable during such period plus, if such date of calculation is not an interest payment date, a portion of the difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semiannual period in equal daily amounts (based on a 360-day year of twelve 30-day months); *provided*, however, that the calculation of Accreted Value for purposes of determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent, or waiver under the General Resolution shall be based upon the Accreted Value calculated as of the interest payment date immediately preceding such date of calculation (unless such date of calculation is an interest payment date, in which case it shall be calculated as of the date of calculation).

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

**Administrative Fund** means the fund of that name established by the General Resolution.

**Aggregate Debt Service** for any period means, with respect to the Bonds, as of any date of calculation, the sum of the amounts of Debt Service for such period.

**Authorized Officer** means the Capital Finance Director of the State and any other person designated in writing to the Trustee by the Capital Finance Director or by the Commission as an Authorized Officer.

**Bond** or **Bonds** means any bond or bonds, as the case may be, authenticated and delivered under the General Resolution pursuant to a Series Resolution.

**Bondowners** or **Owner of Bonds** or **Owner** (when used with reference to Bonds) or any term of similar import means the person or party in whose name the Bond is registered.

**Business Day** means any day other than a Saturday or Sunday or other day on which commercial banks in the city in which the principal office of the Trustee is located are not open for business, except as may be provided in a Series or Supplemental Resolution.

**Capital Appreciation Bonds** means Bonds that provide for the addition of all, or any part of, accrued and unpaid interest thereon to the principal due thereon upon such terms and for such periods of time as may be determined by the applicable Series Resolution.

**Capitalized Interest Account** means the account of that name established within the Debt Service Fund by the General Resolution.

**Clean Water Fund Program** means the program established pursuant to the Act and operated and administered as part of the Environmental Improvement Fund.

**Commission** means the State of Wisconsin Building Commission or any successor body having the power under the Subchapter II of Chapter 18 of the Wisconsin Statutes, as amended, to authorize and direct the issuance of Bonds.

**Contribution Amount** has the meaning set forth in the definition of “Loan Credit Reserve Fund Requirement.”

**Credit Facility** means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy, guaranty, or similar obligation, arrangement, or instrument issued by a bank, insurance company, or other financial institution or the federal government or an agency thereof which (1) provides for payment of all, or a portion of, the principal of, Redemption Price of, or interest on any Series of Bonds, (2) provides funds for the purchase of such Bonds or portions thereof, (3) provides deposits for a fund or account under the General Resolution, or (4) provides for, or further secures, payment of loans or Municipal Obligations, *provided* that with respect to (3) above, the issuer of such Credit Facility must be rated, or the effect of such Credit Facility must be to cause bonds insured or secured thereby to be rated, by each Rating Agency in a rating category no lower than the then current rating on the Bonds (without such Credit Facility).

**Debt Service** for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (1) interest payable during such period on Bonds of such Series, (2) that portion of the Principal Installments for such Series which are payable during such period, and (3) any “Reimbursement Obligation” or “Parity Reimbursement Obligation” as defined in the General Resolution. Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

**Debt Service Fund** means the fund of that name established by the General Resolution.

**Depository** means any bank, trust company, or national banking association, which may be the Trustee, selected by the Commission and approved by the Trustee as a depository of moneys and securities held under the provisions of the General Resolution and its successor or successors.

**DNR** means the State of Wisconsin Department of Natural Resources.

**DOA** means the State of Wisconsin Department of Administration.

**Environmental Improvement Fund** means the nonlapsible trust fund of that name created by Section 25.43 of the Wisconsin Statutes.

**EPA** means the United States Environmental Protection Agency.

**Expense Account** means the account of that name established within the Administrative Fund established by the General Resolution.

**Fees and Charges** means all fees and charges, if any, charged by the State to Municipalities pursuant to the terms and provisions of Clean Water Fund Program loans or Municipal Obligations but does not include principal of, and interest on, such Municipal Obligations.

**Fiduciary** or **Fiduciaries** means the Trustee, any Paying Agent, any Depository, or any or all of them, as may be appropriate.

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

**Fiscal Year** means any 12 consecutive calendar months commencing with the 2<sup>nd</sup> day of June and ending on the 1<sup>st</sup> day of the following June.

**General Resolution** means the Clean Water Revenue Bond General Resolution adopted by the Building Commission on March 7, 1991, as amended by resolutions adopted by the Commission on July 30, 2003 and June 28, 2006, as the same may be further amended and supplemented from time to time.

**Interest Account** means the account of that name established within the Debt Service Fund by the General Resolution.

**Investment Obligation** means any of the following that at the time are legal investments for moneys of the State:

(1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as at the time of their purchase such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (1);

(2) 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 (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully 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 (1) above which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of, and interest on, the bonds and obligations of the character described in clause (1) above which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of, and redemption premium, if any, on the bonds or other obligations described in this clause (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (2), as appropriate, and (d) which at the time of their purchase under the General Resolution bear the highest rating available from each Rating Agency;

(3) bonds, debentures, participation certificates (representing a timely guaranty of principal and interest), notes or similar evidences of indebtedness of any of the following: Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association (excluding "stripped" securities), Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association, or Tennessee Valley Authority;

(4) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes, or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; *provided*, however, that any investment purchased pursuant to this clause (4) shall be rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(5) obligations of any state of the United States of America or of any political subdivision or public agency or instrumentality thereof, including the State, *provided* that at the time of their purchase under the General Resolution such obligations are rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(6) direct obligations of the State or obligations guaranteed by the State that have the same rating as direct obligations of the State;

(7) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase under the General Resolution the highest rating available from each Rating Agency;

(8) interest-bearing time deposits, certificates of deposit, or other similar banking arrangements with banks (which may include any Fiduciary), *provided* such deposits are made with banks rated by each Rating Agency at the time the deposit is made no lower than the rating assigned to the Bonds by such Rating Agency;

(9) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which are rated at the time of their purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(10) repurchase agreements for obligations of the type specified in clauses (1) and (3) above, *provided* either (a) the repurchase agreement is an unconditional obligation of the counterparty and such counterparty is rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or (b) the repurchase agreement is an obligation of a counterparty that is rated at the time of its purchase by each Rating Agency in an investment grade category and is collateralized by obligations which are marked to market daily and have a value equal to not less than the percentage of the amount thereby secured specified by each Rating Agency, taking into account the maturity of such obligations;

(11) any investment obligation or deposit the investment in which will not, at the time such investment is made, adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency;

(12) any investment agreement with a bank, bank holding company, insurance company, or other financial institution rated at the time such investment is made by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or guaranteed by an entity rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency; and

(13) the Local Government Pooled–Investment Fund of the State established under Chapter 25 of the Wisconsin Statutes.

**Loan Credit Reserve Fund** means the fund of that name established by the General Resolution.

**Loan Credit Reserve Fund Requirement** means and is calculated as follows:

(1) DOA has delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (each a **Loan Credit Reserve Fund Schedule** or **Schedule**) approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each Loan disbursement from the Loan Fund is the “**Contribution Amount**”.

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for different total Contribution Amounts, then the highest total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

**Loan Fund** means the fund of that name established by the General Resolution.

**Municipal Obligations** means the bonds, notes, or other evidences of debt issued by any Municipality and authorized by law and acquired by the State as evidence of indebtedness of a Pledged Loan, Direct Loan, or Proprietary Loan to the Municipality pursuant to the Act. Municipal Obligations may constitute any of a combination of the following: 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.

**Municipality** means a political subdivision of the State constituting a "municipality" within the meaning of the Act, duly organized and existing under the laws of the State and any successor entity or a federally recognized American Indian tribe or band in the State.

**Non-SRF Account** means account of that name established by the General Resolution within the Loan Credit Reserve Fund.

**Notes** mean any bond anticipation notes issued by the State pursuant to the Act.

**Outstanding**, when used with reference to Bonds, other than Bonds owned or held by or for the account of the State, means, as of any date, Bonds theretofore or then being delivered under the provisions of the General Resolution, except: (1) any Bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (2) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in trust (whether at or prior to the maturity or redemption date), *provided* that if such Bonds are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the General Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (3) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Resolution, and (4) Bonds deemed to have been paid as provided in the General Resolution. In determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent, or waiver under the General Resolution, the principal amount of a Capital Appreciation Bond that shall be deemed Outstanding for such purposes shall be the Accreted Value thereof.

**Parity Reimbursement Obligation** means the obligation of the State to directly reimburse the issuer of a Credit Facility for amounts paid under the terms of such Credit Facility, together with interest thereon, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument, which obligation shall be secured on a parity with the lien created by the General Resolution.

**Paying Agent** for the Bonds of any Series means the bank, trust company, or national banking association, which may be the Trustee, and its successor or successors, appointed pursuant to the provisions of the General Resolution and a Series Resolution or any other resolution of the Commission adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

**Pledged Loan** means a loan made by the State to a Municipality from the Loan Fund pursuant to a Financial Assistance Agreement and the Act, and that has not been release from the lien of the General Resolution.

**Pledged Loan Repayments** means any payments on a Pledged Loan pursuant to a Financial Assistance Agreement, or on the Municipal Obligations evidencing and securing the same, on account of the principal, interest, and premium, if any, due on such Pledged Loan, including scheduled payments of principal of, and interest on, such Loan or Municipal Obligation, any payments made to cure a default, prepayments of principal or interest, and any additional amounts payable upon prepayment of such Pledged Loan or Municipal Obligations, and any amounts paid with respect to such Pledged Loan or Municipal Obligation on account of (1) acceleration of the due date of such Pledged Loan or such Municipal Obligation, (2) the sale or other disposition of such Pledged Loan or the Municipal Obligations and other collateral securing such Pledged Loan, (3) the receipt of proceeds of any insurance or guaranty

of such Pledged Loan or Municipal Obligations or any Credit Facility applicable to such Pledged Loan or Municipal Obligations, and (4) the exercise of any right or remedy granted to the State and available under law or the applicable Financial Assistance Agreement upon default on such Pledged Loan or Municipal Obligations, but specifically excluding any payment of Fees and Charges.

**Pledged Receipts** means:

- (1) all Pledged Loan Repayments, including both timely and delinquent payments,
- (2) Fees and Charges held or collected by the State,
- (3) 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,
- (4) any moneys made available to the Clean Water Fund Program pursuant to Section 281.59 (13m) of the Wisconsin Statutes (that is, as a result of the designation of an individual Pledged Loan as one to which the State's "moral obligation" applies),
- (5) any moneys collected by recourse to collateral and security devices under the Municipal Obligations, and
- (6) any other moneys held or received by the State or the Trustee relating to the Municipal Obligations.

**Principal Account** means the account of that name established within the Debt Service Fund by the General Resolution.

**Principal Installment** means, as of any date of calculation and with respect to any Series of Bonds Outstanding, (1) the principal amount or Accreted Value of Bonds of such Series due on any payment date for which no Sinking Fund Installments have been established, or (2) the Sinking Fund Installment due on a date for Bonds of such Series, or (3) if such dates coincide, the sum of such principal amount or Accreted Value of Bonds and of such Sinking Fund Installment(s) due on such date; in each case in the amounts and on the dates as provided in the Series Resolution authorizing such Series of Bonds; *provided*, however, that Principal Installments shall not include the principal of Notes.

**Proprietary Loan** means financial assistance made primarily from the proceeds of State general obligation bonds or repayment of Proprietary Loans, and excludes any Direct Loan or Pledged Loan. This financial assistance is not funded with Bond proceeds.

**Rating Agency** means a credit rating agency which is nationally recognized for skill and expertise in rating the credit of obligations similar to the Bonds and which has assigned and currently maintains a rating on any Outstanding Bonds at the request of the State (which request may be withdrawn by the State so long as following such withdrawal of request, the Bonds are rated by at least two Rating Agencies), and any successor to any such agency by merger, consolidation, or otherwise.

**Rebate Fund** means the fund of that name established by the General Resolution.

**Redemption Account** means the account of that name established within the Debt Service Fund by the General Resolution.

**Redemption Price**, means (1) when used with respect to a Bond other than a Capital Appreciation Bond, or a portion of a Bond to be redeemed, means the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof, plus interest to the redemption date, pursuant to the General Resolution and the applicable Series Resolution and (2) when used with respect to a Capital Appreciation Bond, the Accreted Value on the date of redemption of such Bond or portion thereof plus the applicable premium, if any, pursuant to the General Resolution and the applicable Series Resolution.

**Refunding Bonds** means Bonds issued to refund other Bonds.

**Revenue Fund** means the fund of that name established by the General Resolution.



**Series of Bonds or Bonds of a Series** or words of similar meaning means the series of Bonds authorized by a Series Resolution.

**Series Resolution** means a resolution of the Building Commission authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution.

**Sinking Fund Installment** means, as of any particular date of calculation, (1) the amount required by the General Resolution and a Series Resolution to be deposited by the State for the retirement of Bonds which are stated to mature subsequent to such date or (2) the amount required by the General Resolution and a Series Resolution to be deposited by the State on a date for the payment of Bonds at maturity on a subsequent date.

**SRF Account** means the account of that name established by the General Resolution within the Loan Credit Reserve Fund.

**State** means the State of Wisconsin.

**State Equity Fund** means the fund of that name established by the General Resolution.

**Subsidy Fund** means the fund of that name established by the General Resolution.

**Subsidy Fund Requirement** means that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing on an interest payment date and ending on the next interest payment date (**Period**) which is at least equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (1) scheduled disbursements from the Capitalized Interest Account and (2) Pledged Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts were invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon were transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (2) above; *provided* that, prior to each Loan disbursement, the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and is repayable in accordance with the applicable Municipal Obligations).

**Subsidy Fund Transfer Amount** means, with respect to any interest payment date, the amount by which Aggregate Debt Service payable during the Period (as such term is used in the definition of Subsidy Fund Requirement) ending on such interest payment date exceeds the sum of (1) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (2) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (3) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (4) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (5) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during the Period.

**Supplemental Resolution** means a resolution supplemental to or amendatory of the General Resolution, adopted by the Commission in accordance with the General Resolution.

**Trustee** means U.S. Bank National Association, and its successor or successors and any other bank, trust company, or national banking association at any time substituted in its place pursuant to the General Resolution.

## 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.

As indicated earlier in this Part VI of the 2017 Annual Report, all Loans have been released from the General Resolution and such no longer serve as security for the Bonds. In addition, all funds have been released from the Loan Credit Reserve Fund, and Bonds outstanding are being paid from funds on deposit in the Revenue Fund and Subsidy Fund under the General Resolution. Audited financial statements are being provided pursuant to undertakings of the State described in [Part I of the 2017 Annual Report](#).

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 VI 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 VII.}

**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	<b>(169,364,452)</b>	<b>-</b>
<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:

<u>Years Ending June 30,</u>	<u>2017</u>	<u>2016</u>
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:

	<u>2017</u>	<u>2016</u>
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	<u>10,212,311</u>	<u>10,237,287</u>
Changes in Realized and Unrealized Gains (Losses)		
State of Wisconsin General Obligation Bonds	<u>(5,660,028)</u>	<u>18,729,948</u>
Total Interest and Changes in Unrealized Gains	4,552,283	28,967,235
Change in Estimated Rebutable Arbitrage Liability	<u>(498,784)</u>	<u>(48,262)</u>
TOTAL INVESTMENT INCOME	<u>\$ 4,053,499</u>	<u>\$ 28,918,973</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 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>

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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

## 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>	

*Contact:* Capital Finance Office  
 Attn: Capital Finance Director  
*Phone:* (608) 267-0374  
*Mail:* State of Wisconsin Department of Administration  
 101 East Wilson Street, FLR 10  
 P.O. Box 7864  
 Madison, WI 53707-7864  
*E-mail:* [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
*Web site:* [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

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.

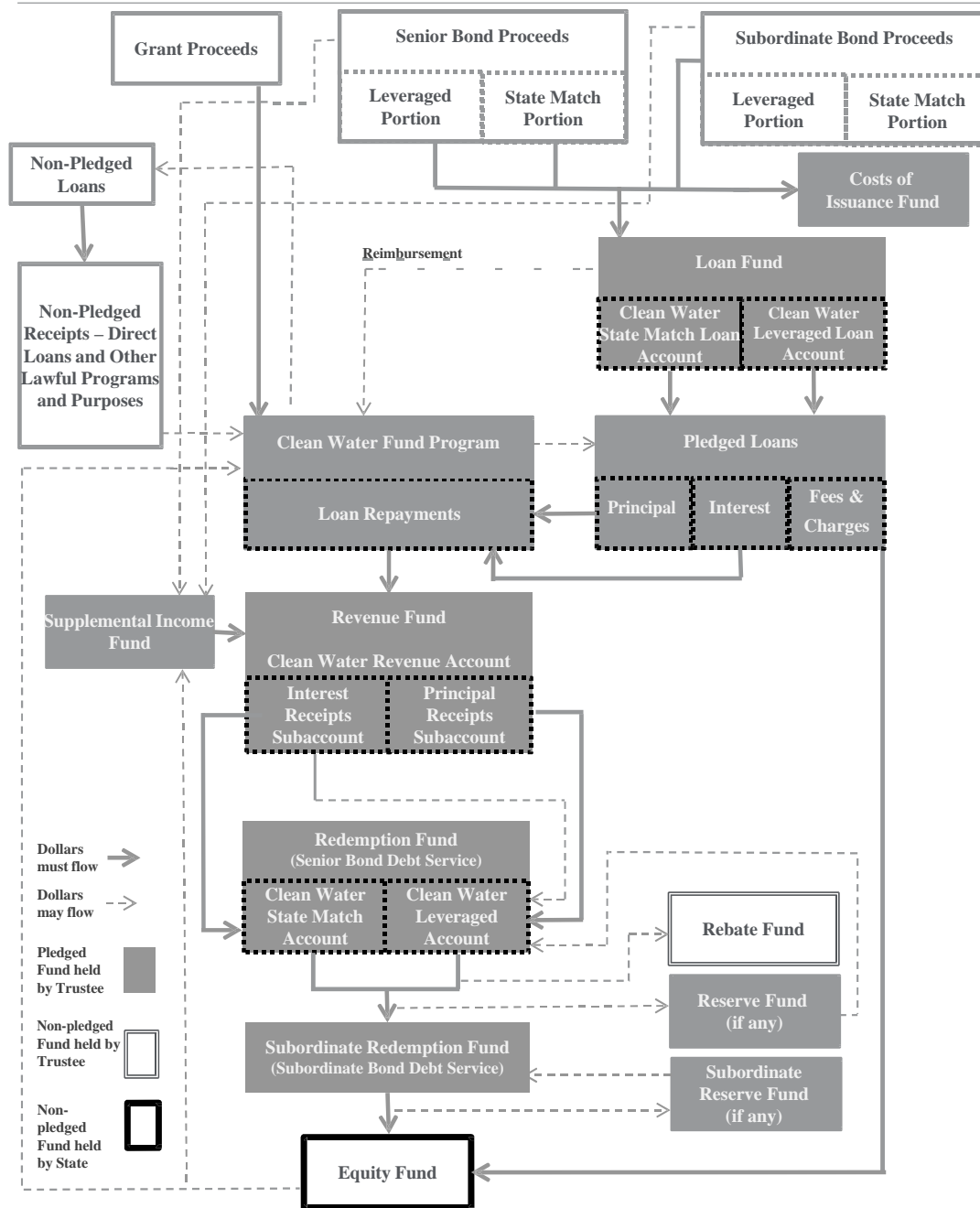
### **Investment of Funds**

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
Total Operating Revenues	49,820,277	51,423,197
<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
Total Operating Expenses	58,922,230	37,800,114
Operating Income (loss)	(9,101,953)	13,623,083
<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)
Total Nonoperating Revenues (Expenses)	51,058,118	64,809,764
<b>INCOME BEFORE TRANSFERS</b>	41,956,165	78,432,847
Transfers in	8,214,266	3,123,935
Transfers out	(25,213,157)	(22,153,141)
<b>INCOME (LOSS) BEFORE SPECIAL ITEM</b>	24,957,274	59,403,641
Special item - Forgiven Global Certificates	(169,364,452)	-
<b>Increase (Decrease) in Net Position</b>	(144,407,178)	59,403,641
TOTAL NET POSITION - Beginning of Year	2,050,644,682	1,991,241,041
<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

	2017	2016
<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	11,145,092	114,881,212
<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	(356,978,484)	(30,044,100)
<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	21,943,091	18,454,207
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	(323,890,301)	103,291,319
CASH AND CASH EQUIVALENTS - Beginning of Year	567,476,035	464,184,716
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 243,585,734	\$ 567,476,035

	<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

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

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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

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### NOTE 4 – FORWARD DELIVERY AGREEMENTS

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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:

Call Date	Amount as of June 30, 2017	Amount as of June 30, 2016
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:

Series	Par Value	Weighted Average Coupon Interest Rate	Market Value
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	\$ 160,892,307		\$ 187,049,829

# 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:

<u>Years Ending June 30,</u>	<u>2017</u>	<u>2016</u>
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 Rebateable Arbitrage Liability	(498,784)	(48,262)
TOTAL INVESTMENT INCOME	\$ 4,053,499	\$ 28,918,973

# 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>

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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

## PART VIII

### PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS

Part VIII of the 2017 Annual Report provides information about petroleum inspection fee revenue obligations issued by the State of Wisconsin (**State**) in the form of bonds. Selected information is provided in this introduction for the convenience of the readers; however, all information presented in Part VIII of the 2017 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2017)	\$55,130,000
Amount Outstanding of Fixed-Rate Obligations	55,130,000
Amount Outstanding of Variable-Rate Obligations	0
Percentage of Outstanding Obligations in the form of Variable-Rate Obligations	0%
Ratings <sup>(a)</sup> (Fitch/S&P)	
Senior Bonds	AA/AA
Authority	Program Resolution for State of Wisconsin Petroleum Inspection Fee Revenue Obligations, adopted by the Commission on January 19, 2000, as amended and restated, and Chapter 18 and Section 292.63(9m), Wisconsin Statutes.
Trustee/Paying Agent	The Bank of New York Mellon Trust Company, N.A. serves as Trustee, Registrar and Paying Agent for the Bonds.
Security	The Bonds are payable from, and secured by, the Petroleum Inspection Fees. Debt service payments on the Senior Bonds are payable from Petroleum Inspection Fees deposited into the Redemption Fund created for the Senior Bonds.
Audit Report and Financial Statement	<b>APPENDIX A</b> to this Part VIII of the 2017 Annual Report includes the auditor's report and the audited financial statement.
<sup>(a)</sup> The ratings presented are the ratings assigned to the petroleum inspection fee revenue obligations without regard to any bond insurance policy. No information is provided in the 2017 Annual Report about any rating assigned to any petroleum inspection fee revenue obligations based on any bond insurance policy.	

*Contact:* Capital Finance Office  
 Attn: Capital Finance Director  
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 101 East Wilson Street, FLR 10  
 P.O. Box 7864  
 Madison, WI 53707-7864  
*E-mail:* [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
*Web site:* [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

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. Requests for additional information about petroleum inspection fee revenue obligations may be directed to the Capital Finance Office. The law firms of Quarles & Brady LLP and Foley & Lardner LLP provided bond counsel services in connection with the issuance of petroleum inspection fee revenue obligations.

The 2017 Annual Report includes information and defined terms for different types of 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 “DEFINITIONS OF CERTAIN TERMS” for the definitions of capitalized terms used in this Part VIII 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 VIII 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 OBLIGATIONS

The State has issued petroleum inspection fee revenue obligations on the dates and in the amounts shown in Table VIII-1. The table also includes the outstanding principal balances of the petroleum inspection fee revenue obligations as of December 15, 2017.

**Table VIII-1**

### OUTSTANDING PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS 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>
<i>Fixed-Rate Obligations</i>				
2000- Series A .....	3/2/00			
Serial Bonds .....		2000	\$ 1,750,000	-0-
Serial Bonds .....		2002-12	168,500,000	-0-
2001- Series A .....	12/18/01	2007-08	30,000,000	-0-
2004- Series A.....	2/4/04	2005-12	45,000,000	-0-
Refunding Series 1.....	5/20/04	2006-12	95,470,000	-0-
2009- Refunding Series 1 .....	10/20/09	2013-17	117,460,000	-0-
2016- Refunding Series 1 (2016 Bonds).....	10/13/16	2017-19	62,445,000	\$ 55,130,000
<i>Total Fixed-Rate Obligations</i>				<u>\$ 55,130,000</u>
<i>Variable-Rate Obligations</i>				
2000- EMCP.....	5/9/00		\$ 80,000,000	-0-
2002- EMCP.....	8/1/02		62,300,000	-0-
<i>Total Variable-Rate Obligations</i>				<u>\$ -0-</u>
<i>Total Outstanding Petroleum Inspection Fee Revenue Obligations</i>				<u>\$ 55,130,000</u>

As summarized in Table VIII-1, the State previously issued Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper (EMCP) as Variable-Rate Bonds for this borrowing program, no EMCP is currently outstanding.

**Senior Bonds**, as defined in the Program Resolution for State of Wisconsin Petroleum Inspection Fee Revenue Obligations, adopted by the Commission on January 19, 2000, as amended and restated on May 2, 2000 and further amended on July 30, 2003 (**Program Resolution**), include the 2016 Bonds, interest payments on any Variable Rate Bonds designated as Senior Bonds, and any additional parity Bonds that may be issued as such under the Program Resolution. **Junior Subordinate Bonds**, as defined in the Program Resolution, include the principal payments on any Variable Rate Bonds designated as Junior Subordinate Bonds and any additional parity Bonds that may be issued as such under the Program Resolution. The term **Bonds** refers to all revenue obligations, without regard to seniority, that are issued under the Program Resolution and are payable in whole or in part from the Petroleum Inspection Fees. See “SECURITY”.

Table VIII-2 provides a historical view of the amount of outstanding obligations as of December 15<sup>th</sup> for the previous ten years.

**Table VIII-2**

**HISTORICAL OUTSTANDING PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS**

<b>Year (December 15)</b>	<b>Outstanding Senior Bonds</b>	<b>Outstanding EMCP</b>	<b>Total</b>
2007	\$110,020,000	\$142,300,000	\$252,320,000
2008	88,740,000	142,300,000	231,040,000
2009	117,460,000	71,150,000	188,610,000
2010	117,460,000	71,150,000	188,610,000
2011	117,460,000	71,150,000	188,610,000
2012	117,460,000	71,150,000	188,610,000
2013	93,295,000	71,150,000	164,445,000
2014	67,950,000	71,150,000	139,100,000
2015	41,410,000	71,150,000	112,560,000
2016	76,055,000	-0-	76,055,000

**FINANCING THE PECFA PROGRAM**

Bonds issued in the years 2000 through 2004 funded approved soil and groundwater remediation payments under the Petroleum Environmental Cleanup Fund Award (PECFA) Program, which is a petroleum storage remediation program. Bonds issued in the year 2009 provided for (1) the current refunding of certain Bonds previously issued by the State to fund such remediation payments and (2) the funding of a portion of the EMCP previously issued for the same purpose. Bonds issued in the year 2016 provided for the funding of all remaining EMCP.

In existence since 1987, the PECFA Program reimburses owners of petroleum storage tanks for 75% to 99% of remediation costs related to soil and groundwater contamination. Prior to the issuance of the Bonds, remediation payments approved under the PECFA Program were paid with Petroleum Inspection Fees as they were collected; however, the timing of the collections did not permit all remediation payments to be paid at the time they were presented and approved. When Bonds were first issued in March 2000, the backlog of approved but unpaid claims was about \$200 million. The issuance of the Bonds allowed the PECFA Program to make payments in a timely manner and provided economic savings to the State, since the debt service costs on the Bonds were less than the interest costs that accrued on the approved but unpaid remediation awards.

Effective July 1, 2013, the State of Wisconsin Department of Natural Resources (DNR) is responsible for the administration of the PECFA Program. This is the result of provisions in the 2013-15 biennial budget (2013 Wisconsin Act 20).

The 2015-17 biennial budget (2015 Wisconsin Act 55) statutorily sunset the eligibility of PECFA Program by requiring owners to provide notification of a potential claim by July 20, 2015 and submitting the claim for reimbursement by July 1, 2020, provided that such claim is made by the later of (i) 180 days after incurring the eligible costs, or (ii) February 1, 2016.

*As of the date of this Part VIII to the 2017 Annual Report, additional Bonds to fund soil and groundwater remediation costs under the PECFA Program could be issued only if legislation were enacted to authorize additional borrowing for that purpose. Additional Bonds may be issued without any additional legislative authority to refund Outstanding Bonds. See “SECURITY; Additional Bonds”.*

## SECURITY

The Bonds are payable from, and secured by, the Petroleum Inspection Fees. The Program Resolution also includes an additional bonds test, provisions for a Reserve Fund (which is currently not funded), and a nonimpairment pledge.

Proceeds of the Bonds are applied to purposes that do not generate revenues, and the application of proceeds of the Bonds *does not* create a source for the payment of the Bonds.

Debt service payments on the Senior Bonds are payable from Petroleum Inspection Fees deposited into the Redemption Fund created for the Senior Bonds. See “**PETROLEUM INSPECTION FEES**” and “**SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION**”.

*The petroleum inspection fee revenue obligations are revenue obligations of the State. The State is not generally liable for these obligations, and they are not a public debt of the State for any purpose whatsoever.*

### **Additional Bonds**

As of the date of the 2017 Annual Report, additional Bonds to fund soil and groundwater remediation payments under the PECFA Program could be issued only if legislation were enacted to authorize additional borrowing for that purpose. If this were to occur, additional Bonds could be issued for that purpose under the Program Resolution only if the additional bonds test were met, which requires that the Debt Service Coverage Ratio be at least 2.0. The **Debt Service Coverage Ratio** is the ratio of Projected Annual Revenues to Maximum Annual Debt Service.

Additional Bonds may be issued to refund Outstanding Bonds. In connection with the issuance of any Senior Refunding Bonds, the additional bonds test may instead be met if the State certifies that the issuance of the Senior Refunding Bonds will not increase Maximum Annual Debt Service.

Additional Bonds may be issued in various forms, including among others Variable Rate Bonds or Bond Anticipation Notes. Additional Bonds may be designated as Senior Bonds (on a parity with the outstanding Senior Bonds), as Subordinate Bonds, or as Junior Subordinate Bonds.

See “**SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION**” and “**DEFINITIONS OF CERTAIN TERMS**” for a complete description of the applicable additional bonds test and a definition of capitalized terms used for the additional bonds test.

### **Reserve Fund**

The Program Resolution creates a Reserve Fund, which is available if there is any deficiency in the Redemption Fund and is used solely for the payment when due of principal of and interest on the Senior Bonds and other parity obligations. The Reserve Fund Requirement is an amount equal to the greatest amount established by a supplemental resolution. No Reserve Fund Requirement has been established in any Supplemental Resolution authorizing the previously issued Senior Bonds, and there is no money in the Reserve Fund.

### **Debt Service on Outstanding Senior Bonds**

Table VIII-3 shows the annual debt service amounts on Outstanding Senior Bonds. Table VIII-3 also shows the projected Petroleum Inspection Fees and estimated debt service coverage. The projected Petroleum Inspection Fees are based on the average of Petroleum Inspection Fees for the past five years. See “**PETROLEUM INSPECTION FEES**”.

Table VIII-3

**ANNUAL DEBT SERVICE AMOUNTS  
OUTSTANDING SENIOR BONDS  
(As of December 15, 2017)**

<b>Year Ending (July 1)</b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Annual Debt Service</u></b>	<b>Projected Petroleum Inspection Fees<sup>(a)</sup></b>	<b>Estimated Debt Service Coverage</b>
2018	\$27,935,000	\$2,205,200	\$30,140,200	\$74,923,204	2.49
2019	<u>27,195,000</u>	<u>1,087,800</u>	<u>28,282,800</u>	74,923,204	2.65
Total	\$55,130,000	\$3,293,000	\$58,423,000		

<sup>(a)</sup> The projected Petroleum Inspection Fees are based solely on the average of collected Petroleum Inspection Fees for the past five fiscal years. See **“PETROLEUM INSPECTION FEES”**.

**Source: Departments of Administration, Natural Resources and Revenue.**

**Nonimpairment Clause**

The State pledges and agrees with the Holders of the Bonds that the State will not limit or alter the ability of the State to fulfill the terms of its agreements (made in the Program Resolution or with respect to the Bonds) with the Holders of Bonds or impair the rights and remedies of the Holders of the Bonds, while the Bonds are Outstanding. See **“RISK FACTORS; Potential Future Reduction of Petroleum Inspection Fees”**.

**Moral Obligation**

In the legislation authorizing the petroleum inspection fee revenue obligations, the Legislature, recognizing its moral obligation to do so, expressed its expectation and aspiration that, if the Legislature were to reduce the rate of the Petroleum Inspection Fee (which has happened) and if the Petroleum Inspection Fees were insufficient to pay debt service on the Bonds when due (which has not happened), the Legislature would make an appropriation from the general fund sufficient to pay such debt service. The Legislature reduced the rate of the Petroleum Inspection Fee on April 1, 2006 to \$0.02 per gallon from \$0.03 per gallon. Both before and after this reduction, Petroleum Inspection Fees have been sufficient to pay debt service on the Bonds when due.

The Legislature’s expression of its expectation and aspiration is not a legally enforceable obligation. See **“RISK FACTORS; Nature of Moral Obligation”**.

**PETROLEUM INSPECTION FEES**

**General**

Petroleum Inspection Fees are paid by suppliers of specified petroleum products distributed in the State. The current rate of the Petroleum Inspection Fee is \$0.02 per gallon. The petroleum products include:

- Gasoline products, which include gasoline and gasoline-alcohol fuel blends.
- Oil products, which include fuel oil, burner oil, diesel fuel oil, kerosene, used motor oil, and other refined oils.

Nonpetroleum fuel products such as natural gas and liquefied propane are not subject to the Petroleum Inspection Fee. The Petroleum Inspection Fee is also not imposed on petroleum products that are shipped from storage at a refinery, marine terminal, pipeline terminal, pipeline tank farm or place of manufacture to a person for storage at another refinery, marine terminal, pipeline terminal, pipeline tank farm or place of manufacture, or petroleum products exported from the State.

## Collection and Deposit

The Petroleum Inspection Fees and other motor fuel taxes paid by suppliers are received by the State of Wisconsin Department of Revenue (**Department of Revenue**) by the 15<sup>th</sup> day of each month, or the next business day if the 15<sup>th</sup> day falls on a weekend or holiday. The payment is for both Petroleum Inspection Fees and motor fuel taxes due from the suppliers for activity during the previous month. At the time the fees are remitted, the Petroleum Inspection Fees are not separated from the other motor fuel taxes. The allocation is not known until the tax returns evidencing the payments are processed, usually within 30 to 35 days after receipt of the fees and taxes.

As an example, by about December 15<sup>th</sup>, suppliers submit the amount of fees and taxes due for petroleum products shipped in the month of November. By the end of December, suppliers submit tax returns delineating the payments previously made. By about the next January 20<sup>th</sup>, the Department of Revenue processes the tax returns.

Due to a period of about 30 to 35 days between receipt of the combined fees and taxes and tabulation of the returns reporting such fees and taxes, the Department of Revenue will transfer to the Trustee on the Revenue Payment Date a base monthly transfer amount, based on prior collections, adjusted upward or downward to reflect the tabulations from the previous month's returns. The amount of this base monthly transfer may be changed from time to time to reflect actual collection experience.

The Department of Revenue has various enforcement powers relating to the collection of Petroleum Inspection Fees, including the ability to revoke suppliers' licenses, to impose penalties, to assess interest on late payments, and to enforce criminal penalties for the failure to report or pay Petroleum Inspection Fees. The Wisconsin Statutes establish the State as a preferred creditor and the fees as preferred claims in any State court action.

## History of Petroleum Inspection Fees

**Table VIII-4** shows the number of gallons of petroleum products that have been inspected and were subject to the Petroleum Inspection Fee for the fiscal years 2008 through 2017. **Table VIII-5** shows the number of gallons of gasoline and oil products that have been inspected for each of the same fiscal years. The timing of when monthly tax returns are filed, especially those of large filers, may impact the number of gallons that have been inspected in any given annual period.



**Table VIII-4**  
**TOTAL GALLONS OF PETROLEUM PRODUCTS INSPECTED AND SUBJECT TO**  
**PETROLEUM INSPECTION FEE**  
**(Actual Basis)**

<u>Fiscal Year</u>	<u>Total Gallons Inspected</u>	<u>% Increase (Decrease) from Previous Year</u>
2008	3,787,317,968	(0.31)
2009	3,727,415,844	(1.58)
2010	3,560,835,953	(4.47)
2011	3,708,194,660	4.14
2012	3,677,927,822	(0.82)
2013 <sup>(a)</sup>	3,699,175,334	0.58
2014	3,392,388,870	(8.29)
2015 <sup>(b)</sup>	4,061,698,396	19.73
2016 <sup>(b)</sup>	3,791,904,561	(6.64)
2017	3,845,242,200	1.41

(a) The number of gallons inspected for 2012-13 fiscal year was increased from the Continuing Disclosure Annual Report issued on December 27, 2013 (2013 Annual Report). The increase is the result of reports submitted to the Department of Revenue subsequent to the 2013 Annual Report.

(b) One large taxpayer missed 10 monthly payments in the 2013-14 fiscal year. Those 10 payments, plus the 2014-15 monthly payments, were recorded in the 2014-15 fiscal year. The average annual increase in total gallons inspected from the 2013-14 fiscal year to the 2015-16 fiscal year is calculated to be 1.59%.

**Source: Departments of Revenue and Natural Resources and the Legislative Fiscal Bureau.**

**Table VIII-5**  
**GALLONS INSPECTED PER PETROLEUM PRODUCT AND**  
**SUBJECT TO PETROLEUM INSPECTION FEE**  
**(Actual Basis)**

<u>Fiscal Year</u>	<u>Total Gallons of Gasoline Products Inspected</u>	<u>% Increase (Decrease) from Previous Year</u>	<u>Total Gallons of Oil Products Inspected</u>	<u>% Increase (Decrease) from Previous Year</u>
2007	2,565,931,969	1.00	1,233,686,473	3.58
2008	2,555,474,719	(0.41)	1,231,843,249	(0.15)
2009	2,587,677,085	1.26	1,139,738,759	(7.48)
2010	2,471,964,236	(4.47)	1,088,871,717	(4.46)
2011	2,548,765,808	3.11	1,159,428,852	6.48
2012	2,545,913,873	(0.11)	1,132,013,949	(2.36)
2013 <sup>(a)</sup>	2,564,622,632	0.73	1,134,552,702	0.22
2014	2,341,801,360	(8.69)	1,050,587,510	(7.40)
2015 <sup>(b)</sup>	2,776,126,199	18.55	1,285,572,197	22.37
2016 <sup>(b)</sup>	2,623,793,224	(5.49)	1,168,111,337	(9.14)
2017	2,680,813,268	2.17	1,164,428,932	(0.32)

(a) The number of gallons inspected for 2012-13 fiscal year was increased from the Continuing Disclosure Annual Report issued on December 27, 2013 (2013 Annual Report). The increase is the result of reports submitted to the Department of Revenue subsequent to the 2013 Annual Report.

(b) One large taxpayer missed 10 monthly payments in 2013-14 fiscal year. Those 10 payments plus the 2014-15 monthly payments were recorded in the 2014-15 fiscal year. The average annual increase in petroleum products inspected from the 2013-14 fiscal year to the 2015-16 fiscal year is calculated to be 1.46% for gasoline products and 1.94% for oil products.

**Source: Departments of Revenue and Natural Resources and the Legislative Fiscal Bureau.**



The total amount of Petroleum Inspection Fees collected for each of the last ten fiscal years is summarized in **Table VIII-6**. The annual percentage change in the amount of collected Petroleum Inspection Fees as shown in such table may not correlate to the annual percentage change in the number of gallons inspected in **Table VIII-4**. This is due to many reasons, including the following:

- (1) the collected Petroleum Inspection Fees are reported on a cash basis in all fiscal years, whereas the amount of inspected gallons is reported on an actual basis for all years, and
- (2) adjustments are made to, and refunds provided from, the collected Petroleum Inspection Fees.

**Table VIII-6**

**TOTAL PETROLEUM INSPECTION FEES**  
(Amounts in Millions; Cash Basis for All Years)

<u>Fiscal Year</u> <u>(June 30)</u>	<u>Total Fees</u>	<u>% Increase (Decrease)</u> <u>From Previous Year</u>
2008	\$76.6	1.35
2009	73.4	(4.18)
2010	72.5	(1.11)
2011	73.8	1.79
2012	74.3	0.70
2013	71.9	(3.23)
2014	71.2	(0.97)
2015 <sup>(a)</sup>	80.2	12.67
2016 <sup>(a)</sup>	74.6	(6.97)
2017	76.6	2.69

<sup>(a)</sup> One large taxpayer missed 10 monthly payments in 2013-14 fiscal year. Those 10 payments plus the 2014-15 monthly payments were recorded in the 2014-15 fiscal year. The average annual increase in total petroleum inspection fees from the 2013-14 fiscal year to the 2015-16 fiscal year is calculated to be 1.58%.

**Source: Wisconsin Legislative Audit Bureau.**

**Table VIII-7** shows the maximum, average, and minimum monthly amount of collected Petroleum Inspection Fees for each of the last 10 fiscal years. The maximum, average, and minimum monthly amounts in the table may not correlate to the annual amount of collected Petroleum Inspection Fees in **Table VIII-6**. This occurs because certain annual amounts are reported on an accrual basis, whereas the minimum, average, and maximum amounts are reported on a cash basis.

*Diminished usage of petroleum products would reduce the amount of collected Petroleum Inspection Fees. Usage may be affected, for example, by production of oil, prices for petroleum products, usage of alternate fuels, or need for fuels. See “**RISK FACTORS; Impact of General Economic Factors.**”*

Table VIII-7

**MAXIMUM, AVERAGE, AND MINIMUM MONTHLY COLLECTION  
PETROLEUM INSPECTION FEES  
(Amounts in Millions; Cash Basis)**

<b>Fiscal Year (June 30)</b>	<b>Maximum Monthly Amount</b>	<b>Average Monthly Amount</b>	<b>Minimum Monthly Amount</b>
2008	\$7.5	\$6.4	\$5.4
2009	7.3	6.1	4.9
2010	7.3	6.1	4.9
2011	8.3	6.2	4.2
2012	8.4	6.2	3.0
2013	7.8	6.0	4.6
2014	8.4	5.9	3.0
2015	14.8	6.8	3.5
2016	9.0	6.2	4.1
2017	7.9	6.4	5.2

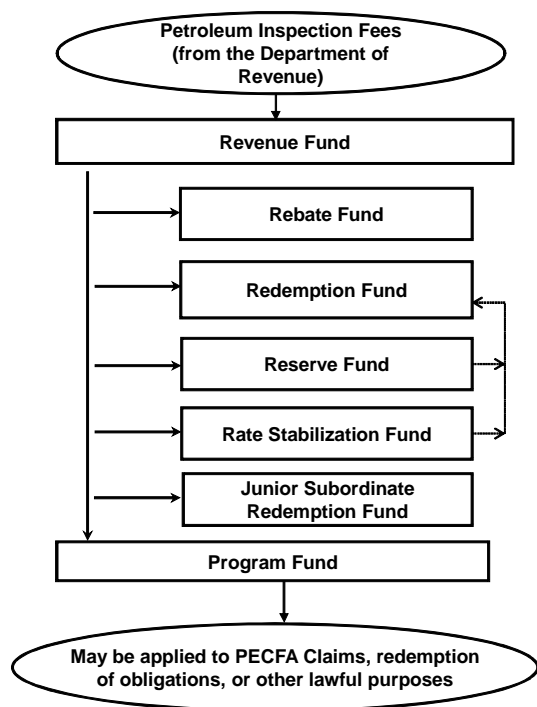
**Source: Departments of Natural Resources and Revenue and Legislative Fiscal Bureau.**

**Application of Petroleum Inspection Fees**

Petroleum Inspection Fees received by the Trustee on each Revenue Payment Date in the Revenue Fund are deposited in the Funds and Accounts, and applied in the following order:

- To pay arbitrage rebate, if any, due on any Outstanding Bonds.
- To pay interest on all Outstanding Senior Bonds and other parity obligations.
- To pay the principal and redemption price, if any, of all Outstanding Senior Bonds, and other parity obligations, as the same become due.
- To maintain the Reserve Fund Requirement in the Reserve Fund; currently there is no Reserve Fund Requirement (and no balance in the Reserve Fund).
- To make any deposits, at the State’s discretion, into the Rate Stabilization Fund; currently no Rate Stabilization Fund exists.
- To make deposits, at the State’s discretion or if required, into the Junior Subordinate Redemption Fund.
- To pay any expenses payable from the Program Fund.

The following chart shows the flow of funds with respect to the Petroleum Inspection Fees.



The Program Resolution permits the issuance of Subordinate Bonds, which would have a pledge of Petroleum Inspection Fees that is subordinate to the pledge made for the Senior Bonds yet senior to the pledge made for the Junior Subordinate Bonds. As of the date of the 2017 Annual Report, only Senior Bonds are currently outstanding.

The pledge of the Petroleum Inspection Fees remains effective until all Bonds issued under the Program Resolution are fully paid in accordance with their terms, or payment is provided for in accordance with the Program Resolution. All Petroleum Inspection Fees deposited with the Trustee on each Revenue Payment Date in excess of the amounts required above are transferred at the direction of and to the State for deposit in the Petroleum Inspection Fund and become free of the pledge.

See **“SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION”** for further information on the required transfer of Petroleum Inspection Fees to these various Funds and Accounts.

## **RISK FACTORS**

### **Revenue Obligations**

The Bonds are limited obligations of the State, payable from and secured by the Petroleum Inspection Fees. No representation or assurance can be made that Petroleum Inspection Fees will be realized in amounts sufficient to pay principal of, and interest on, the Bonds when due. The Petroleum Inspection Fees and the other amounts held by the Trustee under the Program Resolution constitute the only property pledged to secure the payment of the Bonds. No physical collateral secures the payment of the Bonds. Moreover, in the event the amount of the Petroleum Inspection Fees is inadequate for payment of the Bonds, the Trustee cannot compel the State to impose taxes at a higher rate.

The amount of Petroleum Inspection Fees collected is expected to be sufficient to pay debt service on the Bonds. However, no assurance can be given that such expected results will in fact be achieved, nor can there be any assurance that the sufficiency of historic Petroleum Inspection Fees collections portends the sufficiency of future Petroleum Inspection Fees collections.

Neither the full faith and credit nor the taxing power of the State or any political subdivision of the State of Wisconsin will be pledged to the payment of the principal of, premium, if any, or interest on the Bonds.

### **Parity Debt**

Any Additional Senior Bonds issued in the future in respect to the lien on the Petroleum Inspection Fees under the Program Resolution would be entitled to share ratably with the holders of the 2016 Bonds in any moneys realized from the exercise of remedies under the Program Resolution in the event of a default.

At this time, any additional Bonds to fund remediation payments could only be issued if legislation was enacted to authorize additional bonding for that purpose; Petroleum Inspection Fees in excess of the amounts required to be held by the Trustee are currently sufficient to pay all PECFA claims approved for payment. Additional Bonds may be issued without legislation being enacted to refund Outstanding Bonds.

### **Impact of General Economic Factors**

The amount of Petroleum Inspection Fees collected depends on the economic activity related to petroleum products. A reduction in the sale of petroleum products in the State could lead to a reduction in the amount of Petroleum Inspection Fees collected. A combination of economic, climatic, political, or civil disruptions could affect the State's economy and result in reduced Petroleum Inspection Fees, including, in particular, general economic changes related to the energy industry, including, without limitation, fluctuations in the price of oil.

### **Concentration of Taxpayers**

The ten largest taxpayers paying Petroleum Inspection Fees comprise 94.0% of the Petroleum Inspection Fees collected in the 2016-17 fiscal year. If any of the large taxpayers were to cease operations or would be unable to pay its Petroleum Inspection Fees, the State could experience a significant reduction in Petroleum Inspection Fees collected. It is expected that, assuming no impact from other factors, a reduction in Petroleum Inspection Fees due to ceased operations of a large taxpayer would be a short-term situation as the need for the petroleum products would continue and be satisfied, and Petroleum Inspection Fees paid, by another taxpayer. One large taxpayer missed 10 monthly payments in the 2013-14 fiscal year, which were later recorded in the 2014-15 fiscal year.

### **Potential Future Reduction of Petroleum Inspection Fee; Legislative Decision-Making**

The Petroleum Inspection Fees may be reduced by Legislative decisions. The Legislature reduced the rate of the Petroleum Inspection Fee on April 1, 2006 to \$0.02 per gallon from \$0.03 per gallon. Legislative decisions, such as reducing the Petroleum Inspection Fee, may be influenced by many factors. While under the Program Resolution the State has pledged and agreed that the State will not limit or alter

the ability of the State to fulfill the terms of its agreements with respect to the Bonds or impair the rights and remedies of holders of the Bonds, no guarantee can be made that the Legislature will not further reduce the Petroleum Inspection Fee. The Secretary of Administration believes that failure to make payments of the principal of, and premium, if any, and interest on, any of the Bonds might hinder the State's subsequent access to the capital markets; however, it should not be assumed that the Legislature would regard that possible consequence to be a compelling reason to appropriate the money needed for those payments.

Future occurrences could adversely affect legislative support for the current level of the Petroleum Inspection Fee. Further, political factors may also come to bear on such fee.

### **Nature of Moral Obligation**

In the Act, the Legislature, recognizing its moral obligation to do so, expressed its expectation and aspiration that, if the Legislature were to reduce the rate of the Petroleum Inspection Fee and if the Petroleum Inspection Fees were insufficient to pay debt service on the Bonds when due, the Legislature would make an appropriation from the general fund sufficient to pay such debt service; however, the recognition of a moral obligation does not create a legally enforceable obligation.

### **Tax Exemption**

There are or may be pending in the Congress of the United States legislative proposals relating to the federal tax treatment of interest on obligations of the nature of the Bonds. The State cannot predict whether and in what form any such proposal might be enacted or how such proposals, if enacted, would apply to the Bonds. A change in the federal tax status of the Bonds may cause the value of the Bonds to fall. In addition, interest on the Bonds could become includible in gross income for federal income tax purposes as a result of future acts or omissions of the State.

## **SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION**

Certain provisions of the Program Resolution are summarized below. Reference should be made to the complete Program Resolution for a full and complete statement of its provisions. A copy of the Program Resolution may be obtained by contacting the State at the address provided on the [initial page of Part VIII of the 2017 Annual Report](#).

Under existing statutory authority as of the date of the 2017 Annual Report, no additional Bonds may be issued to fund remediation payments under the PECFA Program; however, additional Bonds may be issued without statutory authority to refund Outstanding Bonds.

The Program Resolution provides for a Reserve Fund and a Rate Stabilization Fund, and for the State to obtain Credit Enhancement Facilities and enter into swap agreements with respect to the Bonds. *As of the date of this Part VIII to the 2017 Annual Report, there is no Reserve Fund Requirement (and no balance in the Reserve Fund), there is no balance in the Rate Stabilization Fund, and no Credit Enhancement Facilities or Swap Agreements are in effect.*

### **Additional Bonds**

The Program Resolution provides that the State may issue additional Bonds, upon compliance with certain conditions, including, in some instances, meeting the additional bonds test. In the case of Bond Anticipation Notes, the 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. These conditions include the following:

- Immediately after issuance, there cannot be a deficiency in the Reserve Fund.
- The State must certify that it is not in default in the performance of any of its covenants and agreements in the Program Resolution (unless an opinion of Independent Counsel is given that the default does not deprive any Beneficial Owner in any material respect of security given by the Program Resolution).

- Except with respect to the issuance of Refunding Bonds issued to fund Bond Anticipation Notes that are also Bonds, the State must certify that, as of the date of issuance of the Bonds, the Debt Service Coverage Ratio will be at least 2 to 1; *provided*, that in connection with the issuance of Refunding Bonds, the State may instead certify that the issuance of the Refunding Bonds will not increase Maximum Annual Debt Service.

For this purpose:

“*Debt Service*” means the aggregate 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); *provided*, however, that for purposes of calculating such amount:

- 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 the Projected Interest Rate (which is The Bond Buyer Revenue Bond Index, plus 3% per annum, so long as the index is published).
- 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 Bond Anticipation Notes, bearing interest at the Projected Interest Rate and maturing according to such amortization schedule as the State may determine; *provided*, that the final maturity must not be later than 20 years from the original issuance of the Bond Anticipation Notes.
- 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 Trustee (including, without limitation, amounts in an Escrow Account established in the Redemption Fund or amounts in the Capitalized Interest Account of the Proceeds Fund).
- 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 Certificate provided to the Trustee with respect to such Swap Agreement or Credit Enhancement Facility.
- For purposes of applying the additional bonds test 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.
- Except to the extent provided in a Supplemental Resolution adopted to provide for the issuance of Subordinate or Junior Subordinate Bonds, with respect to the determination of Debt Service for purposes of limitations relating to Subordinate or Junior Subordinate Bonds or Subordinate or Junior Subordinate Other Obligations, debt service payments with respect to Subordinate or Junior Subordinate Bonds and Subordinate or Junior Subordinate Other Obligations shall not be taken into account.

“*Debt Service Coverage Ratio*” means the ratio of Projected Annual Revenues to Maximum Annual Debt Service.

“*Projected Annual Revenues*” means the largest amount of Petroleum Inspection Fees collected in any twelve consecutive months during the eighteen most recent months for which such information is available. If legislation changes the rate of the Petroleum Inspection Fee, “Projected Annual Revenues” shall be adjusted to take such change into account.

## **Variable Rate Take-Out Capacity Test**

On each Monthly Reporting Date while any Variable Rate Debt is Outstanding, the State shall provide to the Trustee a State Certificate setting forth the Variable Rate Take-Out Capacity and the Variable Rate Debt Exposure based on the most current available information. If the Variable Rate Take-Out Capacity is less than the Variable Rate Debt Exposure, the State agrees (1) to promptly notify the Rating Agencies of such fact and (2) to submit to the Trustee and each Rating Agency, no later than 45 days after such Monthly Reporting Date, a plan to cause the Variable Rate Take-Out Capacity to exceed the Variable Rate Debt Exposure by the third Monthly Reporting Date following the Monthly Reporting Date that made the notification and plan necessary.

For this purpose:

*“Debt Service”* shall be calculated consistently with the provisions set forth above with respect to the additional bonds test.

*“Monthly Reporting Date”* means, in each month, a date on or before the 15<sup>th</sup> day of the month, as selected by an Authorized Commission Representative.

*“Projected Monthly Revenues”* means the average of the Petroleum Inspection Fees collected in each of the 12 most recent months for which such information is available; *provided*, that if the rate of the Petroleum Inspection Fee that will be in effect for any future month will be higher or lower than the rate of Petroleum Inspection Fee in effect for any corresponding prior month, *“Projected Monthly Revenues”* shall be adjusted to take such change into account.

*“Senior Bond Anticipation Notes”* includes all Bond Anticipation Notes for which the funding Bonds have been authorized as Senior Bonds.

*“Variable Rate Debt”* includes Bonds the interest rate on which is not fixed for their entire remaining term to maturity, all Senior Bond Anticipation Notes, and all Bonds with respect to which the State has entered into interest rate exchange agreements that have the effect of shifting the State’s fixed rate liability to a variable rate liability.

*“Variable Rate Take-Out Capacity”* means an amount equal to the present value of the net revenue stream that would be available after the collection of 50% of the Projected Monthly Revenues in each of the 240 succeeding months and the payment of Debt Service due in each such month with respect to all Outstanding Senior Bonds which do not constitute Variable Rate Debt (assuming the receipt of revenues and the payment of Debt Service on the first day of the month), discounted (on the basis of a 360-day year consisting of twelve 30-day months, and semi-annual compounding) using a discount rate equal to the Projected Interest Rate.

*“Variable Rate Debt Exposure”* means the difference, if any, of (1) the actual aggregate Outstanding principal amount of Variable Rate Debt, less (2) the sum of (a) the balance in the Principal Account in the Redemption Fund allocable to Variable Rate Debt, plus (b) the balance of the Rate Stabilization Fund established under the Program Resolution.

## **Funds and Accounts**

The Program Resolution establishes the following Funds and Accounts:

- Proceeds Fund (and within it a Capitalized Interest Account, an Issuance and Administrative Account, and a Claims Account)
- Revenue Fund
- Rebate Fund
- Redemption Fund (and within it an Interest Account and a Principal Account)
- Reserve Fund
- Rate Stabilization Fund
- Junior Subordinate Redemption Fund (and within it a Junior Subordinate Principal Account)

- Program Fund (and within it a Program Expense Account)

### **Proceeds Fund**

Upon the delivery of any series of Bonds, the Trustee will credit to the Proceeds Fund the amount specified in the Supplemental Resolution authorizing the issuance of the Bonds. The amounts, if any, so designated in the Supplemental Resolution will be credited to the Capitalized Interest Account and the Issuance and Administrative Account, respectively, and the remainder will be credited to the Claims Account.

Moneys in the Capitalized Interest Account will be applied only for the payment of interest on the Senior Bonds. Moneys in the Issuance and Administrative Account will be applied to the payment of costs of issuance of the Bonds and administrative expenses. Moneys in the Claims Account will be applied to costs of the petroleum storage remedial action program.

### **Revenue Fund**

The Trustee will credit all Petroleum Inspection Fees received from the Department of Revenue to the Revenue Fund. On each Revenue Payment Date, the Trustee will transfer the money so credited, as follows:

- *First*, to the Rebate Fund.
- *Second*, to the Interest Account for the payment of interest on Senior Bonds or Senior Other Obligations payable therefrom.
- *Third*, to the Principal Account for the payment of principal of Senior Bonds or the payment of Senior Other Obligations payable therefrom.
- *Fourth*, to the Reserve Fund, if necessary to increase the balance to the Reserve Fund Requirement.
- *Fifth*, to the Rate Stabilization Fund, if directed by the State.
- *Sixth*, to the Junior Subordinate Principal Account within the Junior Subordinate Redemption Fund for the payment of principal of Junior Subordinate Bonds or the payment of Junior Subordinate Other Obligations payable therefrom.
- *Seventh*, to the Program Fund. If the Commission creates Funds and Accounts for Bonds or Other Obligations subordinate to the Junior Subordinate Bonds, it may apply money to Funds and Accounts established for those obligations before applying the money to the Program Fund.

The Program Resolution permits the issuance of Subordinate Bonds, which would have a pledge of Petroleum Inspection Fees that is subordinate to the pledge provided the Senior Bonds yet senior to the pledge provided the Junior Subordinate Bonds. If Subordinate Bonds are issued, then a Subordinate Redemption Fund will, and a Subordinate Reserve Fund may, be created.

### **Rebate Fund**

The State will periodically determine, for each issue of Bonds, the arbitrage rebate liability under federal tax law. The State may specify an amount that should be held in the Rebate Account for arbitrage rebate payments. If the Trustee is furnished with a written opinion of Bond Counsel to the effect that amounts held in the Rebate Fund are not needed to make arbitrage rebate payments, then those amounts will be transferred to the Interest 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.

#### *Interest Account*

The Trustee will credit to the Interest Account any premium or accrued interest paid as part of the purchase price for a series of Senior Bonds. The Trustee will also deposit in the Interest Account:



- The portion of the sale proceeds from the State's borrowings to be used to pay interest on the Senior Bonds (unless those proceeds are deposited into an Escrow Account).
- All Counterparty Swap Payments with respect to Senior Bonds.
- All investment earnings from money in the Redemption Fund (unless they are required to be in an Escrow Account), the Reserve Fund, the Rate Stabilization Fund, and the Junior Subordinate Redemption Fund.
- Amounts transferred, at the State's direction, from the Rate Stabilization Fund.
- Amounts transferred from the Rebate Fund.
- Other amounts required to be transferred thereto from the Funds and Accounts.

The Trustee will make periodic deposits to the credit of the Interest Account, at least 30 days before payment is due, of amounts determined or estimated to aggregate the full amount of each installment of interest which falls due upon Outstanding Senior Bonds on each regularly scheduled Interest Payment Date, and the reimbursement to all Credit Facility Providers for payments of interest on the Senior Bonds pursuant to Credit Enhancement Facilities.

If money in the Interest Account is insufficient when needed to pay the accrued interest due on the Senior Bonds, all State Swap Payments, and all reimbursements and fees payable to a Credit Facility Provider, or any portion of the purchase price of Senior Bonds to be purchased attributable to accrued interest, the Trustee will immediately deposit to the credit of the Interest Account an amount equal to such deficiency. Each deposit required to pay the foregoing amounts shall be made by transfer from the following Funds and Accounts, in the following order of priority: the Capitalized Interest Account, the Revenue Fund, the Rate Stabilization Fund, the Reserve Fund, and the Principal Account.

If money in the Interest Account is insufficient when needed to pay amounts payable therefrom, the money shall be applied, *pro rata*, among such obligations based upon such amounts then owing to Beneficiaries and to be paid from the Interest Account.

#### *Principal Account*

With respect to each series of Senior Bonds, the Trustee will deposit to the credit of the Principal Account:

- The portion of the sale proceeds from the State's borrowings to be used to pay principal of the Senior Bonds on a Principal Payment Date (unless those proceeds are deposited into an Escrow Account).
- Amounts transferred, at the State's direction, from the Rate Stabilization Fund or the Program Fund.
- Amounts required to be transferred thereto from the Revenue Fund, the Rate Stabilization Fund, and the Reserve Fund.

To provide for the payment of each installment of principal which falls due upon Senior Serial Bonds (other than certain Bond Anticipation Notes) at the stated maturity thereof or Senior Term Bonds on a Sinking Fund Payment Date therefor, the Trustee will make periodic deposits, to aggregate the full amount of such installment at least 30 days before such payment is due. To provide for the payment of the redemption price of Senior Bonds to be redeemed on any other Redemption Date, the Trustee shall make deposits, as directed by a Supplemental Resolution or the State, to aggregate the full amount of such redemption price at least five days before such redemption price is due.

Money in the Principal Account will be applied to the payment of Senior Bonds on a Principal Payment Date or for the payment of reimbursements for amounts paid under a Senior Credit Enhancement Facility to pay principal of, and premium, if any, on Senior Bonds, to such payment when due.

Each deposit required to be made to the credit of the Principal Account shall be made by transfer from the following Funds and Accounts, in the following order of priority: the Revenue Fund, the Rate Stabilization Fund, and the Reserve Fund.

When the balance in the Principal Account is not sufficient to pay all amounts payable therefrom on such date, the amounts in the account will be applied in the following order of priority: *first*, to the Interest Account; and *second*, to the payment of Senior Bonds at their stated maturity or on a Redemption Date or the reimbursement of such payments made by a Senior Credit Facility Provider, *pro rata*, among such obligations based upon such amounts then owing to Beneficiaries.

Money in the Principal Account may also be applied to the purchase of Senior Bonds if no deficiencies exist at such time in the Interest Account, the Principal Account, 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.

### **Reserve Fund**

From the proceeds of any series of Bonds 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 a Supplemental Resolution providing for the issuance of a series of Bonds, such that upon issuance of such Senior Bonds, the balance in the Reserve Fund shall not be less than the Reserve Fund Requirement. *As of the date of this Part VIII of the 2017 Annual Report, there is no Reserve Fund Requirement.*

If on any Revenue Payment Date the balance in the Reserve Fund is less than the Reserve Fund Requirement, then the Trustee will transfer an amount equal to the deficiency from the Revenue Fund (to the extent not required for credit to the Rebate Fund or the Redemption Fund).

Money in the Reserve Fund will be applied solely for the payment when due of principal of, and interest on, the Senior Bonds and amounts owing under Senior Other Obligations. It will be so applied by transfer to the Redemption Fund, if the amounts therein and available in the Revenue Fund, the Capitalized Interest Account, and the Rate Stabilization Fund are insufficient to meet the amount required for deposit to the credit of the Redemption Fund at such time. Amounts in the Reserve Fund shall be applied, *first*, to the payment of interest on the Senior Bonds and the payment of Senior Other Obligations payable from the Interest Account and, *second*, to the payment of principal of the Senior Bonds and the payment of Senior Other Obligations payable from the Principal Account. On the stated maturity date or any Redemption Date of any Senior Bonds, amounts in the Reserve Fund shall, upon State Direction, be applied to the payment at maturity or redemption of all Outstanding Senior Bonds of a 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 the Reserve Fund below the Reserve Fund Requirement (calculated as though the Senior Bonds to be retired on such stated maturity date or Redemption Date were not Outstanding as of the date of such calculation). At any time when the aggregate of the amounts in the Redemption Fund, the Capitalized Interest Account, the Reserve Fund, and the Rate Stabilization Fund equals an amount sufficient and available to discharge and satisfy the obligations of the State with respect to all the Outstanding Senior Bonds and Senior Other Obligations and to make all deposits to the credit of the Rebate Fund required by the Program Resolution, all in the manner described in the Program Resolution, such amounts shall, upon State Direction, be so applied. If on any Revenue Payment Date the balance in the Reserve Fund exceeds the Reserve Fund Requirement, such excess shall, upon State Direction, be transferred to the Rate Stabilization Fund or the Program Fund.

### **Rate Stabilization Fund**

The Trustee will credit to the Rate Stabilization Fund such amounts as the State directs, from the Revenue Fund, from the Reserve Fund, or from the Program Fund.

On any date on which the balance in the Redemption Fund (after transfers thereto from the Revenue Fund and the Capitalized Interest Account) is not sufficient to pay all amounts payable therefrom on such date, the Trustee will transfer money in the Rate Stabilization Fund, as follows:

- *First*, to the Interest Account for the payment of interest on Senior Bonds or Other Senior Obligations payable therefrom; and
- *Second*, to the Principal Account for the payment of the principal of Senior Bonds or the payment of Other Senior Obligations payable therefrom.

In addition, the Trustee shall transfer from the Rate Stabilization Fund to the Interest Account or the Principal Account such amounts as the State directs. *As of the date of this Part VIII of the 2017 Annual Report, there is no balance in the Rate Stabilization Fund.*

### **Junior Subordinate Redemption Fund**

The Trustee, or another Fiduciary if directed by a Supplemental Resolution, shall deposit to the credit of the Junior Subordinate Principal Account that portion of the proceeds from the sale of the State's bonds, notes, or other evidences of indebtedness, if any, to be used to pay principal of the Junior Subordinate Bonds on a Principal Payment Date (unless those proceeds are deposited into an Escrow Account) or other funds provided by the State.

To provide for the payment of each installment of principal which falls due upon such series of Junior Subordinate Bonds prior to the due date, the Trustee shall make deposits from the Revenue Fund only as directed by a Supplemental Resolution or State Certificate.

The moneys in the Junior Subordinate Principal Account required for the payment of Junior Subordinate Bonds on the maturity date (after taking into account any authorized extension of maturity or any acceleration of maturity) shall be transferred to the Paying Agent for such series of Junior Subordinate Bonds and applied by the Paying Agent to such payment when due without further authorization or direction.

When the balance in the Junior Subordinate Principal Account is not sufficient to pay all amounts payable therefrom on such date, the Trustee shall make periodic deposits from the Revenue Fund, prior to making any deposits to the Program Fund, to aggregate the full amount due on such maturity date from such date to the date of payment, *pro rata*, among such obligations based upon such amounts then owing to Holders of the Junior Subordinate Bonds.

The Program Resolution may be amended to establish Funds and Accounts that are senior in priority to the Junior Subordinate Principal Account.

### **Program Fund**

Any amount in the Revenue Fund that is not required to be transferred to the Rebate Fund, the Redemption Fund, the Reserve Fund, the Rate Stabilization Fund, or any Fund created with respect to a Subordinate class of Bonds or Other Obligations will be transferred to the Program Fund.

Amounts that the State designates will be deposited in the Program Expense Account and will be disbursed for Bond issuance costs. Money in the Program Fund may be transferred to the Redemption Fund or the Junior Subordinate Redemption Fund, transferred to the Rate Stabilization Fund, or used for the purchase of Bonds. Money in the Program Fund may also be applied to any purpose permitted by law.

### **Investments**

Money in any Fund or Account may be invested in Permitted Investments that mature or are redeemable at the option of the holder before the money is needed for the purpose for which it is held.

### **Pledge and Security Interest**

The Commission has pledged the Petroleum Inspection Fees to the payment of the Bonds and Other Obligations. The Wisconsin Statutes create a security interest, for the benefit of the Holders of the Bonds and the Other Beneficiaries, in the Revenue Fund, the Redemption Fund, the Junior Subordinate Redemption Fund, the Reserve Fund, and the Rate Stabilization Fund.

## **Nonimpairment**

The Program Resolution and each Supplemental Resolution will constitute a contract with the Holders of the Bonds and the other Beneficiaries. 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 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 Obligations are fully discharged or provided for.

## **Rating**

The State covenants that it will, at all times Bonds are Outstanding, request at least one nationally recognized securities rating agency to maintain a rating on the Bonds.

## **Termination**

If the State pays the principal, premium, if any, and interest payable upon any Bond, then the Bond will no longer be entitled to any benefit under the Program Resolution. If all Bonds and Other Obligations are paid and all expenses of the Fiduciaries have been paid, or are deemed to be paid, then the pledge of the Petroleum Inspection Fees and the security interest in the Funds and Accounts will cease.

Any Outstanding Bond will be deemed to be paid when there shall have been deposited (in an Escrow Account) either moneys in an amount which, or Federal Securities, the principal of, and the interest on, which when due, and without any reinvestment thereof, will provide money sufficient to pay when due the principal of, and premium, if any, and interest due and to become due on, the Bond at or prior to the stated maturity thereof.

## **Events of Default**

If any of the following events occur, it constitutes an Event of Default:

- Default in the due and punctual payment of any interest on any Bond of the most senior class then Outstanding.
- Default 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 or a redemption date.
- Default by the State in its obligation to purchase any Bond of the most senior class then Outstanding (or Beneficial Ownership Interests in such a Bond) on a Tender Date.
- Default 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 on a parity with Bonds of the most senior class then Outstanding.
- Default in the performance of any of the State's obligations to transmit money to be credited to the Revenue Fund, the Rebate Fund, or the redemption fund established for the payment of Bonds of the most senior class then Outstanding as required by the Program Resolution and such default shall have continued for a period of 30 days.
- Default in the performance or observance of any other of the covenants, agreements, or conditions on the part of the State contained in the Program Resolution, or in the Senior Bonds, and such default shall have continued for a period of 30 days after written notice; *provided that*, except with respect to the State's arbitrage rebate covenants, if the default is such that it can be corrected, but not within such 30 days, it shall not constitute an Event of Default if corrective action is instituted by the State within such 30 days and is diligently pursued until the default is corrected.

## **Acceleration**

Whenever any Event of Default has occurred and is continuing, the Trustee may, and upon the written request of the Acting Beneficiaries Upon Default (and for this purpose the specified percentage shall be

25% of the aggregate Principal Amount of Outstanding Bonds of the pertinent class) the Trustee shall, by notice in writing delivered to the State, declare the principal of, and interest accrued on, all Bonds then Outstanding due and payable.

Before a judgment or decree for payment of the money due has been obtained by the Trustee, the Acting Beneficiaries Upon Default (and for this purpose, the specified percentage shall be a majority of the aggregate Principal Amount of Outstanding Bonds of the pertinent class) may rescind and annul such declaration and its consequences if there has been paid to or deposited with the Trustee by or for the account of the State, or provision satisfactory to the Trustee has been made for the payment of, a sum sufficient to pay:

- All overdue installments of interest on all Bonds of the most senior class Outstanding.
- The principal of (and premium, if any, on) any Bonds of the most senior class Outstanding which have become due otherwise than by such declaration of acceleration, together with interest thereon at the rate or rates borne by such Bonds.
- To the extent that payment of such interest is lawful, interest upon overdue installments of interest on the Bonds of the most senior class Outstanding at the rate or rates borne by such Bonds.
- All Other Obligations on a parity with Bonds of the most senior class Outstanding, which Other Obligations have become due other than as a direct result of such declaration of acceleration.
- All other sums required to be paid to satisfy the State's obligations to transmit money to be credited to the Revenue Fund, the Rebate Fund, and the redemption fund established for payment of Bonds of the most senior class Outstanding as required by the Program Resolution.
- All sums paid or advanced by the Trustee or any other Fiduciary under the Program Resolution and the reasonable compensation, expenses, disbursements, and advances of the Trustee or other Fiduciaries, their agents, and their counsel.

Similarly, before a judgment or decree for payment of the money due has been obtained by the Trustee, such Acting Beneficiaries Upon Default may rescind and annul such declaration and its consequences if all Events of Default, other than the nonpayment of the principal of Bonds of the most senior class Outstanding, or Other Obligations on a parity with Bonds of the most senior class Outstanding, which have become due solely by, or as a direct result of, such declaration of acceleration, have been cured or waived.

No rescission and annulment will affect any subsequent default or impair any right consequent thereon.

#### **Other Remedies; Rights of Beneficiaries**

If an Event of Default has occurred and is continuing, the Trustee may bring legal proceedings to collect money due or to enforce the covenants made by the State.

If an Event of Default has occurred and is continuing, and if it is requested so to do by the Acting Beneficiaries Upon Default (and for this purpose the specified percentage shall be a majority of the aggregate Principal Amount of Outstanding Bonds) or any Other Beneficiary and is indemnified, the Trustee will be obliged to exercise such of the rights and powers as the Trustee, being advised by its counsel, deems most expedient in the interests of the Beneficiaries; provided, however, that the Trustee shall have the right to decline to comply with any such request if the Trustee shall be 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.

If a default occurs under a Swap Agreement or a Credit Enhancement Facility, the Other Beneficiary may exercise such remedies as are provided therein.

Remedies are not exclusive, and delay in acting is not a waiver.

### **Application of Moneys**

All moneys received by the Trustee pursuant to any right given or action taken will, 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 (except that money received with respect to Credit Enhancement Facilities shall be applied only to the purposes for which such Credit Enhancement Facilities were provided, and shall be so applied prior to the application of other money):

- (1) In every case, 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 Junior Subordinate Bonds and Junior Subordinate Other Obligations.
- (2) Unless the principal of all the Outstanding Bonds of a particular class shall have become, or shall have been declared, due and payable, all such money will be applied to the payment to the Beneficiaries of all installments of principal and interest then due on the Bonds and all Other Obligations, and if the amount available is not sufficient to pay all such amounts in full, then to the payment ratably, in proportion to the amounts due, without regard to due date, to the Holders and to each Other Beneficiary, without any discrimination or preference (being applied first to interest and then to principal).
- (3) If the principal of all Outstanding Bonds of a particular class shall have become due or shall have been declared due and payable and such declaration has not been annulled and rescinded, all such moneys will be applied to the payment to the Beneficiaries of the principal and interest then due and unpaid upon the Bonds and all Other Obligations, 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, to the Persons entitled thereto without any discrimination or preference.
- (4) If the principal of all the Outstanding Bonds of a particular class shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled, then (subject to the provisions of clause (3) above, in the event that the principal of all the Outstanding Bonds shall later become or be declared due and payable) the money held by the Trustee hereunder will be applied in accordance with the provisions of clause (2) above.

Whenever money is to be applied by the Trustee as described above, the money will be applied by it at such time or times as the Trustee determines, having due regard to the amount of such money available and the likelihood of additional money becoming available in the future. Whenever the Trustee shall apply such funds, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposits with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

### **Limitation on Suits by Beneficiaries**

Except as may be permitted in a Supplemental Resolution with respect to an Other Beneficiary, no Holder of any Bond or Other Beneficiary shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Program Resolution or for the execution of any trust or for the appointment of a receiver or any other remedy unless all the following conditions apply:

- An Event of Default shall have occurred and be continuing.
- The Acting Beneficiaries Upon Default (and for this purpose the specified percentage shall be 25% of the aggregate Principal Amount of Outstanding Bonds) shall have made written request to the Trustee.
- Such Beneficiary or Beneficiaries shall have offered the Trustee indemnity.

- The Trustee shall have thereafter failed for a period of 60 days after the receipt of the request and indemnification, or refused, to exercise the powers granted under the Program Resolution or to institute such action, suit, or proceeding in its own name.
- No direction inconsistent with such written request shall have been given to the Trustee during such 60-day period by such Acting Beneficiaries Upon Default.

No one or more Holders of the Bonds or any Other Beneficiary shall have any right in any manner whatsoever to affect, disturb, or prejudice the security interest created in the Revenue Fund, the Redemption Fund, the Rate Stabilization Fund, the Reserve Fund, and the Junior Subordinate Redemption Fund or to enforce any right except in the manner provided in the Program Resolution. All proceedings at law or in equity shall be instituted, had, and maintained in the manner provided in the Program Resolution and for the benefit of the Holders of all Outstanding Senior Bonds and Other Beneficiaries under the Program Resolution as their interests may appear thereunder. The Acting Beneficiaries Upon Default may institute any suit, action, or proceeding permitted under the Program Resolution in their own names for the benefit of the Holders of all Outstanding Senior Bonds and Other Beneficiaries thereunder.

### **Supplemental Resolutions Without Holder Consent**

The Commission may, without the consent of, or notice to, the Beneficiaries, adopt Supplemental Resolutions as follows:

- To cure any formal defect, omission, inconsistency, or ambiguity in the Program Resolution; *provided* that no such action shall adversely affect the interests of the Beneficiaries who have not consented thereto.
- To add other covenants or agreements, or to surrender any right or power reserved or conferred upon the State, and which shall not adversely affect the interests of the Beneficiaries who have not consented thereto.
- To issue a particular series of Bonds or to enter into a Swap Agreement or to obtain a Credit Enhancement Facility and, in connection therewith, to establish provisions for making deposits to the Redemption Fund to provide for the payment of any Senior Bonds, or Other Obligations and to establish assumptions for computing the Debt Service obligations with respect thereto.
- To cause the Program Resolution to comply with the requirements of the Trust Indenture Act of 1939.
- 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.
- 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, and which shall not adversely affect the interests of the Beneficiaries who have not consented thereto.
- To provide for the creation of Funds or Accounts, to which amounts in the Revenue Fund may be credited on any Revenue Payment Date prior to transfer of such amounts to the Junior Subordinate Redemption Fund, but only after all transfers therefrom to the Rebate Fund, the Redemption Fund, the Reserve Fund, the Rate Stabilization Fund, or the creation of one or more subordinate classes of Bonds payable solely from Funds and Accounts created under that or another Supplemental Resolution; *provided* that no such subordinate class of Bonds or Other Obligations may be senior in any respect to any previously created class of Senior 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.
- 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.

- To modify, alter, amend, or supplement the Program Resolution in any other respect so long as each Rating Agency shall have confirmed that no outstanding ratings on any of the Outstanding Bonds will be reduced or withdrawn as a result of such modification, alteration, amendment, or supplement, as evidenced by written confirmations thereof delivered from each Rating Agency.

In connection with the adoption of any Supplemental Resolution without consent of the Holders of the Bonds, the Trustee must be given 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 be valid and binding upon the State in accordance with its terms, and will not adversely affect the exclusion of the interest payable on the Bonds from gross income of the Holders of the Bonds for federal income tax purposes pursuant to the Code.

### **Supplemental Resolutions With Holder Consent**

The Commission may, 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. No Supplemental Resolution, however, may permit any of the following:

- 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.
- 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.
- A reduction in the aggregate principal amount of Bonds the Holders of which are required to consent, or the elimination of a requirement that any Other Beneficiary consent, to any Supplemental Resolution without the consent of the Holders of all Bonds at the time Outstanding, and any Other Beneficiary which would be affected by the action to be taken.
- A modification of the rights, duties, or immunities of the Trustee or any Fiduciary without the written consent of the Trustee or Fiduciary.
- 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.

## **DEFINITIONS OF CERTAIN TERMS**

The following definitions apply to capitalized terms used in Part VIII of the 2016 Annual Report.

**2016 Bonds** means the \$62,445,000 State of Wisconsin Petroleum Inspection Fee Revenue Refunding Bonds, 2016 Series 1, issued on October 13, 2016.

**Account** means any of the accounts in the Funds.

**Acting Beneficiaries Upon Default** means:

- for purposes of the provisions of the Program Resolution concerning acceleration of maturity, the Holders of not less than the specified percentage 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

- 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 of the most senior class of any Bonds or Other Obligations of which are Outstanding and any Other Beneficiary of such class.

**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.

**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 Owner in connection with the optional or mandatory tender of Bonds on a Tender Date.

**Beneficiary** means any Holder of Bonds, 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. Unless specifically otherwise provided, 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, Subordinate, or Junior Subordinate, that are issued pursuant to the Program Resolution and payable, in whole or in part, from the Petroleum Inspection Fees and does not include Bond Anticipation Notes that are payable solely from the proceeds of Bonds authorized in a Supplemental Resolution.

**The Bond Buyer Revenue Bond Index** means the Revenue Bond Index as published by *The Bond Buyer*.

**Book-Entry System** means a book-entry system established and operated for the recordation of Beneficial Owners of Bonds.

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

**Business Day** or **business day** means, with respect to any series of Bonds, a day on which (a) banks located in the city in which the Principal Office of any Fiduciary with responsibilities for that series of Bonds is located are not required or authorized by law or executive order to close for business, and (b) the New York Stock Exchange is not closed; *provided* that a Supplemental Resolution may provide for a different meaning with respect to Bonds of any series issued pursuant thereto.

**Capitalized Interest Account** means the Capitalized Interest Account created within the Proceeds Fund by the Program Resolution.

**Claims Account** means the Claims Account created within the Proceeds Fund by the Program Resolution.

**Code** means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein 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.

**Counterparty Swap Payment** means a payment due to, or received by, the State from a Swap Counterparty pursuant to a Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement) and amounts received by the State under any related Swap Counterparty Guaranty.

**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 (but not necessarily principal due upon acceleration of maturity) or (2) a letter of credit, standby purchase agreement, or similar instrument 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 Service** means the aggregate 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); *provided*, however, that for purposes of calculating such amount:

- 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 the Projected Interest Rate.
- 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, bearing interest at the Projected Interest Rate and maturing according to such amortization schedule as the State may determine; *provided* that the final maturity must not be later than 20 years from the original issuance of the Bond Anticipation Notes.
- 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, without limitation, amounts in an Escrow Account established in the Redemption Fund or amounts in the Capitalized Interest Account of the Proceeds Fund).
- 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 Certificate provided to the Trustee with respect to such Swap Agreement or Credit Enhancement Facility.
- For purposes of applying the additional bonds test 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.

- Except to the extent provided in a Supplemental Resolution to provide for a subordinate class of Bonds or other obligations with respect to the determination of Debt Service for purposes of limitations relating to Subordinate or Junior Subordinate Bonds or Subordinate or Junior Subordinate Other Obligations, debt service payments with respect to Subordinate or Junior Subordinate Bonds and Subordinate or Junior Subordinate Other Obligations shall not be taken into account.

**Debt Service Coverage Ratio** means the ratio of Projected Annual Revenues to Maximum Annual Debt Service.

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

**Event of Default** means one of the events described as such in the Program Resolution.

**Federal Securities** means noncallable, direct obligations of the United States of America.

**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.

**Fiscal Year** means the annual period beginning on July 1<sup>st</sup> of each year and ending on June 30<sup>th</sup> of the following year.

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

**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, without limitation, 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, or with respect to opinions relating to the law of a country other than the United States of America, an Independent Person duly admitted to the practice of law in such country. Unless specifically otherwise provided, 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 Account** means the Interest Account created within the Redemption Fund by the Program Resolution.

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

**Issuance and Administrative Account** means the Issuance and Administrative Account created within the Proceeds Fund by the Program Resolution.

**Issuing Agent** means the 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.

**Junior Subordinate** means, (1) when used with respect to a Bond, a Bond of a series designated as such pursuant to 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 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 Supplemental Resolution pursuant to which such Swap Agreement is obtained by the State.

**Junior Subordinate Principal Account** means the Junior Subordinate Principal Account created within the Junior Subordinate Redemption Fund by the Program Resolution.

**Junior Subordinate Redemption Fund** means the Junior Subordinate Redemption Fund created under the Program Resolution.

**Maximum Annual Debt Service** means, as of the date of determination, the maximum annual Debt Service, as computed for the then current or any future Fiscal Year.

**Other Beneficiary** shall mean a Person who is a Beneficiary of an Other Obligation.

**Other Obligation** shall mean 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 at any given date, all Bonds which have been duly authenticated and delivered by the Registrar or Issuing Agent under the Program Resolution *except:*

- 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;
- Bonds deemed to be paid because their payment has been provided for;
- Bonds in lieu of which other Bonds have been authenticated;
- Bonds not surrendered for payment when due (unless the State shall default in the payment thereof); and
- 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 an agent of the State designated by or on behalf of the Building Commission to process payments to Holders of the Bonds.

**PECFA Program** means the Petroleum Environmental Cleanup Fund Award Program, which is a petroleum storage remediation program provided for in the Wisconsin Statutes.

**Permitted Investments** means any of the following:

- Direct obligations of the United States and of agencies of, and corporations wholly owned by, the United States, and direct obligations of federal land banks, federal home loan banks, central bank for cooperatives and banks for cooperatives, international bank for reconstruction and development, the international finance corporation, inter-American development bank, African development bank, and Asian development bank, in each case maturing within one year or less from the date of investment;
- Commercial paper maturing within one year or less from the date of investment and rated prime by the national credit office, if the issuing corporation has one or more long-term senior debt issues outstanding, each of which has one of the three highest ratings issued by Moody's Investors Service, Inc., S&P Global Ratings, or Fitch Ratings, Inc.;

- Certificates of deposit maturing within one year or less from the date of investment, issued by banks, credit unions, savings banks, or savings and loan associations located in the United States and having capital and surplus of at least \$40 million; and
- Any other investment permitted by law, so long as each Rating Agency shall have confirmed that no outstanding ratings on any of the Outstanding Unenhanced Bonds will be reduced or withdrawn as a result of such investment, as evidenced by written confirmations thereof delivered from each Rating Agency, or if no Unenhanced Bonds are then Outstanding, but Other Obligations are Outstanding, the Beneficiaries holding such Other Obligations consent to such investment, as evidenced in writing to the Trustee by each such Beneficiary.

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

**Petroleum Inspection Fees** means the fees imposed under Section 168.12 (1), Wisconsin Statutes, the payments under Section 292.63 (4) (h) 1m., Wisconsin Statutes, the payments under Section 292.63 (5) (a), Wisconsin Statutes, and the net recoveries under Section 292.63 (5) (c), Wisconsin Statutes.

**Petroleum Inspection Fund** means the separate nonlapsible trust fund created under Section 25.47, Wisconsin Statutes, which includes all the funds and accounts created under the Program Resolution and a separate fund held in the state treasury.

**Principal Account** means the Principal Account created within the Redemption Fund by the Program Resolution.

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

**Principal Office** means, with respect to any Fiduciary, the office which may be designated as such, from time to time, by the Fiduciary in writing to the State and (in the case of any Fiduciary which is not the Trustee) to the Trustee.

**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.

**Proceeds Fund** means the Proceeds Fund created under the Program Resolution.

**Program Expense Account** means the Program Expense Account created within the Program Fund by the Program Resolution.

**Program Fund** means the Program Fund created under the Program Resolution.

**Program Resolution** means the Program Resolution for State of Wisconsin Petroleum Inspection Fee Revenue Obligations, as adopted by the Building Commission on January 19, 2000, as amended and restated on May 2, 2000, and further amended by a resolution adopted by the Building Commission on July 30, 2003, together with any and all Supplemental Resolutions.

**Projected Annual Revenues** means the largest amount of Petroleum Inspection Fees collected in any twelve consecutive months during the eighteen most recent months for which such information is available; *provided* that if, as a result of legislation enacted prior to the time of determination, the rate of the Petroleum Inspection Fee for any future month will be higher or lower than the rate of Petroleum Inspection Fee in effect for any corresponding prior month, Projected Annual Revenues shall be adjusted to take such change into account.

**Projected Interest Rate** means the sum of the Bond Buyer Revenue Bond Index, as most recently compiled and published in *The Bond Buyer* as of the date of determination, plus 3% per annum, or if such

index is no longer published, Projected Interest Rate shall mean an interest rate determined in such alternate manner as the State may establish by State Certificate or Supplemental Resolution; *provided* that each Rating Agency shall have confirmed that no outstanding ratings on any of the Outstanding Unenhanced Bonds will be reduced or withdrawn as a result of the use of such alternate manner of determination, as evidenced by written confirmations thereof delivered from each Rating Agency, or if no Unenhanced Bonds are then Outstanding, but Other Obligations are Outstanding, the Beneficiaries holding such Other Obligations consent to the use of such alternate manner of determination, as evidenced in writing by each such Beneficiary.

**Rate Stabilization Fund** means the Rate Stabilization Fund created under the Program Resolution.

**Rating Agency** means, at any time, any nationally recognized securities rating agency that is then maintaining a rating on the Bonds at the request of the State. “*Rating Agency*” includes the successors and assigns of such agency.

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

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

**Redemption Fund** means the Redemption Fund created under 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 this Resolution or to fund Bond Anticipation Notes.

**Registrar** means the Secretary of Administration or an agent of the State designated by or on behalf of the Secretary of Administration to maintain the registration books for the Bonds.

**Reserve Fund** means the Reserve Fund created under the Program Resolution.

**Reserve Fund Requirement** means, at any time, an amount equal to the greatest amount established as such in any Supplemental Resolution, which may be expressed as a percentage of Outstanding Bonds, 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 under the Program Resolution.

**Revenue Obligations Act** means Subchapter II of Chapter 18, Wisconsin Statutes.

**Revenue Payment Date** shall mean each Business Day on which Petroleum Revenue Fees are received by the Trustee.

**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 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 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 Supplemental Resolution pursuant to which such Swap Agreement is obtained by the State.

**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 Swap Payment** shall mean 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 to provide for the creation of a subordinate class of Bonds or Other Obligations that is subordinate to Senior Bonds and prior to Junior Subordinate Bonds, (1) when used with respect to a Bond, a Bond of a series designated as such pursuant to 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 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 Supplemental Resolution pursuant to which such Swap Agreement is obtained by the State.

**Supplemental Resolution** means a resolution adopted by the Building Commission 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, as originally executed and as amended or supplemented, 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.

**Swap Counterparty Guaranty** means a guaranty in favor of the State given in connection with the execution and delivery of a Swap Agreement under the Program Resolution.

**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 that 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.

**Trustee** means the 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. The Bank of New York Mellon Trust Company, N.A. currently serves as the Trustee.

**Unenhanced Bond** means a Bond the payment of the principal of and interest on which is not provided for or secured by a Credit Enhancement Facility.

**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.

**Variable Rate Debt** (1) means all Senior Variable Rate Bonds and Senior Bond Anticipation Notes, and (2) includes any Principal Amount of Bonds with respect to which the State shall have entered into Senior Swap Agreements that have the effect of shifting the State's fixed rate liability to a variable rate liability.

**Variable Rate Debt Exposure** means the difference, if any, of (1) the actual aggregate Outstanding Principal Amount of Variable Rate Debt, less (2) the sum of the balance in the Principal Account allocable to Variable Rate Debt plus the balance of the Rate Stabilization Fund.



## **APPENDIX A**

### **AUDITED FINANCIAL STATEMENT**

This appendix sets forth the auditor's report and the audited financial statement for the Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2017 and June 30, 2016.

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

**Report 17-19**  
**November 2017**

# **Petroleum Inspection Fee Revenue Obligations Program**

**Fiscal Year 2016-17**

STATE OF WISCONSIN



Legislative Audit Bureau ■



**Report 17-19  
November 2017**

# **Petroleum Inspection Fee Revenue Obligations Program**

**Fiscal Year 2016-17**

## **Joint Legislative Audit Committee Members**

### Senate Members:

Robert Cowles, Co-chairperson  
Chris Kapenga  
Alberta Darling  
Kathleen Vinehout  
Mark Miller

### Assembly Members:

Samantha Kerkman, Co-chairperson  
John Macco  
John Nygren  
Melissa Sargent  
Terese Berceau

## LEGISLATIVE AUDIT BUREAU

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**State Auditor**  
Joe Chrisman

**Special Assistant to  
the State Auditor**  
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**Financial Audit  
Director**  
Sherry Haakenson

**Assistant Financial  
Audit Director**  
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**Team Leader**  
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**Publications and  
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The Bureau is a nonpartisan legislative service agency responsible for conducting financial audits and performance evaluations of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

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For more information, visit [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab).



Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703;  
[AskLAB@legis.wisconsin.gov](mailto:AskLAB@legis.wisconsin.gov); or (608) 266-2818.

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# STATE OF WISCONSIN | Legislative Audit Bureau

22 East Mifflin St., Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Joe Chrisman  
State Auditor

November 30, 2017

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

At the request of the Department of Natural Resources and the Department of Administration, and to help fulfill our audit responsibilities under s. 13.94, Wis. Stats., we have completed a financial audit of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the fiscal years ended June 30, 2017, and June 30, 2016. We have provided an unmodified audit opinion on the Statement of Changes in Program Assets, which is presented on a cash basis of accounting.

Under the program, the State was authorized to issue \$386.9 million in revenue obligations to provide financing for payment of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) program. As of June 30, 2017, a total of \$76.1 million in revenue bonds remained outstanding, which included \$62.4 million of revenue refunding bonds the State issued in October 2016 to fund outstanding commercial paper. It is expected that the outstanding revenue bonds will be repaid in fiscal year (FY) 2019-20.

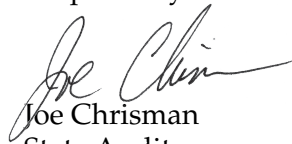
The revenue obligations are not general obligation debt of the State. Instead, they are to be repaid primarily from the \$0.02 per gallon fee charged to suppliers of petroleum products received for sale in Wisconsin. These fees, which are collected by the Department of Revenue, totaled \$76.6 million in FY 2016-17. Of this amount, \$31.2 million was retained by the program to pay principal and interest on outstanding obligations.

Revenue from the remaining fees of \$45.4 million was deposited in the Petroleum Inspection Fund. Of this amount, \$5.2 million was used to pay PECFA claims; \$29.0 million was transferred to other funds, including \$27.3 million to the Transportation Fund as required by 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act; and \$11.2 million was used for other purposes.

2015 Wisconsin Act 55 sunset the PECFA program. As of July 20, 2015, no new sites may be accepted into the program. All claims for reimbursement of cleanup costs must be submitted before July 1, 2020.

We appreciate the courtesy and cooperation extended to us during our audit by staff of the departments of Natural Resources, Administration, and Revenue.

Respectfully submitted,

  
Joe Chrisman  
State Auditor

JC/SH/ss





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## **Audit Opinion ■**

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## Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee

Mr. Daniel Meyer, Secretary  
Department of Natural Resources

Mr. Scott A. Neitzel, Secretary  
Department of Administration

### Report on the Financial Statements

We have audited the accompanying cash basis Statement of Changes in Program Assets and the related notes of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program as of and for the years ended June 30, 2017, and June 30, 2016.

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

Management of the program is responsible for the preparation and fair presentation of the Statement of Changes in Program Assets in accordance with the cash basis of accounting described in Note 2 to the financial statement. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the Statement of Changes in Program Assets 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*, which is 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the program's preparation and fair presentation of the financial statement 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 program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the Statement of Changes in Program Assets.

### **Opinion**

In our opinion, the Statement of Changes in Program Assets presents fairly, in all material respects, the Petroleum Inspection Fee Revenue Obligations Program's assets as of June 30, 2017, and June 30, 2016, and the program's receipts and disbursements for the years then ended in accordance with the cash basis of accounting described in Note 2 to the financial statement.

### **Emphases of Matter**

As discussed in Note 1 to the Statement of Changes in Program Assets, the financial statement presents only the Petroleum Inspection Fee Revenue Obligations Program and does not purport to, and does not, present fairly the financial position of the State of Wisconsin as of June 30, 2017, and June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended.

As discussed in Note 2 to the Statement of Changes in Program Assets, and in order to provide a meaningful presentation to the bondholders and noteholders regarding resources available to pay debt service, the program's policy is to prepare its financial statement on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to either of these matters.

### **Other Matter**

The Management's Discussion and Analysis on pages 9 through 12 is presented for the purposes of additional analysis and is not a required part of the financial statement. Such information has not been subjected to the auditing procedures applied in the audits of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2017, on our consideration of the program's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts;

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* and should be used when considering the program's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman  
State Auditor

November 21, 2017



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# Management's Discussion and Analysis ■

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## *Prepared by Management of the Petroleum Inspection Fee Revenue Obligations Program*

Management's Discussion and Analysis (MD&A) is intended to provide users of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program's Statement of Changes in Program Assets with a narrative overview of the statement, as well as an analysis of some key data presented in the statement. The MD&A should be read in conjunction with the accompanying financial statement and notes. The financial statement, notes, and this discussion are the responsibility of the program's management.

### **Overview of the Statement of Changes in Program Assets**

The Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program is intended to show the changes in the program's assets for fiscal year (FY) 2016-17 and FY 2015-16. Accounting for the program is done outside the State of Wisconsin's central accounting system.

The Statement of Changes in Program Assets presents the program's receipts and disbursements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Under the cash basis of accounting, receipts are reported when received and disbursements are reported when paid. The program's assets and activities are presented on the cash basis of accounting to provide a meaningful presentation to bondholders and extendible municipal commercial paper noteholders regarding resources available



to pay debt service. The notes to the financial statement provide additional information that is essential for a full understanding of the data provided in the financial statement.

### Noteworthy Financial Activity

The program originated in January 2000 pursuant to a State of Wisconsin Building Commission program resolution adopted on January 19, 2000, amended and restated on May 2, 2000, and further amended on July 30, 2003. The purpose of the program is to provide financing for the payment of claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program, which is accounted for in the Petroleum Inspection Fund. The Building Commission may, from time to time, adopt supplemental resolutions authorizing the issuance of revenue refunding obligations and, subject to legislative authorization, additional revenue obligations for the purpose for which the program was created.

The State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program is administered jointly by the Wisconsin Department of Natural Resources and the Wisconsin Department of Administration.

The program resolution establishes special trust funds and accounts, and establishes the fiduciary responsibilities that are to be undertaken by a trustee for the benefit of the bondholders, extendible municipal commercial paper noteholders, and holders of any other obligations that may be issued. The Bank of New York Mellon Trust Company N.A. has been appointed as the trustee for the revenue obligations. The trustee is responsible for maintaining the trust funds in accordance with the program resolution.

As shown in Table A, the program's assets were \$26.5 million as of June 30, 2017, \$30.1 million as of June 30, 2016, and \$30.7 million as of June 30, 2015.

Table A

#### Program Assets

	June 30, 2017	June 30, 2016	Percentage Change 2016 to 2017	June 30, 2015	Percentage Change 2015 to 2016
Restricted for Debt Service	\$26,431,751	\$30,071,234	(12.2)%	\$30,680,017	(2.0)%
Restricted for Other Purposes	88,811	3,008	2,852.5	3,000	0.3
<b>Total Program Assets</b>	<b>\$26,520,562</b>	<b>\$30,074,242</b>	<b>(11.8)</b>	<b>\$30,683,017</b>	<b>(2.0)</b>

Program assets restricted for debt service are available for the payment of principal and interest on revenue obligations and may be invested in direct obligations of the United States or held in demand deposit accounts. As of June 30, 2017, program assets including those restricted for debt service and other purposes, were split between investments and demand deposit accounts. As of June 30, 2016, and June 30, 2015, all program assets, including those restricted for debt service and for other purposes, were held in demand deposit accounts. As of June 30, 2017, June 30, 2016, and June 30, 2015, program assets restricted for debt service were primarily used to pay debt service payments scheduled for July 1, 2017, July 1, 2016, and July 1, 2015. These debt service payments included principal and interest due on outstanding petroleum inspection fee revenue refunding bonds.

The program's revenue obligations were issued pursuant to subch. II of ch. 18, Wis. Stats.; s. 292.63 (9m), Wis. Stats.; and the program resolution and supplemental resolutions adopted by the State of Wisconsin Building Commission. The revenue obligations are not general obligations of the State of Wisconsin. They are payable from, and primarily secured by, petroleum inspection fees charged to suppliers of petroleum products received for sale in Wisconsin. These fees are subsequently transferred to and received by the trustee. The fee amount imposed under s. 168.12 (1), Wis. Stats., has been \$0.02 per gallon since April 2006.

As of June 30, 2017, all statutorily authorized revenue obligations have been issued in the form of revenue bonds and extendible municipal commercial paper. Wisconsin Statutes had authorized the program to issue revenue obligations not to exceed \$386,924,000 in principal amount, excluding any obligations that have been defeased under a cash optimization program administered by the Building Commission. In addition to this limit on principal amount, the Building Commission may authorize the issuance of an unlimited amount of additional revenue obligations to fund or refund outstanding revenue obligations, pay issuance and administrative costs, make any necessary deposits to reserve funds, or pay accrued or capitalized interest.

On October 20, 2009, the State issued the 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds in the amount of \$117.5 million. On October 13, 2016, the State issued the 2016 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds in the amount of \$62.4 million. The first principal payment on this issue was scheduled for July 1, 2017. The proceeds of this issue were used, along with other funds on deposit with the trustee, to pay off all outstanding extendible municipal commercial paper. As of June 30, 2017, revenue obligations outstanding totaled \$76.1 million and consisted of \$13.6 million in 2009 series revenue bonds and \$62.4 million in 2016 series revenue bonds.

The debt service coverage ratio, calculated as the ratio of petroleum inspection fees remitted by the State to the trustee divided by the senior debt service payments made during each fiscal year, excluding amounts related to bond refundings, was 2.57 in FY 2016-17 and 2.55 in FY 2015-16. The FY 2016-17 debt service coverage ratio was calculated based on \$76,644,662 in petroleum inspection fees remitted by the State to the trustee, and senior debt service payments of \$29,791,193. In FY 2015-16,

the calculated ratio was based on \$74,638,566 in petroleum inspection fees remitted by the State to the trustee, and senior debt service payments of \$29,298,334.

Petroleum inspection fees not retained by the trustee for debt service and certain other costs are transferred from the trustee to the State. Petroleum inspection fee revenue, up to the amount authorized by statute, may be used to pay PECFA claims, PECFA administrative costs, and other costs and transfers, including optional transfers to the trustee for early redemption of revenue obligations. Petroleum inspection fees transferred to the State were \$45.4 million in FY 2016-17, \$45.9 million in FY 2015-16, and \$50.4 million in FY 2014-15, as shown in Table B.

Table B

**Petroleum Inspection Fees**

	FY 2016-17	FY 2015-16	Percentage Change FY 2015-16 to FY 2016-17	FY 2014-15	Percentage Change FY 2014-15 to FY 2015-16
Petroleum Inspection Fees Remitted by the State to the Trustee	\$76,644,662	\$74,638,566	2.7%	\$80,226,963	(7.0)%
Petroleum Inspection Fees Retained by the Trustee	31,262,922	28,744,220	8.8	29,824,161	(3.6)
<b>Petroleum Inspection Fees Transferred from the Trustee to the State</b>	<b>\$45,381,740</b>	<b>\$45,894,346</b>	<b>(1.1)</b>	<b>\$50,402,802</b>	<b>(8.9)</b>

During FY 2016-17, claims paid from the petroleum inspection fees transferred to the State totaled \$5.2 million, which is consistent with the \$5.2 million in claims paid from fees in FY 2015-16. No claims were paid from the proceeds of revenue obligations and any related interest and investment income during FY 2016-17, FY 2015-16, and FY 2014-15. All submitted claims had been reviewed and approved as of June 30, 2017.

A provision of 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, sunset the PECFA program. Landowners and others were required to notify the Department of Natural Resources of the potential for a PECFA cleanup site claim by July 20, 2015. All claims for reimbursement of cleanup costs must be submitted before July 1, 2020.



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## **Financial Statement ■**

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## Statement of Changes in Program Assets for the Fiscal Years Ended June 30, 2017, and June 30, 2016

	Fiscal Year 2016-17	Fiscal Year 2015-16
Program Assets, July 1	\$ 30,074,242	\$ 30,683,017
<b>RECEIPTS</b>		
Net Proceeds from Sale of Revenue Refunding Obligations	66,405,080	0
Petroleum Inspection Fees Remitted by the State of Wisconsin to the Trustee	\$ 76,644,662	74,638,566
Less: Petroleum Inspection Fees Transferred from the Trustee to the State of Wisconsin Petroleum Inspection Fund (see Note 7)	(45,381,740)	(45,894,346)
Petroleum Inspection Fees Retained by the Trustee	31,262,922	28,744,220
Interest and Investment Income	61,029	1,684
<b>Total Receipts</b>	<b>97,729,031</b>	<b>28,745,904</b>
<b>TOTAL PROGRAM ASSETS AVAILABLE</b>	<b>127,803,273</b>	<b>59,428,921</b>
<b>DISBURSEMENTS</b>		
Transfers of Proceeds from Sale of Revenue Obligations and Interest and Investment Income to the State of Wisconsin Petroleum Inspection Fund	0	0
Debt Service (see Notes 5 and 8):		
Senior Debt Service—Bond Principal	27,800,000	26,540,000
Senior Debt Service—Bond Interest	1,826,739	2,588,488
Senior Debt Service—Commercial Paper Interest	164,454	169,846
Total Senior Debt Service	29,791,193	29,298,334
Junior Subordinate Debt Service—Commercial Paper Principal	71,150,000	0
Total Debt Service	100,941,193	29,298,334
Debt Issuance Costs	176,372	0
Other Costs	165,146	56,345
<b>Total Disbursements</b>	<b>101,282,711</b>	<b>29,354,679</b>
Program Assets Restricted for:		
Debt Service (see Note 4)	26,431,751	30,071,234
Other Purposes (see Note 4)	88,811	3,008
<b>PROGRAM ASSETS, JUNE 30</b>	<b>\$ 26,520,562</b>	<b>\$ 30,074,242</b>

The accompanying notes are an integral part of this statement.



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# Notes to the Statement of Changes in Program Assets ■

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## 1. DESCRIPTION OF THE PROGRAM

The State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program originated in January 2000, pursuant to the State of Wisconsin Building Commission Program Resolution for State of Wisconsin Petroleum Inspection Fee Revenue Obligations adopted on January 19, 2000, amended and restated on May 2, 2000, and further amended on July 30, 2003. The purpose of the program is to provide financing for the payment of claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. The program is administered jointly by the Wisconsin Department of Natural Resources and the Wisconsin Department of Administration.

Pursuant to the program resolution, the Building Commission may occasionally adopt supplemental resolutions authorizing the issuance of revenue obligations up to the aggregate amount authorized by Wisconsin Statutes. As of June 30, 2017, all statutorily authorized revenue obligations have been issued. In addition, the Building Commission may occasionally adopt supplemental resolutions authorizing the issuance of an unlimited amount of revenue refunding obligations.

The program resolution establishes special trust funds and accounts, and establishes the fiduciary responsibilities that are to be undertaken by a trustee for the benefit of the bondholders and holders of any other obligations that may be issued. The Bank of New York Mellon Trust Company N.A. has been appointed as the trustee for the revenue obligations. The trustee is responsible for maintaining the trust funds in accordance with the program resolution, which requires investments of trust fund balances to



be in accordance with directives established by the program resolution. The Bank of New York Mellon Trust Company N.A. is also the registrar for the revenue obligations.

The Bank of New York Mellon Trust Company N.A. is the issuing and paying agent for the revenue bonds. U.S. Bank National Association was the issuing and paying agent for the extendible municipal commercial paper.

When issued, proceeds from revenue bonds and extendible municipal commercial paper proceeds are held by the trustee until the Department of Natural Resources and the Department of Administration request the specific amounts be remitted to the State to pay PECFA claims. Petroleum inspection fee revenue obligations are payable from, and primarily secured by, petroleum inspection fees that result from a \$0.02 per gallon fee authorized in s. 168.12 (1), Wis. Stats., and imposed on suppliers of petroleum products received for sale in Wisconsin. Petroleum inspection fees are paid monthly by suppliers to the Wisconsin Department of Revenue, which subsequently forwards them to the program's trustee.

All revenues and assets of the Petroleum Inspection Fee Revenue Obligations Program are initially restricted for the purposes provided by the program resolution under which the revenue obligations are issued. The fees in excess of the amounts needed to meet debt service requirements and pay program administrative costs are transferred from the trustee to the State of Wisconsin Petroleum Inspection Fund. Subject to appropriation, the State uses the transferred fees to pay PECFA claims, PECFA program administrative costs, and other costs and transfers. In addition, an appropriation exists for the optional transfer of excess petroleum inspection fees to the trustee for early redemption of revenue obligations.

The Statement of Changes in Program Assets presents only the Petroleum Inspection Fee Revenue Obligations Program and is not intended to present fairly the financial activity of the State of Wisconsin.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Statement of Changes in Program Assets presents the Petroleum Inspection Fee Revenue Obligations Program's receipts and disbursements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Under the cash basis of accounting, receipts are reported when received and disbursements are reported when paid. The program's assets may include cash, consisting of demand deposits held by the Bank of New York Mellon Trust Company N.A. and U.S. Bank National Association, and investments valued at historical cost. The program's assets and activities are presented on the cash basis of accounting to provide a meaningful presentation to bondholders and

extendible municipal commercial paper noteholders regarding resources available to pay debt service.

### 3. DEPOSITS AND INVESTMENTS

The program is authorized by Wisconsin Statutes and the program resolution to deposit funds with the trustee and the extendible municipal commercial paper issuing and paying agent. The program is also authorized by Wisconsin Statutes and the program resolution to invest funds restricted for debt service in direct obligations of the United States. Under s. 25.17 (3) (b), Wis. Stats., and as permitted by the program resolution, the program is authorized to invest funds not restricted for debt service in direct obligations of the United States, high-quality corporate commercial paper, certificates of deposit, and other investments.

Custodial credit risk for deposits is the risk that, in the event of the failure of a financial institution, the deposits may not be returned. As of June 30, 2017, the demand deposit accounts with the trustee and the extendible municipal commercial paper issuing and paying agent totaled \$16,544,764. As of June 30, 2016, the demand deposit accounts with the trustee and the extendible municipal commercial paper issuing and paying agent totaled \$30,074,242. As of June 30, 2017, \$250,862 was insured against loss by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$16,293,902 as of June 30, 2017, was not insured or collateralized. As of June 30, 2016, \$354,223 was insured against loss by the FDIC. The remaining balance of \$29,720,019 as of June 30, 2016, was not insured or collateralized.

Custodial credit risk for investments is the risk that, in the event of failure of a counterparty to a transaction, the program will not be able to recover the value of the investments that are in the possession of another party. As of June 30, 2017, the program held investments purchased for \$9,975,798, consisting of Federal Home Loan Bank discount notes and U.S. Treasury notes with a combined total face value of \$9,959,000. These investments were registered and held by the program's agent in the program's name. Therefore, the program's investments were not exposed to custodial credit risk. As of June 30, 2016, the program did not hold any investments and, therefore, was not exposed to custodial credit risk for investments at the end of the fiscal year.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Under the program resolution, the program is generally permitted to invest in investments with maturities of one year or less. As of June 30, 2017, the investments held by the program had a fair market value of \$9,980,990. Federal Home Loan Bank discount notes in the face amount of \$6,156,000, to be used for scheduled debt service payments on July 3, 2017, mature on July 3, 2017. U.S. Treasury notes in the face amount of \$1,099,000, to be used for scheduled debt service

payments on January 1, 2018, mature on December 31, 2017. U.S. Treasury notes in the face amount of \$2,704,000, to be used for scheduled debt service payments on July 1, 2018, mature on June 30, 2018. As of June 30, 2016, the program did not hold any investments and, therefore, was not subject to interest rate risk at the end of the fiscal year.

The program does not have a specific policy related to custodial credit risk or interest rate risk.

#### **4. PROGRAM ASSETS**

Program assets required to be held in the various interest and principal redemption accounts at the trustee and the issuing and paying agent are reported as program assets restricted for debt service. Program assets in excess of those restricted for debt service are available for other uses as outlined in the program resolution.

As of June 30, 2017, the program's assets totaled \$26,520,562. Of this amount, \$26,431,751, consisting of investments and demand deposits, was restricted for debt service. The remaining \$88,811, consisting of demand deposits, was restricted for transfer to the State of Wisconsin Petroleum Inspection Fund or to pay debt issuance costs or administrative costs of the program.

As of June 30, 2016, the program's assets totaled \$30,074,242. Of this amount, \$30,071,234, consisting of demand deposits, was restricted for debt service. The remaining \$3,008, consisting of demand deposits, was restricted for transfer to the State of Wisconsin Petroleum Inspection Fund or to pay debt issuance costs or administrative costs of the program.

#### **5. REVENUE BONDS AND EXTENDIBLE MUNICIPAL COMMERCIAL PAPER**

The program's revenue obligations are issued pursuant to subch. II of ch. 18, Wis. Stats.; s. 292.63 (9m), Wis. Stats.; and the program resolution and supplemental resolutions adopted by the State of Wisconsin Building Commission. The revenue obligations are payable from, and primarily secured by, petroleum inspection fees that suppliers are charged on petroleum products received for sale in Wisconsin (see also Note 7). The revenue obligations are not general obligations of the State.

The program's revenue obligations may include extendible municipal commercial paper, which may have original maturities from 1 to 180 days, is not callable prior to the original maturity date, and bears interest from the date of issuance at the rate determined on the date of issuance. The State expects to pay the principal of the extendible municipal commercial paper on the original maturity date with the proceeds from issuance of additional extendible municipal commercial paper or other means. If the principal of

the extendible municipal commercial paper is not paid off on the original maturity date, the State, under certain circumstances, may exercise the option to extend the maturity date. In such an event, the maturity date is extended to a date that is 270 days after the original issue date. Interest is then due on the first business day of either the first or second month after the original maturity date and then on a monthly basis and on any redemption date or the extended maturity date. In addition, principal and interest on the extendible municipal commercial paper may be payable from issuance of additional revenue obligations in the form of bonds that have been authorized to refund the commercial paper or any other funds made available by the State for this purpose.

Interest payments on extendible municipal commercial paper are on parity with the payments on the senior bonds. Principal on extendible municipal commercial paper has a junior subordinate pledge and is payable from proceeds of rollover notes, issuance of refunding senior bonds, certain moneys held by the trustee, or other funds made available by the State for this purpose.

During the fiscal years ended June 30, 2016, and June 30, 2017, the following changes occurred in revenue bonds outstanding:

<b>Change in Revenue Bonds Outstanding</b>				
<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Bonds Issued</u>	<u>Principal Redeemed</u>	<u>Balance June 30</u>
2015-16	\$67,950,000	\$ 0	\$26,540,000	\$41,410,000
2016-17	41,410,000	62,445,000	27,800,000	76,055,000

The senior revenue bonds issued by the program and outstanding as of June 30, 2017, were as follows:

<b>Senior Revenue Bonds</b>						
<u>Date Issued</u>	<u>Series</u>	<u>Interest Rates</u>	<u>Maturity Through</u>	<u>First Optional Redemption Date</u>	<u>Amount Issued</u>	<u>June 30, 2017 Amount Outstanding</u>
10/20/2009	2009 Series 1	3.0 to 5.0%	7/1/2017	Not Callable	\$117,460,000	\$13,610,000
10/13/2016	2016 Series 1	4.0 to 5.0%	7/1/2019	Not Callable	<u>62,445,000</u>	<u>62,445,000</u>
Total Senior Revenue Bonds					\$179,905,000	\$76,055,000

Both the 2009 Series 1 and 2016 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds are not subject to redemption prior to maturity.

The program’s future debt service requirements as of June 30, 2017, for principal and interest for both the 2009 Series 1 and 2016 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds are as shown in the following table.

**Future 2009 and 2016 Series Debt Service on Revenue Bonds**

<u>Fiscal Year Ending June 30</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service on Bonds</u>
2018	\$20,925,000	\$2,678,125	\$23,603,125
2019	27,935,000	1,646,500	29,581,500
2020	<u>27,195,000</u>	<u>543,900</u>	<u>27,738,900</u>
	\$76,055,000	\$4,868,525	\$80,923,525

The following table presents the extendible municipal commercial paper activity for FY 2015-16 and FY 2016-17.

**Change in Extendible Municipal Commercial Paper Outstanding**

<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Commercial Paper Issued</u>	<u>Principal Repaid</u>	<u>Balance June 30</u>
2015-16	\$71,150,000	\$0	\$ 0	\$71,150,000
2016-17	71,150,000	0	71,150,000	0

As of June 30, 2017, all of the outstanding extendible municipal commercial paper was paid off. As of June 30, 2016, the \$71,150,000 in outstanding extendible municipal commercial paper had interest rates ranging from 0.55 percent to 0.63 percent, and maturities ranging from July 6, 2016, to July 25, 2016.

Additional series of senior bonds may be issued on parity with the current bond series outstanding and collateralized by an equal lien on the petroleum inspection fees. However, no additional series, other than refunding bonds may be issued unless, among other things, additional legislative authorization is provided and the debt service coverage ratio, as defined in the program resolution, is at least 2.0.

Each month that variable-rate debt, such as the extendible municipal commercial paper, is outstanding, the State is required by the program resolution to provide to the trustee a certificate setting forth the program’s “variable-rate take-out capacity” and “variable-rate debt exposure.” Variable-rate take-out capacity measures the State’s ability, given certain conservative interest rate assumptions, to convert variable-rate debt to fixed-rate debt. Variable-rate debt exposure measures the program’s outstanding variable-rate debt. This certification was required and performed each month during FY 2015-16 and during FY 2016-17,

(until the commercial paper was paid off on October 13, 2016). For September 2016, the last month the program's variable-rate take-out capacity test was required, the variable-rate take-out capacity was calculated to be \$421,970,488, which was \$350,820,488 higher than the variable-rate debt exposure of \$71,150,000. For June 2016, the program's variable-rate take-out capacity was calculated to be \$391,698,779, which was \$320,548,779 higher than the variable-rate debt exposure of \$71,150,000. Because the program's ability to convert variable-rate debt to fixed-rate debt was higher than the amount of variable-rate debt outstanding each month, as evidenced by the program's variable-rate take-out capacity, the State needed to take no further action.

On September 19, 2016, Standard & Poor's Ratings Services affirmed its rating on the State's petroleum inspection fee revenue bonds at "AA." On September 19, 2016, Fitch Ratings affirmed its rating on the State's petroleum inspection fee revenue bonds at "AA."

## 6. DEBT AUTHORITY FOR THE PROGRAM

As of June 30, 2017, all statutorily authorized revenue obligations have been issued. Wisconsin Statutes had authorized the program to issue revenue obligations not to exceed \$386,924,000 in principal amount, excluding any obligations that have been defeased under a cash optimization program administered by the Building Commission. In addition to this limit on principal amount, the Building Commission may authorize the issuance of an unlimited amount of additional revenue obligations to fund or refund outstanding revenue obligations, to pay issuance and administrative costs, to make any necessary deposits to reserve funds, or to pay accrued or capitalized interest.

## 7. PETROLEUM INSPECTION FEES

Petroleum inspection fees result from the fees imposed under s. 168.12 (1), Wis. Stats., and other payments received under s. 292.63 (4) (h) 1m. and (5) (a) and (c), Wis. Stats. Under s. 168.12 (1), Wis. Stats., a \$0.02 per gallon fee is imposed by the State on suppliers of petroleum products received for sale in Wisconsin. The per gallon fees are paid to the State of Wisconsin Department of Revenue by suppliers, along with motor fuel taxes, and are initially deposited into the Transportation Fund. The Department of Revenue determines the amount collected for the per gallon fees and remits it to the program's trustee on a monthly basis. The trustee transfers petroleum inspection fees in excess of the amount needed to meet debt service requirements and to pay administrative costs of the Petroleum Inspection Fee Revenue Obligations Program to the State of Wisconsin Petroleum Inspection Fund, free of the first lien pledge of the program resolution. The State uses the fees transferred to the State of Wisconsin Petroleum Inspection Fund to

pay PECFA claims, PECFA program administrative costs, and other costs and transfers, including optional transfers to the trustee to redeem revenue obligations.

The other petroleum inspection fees that are pledged currently consist of penalty payments made under s. 292.63 (4) (h) 1m., Wis. Stats., by consultants for submitting claims for ineligible costs; proceeds under s. 292.63 (5) (a), Wis. Stats., from the sale of remedial equipment and supplies that had originally been paid for by PECFA awards; and net recoveries under s. 292.63 (5) (c), Wis. Stats., related to the Wisconsin Attorney General’s actions against fraudulent claims. In FY 2016-17, these other petroleum inspection fees totaled \$22,706 and were made available to the trustee. In FY 2015-16, these other petroleum inspection fees totaled \$52,880 and were made available to the trustee. These fees were not transferred to the trustee in either fiscal year because the trustee indicated that no deficiencies that would require the transfer of the fees existed in any of the program’s accounts held by the trustee as of June 30, 2017, or June 30, 2016.

The two tables that follow show the amounts of petroleum inspection fees that were remitted by the State of Wisconsin Department of Revenue to the trustee, retained by the trustee to meet debt service requirements and pay Petroleum Inspection Fee Revenue Obligations Program administrative costs, and transferred by the trustee to the State of Wisconsin Petroleum Inspection Fund during FY 2016-17 and FY 2015-16.

**FY 2016-17**

<u>Month</u>	<u>Petroleum Inspection Fees Remitted by the State to the Trustee</u>	<u>Petroleum Inspection Fees Retained by the Trustee</u>	<u>Petroleum Inspection Fees Transferred by the Trustee to the State</u>
July 2016	\$ 6,677,599	\$ 1,255,022	\$ 5,422,577
August	7,858,718	5,082,509	2,776,209
September	7,059,584	6,382,508	677,076
October	6,394,030	1,875,175	4,518,855
November	5,686,311	2,048,542	3,637,769
December	6,656,627	2,048,542	4,608,085
January 2017	7,071,514	2,048,542	5,022,972
February	5,897,035	2,048,541	3,848,494
March	5,958,253	2,048,542	3,909,711
April	5,796,720	2,048,542	3,748,178
May	6,401,887	2,048,541	4,353,346
June	<u>5,186,384</u>	<u>2,327,916</u>	<u>2,858,468</u>
Total FY 2016-17	<u>\$76,644,662</u>	<u>\$31,262,922</u>	<u>\$45,381,740</u>

**FY 2015-16**

<u>Month</u>	<u>Petroleum Inspection Fees Remitted by the State to the Trustee</u>	<u>Petroleum Inspection Fees Retained by the Trustee</u>	<u>Petroleum Inspection Fees Transferred by the Trustee to the State</u>
July 2015	\$ 5,413,617	\$ 2,493,942	\$ 2,919,675
August	9,030,319	2,500,041	6,530,278
September	4,174,316	2,500,241	1,674,075
October	6,842,183	2,508,755	4,333,428
November	6,531,668	2,481,192	4,050,476
December	7,813,848	2,479,942	5,333,906
January 2016	5,952,526	2,493,392	3,459,134
February	6,116,227	2,496,942	3,619,285
March	6,072,417	2,496,942	3,575,475
April	4,146,226	2,511,131	1,635,095
May	6,795,908	2,540,192	4,255,716
June	<u>5,749,311</u>	<u>1,241,508</u>	<u>4,507,803</u>
Total FY 2015-16	<u>\$74,638,566</u>	<u>\$28,744,220</u>	<u>\$45,894,346</u>

**8. DEBT SERVICE COVERAGE RATIO FOR SENIOR DEBT**

There are alternative methods to calculate debt service coverage. For purposes of additional analysis, the debt service coverage ratios for senior debt for FY 2016-17 and FY 2015-16 follow. They are calculated as the ratio of petroleum inspection fees remitted to the trustee during the respective fiscal years, divided by the senior debt service payments made during each fiscal year, excluding amounts related to bond refundings.

**Debt Service Coverage Ratio for Senior Debt**

	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2015-16</u>
Fees Remitted to the Trustee	\$76,644,662	\$74,638,566
Senior Debt Service:		
Principal—Bonds	\$27,800,000	\$26,540,000
Interest—Bonds	1,826,739	2,588,488
Interest—Commercial Paper	<u>164,454</u>	<u>169,846</u>
Total Senior Debt Service	\$29,791,193	\$29,298,334
Debt Service Coverage Ratio for Senior Debt	2.57	2.55



9. PECFA CLAIMS

The Petroleum Inspection Fee Revenue Obligations Program was established during FY 1999-2000, and bonds and extendible municipal commercial paper were issued to reduce a backlog that had accumulated because, at that time, approved PECFA claims significantly exceeded the petroleum inspection fee revenues available to pay them. While the original backlog has been eliminated, PECFA claims continue to be submitted to the State.

2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, sunset the PECFA program. Landowners and others were required to notify the Department of Natural Resources of the potential for a PECFA cleanup site claim by July 20, 2015. All claims for reimbursement of cleanup costs must be submitted before July 1, 2020. PECFA claims paid were \$5.2 million in FY 2016-17 and were \$5.2 million in FY 2015-16.

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## **Auditor's Report ■**

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Report 17-19

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee

Mr. Daniel Meyer, Secretary  
Department of Natural Resources

Mr. Scott A. Neitzel, Secretary  
Department of Administration

We have audited the cash basis Statement of Changes in Program Assets and the related notes of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program as of and for the years ended June 30, 2017, and June 30, 2016, and have issued our report thereon dated November 21, 2017. 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*, which is issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

Management of the program is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the Statement of Changes in Program Assets, we considered the program's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the program's internal control. Accordingly, we do not express an opinion on the effectiveness of the program'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 misstatements, or to 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 program's financial statement will not be prevented, or that a material misstatement will not be 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.

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 program's financial statement is free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, 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**

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

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

November 21, 2017

## PART IX

### GENERAL FUND ANNUAL APPROPRIATION BONDS

Part IX of the 2017 Annual Report provides information about general fund annual appropriation bonds issued by the State of Wisconsin (**State**) in the form of bonds and floating rate notes (which are mostly hedged with interest rate exchange agreements). Selected information is provided on in this introduction for the convenience of the readers; however, all information presented in this Part IX of the 2017 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2017)	\$3,096,995,000
Amount Outstanding of Fixed-Rate Obligations	2,610,825,000
Amount Outstanding of Variable-Rate Obligations	486,170,000 <sup>(a)</sup>
Percentage of Outstanding Obligations in the form of Variable-Rate Obligations	15.70% <sup>(a)</sup>
Ratings (Fitch/Moody's/S&P) Bonds/Floating Rate Notes	AA <sup>(b)</sup> /Aa2 <sup>(c)</sup> /AA-
Authority	Authorizing Certifications of the Secretary of Administration and either the 2003 Indenture or the 2009 Indenture, and Section 16.527, Wisconsin Statutes.
Trustee/Paying Agent	U.S. Bank National Association serves as Trustee and Paying Agent.
Security	The payment of the principal of, and interest on, the Bonds is subject to annual appropriation; that is, payments due in any Fiscal Year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature for that purpose. <i>The Bonds do not constitute debt of the State or any of its subdivisions. The State's obligation to make payments of the principal of, and interest on, the Bonds is not a general obligation of the State and is not supported by the full faith and credit of the State.</i>
<sup>(a)</sup> The State has hedged nearly all the variable-rate obligations through interest rate exchange agreements with multiple counterparties.	
<sup>(b)</sup> On October 19, 2017 Fitch Ratings upgraded its rating on the State's general fund annual appropriation bonds from "AA-" to "AA".	
<sup>(c)</sup> On August 4, 2017, Moody's Investors Service, Inc. upgraded its rating on the State's general fund annual appropriation bonds from "Aa3" to "Aa2".	

**Contact:** Capital Finance Office  
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    101 East Wilson Street, FLR 10  
    P.O. Box 7864  
    Madison, WI 53707-7864  
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**Web site:** [doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

The Capital Finance Office, which is part of the Department of Administration's Division of Executive Budget and Finance, is responsible for managing the State's borrowing programs, and requests for additional information about general fund annual appropriation bonds may be directed to the Capital Finance Office. The law firms of Quarles & Brady LLP and Foley & Lardner LLP have provided bond

counsel services in connection with the issuance of the outstanding general fund annual appropriation bonds.

General fund annual appropriation bonds have been issued as both tax-exempt obligations and taxable obligations.

The 2017 Annual Report includes information and defined terms for different types of 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 IX 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.

General information about the State of Wisconsin, including but not limited to operating data such as revenues, expenditures, budgets, General Fund data, information on significant pending litigation, and statistical information on the State's economic condition and Wisconsin Retirement System, are included in Part II of the 2017 Annual Report. The State's audited general purpose external financial statements and independent auditor's report for the fiscal year ending June 30, 2017 are not available as of the date of the 2017 Annual Report. When such statements become available, they will be filed with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system and will be added to Part II of the 2017 Annual Report.

Certain statements in this Part IX 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 OBLIGATIONS**

The State has issued general fund annual appropriation bonds on the dates and in the amounts shown in Table IX-1. The table also includes the outstanding principal balances of general fund annual appropriation bonds as of December 15, 2017.

Table IX-1

**OUTSTANDING GENERAL FUND ANNUAL APPROPRIATION 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>
<i>Fixed-Rate Bonds</i>				
2003- Series A (Taxable) ( <b>2003 Series A Bonds</b> ) ....	12/18/03			
Serial Bond .....		2013	\$ 250,000,000	-0-
Term Bond .....		2018	100,000,000	\$ 28,170,000
Term Bond .....		2026	500,000,000	500,000,000
2008- Series A (Taxable) ( <b>2008 Series A Bonds</b> ) ....	4/1/08			
Serial Bonds .....		2009-14	135,120,000	-0-
Serial Bond .....		2018	150,000,000	-0-
Serial Bond .....		2018	213,000,000	-0-
2009- Series A ( <b>2009 Bonds</b> ) .....	4/8/09			
Serial Bonds .....		2010-29	586,575,000	399,730,000 <sup>(a)</sup>
Term Bond .....		2033	100,000,000	-0- <sup>(a)</sup>
Term Bond .....		2033	304,550,000	-0- <sup>(a)</sup>
Term Bond .....		2036	395,345,000	-0- <sup>(a)</sup>
Serial Bond .....		2037	142,595,000	-0- <sup>(a)</sup>
2012- Series A (Taxable) ( <b>2012 Bonds</b> ) .....	11/29/12			
Serial Bonds .....		2015-18	137,940,000	36,635,000
Serial Bonds .....		2027-31	113,615,000	113,615,000
2016-Series A (Taxable) ( <b>2016 Series A Bonds</b> ) ....	8/16/16	2020-27	400,145,000	400,145,000
Series B (Taxable) ( <b>2016 Series B Bonds</b> ) ....	8/16/16			
Serial Bonds .....		2020-29	28,700,000	28,700,000
Term Bond .....		2033	13,680,000	13,680,000
Term Bond .....		2037	158,135,000	158,135,000
2017- Series A (Taxable) ( <b>2017 Series A Bonds</b> ) ...	1/26/17			
Serial Bonds .....		2020-33	59,935,000	59,935,000
Term Bond .....		2036	367,835,000	367,835,000
Series B (Tax-Exempt) ( <b>2017 Series B Bonds</b> )	1/26/17	2020-36	102,105,000	102,105,000
Series C (Taxable) ( <b>2017 Series C Bonds</b> ) ....	5/16/17			
Serial Bonds .....		2018-26	24,595,000	24,595,000
Term Bond .....		2027	377,545,000	<u>377,545,000</u>
<i>Total Fixed-Rate Bonds</i>				<u>\$2,610,825,000</u>
<i>Variable-Rate Obligations<sup>(b)</sup></i>				
2003- Series B (Taxable) ( <b>2003 Series B Bonds</b> ) .....	12/18/03	2009-32	\$ 944,850,000	-0-
2008- Series B (Taxable) ( <b>2008 Series B Bonds</b> ) .....	4/1/08	2026-32	300,000,000	\$ 300,000,000
Series C (Taxable) ( <b>2008 Series C Bonds</b> ) .....	6/10/08	2009-32	209,000,000	<u>186,170,000</u>
<i>Total Variable-Rate Obligations</i>				<u>\$ 486,170,000</u>
<i>Total Outstanding General Fund Annual Appropriation Bonds</i>				<u><u>\$3,096,995,000</u></u>

<sup>(a)</sup> Pursuant to a refunding escrow agreement, the principal of, and interest on, all or a portion of the bonds will be paid as it comes due or will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is not treated as outstanding for purposes of this table.

<sup>(b)</sup> The State has hedged nearly all its variable rate exposure from the 2008 Series B Bonds and 2008 Series C Bonds through interest rate exchange agreements with multiple counterparties.

Of the outstanding general fund annual appropriation bonds, the 2003 Series A Bonds, 2008 Series B Bonds, 2008 Series C Bonds, 2012 Bonds, and 2016 Series A Bonds are collectively referred to as the **Outstanding 2003 Indenture Bonds**, and are currently outstanding in the amount of \$1.565 billion. They were issued pursuant to an Indenture dated December 1, 2003, as amended and supplemented (**2003 Indenture**), by and between the State, acting by and through the State of Wisconsin Department of



Administration (**DOA** or **Department of Administration**), and U.S. Bank National Association, as successor to Deutsche Bank Trust Company Americas (**Trustee**). The Outstanding 2003 Indenture Bonds, together with the obligations, if any, issued in the future under the 2003 Indenture, are referred to as the **2003 Indenture Bonds**. Similarly, the 2003 Series A Bonds and 2003 Series B Bonds are collectively referred to as the **2003 Bonds**, and the 2008 Series A Bonds, 2008 Series B Bonds, and 2008 Series C Bonds are collectively referred to as the **2008 Bonds**.

The 2009 Bonds, 2016 Series B Bonds, 2017 Series A Bonds, 2017 Series B Bonds, and 2017 Series C Bonds are collectively referred to as the **Outstanding 2009 Indenture Bonds**, and are currently outstanding in the amount of \$1.532 billion. They were issued pursuant to an Indenture dated April 1, 2009 (**2009 Indenture**), by and between the State, acting by and through the Department of Administration and the Trustee. The Outstanding 2009 Indenture Bonds, together with the obligations, if any, issued in the future under the 2009 Indenture, are referred to as the **2009 Indenture Bonds**. Similarly, the 2017 Series A Bonds, 2017 Series B Bonds, and 2017 Series C Bonds are collectively referred to as the **2017 Bonds**.

The 2003 Indenture Bonds and the 2009 Indenture Bonds are collectively referred to as the **Bonds**. References to the “**Indenture**” refer to the 2003 Indenture, the 2009 Indenture, or both, as applicable.

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

**Table IX-2**

**HISTORICAL OUTSTANDING GENERAL FUND ANNUAL APPROPRIATION BONDS**

<b>Year (December 15)</b>	<b>Outstanding Amount</b>
2007	\$1,794,850,000
2008	1,857,120,000
2009	3,379,710,000
2010	3,359,690,000
2011	3,333,855,000
2012	3,302,625,000
2013	3,259,490,000
2014	3,179,230,000
2015	3,115,935,000
2016	3,101,760,000

**FINANCING PLAN**

**General**

Part IX of the 2017 Annual Report addresses general fund annual appropriation bonds, which were authorized and have been issued:

- To fund the State’s unfunded accrued prior service (pension) liability and the State’s unfunded accrued liability for sick leave conversion, and to refund a portion of obligations previously issued for that purpose
- To finance the purchase of tobacco settlement revenues that had been previously sold by the State.

The State issued the 2003 Bonds to provide funds for costs of issuance, capitalized interest, and payment to the Wisconsin Retirement System (**Retirement System**) for the State’s unfunded accrued prior service (pension) liability, as of January 1, 2003 and its unfunded accrued liability for sick leave conversion credits, as of October 1, 2003. The State issued the 2008 Bonds to refund the 2003 Series B Bonds, to

pay termination payments related to certain interest rate exchange agreements, to pay a portion of the funded interest on certain 2003 Indenture Bonds. The State issued the 2012 Bonds to refund the 2003 Series A Bonds maturing May 1, 2013 and the State issued the 2016 Series A Bonds to refund the 2008 Series A Bonds maturing May 1, 2018; the intent at the time such 2003 Series A Bonds and 2008 Series A Bonds were issued was to issue Additional Bonds for that purpose prior to the respective maturity dates.

The State issued the 2009 Bonds to purchase tobacco settlement revenues that were previously sold by the State to the Badger Tobacco Asset Securitization Corporation (**BTASC**) and to pay costs of issuance. The State issued the 2016 Series B Bonds and the 2017 Bonds to advance refund all or portions of certain maturities of the 2009 Bonds.

The Bonds were issued pursuant to Section 16.527, Wisconsin Statutes, as amended (**Enabling Act**), Authorizing Certifications signed by the Secretary of Administration, and the 2003 Indenture or the 2009 Indenture, respectively.

### **Statutory Authority for Issuance**

#### *2003 Indenture Bonds*

The Enabling Act contains a legislative finding that the State, by prepaying all, or part of, its unfunded prior service liability and its unfunded liability for sick leave conversion credits, may reduce its costs and better ensure the timely and full payment of retirement benefits. The Department is authorized by the Enabling Act to issue bonds to provide up to \$1.500 billion of net proceeds to make payments to the Retirement System for the State's unfunded prior service liability and its unfunded accrued liability for sick leave conversion credits. The State has issued bonds providing \$1.488 billion of net proceeds for those purposes. The 2003 Bonds were issued primarily for such purposes. The Department is also authorized to issue bonds without limit to fund or refund outstanding 2003 Indenture Bonds, to pay issuance or administrative expenses, to make deposits to reserve funds, to pay accrued or funded interest, to pay costs of credit enhancement, or to make payments under certain ancillary agreements (including Existing Swap Agreements as defined below). The 2008 Bonds, 2012 Bonds, and 2016 Series A Bonds were issued for such purposes.

See "**STATE OBLIGATIONS; Employee Pension Funds**" in Part II of the 2017 Annual Report for further information on the Retirement System and prior service pension liabilities and other post-employment benefits.

#### *2009 Indenture Bonds*

The Enabling Act contains a legislative finding that the State, by purchasing tobacco settlement revenues previously sold by the State, is acting appropriately and in the public interest and will serve a public purpose. The Department is authorized by the Enabling Act to issue bonds to provide up to \$1.700 billion of net proceeds to purchase tobacco settlement revenues previously sold by the State. The State has issued bonds in the aggregate par amount of \$1.529 billion and with the proceeds completed the purchase of the tobacco settlement revenues from BTASC, as authorized by the Enabling Act. With the receipts received from the State's purchase, BTASC defeased and subsequently redeemed all the obligations that it previously issued. The Department is also authorized to issue bonds without limit to fund or refund outstanding 2009 Indenture Bonds, to pay issuance or administrative expenses, to make deposits to reserve funds, to pay accrued or funded interest, to pay costs of credit enhancement, or to make payments under certain ancillary agreements. The 2016 Series B Bonds and the 2017 Bonds were issued for such purposes.

### **Interest Rate Exchange Agreements**

To hedge its variable rate exposure in connection with the 2003 Series B Bonds, the State entered into interest rate exchange agreements in calendar years 2003 and 2005. The State terminated some, and portions of other, interest rate exchange agreements in conjunction with the issuance of the 2008 Bonds. The remaining interest rate exchange agreements (**Existing Swap Agreements**) hedge substantially all

the State's variable rate exposure with respect to the 2008 Series B Bonds and the 2008 Series C Bonds. The Existing Swap Agreements provide for notional amounts declining over time in amounts that approximate the expected aggregate amortization of the 2008 Series B Bonds and the 2008 Series C Bonds.

The counterparties on the Existing Swap Agreements and the current notional amounts and interest rates under such agreements are:

<u>Counterparty</u>	<u>Current Notional Amount</u>	<u>Fixed Interest Rate Paid by State</u>	<u>Variable Interest Rate Received by State</u>
Citibank, N.A., New York	\$140,648,750	5.47%	One-Month LIBOR
UBS AG	166,221,250	5.47%	One-Month LIBOR
JPMorgan Chase Bank, N.A.	171,230,000	4.66%, 5.47%	One-Month LIBOR

The other outstanding 2003 Indenture Bonds and the 2009 Bonds are fixed-rate obligations and the Department has not entered, nor does it intend to enter, into any interest rate exchange agreement with respect to the other outstanding 2003 Indenture Bonds or the 2009 Indenture Bonds.

*Payments and Termination*

The State may terminate from time to time the Existing Swap Agreements and may also from time to time enter into (and thereafter may terminate) additional interest rate exchange agreements, indexing agreements, or similar agreements relating to any Bonds (**Swap Agreements**, which term includes the Existing Swap Agreements). The State's obligation to make payments under the Swap Agreements will be payable from money held in separate accounts established in the respective Debt Service Fund under the respective Indenture for that purpose. Payments under a Swap Agreement may include net payments based on the interest rates exchanged. If a Swap Agreement were terminated, then under certain circumstances the State may be required to pay a termination payment. The Enabling Act provides authority for the State to issue additional bonds to make this payment. Money held in the respective Debt Service Fund may be applied to a termination payment under a Swap Agreement only if the termination payment was due on September 1<sup>st</sup> of the year before the first Fiscal Year in a biennium and a budget bill has been enacted for the biennium. Correspondingly, the budget request for the first Fiscal Year in any biennium is expected to include an amount to provide for any termination payment that was due on September 1<sup>st</sup> of the prior year. If certain conditions of the respective Indenture are met, termination payments may be payable from money held in (or permitted to be transferred to) the respective Subordinated Payment Obligations Fund. See **"RISK FACTORS; Existing Swap Agreements."**

**Additional Bonds**

Subject to certain conditions, the issuance by the State of additional bonds for the following purposes (**Additional Bonds**) is permitted:

- Under the 2003 Indenture, to provide funds (up to the remaining amounts provided for in the Enabling Act, which at this time is limited to \$12 million) for payment to the Retirement System for any unfunded accrued prior service (pension) liability and any unfunded accrued liability for sick leave conversion credits;
- Under the 2003 Indenture or the 2009 Indenture, to refund any Bonds, provided the principal amount of the refunding obligations may not exceed the sum of the principal amount of obligations being refunded, applicable redemption premiums, unpaid interest on the refunded obligations, and expenses incurred in the issuance of the refunding obligations; and
- Under the 2003 Indenture or the 2009 Indenture, to pay any cost of issuing Bonds (which includes accrued or funded interest, issuance expenses, deposits to reserve funds, administrative expenses, and credit enhancement facilities), or to make payments under any Swap Agreement, or Credit Facility.

The State anticipates that it will issue Additional Bonds under the 2009 Indenture to refund, on or prior to May 1, 2027, all, or part of, the principal of 2017 Series C Bonds maturing on May 1, 2027. The intent at the time such 2017 Series C Bonds were issued was to issue Additional Bonds prior to May 1, 2027 for such purpose.

## INFORMATION ABOUT THE STATE OF WISCONSIN

See [Part II of the 2017 Annual Report](#) for further information about the State of Wisconsin. [Part II of the 2017 Annual Report](#) includes information on various State financial, budgetary, and statistical matters.

## PAYMENT FROM ANNUAL APPROPRIATIONS

*The Bonds are not general obligations of the State and do not constitute “public debt” of the State as that term is used in the Wisconsin Constitution and in the Wisconsin Statutes.* The payment of the principal of, and premium, if any, and interest on, the Bonds is subject to annual appropriation; that is, payments due in any Fiscal Year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature for that purpose. The State is not legally obligated to appropriate any amounts for payment of debt service on the Bonds, and if it does not do so, it incurs no liability to the owners of the Bonds. Thus, payment of the Bonds is at the discretion of the Legislature.

The Enabling Act contains a statement to the effect that the Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on obligations such as the Bonds, expresses its expectation and aspiration that it will do so. The Legislature’s recognition of a moral obligation, however, does not create a legally enforceable obligation. Separate appropriations exist for payment of debt service on obligations issued under each respective Indenture, and an appropriation for payment of debt service on Bonds issued under one Indenture may not be available for payment of debt service on Bonds issued under the other Indenture. See [“RISK FACTORS; Nature of Moral Obligation.”](#)

Separate appropriations exist for payment of debt service on obligations issued under the 2003 Indenture and the 2009 Indenture. An appropriation for payment of debt service on obligations issued under one trust indenture may not be available for payment of debt service on obligations issued under the other trust indenture.

### General Fund

The Wisconsin Statutes establish the General Fund, into which are deposited income tax, sales tax, and other general tax revenues and other revenues not dedicated to a specific purpose. Out of the General Fund the State pays its general operating expenses, shared revenues to local governmental units, aids to individuals and organizations, and many State program expenses. See [Part II of the 2017 Annual Report](#) for further information about the General Fund. The State has chosen a name for the Bonds that includes the words “General Fund” because the Enabling Act reflects an expectation that appropriations to pay debt service will be made from the General Fund. In the Enabling Act, the Legislature expressed its expectation and aspiration (but not a binding obligation) that it would make timely appropriations from money in the General Fund that are sufficient to pay the principal and interest due in any year with respect to obligations such as the Bonds. A budget adopted for any Fiscal Year may fail to make an appropriation or may change the source of the appropriation to a fund other than the General Fund (and thus a fund with substantially less annual revenues than the General Fund).

### 2017-19 Biennium

Under each Indenture, the Department is required to take actions to facilitate the appropriation for each year of a specified amount (**Annual Appropriation Amount**) for the purpose of paying debt service on the respective Bonds and for other purposes under that Indenture. The General Fund budget adopted by the Legislature for the current biennium (2017-19), and the schedule of annual appropriations in the Wisconsin Statutes, includes an appropriation from the General Fund to make debt service payments due

in the 2017-18 fiscal year on the Bonds issued under the Enabling Act, to make payments under ancillary agreements, to make deposits into reserve funds, and to pay related issuance or administrative costs.

In addition, under each Indenture, the Annual Appropriation Amount for the second Fiscal Year of the 2017-19 biennium is based on the greater of the amount determined for the 2018-19 fiscal year and the amount determined for the first year of the next biennium (fiscal year 2019-20). If the Legislature did not adopt a new budget before the start of the 2019-21 biennium, the continuing authority of appropriations from the 2018-19 fiscal year would be sufficient to make all payments of principal and interest due on the Bonds and net payments on the outstanding Existing Swap Agreements through June 30, 2020. See [“PAYMENT FROM ANNUAL APPROPRIATIONS; Annual Appropriations and Continuing Authority.”](#)

### **Budget Process**

Annual appropriations are made through the enactment of the State budget. Most of the budget process derives from statutory laws or custom and practice, and thus the process is subject to change. The State budget is the legislative document that sets the level of authorized state expenditures for the two Fiscal Years in the biennium and the corresponding level of revenues (primarily taxes) projected to be available to finance those expenditures. See [Part II of the 2017 Annual Report](#) for further information about the State’s budget process.

### **Annual Appropriations and Continuing Authority**

Although the Wisconsin Statutes provide for other types of appropriations, any appropriation made to pay debt service on the Bonds as anticipated by the Enabling Act would be an annual appropriation. That is, the amount appropriated would be separately stated for each of the two Fiscal Years that the biennium comprises, and any unused amount would lapse at the end of the applicable Fiscal Year.

The failure of the Legislature to adopt a new budget before the commencement of a biennium does not result in a lack of spending authority. Under Wisconsin law an existing appropriation continues in effect until it is amended or repealed. Thus, in the event a budget is not in effect at the start of a Fiscal Year, the prior year’s budget serves as the budget until such time a new one is enacted. Once a newly enacted budget becomes effective, the continuing authority is superseded by the newly enacted appropriations.

The continuing authority of existing appropriations until a new budget is adopted helps to protect against the effect of a delay in the adoption of a budget. The 2017-19 biennial budget of the State was enacted on September 21, 2017, which was 82 days after the start of the biennium. Of the prior ten biennial budgets, the 2015-17 biennial budget was enacted 11 days after the start of the biennium, and the 2013-15, 2011-13, 2009-11 biennial budgets were each enacted prior to the start of the respective biennium; however, each of the six biennial budgets prior to the 2009-11 biennium were enacted after the start of the biennium, with the latest date after the start of a biennium being, October 27, 1999 (for the 1999-2001 biennium), which was nearly four months after the start of the 1999-2000 fiscal year (which was the first fiscal year of that biennium). See [“PAYMENT FROM ANNUAL APPROPRIATIONS; Determination of Annual Appropriation Amount”](#) and [Part II of the 2017 Annual Report](#).

### **General Fund Cash Flow and Priority of Payments**

The State has experienced, and expects to continue to experience, certain periods when the General Fund is in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund.

If needed, the Secretary of Administration has statutory power to order reductions in the appropriations of state agencies, which represent less than one-quarter of the General Fund budget. In addition, the Secretary of Administration may set priorities for payments from the General Fund as well as prorate certain payments. The Wisconsin Statutes provide that all payments shall be in accordance with the following order of preference:

- All direct and indirect payments of principal of, and interest on, State general obligation debt have first priority and may not be prorated or reduced.
- All direct and indirect payments of principal of, and interest on, operating notes have second priority and may not be prorated or reduced.
- All State employee payrolls have third priority and may be prorated or reduced.
- All other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced.

See [Part II of the 2017 Annual Report](#) for further information about these remedies when the General Fund is in a negative cash position.

Under the 2003 Indenture, the State has covenanted that the Secretary of Administration will give payment of the appropriation obligations issued under the 2003 Indenture the highest possible priority permitted under law. In the Authorizing Certification for the 2009 Bonds, the Secretary of Administration has covenanted to give debt service payments on appropriation obligations issued under the 2009 Indenture a higher priority than all other payments (after the first three statutory priorities above) that may be prorated or reduced. Similar covenants have been made with respect to priority of payment for lease payments due under the State's existing master lease and also for appropriations to the Wisconsin Center District to assist in the development and construction of a new arena in Milwaukee, Wisconsin. Before the Secretary of Administration may establish any priority schedule for payments, the Secretary of Administration is required to notify the Legislature's Joint Committee on Finance.

### **Determination of Annual Appropriation Amount**

In each Indenture, the State directs officers of the Department of Administration to take actions to facilitate the appropriation for each Fiscal Year of the Annual Appropriation Amount. The Annual Appropriation Amount is summarized in more detail below and equals the sum of the following respective amounts (except that, for the second Fiscal Year in a biennium, the Annual Appropriation Amount equals the sum of the following amounts determined for such second Fiscal Year or the immediately succeeding Fiscal Year, whichever is greater).

#### *2003 Indenture Bonds*

With respect to the 2003 Indenture Bonds, the Annual Appropriation Amount is summarized in more detail below and equals the sum of the following amounts (except that, for the second Fiscal Year in a biennium, the Annual Appropriation Amount equals the sum of the following amounts determined for such second Fiscal Year or the immediately succeeding Fiscal Year, whichever is greater):

- *Bonds – Principal.* The amount of principal of 2003 Indenture Bonds coming due during the Fiscal Year.
- *Bonds – Redemption.* The amount of principal of 2003 Indenture Bonds to be redeemed during the Fiscal Year, including any scheduled amount to be redeemed pursuant to optional redemption.
- *Bonds – Fixed Rate Interest.* Interest to be paid during the Fiscal Year on 2003 Indenture Bonds bearing interest at a fixed rate.
- *Bonds – Variable Rate Interest (Maximum Rate).* Interest that would be payable during the Fiscal Year on 2003 Indenture Bonds bearing interest at a variable rate, assuming they bore interest at the maximum permitted rate, which is 35% for the 2008 Series B Bonds and 2008 Series C Bonds.
- *Swap Agreements (Maximum Rate).* The maximum amount of any payment obligations (other than termination payments) that would be payable during the Fiscal Year under Swap Agreements that provide for a variable rate or rates to be paid by the State to the



counterparty, with any payment that is determined without limit as to amount to be determined at a rate that would result if the index provided in such Swap Agreement were at 15% per annum.

- *Credit Facilities.* The maximum amount of payments due during the Fiscal Year with respect to credit facilities, to the extent not included in the amounts described above.
- *Administrative Expenses.* Estimated administrative expenses payable from the Operating Expense Fund during the Fiscal Year.
- *Swap Termination Payments.* The amount of all termination payments with respect to Swap Agreements that are unpaid as of the September 1<sup>st</sup> immediately preceding the commencement of the biennium that includes the Fiscal Year, plus interest to accrue on the payments to the date on which they are reasonably expected to be made.

Table IX-3 summarizes the calculation of the Annual Appropriation Amount for the 2003 Indenture Bonds applicable for the 2017-19 biennium, pursuant to the factors outlined above that further reflected the refunding results of the 2016 Series A Bonds.

**Table IX-3**

**DETERMINATION OF ANNUAL APPROPRIATION AMOUNT  
2003 INDENTURE BONDS**

Determination: 2017-19 Biennium	Fiscal Year 2017-18	Fiscal Year 2018-19 (Equal to Greater Total of the Following)	
		Fiscal Year 2018-19	Fiscal Year 2019-20 <sup>(a)</sup>
Bonds – Principal	\$ 66,000,000	\$ 40,995,000	\$ 98,995,000
Bonds – Redemption	0	0	0
Bonds – Fixed Rate Interest	42,806,296	40,739,177	38,471,147
Bonds – Variable Rate Interest (Maximum Rate)	170,159,500	169,741,250	169,319,500
Swap Agreements (Maximum Rate)	0	0	0
Credit Facilities	0	0	0
Administrative Expenses	1,004,000	1,004,000	1,004,000
Termination Payments	0	0	0
<b>Totals</b>	<b>\$279,969,796</b>	<b>\$252,479,427</b>	<b>\$307,789,647</b>

<sup>(a)</sup> First Fiscal Year of the next biennium.

Table IX-4 includes the amounts previously appropriated by the Legislature for each of the prior ten Fiscal Years.

Table IX-4

AMOUNTS APPROPRIATED BY LEGISLATURE  
(Section 20.505 (1)(br), Wisconsin Statutes)

<u>Fiscal Year</u>	<u>Annual Appropriation Amount</u>	<u>Amount Appropriated By Legislature</u>
2007-08	\$190,833,100	\$190,833,100
2008-09	200,629,300	200,629,300
2009-10	262,566,000	262,566,000
2010-11	274,749,000	274,749,000
2011-12	274,749,000	274,749,000
2012-13	533,473,500	533,473,500
2013-14	306,297,900	306,297,900
2014-15	279,865,100	279,865,100
2015-16	279,865,067	279,865,100
2016-17	662,929,976	662,930,000
2017-18	279,969,796	279,969,800

2009 Indenture Bonds

With respect to the 2009 Indenture Bonds, the Annual Appropriation Amount equals the sum of the following amounts (except that, for the second Fiscal Year in a biennium, the Annual Appropriation Amount equals the sum of the following amounts determined for such second Fiscal Year or the immediately succeeding Fiscal Year, whichever is greater):

- *Bonds - Principal Maturities.* The amount of principal of 2009 Indenture Bonds maturing during the Fiscal Year.
- *Bonds - Redemption.* The amount of principal of 2009 Indenture Bonds to be redeemed during the Fiscal Year, including any scheduled amount to be redeemed pursuant to optional redemption.
- *Bonds and Notes - Fixed Rate Interest.* Interest to be paid during the Fiscal Year on 2009 Indenture Bonds and Notes, if any, bearing interest at a fixed rate.
- *Bonds and Notes - Variable Rate Interest (Maximum Rate).* Interest that would be payable during the Fiscal Year on 2009 Indenture Bonds and Notes, if any, bearing interest at a variable rate, assuming they bear interest at the maximum permitted rate.
- *Funding Obligations – Interest (Assumed Rate).* The amount of interest on Additional Bonds or Notes, if any, under the 2009 Indenture assuming that they are issued to fund Notes that mature during, or prior to, the Fiscal Year, that they bear interest at a rate of 15%, and that they are in a principal amount estimated by the Department to be sufficient.
- *Funding Obligations – Principal.* The amount, if any, certified by an authorized Department representative to be the expected principal amortization in such Fiscal Year for Additional Bonds under the 2009 Indenture to be issued to fund Notes, if any, that are scheduled to mature during, or prior to, the Fiscal Year.
- *Swap Agreements (Assumed Rate).* The maximum amount of any payment obligations (other than termination payments) that would be payable during the Fiscal Year under interest rate exchange agreements that provide for a variable rate or rates to be paid by the State to the counterparty, with any payment that is determined



without limit as to amount to be determined at a rate that would result if the index provided in such agreement were at 15% per annum.

- *Credit Facilities.* The maximum amount of payments due during the Fiscal Year with respect to credit facilities, to the extent not included in the amounts described above.
- *Administrative Expenses.* Estimated administrative expenses payable from the Operating Expense Fund during the Fiscal Year.
- *Swap Termination Payments.* The amount of all termination payments with respect to interest rate exchange agreements that are unpaid as of the September 1<sup>st</sup> immediately preceding the commencement of the biennium that includes the Fiscal Year, plus interest to accrue on the payments to the date on which they are reasonably expected to be made.

The determination of the Annual Appropriation Amount does not include the principal amount of any Notes.

**Table IX-5** summarizes the calculation of the Annual Appropriation Amount for the 2009 Indenture Bonds applicable for the 2017-19 biennium, pursuant to the factors outlined above that further reflected the refunding results of the 2016 Series B Bonds, 2017 Series A Bonds, and 2017 Bonds B Bonds.

**Table IX-5**

**DETERMINATION OF ANNUAL APPROPRIATION AMOUNT  
2009 INDENTURE BONDS**

Determination: 2017-19 Biennium	Fiscal Year 2017-18	Fiscal Year 2018-19 (Equal to Greater Total of the Following)	
		Fiscal Year 2018-19 <sup>(a)</sup>	Fiscal Year 2019-20 <sup>(a)</sup>
		Bonds – Principal	\$ 10,375,000
Bonds – Redemption	0	0	0
Bonds and Notes – Fixed Rate Interest	78,455,667	77,977,567	77,141,817
Bonds and Notes – Var. Rate Interest (Max. Rate)	0	0	0
Funding Obligations – Interest (Assumed)	0	0	0
Funding Obligations – Principal	0	0	0
Swap Agreements (Assumed Rate)	0	0	0
Credit Facilities	0	0	0
Administrative Expenses	10,000	10,000	10,000
Swap Termination Payments	0	0	0
<b>Totals</b>	<b>\$76,783,811</b>	<b>\$71,703,417</b>	<b>\$105,433,417</b>

<sup>(a)</sup> First Fiscal Year of the next biennium.

The calculation of the Annual Appropriation Amount for the 2009 Indenture Bonds applicable for the 2017-19 biennium did not incorporate the issuance of the 2017 Series C Bonds, however, for the fiscal years in the 2017-19 and 2019-21 biennia, the annual debt service on the 2017 Series C Bonds is less than the annual debt service on the 2009 Indenture Bonds that were refunded with the issuance of the 2017 Series C Bonds.

**Table IX-6** includes the amount previously appropriated by the Legislature in each Fiscal Year since the date the 2009 Indenture Bonds were issued. Prior to the 2011-12 fiscal year, an Annual Appropriation Amount was not yet required under the 2009 Indenture so the amount appropriated equaled either an

estimate (for the 2008-09 fiscal year) or the amount that the Annual Appropriation Amount would have been for that respective Fiscal Year, if such a determination were so required.

**Table IX-6**

**AMOUNTS APPROPRIATED BY LEGISLATURE  
(Section 20.505 (1)(bq), Wisconsin Statutes)**

<b>Fiscal Year</b>	<b>Annual Appropriation Amount</b>	<b>Amount Appropriated By Legislature</b>
2008-09	n/a	\$ 165,000,000
2009-10	n/a	98,800,000
2010-11	n/a	92,600,000
2011-12	\$ 92,474,100	92,474,100
2012-13	93,693,400	93,693,400
2013-14	93,693,400	93,693,400
2014-15	113,262,100	113,262,000
2015-16	113,262,037	113,262,000
2016-17	107,423,457	107,424,000
2017-18	76,783,811	76,783,800

**Deposit Amount**

Each Indenture also provides that, on the first business day of each Fiscal Year, the State shall pay to the Trustee from appropriated funds, for deposit into the respective Appropriations Fund, an amount (**Deposit Amount**) certified by the Secretary as the net amount reasonably expected to be needed during that Fiscal Year to pay principal of the respective Bonds (including any scheduled amount to be redeemed by optional redemption), interest on the respective Bonds, and any payment obligations (other than Subordinated Swap Payment Obligations) with respect to Swap Agreements, and to pay respective administrative expenses.

Due to requirements for determining each Annual Appropriation Amount, the respective Deposit Amount is expected to be less than the related Annual Appropriation Amount. The Deposit Amount in the 2017-18 fiscal year for the 2003 Indenture Bonds was calculated and certified to be \$141 million and, for the 2009 Indenture Bonds, was calculated and certified to be \$70 million. The Deposit Amounts for the 2017-18 fiscal year reflected savings from the issuance of the 2016 Series A Bonds, 2016 Series B Bonds, and 2017 Bonds.

**Event of Nonappropriation**

Each Indenture defines **Event of Nonappropriation** to mean an insufficiency of appropriated funds in any Fiscal Year to pay when due all debt service on Bonds and Additional Bonds and payment obligations under Swap Agreements, other than termination payments under Swap Agreements that were not included in the determination for that Fiscal Year of the Annual Appropriation Amount (**Subordinated Swap Payment Obligations**). Upon an Event of Nonappropriation, the Secretary of Administration will promptly provide a written notice to the Trustee.

Each Indenture provides that, if an executive budget bill, as introduced, or a budget bill adopted by either house of the Legislature, fails to include the Annual Appropriation Amount, then the Secretary of Administration will provide a written notice to the Governor and the presiding officer of each house of the Legislature, requesting action to ensure the satisfaction of the State's moral obligation and will promptly provide a written notice to the Trustee and each rating agency rating the Bonds, stating the nature of the deficiency. Similarly, if a budget bill that fails to include the Annual Appropriation Amount is signed into law by the Governor, then the Secretary of Administration will send a letter to the Governor and the presiding officer of each house of the Legislature seeking the introduction of a separate bill authorizing the appropriation that would be needed.

## **RISK FACTORS**

### **Dependence Upon Annual Appropriations**

The State's obligation to make payments of the principal of, and interest on, the Bonds is not a general obligation of the State and is not supported by the full faith and credit of the State. The State's obligation to make those payments, and its obligation to make payments on any Swap Agreements, is subject to annual appropriation of the necessary funds by the Legislature. The amounts that are payable in any fiscal year from the annual appropriation are subject to change, for example, because of the termination of any Swap Agreements, the State's entering into additional Swap Agreements, the State's issuance of refunding bonds or Additional Bonds, or the State's issuance of other appropriation obligations. No assurance is given that sufficient funds will be appropriated or otherwise available to make those payments.

The owners of Bonds could suffer a loss or fail to obtain payment on a timely basis if no appropriation were made or if an insufficient appropriation were made. This could occur either through the direct action of the Legislature or the Governor or through a failure to act. The Governor may include or exclude the annual appropriations in the executive budget bill, and similarly, the Legislature may include or exclude the annual appropriations in the budget it adopts. Moreover, even if the annual appropriations are included in the budget the Legislature adopts, the Governor has the power to veto the appropriations.

### **No Collateral**

Other than granting a security interest in money held in funds under each respective Indenture, the State has not pledged any collateral or other security to support payment of the principal of, or interest on, the Bonds. If the State were to fail to appropriate sufficient funds for that payment, the beneficial owners of the Bonds would not have any recourse against any other property or revenue of the State.

### **Nature of Moral Obligation**

In the Enabling Act, the Legislature, recognizing its moral obligation to do so, expressed its expectation and aspiration to make timely appropriations from moneys in the General Fund that are sufficient to pay debt service on the Bonds in any year; however, the recognition of a moral obligation does not create a legally enforceable obligation. The Legislature's recognition of a moral obligation would provide strong but not conclusive evidence in support of a judicial determination that a payment made by the State serves a public purpose and thus should not be enjoined if a lawsuit challenged the payment.

### **Legislative Decision-Making**

Legislative decisions, such as making appropriations through the adoption of a budget, may be influenced by many factors. The Secretary of Administration believes that failure to make payments of the principal of, and premium, if any, and interest on, the Bonds might hinder the State's subsequent access to the capital markets; however, it should not be assumed that the Legislature would regard that possible consequence to be a compelling reason to appropriate the money needed for those payments.

Future occurrences could adversely affect legislative support for appropriating the money needed for payment of the Bonds. For example, the State issued the 2003 Indenture Bonds in 2003 with the expectation that it would thereby save money, as compared to the payments on the liabilities that it would otherwise have had to make, but may fail to realize that expectation.

Moreover, certain events could result in the need for an appropriation that is larger than originally expected. For example, the State could be required to pay a substantial termination payment upon the termination of a Swap Agreement, including a termination outside the State's control. In addition, the Legislature may authorize the State to issue other obligations that are payable from the same annual appropriations, and it may also consider and adopt legislation that changes the amounts of existing appropriations.

The State intends to refund the principal amount of the 2017 Series C Bonds maturing in 2027 so that the principal will be repaid in smaller annual amounts over years on or subsequent to 2027. It cannot be predicted what the State may do with respect to its debt structure in the future based on the circumstances existing at that time. If the State is unable to access the debt market when the 2017 Series C Bonds maturing in 2027 come due, a large payment would be required. If provisions that are included in separate federal tax reform bills passed by both houses of Congress become law, the issuance of any additional 2009 Indenture Bonds for this purpose may need to occur between February 1 and May 1, 2027 for interest on such additional 2009 Indenture Bonds to be excludable from gross income for federal income tax purposes. All these factors may affect the legislative decisions at that time regarding making appropriations in the budget.

### **Investment Loss**

In the event a loss were incurred on appropriated funds held in funds or accounts under the respective Indenture, no assurance can be given that additional amounts could be withdrawn from the General Fund pursuant to the appropriation to replenish the loss. See “**GLOSSARY**” for a description of qualified investments.

### **Existing Swap Agreements**

The State has hedged nearly all its variable-rate exposure on the 2008 Series B Bonds and the 2008 Series C Bonds through the Existing Swap Agreements. The State is subject to certain risks as the result of the Existing Swap Agreements. As of November 30, 2017, the aggregate fair market value of the Existing Swap Agreements was negative \$139 million. The fair market value may vary throughout the life of the Existing Swap Agreements due to changes in interest rates and swap market conditions.

#### *GASB 53 Disclosure*

All the Existing Swap Agreements, as of June 30, 2017, continue to be classified as effective cash flow hedges for purposes of GASB Statement No. 53. As a result, changes to fair market value are not reported in the State’s general purpose financial statements. The State contracts with a third-party advisor to provide estimates of the fair market value of the Existing Swap Agreements.

#### *Interest Rate Risks*

Although the overall effective interest rate is synthetically fixed as a result of the Existing Swap Agreements, interest payments on the 2008 Series B Bonds and the 2008 Series C Bonds and net swap payments will vary as interest rates vary.

#### *Credit Risks*

To the extent the fair market value of an Existing Swap Agreement were positive, the State would be subject to credit risk of the counterparty in the like amount. The ratings of counterparties to the Existing Swap Agreements also present the State with other credit risk factors. As of November 30, 2017, the lowest rating assigned to these counterparties was A1 by Moody’s, A by S&P, and A by Fitch. Under each of the Existing Swap Agreements and to mitigate the potential for credit risk, if any counterparty’s credit rating falls below A3 by Moody’s or A– by either S&P or Fitch, then the counterparty will be required to fully collateralize the fair market value of the Existing Swap Agreement. In addition, an event of termination occurs under an Existing Swap Agreement if the counterparty’s credit rating falls below Baa2 by Moody’s or BBB by either S&P or Fitch.

#### *Termination Risks*

Any Existing Swap Agreement may be terminated by the State upon two business days written notice, designating to the counterparty the termination date. In addition, either the State or the counterparty may terminate any Existing Swap Agreement if the other party fails to perform under the terms of the Existing Swap Agreement, or if other various events occur. If any Swap Agreement were terminated, the State would be unhedged and exposed to additional interest rate risk on a like amount of the 2008 Series B Bonds and 2008 Series C Bonds. In addition, if the terminated Existing Swap Agreement were to have a

negative fair market value at the time of termination, the State would incur a loss and would be required to make a settlement payment to the counterparty. Termination payments, if required to be made, can be made, at the State's discretion, from the Stabilization Fund, or delayed until funds are available in the Subordinated Payment Obligations Fund or until the next biennium when appropriations can be made in the biennial budget for the termination payments.

#### *Market-Access and Rollover Risks*

Each of the Existing Swap Agreements has a term that is equal to the related maturities of the 2008 Series B Bonds and the 2008 Series C Bonds. In addition, since the notional amounts of the Existing Swap Agreements decline in a manner substantially related to the scheduled amortization of the 2008 Series B Bonds and the 2008 Series C Bonds, there is no material market-access risk or rollover risk.

#### **Defeasance**

A defeasance of any outstanding 2003 Indenture Bonds, 2016 Series B Bonds, 2017 Series A Bonds, and 2017 Series C Bonds may cause the recognition of a gain or loss, for federal tax purposes, at the time of the defeasance. Owners of the outstanding 2003 Indenture Bonds, 2016 Series B Bonds, 2017 Series A Bonds, and 2017 Series C Bonds should consult their tax advisors regarding the tax consequences of any defeasance of such Bonds.

#### **Additional Bonds**

Neither Indenture precludes the issuance of Additional Bonds under circumstances in which the resulting debt service might exceed the amount appropriated for the biennium during which the Additional Bonds are issued. The 2003 Indenture does, however, require the State to provide the Trustee with evidence from each of at least two of the rating agencies then rating the 2003 Indenture Bonds that the issuance of the Additional 2003 Indenture Bonds would not adversely affect the ratings assigned to the 2003 Indenture Bonds by that rating agency.

## **SUMMARY OF THE 2003 INDENTURE**

The following is a summary of certain provisions of the 2003 Indenture, which relates to the 2003 Indenture Bonds. The summary does not purport to be complete, and reference should be made to the full text of the 2003 Indenture for a complete recital of its terms.

The following summary may also use terms that are familiar to, but could slightly vary from similar terms used in the summary for the 2009 Indenture. The term "Bonds" in the following summary refers to 2003 Indenture Bonds.

#### **Funds Established by 2003 Indenture**

The 2003 Indenture establishes with the Trustee the following funds:

- Appropriations Fund
- Operating Expense Fund
- Debt Service Fund
- Subordinated Payment Obligations Fund, and
- Stabilization Fund.

On the first business day of each Fiscal Year, the State shall pay to the Trustee from appropriated funds, for deposit in the Appropriations Fund, an amount certified by the Secretary of Administration as the net amount reasonably expected to be needed during that Fiscal Year to pay principal of Bonds (including the scheduled amount, if any, to be redeemed by optional redemption), interest on the Bonds, and any payment obligations (other than Subordinated Swap Payment Obligations) with respect to Swap

Agreements, and to pay administrative expenses. The Deposit Amount is expected to be less than the Annual Appropriation Amount.

The 2003 Indenture requires the Trustee, upon receipt of the deposit, to transfer from the Appropriations Fund an amount designated by the State (and consistent with its determination of the amount required to be deposited in that fund) to the Operating Expense Fund and then transfer the balance into the Debt Service Fund.

The 2003 Indenture requires the Trustee to apply money in the Debt Service Fund to pay:

- The unpaid interest due on the Bonds on each payment date.
- The amount due on Swap Agreements (other than Subordinated Swap Payment Obligations).
- The principal installment of Bonds due on each payment date.
- The principal due upon optional redemption of Bonds.

On any payment date on which the amount on deposit in the Debt Service Fund is insufficient, the 2003 Indenture requires the Trustee to withdraw from the Subordinated Payment Obligations Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall, and thereafter (if a shortfall still exists) to withdraw from the Stabilization Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall.

The State may at any time, at its option, transfer to the Trustee for deposit in the Appropriations Fund, for further distribution into any of the funds and accounts, appropriated funds in addition to the amounts specifically required by the 2003 Indenture. The State is permitted, but not required, to put additional amounts in the Stabilization Fund from time to time. The Stabilization Fund Amount is currently \$33,013,000 but this required amount may be reduced after the 2003 Bonds are no longer Outstanding to an amount deemed reasonable, subject to Rating Confirmation.

### **The 2003 Indenture Bonds**

The sum of the aggregate principal amount of Bonds issued to fund the State's unfunded prior service (pension) liability and unfunded liability for sick leave conversion credits may not exceed the limit set forth in the Enabling Act.

#### *Deposit of Bond Proceeds to Funds and Accounts*

Initial deposits will be made from proceeds of a Series of Bonds into the funds and accounts created under the 2003 Indenture as provided in a Closing Statement executed by an Authorized Department Representative and furnished to the Trustee. The Closing Statement shall specify the purchase price of the Bonds and shall further specify, with respect to that amount:

- the amount representing accrued interest, if any, on the Bonds and the amount, if any, representing Funded Interest, to be deposited in the Proceeds Account; and
- the amount, if any, to be deposited in any other fund or account as provided in the Closing Statement.

#### *Issuance of Additional Bonds*

The State reserves the right to issue one or more Series of Additional Bonds under the 2003 Indenture from time to time, with a charge or lien equal to the charge and lien applicable with respect to the 2003 Bonds, the 2008 Bonds, the 2012 Bonds, and the 2016 Series A Bonds, *provided that*:

- the proceeds of such Additional Bonds may be used only to pay the Payment or Payment Costs or to fund or refund Bonds issued for that purpose; and

- the aggregate amount of Bonds issued may not cause the authorization of the Enabling Act to be exceeded.

For each Series of Additional Bonds, the Department of Administration shall provide a separate Authorizing Certification authorizing a Supplemental Indenture and setting forth the aggregate principal amount of Additional Bonds authorized thereby, the manner of their sale, and the form and other terms thereof.

Prior to the delivery by the State of any of the Additional Bonds there must be filed with the Trustee:

- a Supplemental Indenture executed on behalf of the State by the Department of Administration and the Trustee creating the Additional Bonds, specifying their terms and providing for the disposition of the proceeds of their sale,
- a copy of the Authorizing Certification executed by the Secretary of Administration or his or her designee authorizing the execution and delivery of the Supplemental Indenture and the issuance of the Additional Bonds,
- a request and authorization to the Trustee by the Department of Administration on behalf of the State and signed by an Authorized Department Representative requesting the Trustee to authenticate and deliver the Additional Bonds, and
- evidence of a Rating Confirmation.

### **Redemption of Bonds**

If the Bonds are to be called for redemption, and if sufficient monies are on deposit with the Trustee in the Debt Service Fund on the applicable redemption date to redeem the Bonds to be redeemed and to pay any interest and premium due thereon, the Trustee is authorized and directed to apply those funds to the payment of the Bonds to be redeemed. Interest on any Bonds called for redemption stops accruing on the date that the notice of redemption fixes for their redemption if:

- notice of their redemption has been given as provided in the 2003 Indenture, and
- money sufficient for their payment is on deposit with the Trustee as required by the 2003 Indenture.

### **General Terms and Provisions of Bonds**

The Bonds, Swap Payment Obligations, and Credit Facility Payment Obligations, together with any interest thereon, shall be special and limited obligations of the State, payable solely out of the Appropriated Funds. The Appropriated Funds consist principally of amounts that are subject to annual appropriation by the Legislature. The Bonds, Swap Payment Obligations, and Credit Facility Payment Obligations are valid claims of the Registered Owners, Swap Providers, and Credit Issuers, respectively, only against the Trust Estate and other Appropriated Funds. The Trustee agrees to hold the Trust Estate and apply the Appropriated Funds only as provided in the 2003 Indenture, except to the extent otherwise specified by law in an appropriation. The State is not generally liable on the Bonds. Neither the general credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the Bonds. The Bonds do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

### **General Covenants**

#### *Payment of Principal and Interest, Swap Payment Obligations, and Credit Facility Payment Obligations*

The State represents, warrants, and covenants that so long as any of the Bonds are Outstanding or any Swap Payment Obligations or any Credit Facility Payment Obligations exist, it will deposit, or cause to be paid to the Trustee for deposit, in the Appropriations Fund, but solely from the Appropriated Funds, amounts sufficient to promptly pay the principal of, and premium, if any, and interest on, the Outstanding

Bonds and the Swap Payment Obligations and Credit Facility Payment Obligations as the same become due and payable.

*Performance of Duties Under the 2003 Indenture and the Bonds*

The State represents, warrants, and covenants that it will perform its obligations under the 2003 Indenture, and Bonds executed, authenticated, and delivered under the 2003 Indenture and all its proceedings relating to the issuance of the Bonds. The State further represents and warrants that it is duly authorized under the Constitution and laws of the State, including without limitation the Enabling Act, by and through the Department of Administration, to issue the Bonds, to execute the 2003 Indenture, and to pledge and assign the property described in the 2003 Indenture in the manner and to the extent set forth in the 2003 Indenture. The State represents that all action on the part of the State and the Department of Administration for the issuance of the Bonds and the execution and delivery of the 2003 Indenture have been effectively taken and that the Bonds, the Swap Payment Obligations, and the Credit Facility Payment Obligations are and will be valid and enforceable obligations of the State contracted by the Department of Administration according to the terms of the 2003 Indenture, the Bonds (where applicable), and the Enabling Act.

*Nonimpairment*

Subject to the right of nonappropriation and the right to rescind, repeal, or amend an appropriation by the Legislature, the State represents, warrants, and covenants that it will not enter into any contract or take any action impairing the rights of the Trustee, the Bondowners, any Swap Provider, or any Credit Issuer under the 2003 Indenture, the Bonds, a Swap Agreement, or any agreement relating to a Credit Facility. Subject to the right of nonappropriation and the right to rescind, repeal, or amend an appropriation by the Legislature, the State will not limit or alter its powers to fulfill the terms of any agreements made with Bondowners or in any way impair the rights and remedies of Bondowners until the Bonds, together with interest and all costs and expenses in connection with any action or proceeding on behalf of the Bondowners, are fully met and discharged.

*Budget Process and Appropriations*

The State directs the appropriate officers of the Department of Administration to take all appropriate actions within their power to assure that the Annual Appropriation Amounts with respect to the Bonds, Swap Payment Obligations, and Credit Facility Payment Obligations are annually appropriated. The Secretary of Administration or his designee shall:

- (a) while any Bonds are Outstanding, or Swap Agreements or Credit Facilities are in effect, ensure that the budget request prepared under Section 16.42, Wisconsin Statutes, for each Fiscal Year includes the Annual Appropriation Amount;
- (b) in the event a Budget Bill fails to include the Annual Appropriation Amount, promptly provide a written notice to the Governor and the presiding officer of each house of the Legislature, stating the nature of the deficiency and requesting action to ensure the satisfaction of the State's moral obligation;
- (c) in the event a Budget Bill fails to include the Annual Appropriation Amount, promptly provide a written notice to the Trustee, each Purchaser, each Rating Agency, each Swap Provider, and each Credit Issuer stating the nature of the deficiency;
- (d) in the event a Budget Bill fails to include the Annual Appropriation Amount, promptly send a letter to the Governor and the presiding officer of each house of the Legislature seeking an amendment to such Budget Bill or, if such a Budget Bill is signed into law by the Governor, promptly send a letter to the Governor and the presiding officer of each house of the Legislature seeking the introduction of a separate bill authorizing the necessary or additional appropriation required;



- (e) upon an Event of Nonappropriation, promptly provide a written notice thereof to the Trustee, each Purchaser, each Rating Agency, each Swap Provider, and each Credit Issuer; and
- (f) in the event a Swap Termination Payment becomes due, and there are insufficient funds available from Appropriated Funds under the 2003 Indenture or from other legal sources provided by the State to pay the Swap Termination Payment, promptly send a letter to the Governor and the presiding officer of each house of the Legislature seeking the introduction of a separate bill authorizing an additional appropriation.

The Secretary of Administration has covenanted that, in the event the secretary exercises his or her authority under Section 16.53(10)(a), Wisconsin Statutes, to establish a priority schedule for payments, he or she will give payment of the Outstanding Bonds, the Swap Payment Obligations, and the Credit Facility Payment Obligations the highest possible priority permitted by law.

*Trustee Notices Regarding Budget Process and Appropriations*

The Trustee may at any time request that the Secretary of Administration certify that he or she has performed his or her obligations under the 2003 Indenture described above under **clause (a) of “SUMMARY OF THE 2003 INDENTURE; General Covenants; Budget Process and Appropriations”** and that no event described above in **clause (b), (c), or (e) under “SUMMARY OF THE 2003 INDENTURE; General Covenants; Budget Process and Appropriations”** has occurred, and the Secretary of Administration shall promptly provide such a certification. The Trustee shall promptly provide written notice to the following parties of the occurrence of certain events, as follows:

- Upon failure to receive the certification requested by the Trustee with regard to compliance with **clause (a) under “SUMMARY OF THE 2003 INDENTURE; General Covenants; Budget Process and Appropriations,”** to the Governor and the presiding officer of each house of the Legislature, with a copy to the Secretary of Administration, each Purchaser, each Rating Agency, each Swap Provider, and each Credit Issuer, in the event that the Secretary of Administration fails to include in the budget requests prepared under Section 16.42, Wisconsin Statutes, for any Fiscal Year, the Annual Appropriation Amount;
- Upon receipt of the notice described in **clause (c) under “SUMMARY OF THE 2003 INDENTURE; General Covenants; Budget Process and Appropriations”** or upon failure to receive a certification requested by the Trustee that no event described in that clause has occurred, to the Governor and the presiding officer of each house of the Legislature, with a copy to the Secretary of Administration, each Purchaser, each Rating Agency, each Swap Provider, and each Credit Issuer, in the event that a Budget Bill at any time fails to include the Annual Appropriation Amount; or
- Upon receipt of the notice described in **clause (e) under “SUMMARY OF THE 2003 INDENTURE; General Covenants; Budget Process and Appropriations”** or upon failure to receive a certification requested by the Trustee that no event described in that clause has occurred, to the Governor and the presiding officer of each house of the Legislature, with a copy to the Secretary of Administration, each Purchaser, each Rating Agency, each Swap Provider, and each Credit Issuer, in the event of an Event of Nonappropriation.

*Event of Default*

The State covenants that, should there be a Default or an Event of Default, the State will fully cooperate with the Trustee, the Registered Owners, the Swap Providers, and the Credit Issuers to the end of fully protecting the rights and security of the Registered Owners, the Swap Providers, and the Credit Issuers.

**Appropriated Funds and Funds and Accounts**

The 2003 Indenture establishes in the Debt Service Fund a Debt Service Account for each Series of Bonds and each Swap Agreement and a Proceeds Account. Sinking fund accounts for any Series of

Bonds having sinking fund installments may be established within the Debt Service Account for such Series in any schedule to the 2003 Indenture or in a Supplemental Indenture.

The 2003 Indenture provides that any monies derived from an appropriation of the State Legislature may only be applied in a manner consistent with its appropriation.

On the last Business Day of each Fiscal Year, the Trustee shall transfer all monies remaining in the Appropriations Fund, the Operating Expense Fund (except for amounts therein funded from proceeds of Bonds), the Debt Service Accounts, and the Subordinated Payment Obligations Fund (1) to the Stabilization Fund or (2) to the State, as directed in writing by an Authorized Department Representative.

*Deposits Into and Use of Monies in the Appropriations Fund*

The Trustee shall receive for immediate deposit into the Appropriations Fund the Deposit Amount and any additional Appropriated Funds transferred to the Trustee by the State or by any Swap Provider pursuant to the terms of a Swap Agreement as follows:

- On the first Business Day of each Fiscal Year for which a Budget Bill has been enacted, the State shall pay the Deposit Amount to the Trustee for deposit in the Appropriations Fund, from amounts appropriated pursuant to Section 20.505(1)(br), Wisconsin Statutes, or any successor provision. On the first Business Day of each Fiscal Year, in the event a Budget Bill for that Fiscal Year has not yet been enacted, the State shall pay to the Trustee the full amount, up to the Deposit Amount, that is available pursuant to the carry-over of existing appropriations from the prior Fiscal Year pursuant to Section 20.002(1), Wisconsin Statutes. On the Business Day following the subsequent enactment of such a Budget Bill creating additional Appropriated Funds, the State shall pay to the Trustee, for deposit in the Appropriations Fund, the amount, if any, by which amounts appropriated thereby exceed amounts previously paid to the Trustee in such Fiscal Year for deposit therein, *provided* that the total paid to the Trustee shall not exceed the Deposit Amount.
- No later than 30 days following the enactment of any separate bill or bills providing for an appropriation available for the payment of the Bonds, Swap Payment Obligations, and/or Credit Facility Obligations, for payment of issuance or administrative expenses or for funding a deposit to the Stabilization Fund in that Fiscal Year, the State shall pay to the Trustee for deposit in the Appropriations Fund the amounts appropriated thereby.
- No later than 30 days following the enactment of a Budget Bill, the State shall pay to the Trustee the amount of any Swap Termination Payment which is a Parity Swap Payment Obligation, and which was included in the calculation of Annual Appropriation Amount for that Fiscal Year, to the extent that Appropriated Funds are available.
- Any amounts appropriated pursuant to Section 20.505(1)(it), Wisconsin Statutes, or any successor provision, not otherwise deposited into the Indenture Funds under the terms of a Swap Agreement shall be transferred, immediately upon receipt by the State, to the Trustee for deposit in the Appropriations Fund.
- At any time during any Fiscal Year that any Appropriated Funds previously transferred to the Trustee are insufficient for the requirements of the Indenture Funds, the Trustee shall notify the State of such insufficiency and the State shall promptly pay such amount to the Trustee, but solely from Appropriated Funds, for deposit in the Appropriations Fund.
- The State may, at any time, at its option, transfer to the Trustee for deposit in the Appropriations Fund for further distribution into any of the funds and accounts described below, Appropriated Funds in addition to the Deposit Amount or other amounts required above.

- The State may direct the Trustee to transfer amounts from the Stabilization Fund to the Appropriations Fund as described below under “**SUMMARY OF THE 2003 INDENTURE; Appropriated Funds and Funds and Accounts; Use of Monies in the Stabilization Fund.**”

The Trustee shall receive for immediate deposit into the Appropriations Fund the Deposit Amount and any additional Appropriated Funds transferred by the State or by any Swap Provider pursuant to the terms of a Swap Agreement to the Trustee. The Trustee, promptly after receipt of the Deposit Amount in the Appropriations Fund, shall transfer an amount thereof designated in writing by an Authorized Department Representative, consistent with the amount used in the computation of the Deposit Amount, to the Operating Expense Fund and shall transfer the balance into the Debt Service Fund for distribution into the Debt Service Accounts as designated in writing by an Authorized Department Representative. The Trustee, promptly after receipt of any other monies in the Appropriations Fund, and at any time thereafter as needed to fund the following Indenture Funds, shall make payments into the following Indenture Funds, but as to each Indenture Fund only within the limitations set forth below:

- FIRST: Into the Operating Expense Fund, the amounts designated in writing by an Authorized Department Representative to be deposited in the Operating Expense Fund;
- SECOND: Into each Debt Service Account, to the extent, if any, needed to increase the amount in such Debt Service Account so that it equals the interest and principal (whether at maturity or upon mandatory redemption) for the related Series of Bonds due on each Payment Date and the amount of any Parity Swap Payment Obligations, if any, due on each Payment Date, after taking into account amounts available for that purpose in the Proceeds Account;
- THIRD: Into the Subordinated Payment Obligations Fund, the amount of any Subordinated Swap Payment Obligations and Credit Facility Payment Obligations due on each Payment Date; and
- FOURTH: Into the Stabilization Fund, the amount designated in writing by an Authorized Department Representative to be deposited for such Fiscal Year into the Stabilization Fund.

Any remaining Appropriated Funds shall remain in the Appropriations Fund until June 30<sup>th</sup> of each Fiscal Year. On May 1<sup>st</sup> of each year, the State shall determine the extent to which there are available monies on deposit in the Appropriations Fund, the Debt Service Accounts and the Subordinated Payment Obligations Fund which will not be needed for the purposes thereof for the balance of that Fiscal Year as reasonably determined by the State, and the State shall direct the Trustee to apply such monies prior to the end of the Fiscal Year in an amount up to any amount set forth in a schedule or formula, if any, set forth in the 2003 Indenture or Supplemental Indenture pursuant to which Additional Bonds are issued, to the optional redemption of the Additional Bonds. To the extent that any such scheduled amount of optional redemption is not achieved in any Fiscal Year, the shortfall shall be added to the remaining scheduled amounts of optional redemptions on a prorated basis rounded to the nearest authorized denomination of the applicable Series of Bonds, and any schedule or formula for such Series of Bonds set forth in the related Supplemental Indenture shall be modified accordingly.

*Use of Monies in the Debt Service Fund*

The Trustee shall withdraw from the applicable Debt Service Account of the Debt Service Fund and the Proceeds Account on or prior to each Payment Date an amount equal to:

- The unpaid interest due on the Bonds on each such Payment Date, and shall cause the same to be applied to the payment of said interest when due.
- The amount of each Parity Swap Payment Obligation due on such Payment Date, and shall cause the same to be paid to the applicable Swap Provider (*provided* that any Swap Termination

Payment which is a Parity Swap Payment Obligation will be paid no later than 30 days after enactment of the Budget Bill or other bill providing an appropriation available for its payment).

- The Principal Installment of such Bonds due on such Payment Date, and shall cause the same to be applied to the payment of such Principal Installment when due.
- The principal due upon optional redemption of such Bonds on such Payment Date, and shall cause the same to be applied to the payment of such principal when due, *provided* that, prior to distributing notice of any such optional redemption (other than scheduled optional redemption described under “**SUMMARY OF THE 2003 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Appropriations Fund**”), an Authorized Department Representative has certified that the total of (1) amounts remaining on deposit in the Debt Service Fund (other than amounts on deposit in the Proceeds Account that are expected to be needed in future Fiscal Years) and (2) amounts remaining under the appropriation made for that Fiscal Year pursuant to Section 20.505(1)(br), Wisconsin Statutes, or any successor provision, are sufficient to meet the requirements of the Debt Service Fund for the balance of the Fiscal Year, assuming, for purposes of said certification, that the interest on any Variable Rate Bonds for the balance of the Fiscal Year shall be calculated at the Maximum Rate and the amount of any Parity Swap Payment Obligations that would be payable under Swap Agreements that provide for a variable rate to be paid by the State shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, shall be determined at a rate equal to the rate that would result if the index provided in such Swap Agreement were at 15% per annum) and that interest accruing on any overdue Parity Swap Payment Obligation at a variable rate shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, a rate of 15% per annum on the amount of the overdue Parity Swap Payment Obligation).

Prior to the Payment Date of a Principal Installment, any amounts then on deposit in a Debt Service Account shall, if so directed in writing by an Authorized Department Representative, be applied by the Trustee to another Debt Service Account to the extent not needed for purposes of the Debt Service Account in which it was originally deposited or to the purchase of Bonds of the Series and maturity for which such Principal Installment was established, in an amount not exceeding that necessary to complete the payment of the unsatisfied balance of such Principal Installment. All purchases of Bonds pursuant to the 2003 Indenture shall be made at prices not exceeding the applicable sinking fund Redemption Price or principal amount of such Bonds plus accrued interest.

If for any reason a Debt Service Account shall contain excess monies after a Payment Date, such excess may be held in that Debt Service Account as a credit against the requirements of that Debt Service Account for the balance of that Fiscal Year, transferred to another Debt Service Account, or returned to the Appropriations Fund, as the State shall direct.

In an amount at least equal to the Annual Appropriation Amount has been appropriated pursuant to Section 20.505(1)(br), Wisconsin Statutes, then the Trustee shall, if the State so directs, transfer monies in the Proceeds Account to the Operating Expense Fund or to the Stabilization Fund to increase or replenish the Stabilization Fund Amount therein, *provided* that any such direction shall be accompanied by a certificate of an Authorized Department Representative to the effect that such monies will not be needed to pay interest on the Bonds and that any increase in the Stabilization Fund Amount is reasonable.

In connection with a defeasance of any Bonds, the Trustee shall, if the State so directs, withdraw from the Debt Service Fund all, or any portion of, the amounts accumulated therein with respect to debt service on Bonds being defeased and deposit such amounts in escrow to be held for the payment of the principal amount or Redemption Price, if applicable, and interest on the Bonds being refunded; *provided* that such withdrawal shall not be made unless immediately thereafter the Bonds being defeased shall be deemed to have been paid pursuant to the 2003 Indenture as described under “**SUMMARY OF THE 2003 INDENTURE; Discharge of 2003 Indenture**” below.

Except to the extent that such application would be inconsistent with the appropriation of said amounts by the Legislature, and except as described under “**SUMMARY OF THE 2003 INDENTURE; Defaults and Remedies**” below, payments from the Debt Service Fund shall be made ratably by the Trustee according to amounts due in respect of each Bond and Parity Swap Payment Obligation without preference of one Bond or Parity Swap Payment Obligation over another (and without regard to the deposit of amounts in a particular Debt Service Account). Notwithstanding anything in the 2003 Indenture to the contrary, any monies derived from an appropriation of the State legislature may only be applied in a manner consistent with that appropriation.

*Use of Monies in the Subordinated Payment Obligations Fund*

Throughout each Fiscal Year on any Payment Date on which the amount on deposit in the Debt Service Fund is insufficient for the purposes thereof, the Trustee shall withdraw from the Subordinated Payment Obligations Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall. On (a) June 10<sup>th</sup> (or if June 10<sup>th</sup> is not a Business Day, the Business Day next succeeding June 10<sup>th</sup>) of each Fiscal Year (but only if the amounts on deposit in the Debt Service Fund are sufficient to meet the requirements thereof for the balance of the Fiscal Year) or (b) such earlier date on which an Authorized Department Representative, at the State’s option, certifies that the total of (1) the monies on deposit in the Debt Service Fund and (2) the amounts remaining under the appropriation made for that Fiscal Year pursuant to Section 20.505(1)(br), Wisconsin Statutes, or any successor provision, are sufficient to meet the requirements of the Debt Service Fund for the balance of the Fiscal Year, assuming, for purposes of said certification, that the interest on any Variable Rate Bonds for the balance of the Fiscal Year shall be calculated at the Maximum Rate and the amount of any Parity Swap Payment Obligations that would be payable under Swap Agreements that provide for a variable rate to be paid by the State shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, shall be determined at a rate equal to the rate that would result if the index provided in such Swap Agreement were at 15% per annum) and that interest accruing on any overdue Parity Swap Payment Obligation at a variable rate shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, a rate of 15% per annum on the amount of the overdue Parity Swap Payment Obligation), then the Trustee shall withdraw from the Subordinated Payment Obligations Fund the amount of any Subordinated Swap Payment Obligations or Credit Facility Payment Obligations which are due and owing on such date and shall cause the same to be paid to the applicable Swap Provider or Credit Issuer.

Except to the extent that such application would be inconsistent with the appropriation of said amounts by the Legislature, payments from the Subordinated Payment Obligations Fund shall be made ratably by the Trustee according to the amounts due in respect of each Subordinated Swap Payment Obligation and Credit Facility Payment Obligation without priority or preference of one Subordinated Swap Payment Obligation or Credit Facility Payment Obligation over another.

*Use of Monies in the Stabilization Fund*

Throughout each Fiscal Year on any Payment Date on which the amount on deposit in the Debt Service Fund is insufficient for the purposes thereof and amounts drawn from the Subordinated Payment Obligations Fund are not sufficient to make up the shortfall, the Trustee shall withdraw from the Stabilization Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall. Throughout each Fiscal Year until June 10<sup>th</sup> (or if June 10<sup>th</sup> is not a Business Day, the Business Day next succeeding June 10<sup>th</sup>), the State may, but is not required to, direct the Trustee to withdraw from the Stabilization Fund and transfer to the Subordinated Payment Obligations Fund the amount needed to make up any shortfall in such Indenture Fund for the purposes thereof. On June 10<sup>th</sup> (or if June 10<sup>th</sup> is not a Business Day, the Business Day next succeeding June 10<sup>th</sup>) of each Fiscal Year, the Trustee shall withdraw from the Stabilization Fund and transfer to the Subordinated Payment Obligations Fund the amount needed to make up any shortfall in such Indenture Fund for the purposes thereof, *provided* that amounts in the Stabilization Fund will not be required to be used to fund the Debt Service Fund to meet the requirements thereof for the balance of the Fiscal Year.



On the first Business Day of each Fiscal Year, the State may direct the Trustee to transfer amounts in the Stabilization Fund in excess of the Stabilization Fund Amount to the Appropriations Fund for further distribution to the Indenture Funds described above as directed by the State.

In connection with a defeasance of any Bonds, the Trustee shall, if the State so directs, withdraw from the Stabilization Fund, and deposit in escrow to be held for the payment of the principal amount or Redemption Price, if applicable, and interest on the Bonds being defeased, all, or any portion of, the amount therein in excess of the Stabilization Fund Amount after giving effect to the defeasance of such Bonds; *provided* that such withdrawal shall not be made unless immediately thereafter the Bonds being defeased shall be deemed to have been paid pursuant to the 2003 Indenture as described under “**SUMMARY OF THE 2003 INDENTURE; Discharge of 2003 Indenture**” below.

Amounts in the Stabilization Fund may be used for the final payment at maturity or upon earlier redemption of all remaining Outstanding Bonds.

#### *Use of Monies in the Operating Expense Fund*

The Trustee shall withdraw from the Operating Expense Fund the amounts, and pay to the parties, designated in writing by an Authorized Department Representative for the payment of issuance and administrative expenses related to the Bonds, Swap Payment Obligations, and Credit Facility Payment Obligations.

#### *Payments to the State*

Any amounts remaining in the Appropriations Fund or any other funds or accounts established under the 2003 Indenture after payment of all Bonds, Swap Payment Obligations, and Credit Facility Payment Obligations shall be paid to the State.

#### *Funds Held in Trust*

All money held in any of the Indenture Funds are held in trust in the custody of the Trustee subject to the provisions of the 2003 Indenture which permit their disbursements for specified purposes. All money and securities held in Indenture Funds are subject to the first lien of the 2003 Indenture and are not subject to any lien, attachment, garnishment, or other claims or proceedings by other creditors of the State or any third party (under the 2003 Indenture the money and securities are subject to the lien of the Trustee described under “**SUMMARY OF THE 2003 INDENTURE; The Trustee**”).

### **Investments**

The Trustee agrees to continuously invest and reinvest money on deposit in the Indenture Funds in Qualified Investments as directed in writing by the State, which the State agrees to provide. Investments made with money on deposit in the Indenture Funds may be made by the Trustee through its own bank investment department and:

- will have maturities or be readily marketable prior to maturity in the amounts and not later than the dates as may be necessary to provide funds for the purpose for which the money in any account is to be used,
- will be held by or under the control of the Trustee,
- will at all times be considered a part of the 2003 Indenture Fund (and in the case of the Debt Service Fund, the account therein) for whose benefit the investment was made,
- will have any loss attributable to them charged to the 2003 Indenture Fund (and in the case of the Debt Service Fund, the account therein) for whose benefit the investment was made, and
- in all other cases, will have any interest or profit derived from them retained in the 2003 Indenture Fund (and in the case of the Debt Service Fund, the account therein) from which the investment was made.

The Trustee shall not be responsible or liable for any loss resulting from such investment, except to the extent caused by its negligence or willful default.

### **Discharge of 2003 Indenture**

The 2003 Indenture and the estate and rights granted by it ceases, determines, and is void if:

- (a) the State has performed all its obligations under the 2003 Indenture and the applicable Bond Purchase Agreement,
- (b) all Trustee's Expenses and the expenses of any other paying agent which have accrued and will accrue through the final payment of the Bonds have been paid or arrangements satisfactory to the Trustee for their payment have been made,
- (c) provision for the payment of all Outstanding Bonds has been made to the satisfaction of the Trustee in one or more of the following ways:
  - (1) by paying or causing to be paid, when due, the principal of, and premium, if any, and interest on, all Outstanding Bonds,
  - (2) by irrevocably depositing with the Trustee, in trust for such purpose, at or before maturity, cash in an amount sufficient to pay or redeem (when redeemable) all Outstanding Bonds including unpaid interest which has accrued on the Bonds and will accrue through the final payment or redemption of the Bonds (assuming that any Variable Rate Bonds bear interest rate at the Maximum Rate for any period for which the interest rate is not then known) and any redemption premium,
  - (3) by delivering to the Trustee, for cancellation, all Outstanding Bonds, or
  - (4) by depositing with the Trustee, in trust, Defeasance Obligations that mature in an amount that will, together with the income or increment to accrue on them but without reinvestment, be sufficient to pay or redeem (when redeemable) all Bonds at or before their respective maturity dates, including interest which has accrued on the Bonds and will accrue through the final payment or redemption of the Bonds (assuming that any Variable Rate Bonds bear interest rate at the Maximum Rate for any period for which the interest rate is not then known) and any redemption premium,
- (d) a notice of redemption which includes the Redemption Notice Information and which is not contingent upon satisfaction of any condition has been given as required by the 2003 Indenture if any of the Bonds are to be redeemed before their maturity (or if a notice of redemption cannot then be given as provided in the 2003 Indenture, then the State has given the Trustee, in a form satisfactory to the Trustee, irrevocable instructions to provide a notice of redemption which includes the Redemption Notice Information to the Registered Owners of any Bonds to be redeemed when a notice of redemption can be timely given under the 2003 Indenture),
- (e) if the payment of the Bonds has been provided for under (c)(2) or (c)(4) above, the Trustee (1) has been furnished with an Opinion of Bond Counsel to the effect that the actions taken under the 2003 Indenture will not adversely affect the validity of any Bonds and (2) has given notice to the Registered Owners of the Bonds at the Registered Owner's Address of the actions taken under subsection (c) above,
- (f) if the payment of the Bonds has been provided for under (c)(4) above, an opinion from an independent certified public accountant has been provided to the effect that the funds available or to be available in the escrow for the payment of the Bonds will be sufficient to pay the principal of, premium, if any, and interest on the Bonds, and
- (g) any additional requirements set forth in the 2003 Indenture or a Supplemental Indenture with respect to the applicable Series of Bonds have been satisfied.

On the occurrence of the events described in (a) through (g) above, the Trustee is authorized and directed:

- to execute and deliver all appropriate instruments evidencing and acknowledging the satisfaction of the 2003 Indenture, and
- to assign and deliver to the Department of Administration any money and investments in any Indenture Fund (except money or investments held by the Trustee for the payment of the principal of, and premium, if any, and interest on, any Bonds).

Notwithstanding any other provision of the 2003 Indenture which may be contrary to the provisions set forth above, all money and Defeasance Obligations which are set aside and held in trust pursuant to the provisions of the 2003 Indenture for the payment of the principal of, and premium, if any, and interest on, Bonds will be applied to and used solely for the payment of the principal of, and premium, if any, and interest on, the particular Bonds with respect to which it was so set aside in trust. The income derived from Defeasance Obligations held by the Trustee under the 2003 Indenture which are not needed for the payment of the principal of, and premium, if any, or interest on, the Bonds is to be disposed of in a manner which, in the Opinion of Bond Counsel, will not adversely affect the validity of any Bonds.

Notwithstanding a discharge of the 2003 Indenture as provided in **clause (c)(2) or (c)(4) above**, resulting in the Owners of Bonds having a claim for the payment of their Bonds solely from the cash and Defeasance Obligations so set aside, the 2003 Indenture will continue to govern the method of making payments of principal of, and interest on, the Bonds, the registration, transfer, and exchange of Bonds, the circumstances under which the Bonds may be redeemed, and similar matters.

## **Defaults and Remedies**

### *Events of Default*

The occurrence and continuance of any of the following events is an Event of Default under the 2003 Indenture:

- failure to pay when due the principal of (whether at maturity, upon redemption or otherwise), or premium, if any, or interest on, any Bonds or any Parity Swap Payment Obligations, except to the extent that such failure is due to an Event of Nonappropriation;
- failure to pay as required by the terms of the 2003 Indenture any Subordinated Swap Payment Obligations or Credit Facility Payment Obligations, except to the extent that such failure is due to an Event of Nonappropriation;
- failure to pay when due the tender price on any Bond upon mandatory or optional tender for purchase as provided in the 2003 Indenture, except to the extent that such failure is due to an insufficiency of appropriated funds to make such payment with respect to any Bonds for which there is no liquidity facility; or
- the State defaults in the due and punctual performance of any other of the covenants, conditions, agreements, and provisions contained in the Bonds, the 2003 Indenture, or any Supplemental Indenture on the part of the State to be performed and the default continues for 30 days after written notice specifying the default and requiring that it be remedied has been given to the State by the Trustee, which may give the notice in its discretion and must give the notice upon receipt of a written request of the Owners of at least 25% of the aggregate principal amount of any Series of Bonds then Outstanding that it do so, *provided* that if the default is one which can be remedied but cannot be remedied within that 30-day period, the Trustee may grant an extension of the 30-day period if the State institutes corrective action within that 30-day period and diligently pursues that action until the default is remedied.

### *Remedies*

Upon the occurrence of any Event of Default the Trustee may take whatever action at law or in equity it deems necessary or desirable (1) to collect any amounts then due under the 2003 Indenture, or the Bonds, any Swap Payment Obligations, or any Credit Facility Payment Obligations, (2) to enforce performance



of any obligation, agreement, or covenant of the State under the 2003 Indenture or the Bonds, of a Credit Issuer under any Credit Facility issued or entered into with respect to any Bonds, or of the grantor of any other collateral given to secure the payment of any Bonds, or (3) to otherwise enforce any of its rights; *provided*, however, actions against the State shall be limited to those permitted by the Statutes and the Constitution of the State.

None of the remedies under the 2003 Indenture is exclusive of any other remedy or remedies. Each remedy given under the 2003 Indenture is cumulative and is in addition to every other remedy that is given or that now or hereafter exists at law, in equity, or by statute.

No delay or omission in the exercise of any right or power accruing upon an Event of Default impairs the right or power or is a waiver of or acquiescence in any Event of Default. Every right and power given by the 2003 Indenture may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default extends to, or affects, any subsequent or other Event of Default or impairs any rights or remedies consequent thereon.

Nothing in the 2003 Indenture is intended as a waiver by the State of its sovereign immunity, any procedural requirements for any remedy, or any defenses available to it.

#### *Right to Direct Proceedings*

Except as the 2003 Indenture or a Supplemental Indenture may otherwise provide with respect to rights of Credit Issuers to act in the stead of Bondowners, the Owners of the Bonds have the right to direct the exercise of any rights or remedies under the 2003 Indenture, and the method and place of conducting all proceedings to be taken in connection with the enforcement of the 2003 Indenture. The 2003 Indenture provides that, so long as the applicable Bond Insurer is not in default under its Bond Insurance Policy, it will be treated as the Owner of the 2003 Series A Bonds, the 2008 Series C Bonds, or certain 2008 Series B Bonds for all purposes of declaring defaults directing remedies, and dealing with the Trustee under the 2003 Indenture. A Supplemental Indenture authorizing the issuance of a Series of Additional Bonds may provide for a Credit Issuer to have such rights with respect to a Series of Bonds entitled to the benefits of its Credit Facility. See “**SUMMARY OF THE 2003 INDENTURE; Certain Rights of Credit Issuers.**”

The directions of the Owners of Bonds are to be: (a) contained in a request which is signed by the Owners of at least a majority of the aggregate principal amount of each series of Bonds then Outstanding and delivered to the Trustee, (b) in accordance with law and the provisions of the 2003 Indenture, and (c) accompanied by indemnification of the Trustee as is provided in the 2003 Indenture.

#### *Application of Funds*

Upon an Event of Default or an Event of Nonappropriation, any Appropriated Funds received or held by the Trustee will, subject to the provisions of the 2003 Indenture relating to Credit Facilities, be applied as follows:

FIRST: To the payment of (1) the costs and expenses associated with the Trustee’s carrying out its obligations with respect to the Event of Nonappropriation or the exercise of any remedy related to an Event of Default, including reasonable compensation to the Trustee and its attorneys and agents, and (2) any Trustee’s Expenses.

SECOND: To the payment of interest, principal, and premium, if any, then due on the Bonds (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of Article 9 of the 2003 Indenture) and Parity Swap Payment Obligations, in the order of the maturity of the payments of interest, principal, and premium, if any, and Parity Swap Payment Obligations then due ratably and, if the amount available is not sufficient to pay in full interest, principal, premium, and Parity Swap Payment Obligations due on any particular date, then first to the payment of interest and Parity Swap Payment Obligations ratably, according to the amounts due, to the persons entitled to it without discrimination or privilege and second to the

amount of principal and premium, ratably, according to the amounts due, to the persons entitled to it without discrimination or privilege.

THIRD: Subject to the provisions of the 2003 Indenture described under “**SUMMARY OF THE 2003 INDENTURE; Appropriated Funds and Funds and Accounts; Use of Monies in the Subordinated Payment Obligations Fund,**” to the payment of Subordinated Swap Payment Obligations and Credit Facility Payment Obligations then due in the order of the maturity of such payments and, if the amount available is not sufficient to pay in full the Subordinated Swap Payment Obligations and Credit Facility Payment Obligations due on any particular date, then to their payment ratably, according to the amount due, to the persons entitled to it without discrimination or privilege.

FOURTH: To the payment of any other sums required to be paid by the State pursuant to any provisions of any of the 2003 Indenture.

Whenever money is to be applied as described above, the money is to be applied at the times the Trustee determines, having due regard for the amount of money available for application and the likelihood of additional money becoming available for application in the future. Whenever the Trustee applies such funds it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which the application is to be made and on that date interest on the amounts of principal paid ceases to accrue.

Any monies derived from an appropriation may only be applied in a manner consistent with its appropriation.

#### *Remedies Vested in Trustee*

All rights of action (including the right to file proofs of claim) under the 2003 Indenture or under any Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production of them in any trial or other proceeding relating to them. Any suit or proceeding instituted by the Trustee is to be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants the Registered Owners. Any resulting recovery or judgment is for the benefit of the Registered Owners of the Outstanding Bonds, the Swap Providers, and the Credit Issuers in accordance with the terms of the 2003 Indenture.

#### *Rights and Remedies of the Bondowners*

No Bondowner, Swap Provider, or Credit Issuer has any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the 2003 Indenture, for the execution of any trust created under the 2003 Indenture, for the appointment of a receiver, or for any other remedy, unless

- an Event of Default has occurred of which the Trustee has been notified as provided in the 2003 Indenture or of which the Trustee is deemed to have notice by the terms of the 2003 Indenture,
- the Trustee has received a request to do so and has been offered a reasonable opportunity either to proceed to exercise the powers granted in the 2003 Indenture or to institute an action, suit, or proceeding in its own name,
- the Trustee has been offered indemnity as provided in the 2003 Indenture, and
- the Trustee thereafter fails or refuses to exercise the powers granted in the 2003 Indenture or to institute an action, suit, or proceeding in its own name.

No Bondowner, Swap Provider, or Credit Issuer has any right to affect, disturb, or prejudice the security of the 2003 Indenture by its action or to enforce any right under the 2003 Indenture except in the manner provided in the 2003 Indenture, and all proceedings at law or in equity are to be conducted in the manner provided in the 2003 Indenture for the equal and ratable benefit of all the Bondowners, Swap Providers, or Credit Issuers in accordance with the priority provided in the 2003 Indenture. Nothing in the 2003 Indenture, however, affects or impairs the right of Bondowners, Swap Providers, or Credit Issuers to

enforce the payment of the principal of, and premium, if any, and interest on, any Bonds, Swap Payment Obligations, or Credit Facility Payment Obligations, respectively, at and after their maturity or the obligation of the State to pay the principal of, and premium, if any, and interest on, the Bonds issued under the 2003 Indenture, Swap Payment Obligations, or Credit Facility Payment Obligations, respectively, to Bondowners, Swap Providers, and Credit Issuers, respectively, at the time and place, from the source, and in the manner expressed in the 2003 Indenture and the Bonds (if applicable).

#### *Waivers of Events of Default*

Subject to the provisions of the 2003 Indenture relating to Credit Facilities, the Trustee may waive any Event of Default under the 2003 Indenture and its consequences and must do so upon receipt of a request to do so from the Registered Owners of a majority in aggregate principal amount of all Bonds then outstanding in respect of which the failure to pay the principal of, or premium, if any, or interest on, which has resulted in an Event of Default or of the Owners of a majority in principal amount of each Series of Bonds then Outstanding in the case of any other Event of Default. Notwithstanding the preceding sentence, the Trustee may not waive any Event of Default in the payment of the principal of, or premium, if any, or interest on, any Bond unless prior to the waiver all arrears of principal, or premium, if any, and interest on, the Bonds for which appropriations have been made, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for.

#### **The Trustee**

The Trustee accepts and agrees to perform the duties of the Trustee under the 2003 Indenture upon the terms and conditions set forth therein.

The Trustee is entitled to payment or reimbursement of its Trustee's Expenses. Upon the occurrence of an Event of Default or an Event of Nonappropriation, but only upon the occurrence of an Event of Default or an Event of Nonappropriation, the Trustee has a lien with right to payment prior to payment on account of the principal of, and premium, if any, and interest on, any Bond, any Swap Payment Obligation, and any Credit Facility Payment Obligation upon the Trust Estate and any other collateral securing the Bond, any Swap Payment Obligation, and any Credit Facility Payment Obligation for the payment of the Trustee's Expenses. To the extent permitted by the Statutes and Constitution of the State, the Trustee shall be entitled to payment or reimbursement from the State to indemnify the Trustee for, and to hold it harmless against, any loss, liability, or expense incurred without negligence, willful misconduct, or bad faith on its part, arising out of or in connection with the acceptance or administration of the 2003 Indenture, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under the 2003 Indenture.

If an Event of Default or an Event of Nonappropriation occurs of which the Trustee is required to take notice or of which it has been given notice, the Trustee agrees to give written notice of the Event of Default or Event of Nonappropriation by first-class mail to the Owners of all Bonds then Outstanding at the Registered Owner's Addresses.

The Trustee may, and upon receipt of a request to do so from the Owners of a majority of the principal amount of Bonds then Outstanding and upon indemnity being provided as required by the 2003 Indenture must, intervene on behalf of the Owners of Bonds in any judicial proceeding to which the State is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Owners of Bonds. The rights and obligations of the Trustee described in this paragraph are subject to the approval of a court of competent jurisdiction.

#### *Successor Trustee; Resignation or Removal of the Trustee; Successor or Temporary Trustee*

Any corporation or association (a) into which the Trustee may be converted or merged, (b) with which the Trustee may be consolidated, (c) to which the Trustee may sell or transfer its trust business and assets as a whole or substantially as a whole, or (d) resulting from a conversion, sale, merger, consolidation, or transfer to which the Trustee is a party becomes successor Trustee under the 2003 Indenture and is vested with all the title to the Trust Estate and the Trustee's interest in the 2003 Indenture and all the trusts,

powers, discretions, immunities, privileges, and all other matters as its predecessor was without the execution or filing of any instrument or any further act, deed, or conveyance on the part of any of the parties to the 2003 Indenture, anything in the 2003 Indenture to the contrary notwithstanding.

The Trustee and any successor Trustee may at any time resign from the trusts the 2003 Indenture created by giving 30 days written notice by registered or certified mail to the State and the Registered Owners. A resignation takes effect upon the appointment of a successor or temporary Trustee by the Registered Owners or the State and the successor or temporary Trustee's acceptance of its appointment.

The Trustee may be removed at any time without cause (a) at the direction of the State (so long as no Default or Event of Default under the 2003 Indenture has occurred, whether or not continuing) or (b) by an instrument or concurrent instruments in writing signed by the Registered Owners of a majority of the aggregate principal amount of the Bonds then Outstanding and delivered to the Trustee and the State. A removal takes effect upon the appointment of a successor or temporary Trustee by the Registered Owners or the State and the successor or temporary Trustee's acceptance of its appointment.

In case the Trustee resigns, is removed, is dissolved, is in the course of dissolution or liquidation, is taken under the control of a public officer, has a receiver appointed for it by a court, or otherwise becomes incapable of acting under the 2003 Indenture, a successor may be appointed by an instrument or concurrent instruments in writing signed by the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding. In case of a vacancy the State by an instrument executed and signed by an Authorized Department Representative in accordance with applicable law may appoint a temporary Trustee to fill the vacancy until a successor Trustee has been appointed by the Owners of Bonds in the manner described above. Any temporary Trustee appointed by the State immediately and without further act is superseded by the Trustee appointed by the Owners of Bonds. Every Trustee so appointed must be a trust company or a bank in good standing having a reported capital and surplus of not less than \$10 million or having assets under administration of not less than \$200 million if there is an institution willing, qualified, and able to accept the trust upon reasonable and customary terms and have the qualifications required by the Enabling Act.

Every successor Trustee appointed under the 2003 Indenture will execute, acknowledge, and deliver to its predecessor and to the State an instrument in writing accepting its appointment under the 2003 Indenture, and thereupon the successor, without any further act, deed, or conveyance, will become fully vested with all the estates, properties, rights, powers, trusts, duties, and obligations of its predecessor. Its predecessor agrees, nevertheless, on the written request of the State or of its successor, to execute and deliver an instrument transferring to its successor all the estates, properties, rights, powers, and trusts of the predecessor under the 2003 Indenture. Every predecessor Trustee agrees it will deliver to its successor all securities, money, investments, and other property held by it in any Indenture Fund, a list of all checks or other fund transfers which the Trustee has issued or made but which have not been paid on the date the successor trustee becomes the Trustee under the 2003 Indenture, a copy of the Registration Books certified by the Trustee to be correct, executed originals of all letters of credit, policies of bond insurance, or other Credit Facilities relating to the Bonds, all printed but unissued Bonds, all Bonds in the Trustee's possession which are to be but have not been destroyed, executed originals of all indemnity bonds relating to the Bonds, a list of all stop transfer orders held by the Trustee, and such other documents and information as the successor trustee reasonably requests. If any instrument in writing from the State is required by any successor Trustee for more definitely and certainly vesting in the successor the estate, rights, powers, and duties vested or intended to be vested in the predecessor the State agrees to execute, acknowledge, and deliver any and all requested instruments in writing on request. The instrument appointing a successor under the 2003 Indenture will be filed and/or recorded by the successor Trustee in each filing or recording office where any document providing collateral security for the 2003 Indenture has been filed and/or recorded.

In the event the Trustee is changed, the predecessor Trustee which has resigned or been removed ceases to be trustee of the Indenture Funds and bond registrar and paying agent for principal of, and premium, if

any, and interest on, the Bonds, and the successor Trustee becomes the Trustee, the bond registrar, and paying agent.

It is the intent of the State and the Trustee that the 2003 Indenture not violate the law of any jurisdiction (including particularly the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in that jurisdiction. It is recognized that in case of litigation under the 2003 Indenture, and in particular in case of the enforcement on an Event of Default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights, or remedies granted to it under the 2003 Indenture or hold title to the Trust Estate or take any other action which may be desirable or necessary in connection therewith, it may be necessary for the Trustee to appoint an additional individual or institution as a separate or co-trustee.

### **Supplemental Indentures**

#### *Supplemental Indentures Not Requiring the Consent of Bondowners or Swap Providers*

Subject to the provisions of the 2003 Indenture relating to Credit Facilities, the State and the Trustee may, without the consent of or notice to the Bondowners or Swap Providers, enter into Supplemental Indentures which are not inconsistent with the terms and provisions of the 2003 Indenture in order:

- to provide for the issuance of Additional Bonds;
- to cure any ambiguity or formal defect or omission in the 2003 Indenture;
- to grant to, or confer upon, the Trustee for the benefit of the Bondowners any additional rights, remedies, powers, or authority that may lawfully be granted to or conferred upon the Bondowners or the Trustee, *provided* that such amendment does not adversely affect the rights or interests of any Swap Provider;
- to subject additional revenues, properties, or collateral to the 2003 Indenture; or
- to supplement the 2003 Indenture in any other way which, in the judgment of the Trustee, is not to the material prejudice of the Trustee, the Bondowners, or any Swap Provider.

#### *Supplemental Indentures Requiring the Consent of Bondowners and Swap Providers*

In addition to Supplemental Indentures described above under “**SUMMARY OF THE 2003 INDENTURE; Supplemental Indentures; Supplemental Indentures Not Requiring the Consent of Bondowners or Swap Providers;**” the State and the Trustee, with the prior written consent of the Owners of a majority of the aggregate principal amount of each Series of Bonds then Outstanding and each Swap Provider, may enter into Supplemental Indentures as the State and the Trustee deem necessary and desirable for the purpose of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the 2003 Indenture or in any Supplemental Indenture. No Supplemental Indenture, however, may permit (a) an extension of the stated maturity or a reduction in the principal amount of, reduction in the rate or extension of the time for paying interest on, a reduction of any premium payable on the redemption of or a reduction in the amount or extension of the time for any payment required by any sinking fund or principal fund applicable to any Bonds without the consent of the Owners of all the Bonds that would be affected by the action to be taken, (b) the creation of any lien prior to or, except in connection with the issuance of Additional Bonds, on a parity with the lien of the 2003 Indenture, without the consent of the Owners of all Bonds at the time Outstanding, or (c) a reduction in the aggregate principal amount of Bonds the Owners of which are required to consent to any Supplemental Indenture without the consent of the Owners of all Bonds at the time Outstanding that would be affected by the action to be taken.

If at any time the State requests the Trustee to enter into such a Supplemental Indenture, the Trustee agrees, upon being satisfactorily indemnified with respect to expenses, to send notice of the proposed execution of the Supplemental Indenture by registered or certified mail to the Registered Owner of each of the Bonds at the Registered Owner’s Address subject, for so long as the Bonds are in Book Entry System, to the applicable Letter of Representations. The notice will briefly set forth the nature of the

proposed Supplemental Indenture and state that copies of it are on file at the Designated Trust Office of the Trustee for inspection by the Registered Owner of any Bond. If, within 60 days or any longer period prescribed by the State following the mailing of the notice, consent of the Owners of a majority of the aggregate principal amount of each Series of Bonds then Outstanding has been obtained, no Registered Owner of any Bond has any right to object to any of the terms and provisions of the 2003 Indenture or their operation, in any manner to question the propriety of the execution of the Supplemental Indenture or to enjoin or restrain the Trustee or the State from executing the Supplemental Indenture or from taking any action pursuant to the provisions of the Supplemental Indenture. Upon the execution of any Supplemental Indenture as provided in the 2003 Indenture, the 2003 Indenture is modified and amended in accordance with it.

The Supplemental Indentures executed in connection with the issuance of the 2008 Bonds, the 2012 Bonds and 2016 Series A Bonds provide that, by their acceptance of the 2008 Bonds, 2012 Bonds and 2016 Series A Bonds, respectively, the Owners of the 2008 Bonds, 2012 Bonds, and 2016 Series A Bonds shall be deemed to have consented to any future Supplemental Indenture that (a) reduces the Stabilization Fund Amount to an amount not less than that set forth in clause (2) of the definition of such term in the "GLOSSARY," or (b) provides that the consent of Owners of a Series of Bonds is not needed to authorize a Supplemental Indenture that does not affect the Owners of such Series.

### **Certain Rights of Credit Issuers**

The 2003 Indenture provides that, so long as the Credit Issuer with respect to a Series of Bonds is not in default under its Credit Facility, the Credit Issuer may have certain rights, including but not limited to the rights: (1) to be subrogated to the rights of the Owners of Bonds of such Series that are paid by its Credit Facility and to have those Bonds continue to be treated as Outstanding under the 2003 Indenture; (2) to be treated as the Owner of the Bonds of such Series for such purposes as the Supplemental Indenture may provide (including for purposes of directing the exercise of remedies under the 2003 Indenture); (3) to limit the future issuance of Additional Bonds; and (4) to prohibit Supplemental Indentures without its consent. The 2003 Series A Bonds, the 2008 Series C Bonds, and certain of the 2008 Series B Bonds are insured under respective Bond Insurance Policies issued by Financial Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.), which has been granted certain of the rights described above with respect to the 2003 Series A Bonds, the 2008 Series C Bonds, and the insured 2008 Series B Bonds.

No information is provided in this Part IX of the 2017 Annual Report about any credit rating currently assigned to the obligations of any Credit Issuer for any Outstanding Bonds.

### **Miscellaneous**

Any consent, request, direction, approval, objection, or other instrument required by the 2003 Indenture to be signed by Bondowners may be in any number of concurrent writings of similar tenor. Proof of the execution of any consent, request, direction, approval, objection, or other instrument is sufficient for any of the purposes of the 2003 Indenture and is conclusive in favor of the Trustee with regard to any action taken by it, if it contains or is accompanied by (1) a certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction to the effect that the person signing the writing acknowledged before him the execution thereof or (2) an affidavit of any witness to the execution. The ownership of Bonds and the amount, series, numbers, and other identification of them and the date on which they were held are conclusively proved by the Registration Books.

Unless provided to the contrary in the 2003 Indenture, all notices, certificates, or other communications under the 2003 Indenture are deemed given when delivered or mailed by first-class mail, postage prepaid, addressed to the parties at the addresses set forth in the 2003 Indenture.

If any date on which an obligation of the Trustee or the State is to be performed falls on a day that is not a Business Day, then the payment or fulfillment of the obligation may be made on the next succeeding Business Day with the same effect as if made on the date due except that (1) a Supplemental Indenture authorizing a Series of Additional Bonds may provide that interest on such Additional Bonds continues to

accrue to the date of actual payment, and (2) in the case of the end of a Fiscal Year, such payment or fulfillment shall be made on the preceding Business Day.

## **SUMMARY OF THE 2009 INDENTURE**

The following is a summary of certain provisions of the 2009 Indenture, which relates to the 2009 Indenture Bonds. The summary does not purport to be complete, and reference is made to the full text of the 2009 Indenture for a complete recital of its terms, including the defined terms used therein.

The following summary may also use terms that are similar to, but could slightly vary from, terms used in the summary for the 2003 Indenture. The term “Bonds” in the following summary refers to 2009 Indenture Bonds.

### **The Appropriation Obligations**

#### *Issuance of Appropriation Obligations*

The State may issue one or more Series of Appropriation Obligations under the 2009 Indenture from time to time, without limit as to aggregate principal amount except as provided in the Act. Prior to or contemporaneously with the issuance of any Appropriation Obligations, there must be filed with the Trustee: (1) a Supplemental Indenture executed by the Department on behalf of the State and by the Trustee authorizing the Appropriation Obligations, designating them as either Bonds or Notes, specifying their terms, and providing for the disposition of the proceeds of their sale, (2) a copy of the Authorizing Certification executed by the Secretary or his or her designee authorizing the execution and delivery of the Supplemental Indenture and the issuance of the Appropriation Obligations, (3) an Opinion of Bond Counsel to the effect that the execution and delivery of such Supplemental Indenture and the issuance and sale of the Appropriation Obligations have been duly authorized in accordance with the Act and the 2009 Indenture, and (4) a request and authorization to the Trustee by the Department on behalf of the State and signed by an Authorized Department Representative requesting the Trustee to authenticate and deliver the Appropriation Obligations.

#### *Deposit of Proceeds to Funds and Accounts*

Proceeds of a Series of Appropriation Obligations are deposited into the funds and accounts created under the 2009 Indenture or otherwise applied, as provided in a Closing Statement executed by an Authorized Department Representative and furnished to the Trustee. The Closing Statement specifies the purchase price of the Appropriation Obligations and:

- (a) the amount, if any, representing accrued interest on the Appropriation Obligations to be deposited in the Proceeds Interest Account;
- (b) the amount, if any, representing Funded Interest to be deposited in the Proceeds Interest Account;
- (c) the amount, if any, representing proceeds of Funding Obligations to be used to pay principal of Outstanding Notes, to be deposited in the Proceeds Funding Account(s) related to those Notes; and
- (d) the amount, if any, to be deposited in any other fund or account or to be otherwise transferred as provided in the Closing Statement.

The Closing Statement further specifies the application of such monies.

### **General Terms and Provisions of Appropriation Obligations**

#### *Liability of the State Subject to Annual Appropriation*

The Appropriation Obligations, Swap Payment Obligations, and Credit Facility Payment Obligations, together with any interest thereon, shall be special and limited obligations of the State, payable solely out of the Appropriated Funds. The Appropriation Obligations, Swap Payment Obligations, and Credit Facility Payment Obligations are valid claims of the Registered Owners, Swap Providers, and Credit



Issuers, respectively, only against the Trust Estate and other Appropriated Funds. The Trustee agrees to hold the Trust Estate and apply the Appropriated Funds only as provided in the 2009 Indenture, except to the extent otherwise specified by law in an appropriation. The State is not generally liable on the Appropriation Obligations or any other Indenture Obligations. Neither the general credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the Indenture Obligations. The Indenture Obligations do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

#### *Registered Owners Treated as Owners*

Except as a Supplemental Indenture may otherwise provide (including with respect to a Credit Issuer as described under “**SUMMARY OF THE 2009 INDENTURE; Certain Rights of Credit Issuers**”), the State and the Trustee may treat the Registered Owner of any Appropriation Obligation as its absolute owner (whether or not the Appropriation Obligation is overdue) for all purposes. Neither the State nor the Trustee shall be affected by any notice to the contrary.

#### **Other Indenture Obligations**

The 2009 Indenture provides that the State may enter into one or more Swap Agreements from time to time, without limit as to aggregate notional amount, and may enter into such Credit Facility Agreements as the Department shall determine are necessary or appropriate to obtain Credit Facilities with respect to the Indenture Obligations. The Swap Provider under any Swap Agreement must (a) have a rating of at least “AA” (without regard to any qualifier), or its equivalent, from any Rating Agency at the time of execution of the Swap Agreement or (b) provide a guaranty as a credit support document under the Swap Agreement from a credit support provider that shall have a rating of at least “AA” (without regard to any qualifier), or its equivalent, from any Rating Agency at the time of execution of the Swap Agreement and the guaranty, except that the State’s counterparty or counterparties (or its or their credit support provider or providers) under a Swap Agreement or Swap Agreements having an aggregate notional amount equal to no greater than 33% of the principal amount of the Bonds then Outstanding may have a rating of “A” (without regard to any qualifier), or its equivalent, from any Rating Agency at the time of execution of the Swap Agreement (and, if applicable, the guaranty).

For any Swap Agreement, Credit Facility Agreement, Swap Payment Obligations, or Credit Facility Payment Obligations to be recognized as such for purposes of the 2009 Indenture, there must be filed with the Trustee (1) a copy of an Authorizing Certification executed by the Secretary of the Department or his or her designee authorizing the execution and delivery of the Swap Agreement or Credit Facility Agreement or the procurement of the Credit Facility, (2) a certificate of an Authorized Department Representative, which shall (a) in substance identify the Swap Agreement, Credit Facility Agreement, or Credit Facility as being a Swap Agreement, Credit Facility Agreement, or Credit Facility, as the case may be, within the meaning of the 2009 Indenture and (b) certify that any applicable requirements of the Act have been satisfied with respect to the Swap Agreement, the Credit Facility, and/or the Credit Facility Agreement, and (3) a copy of the Swap Agreement, the Credit Facility, and/or the Credit Facility Agreement, as the case may be.

#### **General Covenants**

##### *Payment of Indenture Obligations*

The State represents, warrants, and covenants that so long as any of the Appropriation Obligations are Outstanding or any Swap Payment Obligations or any Credit Facility Payment Obligations exist, it will deposit, or cause to be paid to the Trustee for deposit, in the Appropriations Fund, but solely from the Appropriated Funds, amounts sufficient to promptly pay the principal of, and premium, if any, and interest on, the Outstanding Appropriation Obligations and the Swap Payment Obligations and Credit Facility Payment Obligations as the same become due and payable.



*Performance of Duties under the 2009 Indenture and the Appropriation Obligations*

The State represents, warrants, and covenants that it will perform its obligations under the 2009 Indenture, any Appropriation Obligations executed, authenticated, and delivered under the 2009 Indenture and all its proceedings relating to the issuance of the Appropriation Obligations. The State further represents, warrants, and covenants that it is duly authorized under the Constitution and laws of the State, including the Act, by and through the Department, to issue the Appropriation Obligations, to execute the 2009 Indenture, and to pledge and assign the property described in the 2009 Indenture in the manner and to the extent set forth in the 2009 Indenture. The State represents that all action on the part of the State and the Department for the issuance of the Appropriation Obligations and the execution and delivery of the 2009 Indenture have been effectively taken and the Appropriation Obligations in the hands of the Registered Owners, the Swap Payment Obligations, and the Credit Facility Payment Obligations are and will be valid and enforceable obligations of the State contracted by the Department according to the terms of the 2009 Indenture and the Act.

*Nonimpairment*

Subject to the right of nonappropriation and the right to rescind, repeal, or amend an appropriation by the Legislature, the State represents, warrants, and covenants that it will not enter into any contract or take any action impairing the rights of the Trustee, the Registered Owners of the Appropriation Obligations, any Swap Provider, or any Credit Issuer under the 2009 Indenture, the Appropriation Obligations, a Swap Agreement, or any Credit Facility Agreement. Subject to the right of nonappropriation and the right to rescind, repeal, or amend an appropriation by the Legislature, the State will not limit or alter its powers to fulfill the terms of any agreements made with Registered Owners or in any way impair the rights and remedies of Registered Owners until the Appropriation Obligations, together with interest and all costs and expenses in connection with any action or proceeding on behalf of the Registered Owners, are fully met and discharged.

*Budget Process and Appropriations*

The State shall direct the appropriate officers of the Department to take all appropriate actions within their power to assure that (beginning with Fiscal Year 2011-12) the Annual Appropriation Amounts with respect to the Indenture Obligations are annually appropriated. The Secretary or his or her designee shall:

- (a) while any Appropriation Obligations are Outstanding, or Swap Agreements or Credit Facilities are in effect, ensure that the budget request prepared under Section 16.42 of the Wisconsin Statutes for each such Fiscal Year includes the Annual Appropriation Amount relating to such Appropriation Obligations (which, in the case of Notes, shall include only interest with respect thereto, and not principal), Swap Payment Obligations, or Credit Facility Payment Obligations in that Fiscal Year;
- (b) in the event a Budget Bill for any such Fiscal Year fails to include the Annual Appropriation Amount, promptly provide a written notice to the Governor and the presiding officer of each house of the Legislature, stating the nature of the deficiency and seeking an amendment of such Budget Bill or requesting other action to ensure the satisfaction of the State's moral obligation;
- (c) in the event a Budget Bill for any such Fiscal Year fails to include the Annual Appropriation Amount, promptly provide a written notice to the Trustee, each Rating Agency, each Swap Provider, and each Credit Issuer stating the nature of the deficiency;
- (d) in the event a Budget Bill for any such Fiscal Year that fails to include the Annual Appropriation Amount is signed into law by the Governor, promptly send a letter to the Governor and the presiding officer of each house of the Legislature seeking the introduction of a separate bill making the necessary appropriation;
- (e) upon an Event of Nonappropriation, promptly provide a written notice thereof to the Trustee, each Rating Agency, each Swap Provider, and each Credit Issuer;

(f) in the event a Swap Termination Payment becomes due and there are insufficient funds available from Appropriated Funds under the 2009 Indenture or from other legal sources provided by the State to pay the Swap Termination Payment, promptly send a letter to the Governor and the presiding officer of each house of the Legislature seeking the introduction of a separate bill authorizing an additional appropriation; and

(g) upon an Event of Nonappropriation arising from the failure of the State to issue Funding Obligations in an amount sufficient to pay the principal of any Notes when it becomes due, promptly send a letter to the Governor and the presiding officer of each house of the Legislature seeking the introduction of a separate bill making an additional appropriation for such payment.

The Secretary of Administration has covenanted that, in the event the secretary exercises his or her authority under Section 16.53(10)(a), Wisconsin Statutes, to establish a priority schedule for payments, he or she will give payments of appropriation obligations of the State (including the Appropriation Obligations, Swap Payment Obligations, and Credit Facility Payment Obligations) the highest possible priority permitted by law.

#### *Trustee Notices Regarding Budget Process and Appropriations*

The Trustee may at any time request that the Secretary certify that he or she has performed his or her obligations under the 2009 Indenture described above under clause (a) of “**SUMMARY OF THE 2009 INDENTURE; General Covenants; Budget Process and Appropriations**” and that no event described above in clause (b), (c), or (e) under “**SUMMARY OF THE 2009 INDENTURE; General Covenants; Budget Process and Appropriations**” has occurred, and the Secretary shall promptly provide such certification. The Trustee shall promptly provide written notice to the following parties of the occurrence of certain events, as follows:

(a) Upon failure to receive the certification requested by the Trustee with regard to compliance with clause (a) above under “**SUMMARY OF THE 2009 INDENTURE; General Covenants; Budget Process and Appropriations**”, to the Governor and the presiding officer of each house of the Legislature, with a copy to the Secretary, each Rating Agency, each Swap Provider, and each Credit Issuer;

(b) Upon receipt of the notice described in clause (c) above under “**SUMMARY OF THE 2009 INDENTURE; General Covenants; Budget Process and Appropriations**” or failure to receive a certification requested by the Trustee that no event described in that clause has occurred, to the Governor and the presiding officer of each house of the Legislature, with a copy to the Secretary, each Rating Agency, each Swap Provider, and each Credit Issuer; or

(c) Upon receipt of the notice described in clause (e) above under “**SUMMARY OF THE 2009 INDENTURE; General Covenants; Budget Process and Appropriations**” or failure to receive a certification requested by the Trustee that no event described in that clause has occurred, to the Governor and the presiding officer of each house of the Legislature, with a copy to the Secretary, each Rating Agency, each Swap Provider, and each Credit Issuer.

#### *Event of Default*

The State covenants that, should there be a Default or an Event of Default, the State will fully cooperate with the Trustee, the Registered Owners, the Swap Providers, and the Credit Issuers to the end of fully protecting the rights and security of the Registered Owners, the Swap Providers, and the Credit Issuers.

### **Appropriated Funds and Funds and Accounts**

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

The 2009 Indenture creates and establishes with the Trustee the following funds:

- Appropriations Fund,
- Operating Expense Fund,

- Debt Service Fund,
- Subordinated Payment Obligations Fund,
- Stabilization Fund, and
- Rebate Fund.

The 2009 Indenture also establishes in the Debt Service Fund a Debt Service Account for each Series of Appropriation Obligations and each Swap Agreement, a Proceeds Funding Account for each Series of Notes to be funded or refunded through the issuance of Funding Obligations, and a Proceeds Interest Account. Sinking fund accounts for any Series of Appropriation Obligations having sinking fund installments may be established within the Debt Service Account for such as provided in a Supplemental Indenture. (However, the Stabilization Fund will not be activated unless and until the State adopts a Supplemental Indenture establishing a Stabilization Fund Amount, the Subordinated Payment Obligations Fund will not be activated unless and until the Secretary or his or her designee executes and delivers an Authorizing Certification providing for Swap Payment Obligations – which could give rise to Subordinated Swap Payment Obligations – or Credit Facility Payment Obligations, and no Proceeds Funding Account will be created unless and until a Series of Notes is issued.)

The 2009 Indenture provides that any monies derived from an appropriation of the Legislature may only be applied in a manner consistent with its appropriation.

On the last Business Day of each Fiscal Year, the Trustee shall transfer all monies remaining in the Appropriations Fund, the Operating Expense Fund (except for amounts therein funded from proceeds of Appropriation Obligations or other obligations of the State issued for such purpose), the Debt Service Accounts, and the Subordinated Payment Obligations Fund (1) to the Stabilization Fund, (2) to the State, or (3) upon a determination by the Department that such monies are subject to an appropriation for the next Fiscal Year, to the Appropriations Fund, as directed in writing by an Authorized Department Representative.

No Stabilization Fund Amount was established for the 2009 Indenture.

*Deposits into and Use of Monies in the Appropriations Fund*

The Trustee shall receive for immediate deposit into the Appropriations Fund the Deposit Amount and any additional Appropriated Funds transferred to the Trustee by the State or by any Swap Provider pursuant to the terms of a Swap Agreement as follows:

- On the first Business Day of each Fiscal Year for which a Budget Bill has been enacted, the State shall pay the Deposit Amount to the Trustee for deposit in the Appropriations Fund, from amounts appropriated pursuant to Section 20.505(1)(bq) of the Wisconsin Statutes, or any successor provision thereto. On the first Business Day of each Fiscal Year, in the event a Budget Bill for that Fiscal Year has not yet been enacted, the State shall pay to the Trustee the full amount up to the Deposit Amount that is available pursuant to the carry-over of existing appropriations from the prior Fiscal Year pursuant to Section 20.002(1) of the Wisconsin Statutes, and on the Business Day following the subsequent enactment of such a Budget Bill creating additional Appropriated Funds, the State shall pay to the Trustee, for deposit in the Appropriations Fund, the amount, if any, by which amounts appropriated thereby exceed amounts previously paid to the Trustee in such Fiscal Year for deposit therein, *provided* that the total paid to the Trustee shall not exceed the Deposit Amount.
- No later than 30 days following the enactment of any separate bill providing for an appropriation available for the payment of Appropriation Obligations, Swap Payment Obligations, and/or Credit Facility Payment Obligations (including any appropriation of funds to pay Notes for the payment of which Funding Obligations are not issued), for payment of issuance or administrative expenses, or for funding a deposit to the Stabilization Fund in that Fiscal Year, the State shall pay to the Trustee for deposit in the Appropriations Fund amounts appropriated thereby.

- No later than 30 days following the enactment of a Budget Bill, the State shall pay to the Trustee the amount of any Swap Termination Payment that is a Parity Swap Payment Obligation, and which was included in the calculation of Annual Appropriation Amount for that Fiscal Year, to the extent that Appropriated Funds are available.
- Immediately upon receipt, the State shall transfer to the Trustee, for deposit in the Appropriations Fund, any amounts appropriated pursuant to Section 20.505(1)(it) of the Wisconsin Statutes, or any successor provision, not otherwise deposited into the Indenture Funds under the terms of a Swap Agreement.
- At any time during each Fiscal Year that any Appropriated Funds previously transferred to the Trustee are insufficient for the requirements of the Indenture Funds, the Trustee shall notify the State of such insufficiency and the State shall promptly pay such amount to the Trustee, but solely from Appropriated Funds, for deposit in the Appropriations Fund.
- The State may, at any time, at its option, transfer to the Trustee for deposit in the Appropriations Fund for further distribution into any of the Indenture Funds and accounts described below, Appropriated Funds in addition to the Deposit Amount or other amounts required above.
- The State may direct the Trustee to transfer amounts from the Stabilization Fund to the Appropriations Fund as described below under *“SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Stabilization Fund.”*

The Trustee, promptly after receipt of the Deposit Amount in the Appropriations Fund, shall transfer an amount thereof designated in writing by an Authorized Department Representative, consistent with the amount used in the computation of the Deposit Amount, to the Operating Expense Fund and shall transfer the balance into the Debt Service Fund for distribution into the Debt Service Accounts as designated in writing by an Authorized Department Representative. The Trustee, promptly after receipt of any other monies in the Appropriations Fund, and at any time thereafter as needed to fund the following Indenture Funds, shall make payments into the following Indenture Funds, but only to the extent consistent with the appropriation thereof by the legislature, and as to each Indenture Fund only within the limitations in the 2009 Indenture described below with respect thereto:

- FIRST: Into the Operating Expense Fund, the amounts designated in writing by an Authorized Department Representative to be deposited in the Operating Expense Fund;
- SECOND: Into each Debt Service Account, to the extent, if any, needed to increase the amount in such Debt Service Account so that it equals the interest and principal (whether at maturity or upon mandatory redemption) for the related Series of Bonds due on each Payment Date, the interest for the related Series of Notes due on such Payment Date, or the amount of any Parity Swap Payment Obligations, if any, due on each Payment Date, after taking into account amounts available for that purpose in the Proceeds Interest Account;
- THIRD: Into each Debt Service Account for Notes, to the extent, if any, needed to increase the amount in such Debt Service Account so that it equals the principal (whether at maturity or upon mandatory redemption) for the related Series of Notes due on each Payment Date, after taking into account amounts available for that purpose, and amounts expected to be deposited and available for that purpose, in the Proceeds Funding Account;
- FOURTH: Into the Subordinated Payment Obligations Fund, the amount of any Subordinated Swap Payment Obligations and Credit Facility Payment Obligations due on each Payment Date; and

FIFTH: Into the Stabilization Fund, the amount designated in writing by an Authorized Department Representative to be deposited for such Fiscal Year into the Stabilization Fund.

Any remaining Appropriated Funds shall remain in the Appropriations Fund until June 30<sup>th</sup> of each Fiscal Year. On May 1<sup>st</sup> of each year the State shall determine the extent to which there are available monies on deposit in the Appropriations Fund, the Debt Service Accounts, and the Subordinated Payment Obligations Fund that will not be needed for the purposes thereof for the balance of that Fiscal Year (taking into consideration funds available in, and funds expected to be deposited and available in, the Proceeds Interest Account or a Proceeds Funding Account for such purpose), and the State shall direct the Trustee to apply such monies prior to the end of the Fiscal Year in an amount up to the Scheduled Optional Redemption amount set forth in any Supplemental Indenture pursuant to which Appropriation Obligations have been issued, to the optional redemption of such Appropriation Obligations. To the extent that Scheduled Optional Redemption is not achieved in any Fiscal Year, the shortfall shall be added to the remaining amounts of Scheduled Optional Redemptions on a prorated basis, rounded to the nearest authorized denomination of the applicable Series of Appropriation Obligations, and the Scheduled Optional Redemptions shall be modified accordingly.

*Deposits into and Use of Monies in the Debt Service Fund*

The Trustee shall deposit into the Proceeds Interest Account, from time to time, (1) proceeds of Appropriation Obligations required to be deposited therein and (2) any other amounts that are subject to continuing appropriations and are provided by the State with instructions to deposit such amounts into the Proceeds Interest Account. The Trustee shall deposit into the appropriate Proceeds Funding Account, from time to time, proceeds of Funding Obligations required to be deposited. The Trustee shall deposit into the appropriate Debt Service Accounts in the Debt Service Fund the amounts required to be transferred thereto from the Appropriations Fund, the Subordinated Payment Obligations Fund, and the Stabilization Fund.

The Trustee shall withdraw from the applicable Debt Service Account, the Proceeds Interest Account, and the applicable Proceeds Funding Account on or prior to each Payment Date an amount equal to:

- (a) The unpaid interest due on the Appropriation Obligations on each Interest Payment Date and shall cause the same to be applied to the payment of said interest when due.
- (b) The amount of each Parity Swap Payment Obligation due on each Payment Date and shall cause the same to be paid to the applicable Swap Provider (*provided* that any Swap Termination Payment that is a Parity Swap Payment Obligation will be paid no later than 30 days after enactment of the Budget Bill or other bill providing an appropriation available for its payment).
- (c) The Principal Installment of the Bonds due on each Payment Date and shall cause the same to be applied to the payment of the Principal Installment of such Bonds when due.
- (d) The principal due upon optional redemption of the Appropriation Obligations on each Payment Date and shall cause the same to be applied to the payment of such principal when due, *provided* that, prior to distributing notice of any such optional redemption (other than (1) Scheduled Optional Redemptions described in “**SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Appropriations Fund**”, (2) an optional redemption of Notes for which sufficient funds are available in the applicable Proceeds Funding Account, or (3) an optional redemption with respect to which the redemption notice states that such redemption is contingent upon the availability of sufficient Appropriated Funds both to pay the Redemption Price and to satisfy the requirements of (A) and (B) below), an Authorized Department Representative has certified that the total of (A) amounts remaining on deposit in the Debt Service Fund (other than amounts on deposit in the Proceeds Interest Account which are expected to be needed in future Fiscal Years and amounts on

deposit in any Proceeds Funding Account), and (B) amounts remaining under the appropriation made for that Fiscal Year pursuant to Section 20.505(1)(bq) of the Wisconsin Statutes, or any successor provision, are sufficient to meet the requirements of the Debt Service Fund for the balance of the Fiscal Year (without taking into account any principal payments required to be made with respect to Notes). For all purposes of determining the sufficiency of amounts in or payable into the Debt Service Fund or any account therein, interest on any Variable Rate Appropriation Obligations for any portion of the balance of the Fiscal Year for which the interest rate has not been determined shall be calculated at the Maximum Rate, the amount of any Parity Swap Payment Obligations that would be payable under Swap Agreements that provide for a variable rate to be paid by the State shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, shall be determined at a rate equal to the rate that would result if the index provided in such Swap Agreement were at 15% per annum), interest accruing on any overdue Parity Swap Payment Obligation at a variable rate shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, a rate of 15% per annum on the amount of the overdue Parity Swap Payment Obligation), and interest on any Funding Obligations that would be assumed to be issued under clause (e) of the respective definition of "Annual Appropriation Amount" under "GLOSSARY" shall be calculated based on the assumptions set forth in such clause (e).

(e) The principal of any Notes due on each Payment Date and shall cause the same to be applied to the payment of the principal of such Notes when due.

Prior to the Payment Date of a Principal Installment, any amount then on deposit in a Debt Service Account shall, if so directed in writing by an Authorized Department Representative, be applied by the Trustee to the purchase of Bonds of the Series and maturity for which such Principal Installment was established in an amount not exceeding that necessary to complete the payment of the unsatisfied balance of such Principal Installment. Any such purchase of Bonds shall be made at a price not exceeding the applicable sinking fund Redemption Price or principal amount of such Bonds plus accrued interest.

Prior to the Payment Date of principal of any Note, any amount then on deposit in the applicable Proceeds Funding Account shall, if so directed in writing by an Authorized Department Representative, be applied by the Trustee to the purchase of Notes of the Series to which such Proceeds Funding Account relates. Any such purchase of Notes shall be made at a price not exceeding the applicable sinking fund Redemption Price or principal amount of such Notes plus accrued interest (which accrued interest may be paid from the related Debt Service Account or the Proceeds Interest Account).

At any time, any amount then on deposit in a Debt Service Account of the Debt Service Fund shall, if so directed in writing by an Authorized Department Representative, be applied by the Trustee to another Debt Service Account to the extent not needed for purposes of the Debt Service Account in which it was originally deposited. Transfers shall be made from any Debt Service Account for the payment of principal on a Series of Notes only to the extent that the amount in the Debt Service Account from which the transfer is made would be sufficient (determined as described in paragraph (d) above) after giving effect to such transfer. In addition, if for any reason a Debt Service Account of the Debt Service Fund shall contain excess monies after a Payment Date, such excess may be held in such Debt Service Account as a credit against the requirements of such Debt Service Account for the balance of that Fiscal Year, transferred to another Debt Service Account, or returned to the Appropriations Fund, as an Authorized Department Representative shall direct. Any such amount shall be transferred to a Debt Service Account for Notes only to the extent of interest to come due on the Notes of the related Series during the current Fiscal Year (and amounts may be transferred to a Debt Service Account for Notes to provide for payment of principal to come due on the Notes of such Series only as described above).

The Trustee shall, if an Authorized Department Representative so directs, transfer monies in the Proceeds Interest Account to the Operating Expense Fund or to the Stabilization Fund to increase or replenish the Stabilization Fund Amount therein. Any such direction shall be accompanied by a certificate of an



Authorized Department Representative to the effect that such monies will not be needed to pay interest on the Appropriation Obligations and that any increase in the Stabilization Fund Amount is reasonable.

In connection with a defeasance of any Appropriation Obligations, the Trustee shall, if an Authorized Department Representative so directs, withdraw from the applicable Debt Service Account, from the Proceeds Interest Account (other than amounts therein expected to be needed in for the payment of other Appropriation Obligations or Swap Payment Obligations), or (in the case of Notes) from the applicable Proceeds Funding Account all or any portion of the amounts accumulated therein with respect to debt service on the Appropriation Obligations being defeased and deposit such amounts in escrow to be held for the payment of the principal amount or Redemption Price and interest on the Appropriation Obligations being defeased. No such withdrawal shall be made unless immediately thereafter the Appropriation Obligations being defeased shall be deemed to have been paid pursuant to the 2009 Indenture as described under *“SUMMARY OF THE 2009 INDENTURE; Discharge of 2009 Indenture”* below.

Except to the extent that such application would be inconsistent with the appropriation of said amounts by the Legislature, and except as described under *“SUMMARY OF THE 2009 INDENTURE; Defaults and Remedies; Application of Funds”* below, payments from the Debt Service Fund shall be made ratably by the Trustee according to amounts due in respect of interest on each Appropriation Obligation, each Principal Installment for Bonds, and each Parity Swap Payment Obligation without preference of one Appropriation Obligation or Parity Swap Payment Obligation over another, and without regard to the deposit of amounts in a particular Debt Service Account (except with respect to payment of principal on Notes, which shall be paid only from the applicable Proceeds Funding Account or other Appropriated Funds appropriated for that purpose).

*Deposits into and Use of Monies in the Subordinated Payment Obligations Fund*

The Trustee shall deposit into the appropriate Subordinated Payment Obligations Fund the amounts required to be transferred thereto from the Appropriations Fund and the Stabilization Fund as described under *“SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Appropriations Fund”* and *“Deposits into and Use of Monies in the Stabilization Fund.”*

Throughout each Fiscal Year on any Payment Date on which the amount on deposit in the Debt Service Fund is insufficient for the purposes thereof, the Trustee shall withdraw from the Subordinated Payment Obligations Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall. On (a) June 10<sup>th</sup> (or if June 10<sup>th</sup> is not a Business Day, the Business Day next succeeding June 10<sup>th</sup>) of each Fiscal Year, but only if the amounts on deposit in the Debt Service Fund are sufficient to meet the requirements thereof for the balance of the Fiscal Year (determined in the manner described above under *“SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Debt Service Fund”*), or (b) such earlier date on which an Authorized Department Representative, at the State’s option, certifies that the total of (1) the monies on deposit in the Debt Service Fund and available for such purpose and (2) the amounts remaining under the appropriation made for that Fiscal Year pursuant to Section 20.505(1)(bq) of the Wisconsin Statutes, or any successor provision, are sufficient to meet the requirements of the Debt Service Fund for the balance of the Fiscal Year (determined in the manner described above under *“SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Debt Service Fund”*), but without taking into account any principal payments required to be made with respect to Notes), then the Trustee shall withdraw from the Subordinated Payment Obligations Fund the amount of any Subordinated Swap Payment Obligations or Credit Facility Payment Obligations which are due and owing on such date and shall cause the same to be paid to the applicable Swap Provider or Credit Issuer.

Except to the extent that such application would be inconsistent with the appropriation of said amounts by the Legislature, payments from the Subordinated Payment Obligations Fund shall be made ratably by the Trustee according to the amounts due in respect of each Subordinated Swap Payment Obligation and

Credit Facility Payment Obligation without priority or preference of one Subordinated Swap Payment Obligation or Credit Facility Payment Obligation over another.

*Deposits into and Use of Monies in the Stabilization Fund*

The Trustee shall deposit into the Stabilization Fund, from time to time, (1) proceeds of Appropriation Obligations directed to be deposited therein pursuant to a Closing Statement as described above under “**SUMMARY OF THE 2009 INDENTURE; The Appropriation Obligations; Deposit of Proceeds to Funds and Accounts**”, (2) other amounts provided by the State with instructions to deposit such amounts into the Stabilization Fund, and (3) the amounts required to be transferred thereto from the Appropriations Fund, the Proceeds Interest Account, or any other Indenture Funds as described under “**SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Appropriations Fund**”, “*Deposits into and Use of Monies in the Debt Service Fund*”, and “*Establishment of Funds and Certain Accounts.*”

Throughout each Fiscal Year on any Payment Date on which the amount on deposit in the Debt Service Fund is insufficient for the payment of principal of, and interest on, Bonds, interest on Notes and Parity Swap Payment Obligations and amounts drawn from the Subordinated Payment Obligations Fund are not sufficient to make up the shortfall, the Trustee shall withdraw from the Stabilization Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall.

Throughout each Fiscal Year until June 10<sup>th</sup> (or if June 10<sup>th</sup> is not a Business Day, the Business Day next succeeding June 10<sup>th</sup>) of the Fiscal Year, the State may, at its option, but is not required to, direct the Trustee to withdraw from the Stabilization Fund and transfer to (1) the Debt Service Account for a Series of Notes the amount needed to make up any shortfall in such Debt Service Account for the payment of principal of such Notes or (2) the Subordinated Payment Obligations Fund the amount needed to make up any shortfall in such Indenture Fund for the purposes thereof. On June 10<sup>th</sup> (or if June 10<sup>th</sup> is not a Business Day, the Business Day next succeeding June 10<sup>th</sup>) of each Fiscal Year, the Trustee shall withdraw from the Stabilization Fund and transfer (1) to the Debt Service Account for a Series of Notes the amount needed to make up any shortfall in such Debt Service Account for the payment of principal of such Notes, but only to the extent that amounts in the Stabilization Fund will not be required to be used to fund the remaining Debt Service Accounts to meet the requirements thereof for the balance of the Fiscal Year (determined in the manner described above under “**SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Debt Service Fund**”), and (2) to the Subordinated Payment Obligations Fund the amount needed to make up any shortfall in such Indenture Fund for the purposes thereof, but only to the extent that amounts in the Stabilization Fund will not be required to be used to fund the Debt Service Fund to meet the requirements thereof for the balance of the Fiscal Year (determined in the manner described above under “**SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Debt Service Fund**”).

On the first Business Day of each Fiscal Year an Authorized Department Representative may direct the Trustee to transfer amounts in the Stabilization Fund in excess of the Stabilization Fund Amount to the Appropriations Fund for further distribution to the Indenture Funds described above. On the last Business Day of any Fiscal Year, an Authorized Department Representative may direct the Trustee to transfer amounts in the Stabilization Fund in excess of the Stabilization Fund Amount to the State.

In connection with a defeasance of any Appropriation Obligations, the Trustee shall, if an Authorized Department Representative so directs, withdraw from the Stabilization Fund, and deposit in escrow to be held for the payment of the principal amount or Redemption Price and interest on the Appropriation Obligations being defeased, all or any portion of the amount therein in excess of the Stabilization Fund Amount after giving effect to the defeasance of such Appropriation Obligations. No such withdrawal shall be made unless immediately thereafter the Appropriation Obligations being defeased shall be deemed to have been paid pursuant to the 2009 Indenture as described under “**SUMMARY OF THE 2009 INDENTURE; Discharge of 2009 Indenture**” below.



Amounts in the Stabilization Fund may be used for the final payment at maturity or upon earlier redemption of all remaining Outstanding Appropriation Obligations.

*Deposits into and Use of Monies in the Operating Expense Fund*

The Trustee shall deposit into the Operating Expense Fund (1) proceeds of Appropriation Obligations directed to be deposited therein pursuant to a Closing Statement as described above under “**SUMMARY OF THE 2009 INDENTURE; The Appropriation Obligations; Deposit of Proceeds to Funds and Accounts**” and (2) the amounts required to be transferred thereto from the Appropriations Fund or the Proceeds Interest Account, or any other Indenture Funds as described under “**SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Appropriations Fund**” and “**Deposits into and Use of Monies in the Debt Service Fund.**”

The Trustee shall withdraw from the Operating Expense Fund the amounts, and pay to the parties, designated in writing by an Authorized Department Representative for the payment of issuance and administrative expenses related to the Appropriation Obligations, Swap Agreements and Swap Payment Obligations, and Credit Facilities and Credit Facility Payment Obligations.

*Deposits into and Use of Monies in the Rebate Fund*

The Trustee shall deposit into the Rebate Fund (and, if applicable, into the account therein designated by the State), from time to time, any amounts provided by the State with instructions to deposit such amounts into the Rebate Fund. The Trustee shall withdraw from the Rebate Fund (and, if applicable, from the account therein designated by the State) from time to time such amounts as the State may direct for payment of arbitrage rebate obligations with respect to the Appropriation Obligations or for transfer to such other fund or account as the State may determine.

*Payments to the State*

Any amounts remaining in any Indenture Fund after payment of all Appropriation Obligations, Swap Payment Obligations and Credit Facility Payment Obligations shall be paid to the State.

*Funds Held in Trust*

All money held in any of the Indenture Funds are held in trust in the custody of the Trustee subject to the provisions of the 2009 Indenture that permit their disbursements for specified purposes. All money and securities held in Indenture Funds are subject to the first lien of the 2009 Indenture and are not subject to any lien, attachment, garnishment, or other claims or proceedings by other creditors of the State or any third party.

**Investments**

The Trustee agrees to continuously invest and reinvest money on deposit in the Indenture Funds in Qualified Investments as directed in writing by the State, which the State agrees to provide. Money in a Proceeds Funding Account shall be invested only in securities issued by the United States or one of its agencies, securities fully guaranteed by the United States, or other Qualified Investments permitted for such funds under the Act. Investments made with money on deposit in the Indenture Funds will be held by or under the control of the Trustee and may be made by the Trustee through its own bank investment department. Investments will have maturities or be readily marketable prior to maturity in the amounts and not later than the dates as may be necessary to provide funds for the purpose for which the money in any account is to be used. Any interest or profit or any loss attributable to investments will be credited to or charged against the 2009 Indenture Fund (and in the case of the Debt Service Fund or the Rebate Fund, the account therein) in which the invested monies were deposited. The Trustee shall not be responsible for any loss resulting from any such investment, except to the extent caused by its negligence or willful default.

**Discharge of 2009 Indenture**

The 2009 Indenture shall be discharged if:

- (a) the State has performed all its obligations under the 2009 Indenture,
- (b) all Trustee's Expenses that have accrued and will accrue through the final payment of the Appropriation Obligations have been paid or arrangements satisfactory to the Trustee for their payment have been made,
- (c) provision for the payment of all Outstanding Appropriation Obligations has been made to the satisfaction of the Trustee in one or more of the following ways:
  - (1) by paying the principal of, and premium, if any, and interest on, all Outstanding Appropriation Obligations,
  - (2) by irrevocably depositing with the Trustee an amount sufficient to pay or redeem (when redeemable) all Outstanding Appropriation Obligations, including interest on the Appropriation Obligations to the final payment or redemption of the Appropriation Obligations (assuming that any Variable Rate Appropriation Obligations bear interest at the Maximum Rate for any period for which the interest rate is not then known) and any redemption premium,
  - (3) by delivering to the Trustee, for cancellation, all Outstanding Appropriation Obligations,
  - (4) by depositing in trust with the Trustee, or an escrow agent that meets the requirement of the 2009 Indenture, Defeasance Obligations that mature in an amount that will, together with investment income but without reinvestment, be sufficient to pay or redeem (when redeemable) all Outstanding Appropriation Obligations at or before their respective maturity dates, including interest on the Appropriation Obligations to the final payment or redemption of the Appropriation Obligations (assuming that any Variable Rate Appropriation Obligations bear interest at the Maximum Rate for any period for which the interest rate is not then known) and any redemption premium, and by complying with any other conditions set forth in the Supplemental Indenture that authorized such Appropriation Obligations, or
  - (5) with respect to Appropriation Obligations of a particular Series, in such other manner as the Supplemental Indenture authorizing that Series may provide,
- (d) a notice of redemption which is not contingent upon satisfaction of any condition has been given as required by the Supplemental Indenture that authorized such Appropriation Obligations if any of the Appropriation Obligations are to be redeemed before their maturity (or, if a notice of redemption cannot then be given as provided in the applicable Supplemental Indenture, then the State has given the Trustee irrevocable instructions to provide such a notice of redemption),
- (e) if the payment of the Appropriation Obligations has been provided for as described under (c)(2) or (c)(4) above, the Trustee (1) has been furnished with an Opinion of Bond Counsel to the effect that the actions taken under the 2009 Indenture will not adversely affect the validity of any Appropriation Obligations and (2) has given notice to each Registered Owner of the Appropriation Obligations at the Registered Owner's Address of the actions taken as described under clause (c) above,
- (f) if the payment of the Appropriation Obligations has been provided for as described under (c)(4) above, an opinion from an independent certified public accountant to the effect that the funds available or to be available in the escrow for the payment of the Appropriation Obligations will be sufficient to pay the principal of, and premium, if any, and interest on, the Appropriation Obligations,
- (g) any Swap Payment Obligations and any Credit Facility Payment Obligations have been paid, or provision satisfactory for their payment has been made (1) as provided in the applicable

Swap Agreement or Credit Facility Agreement or (2) otherwise to the satisfaction of the applicable Swap Provider or Credit Issuer, and

(h) any additional requirements set forth in a Supplemental Indenture with respect to the applicable Series of Appropriation Obligations have been satisfied. The First Supplemental Indenture and Third Supplemental Indenture require that, as condition to any deposit described under clause (c)(4) above being treated as providing for the payment of any 2009 Series A Bond or 2017 Series B Bond, the Trustee shall have been furnished with an opinion of Bond Counsel to the effect that the payment of the 2009 Series A Bond or 2017 Series B Bond from such deposit, in accordance with the terms of such deposit, will not adversely affect the exclusion of interest on any 2009 Series A Bond or 2017 Series B Bond from gross income of the owner thereof.

On the occurrence of the events described in clauses (a) through (h) above, the Trustee is authorized and directed to execute and deliver instruments evidencing and acknowledging the satisfaction of the 2009 Indenture, and assign and deliver to the Department any money and investments in any Indenture Fund (except money or investments held by the Trustee for the payment of the principal of, and premium, if any, and interest on, any Appropriation Obligations or for the payment of arbitrage rebate obligations with respect to Appropriation Obligations).

All money and Defeasance Obligations which are set aside and held in trust pursuant to the provisions of the 2009 Indenture for the payment of the principal of, and premium, if any, and interest on, the Appropriation Obligations will be applied to and used solely for the payment of the principal of, and premium, if any, and interest on, the particular Appropriation Obligations with respect to which it was so set aside in trust. The income derived from Defeasance Obligations held by the Trustee under the 2009 Indenture that is not needed for the payment of the principal of, or premium, if any, or interest on, the Appropriation Obligations is to be disposed of in a manner which, in the Opinion of Bond Counsel, will not adversely affect the validity of any Appropriation Obligations.

Notwithstanding a discharge of the 2009 Indenture as described in (c)(2) or (c)(4) above, resulting in the Registered Owners of Appropriation Obligations having a claim for the payment of their Appropriation Obligations solely from the cash and securities so set aside, the 2009 Indenture will continue to govern the method of making payments of principal and interest on the Appropriation Obligations, the registration, transfer, and exchange of Appropriation Obligations, the circumstances under which the Appropriation Obligations may or must be redeemed or tendered, and similar matters.

## **Defaults and Remedies**

### *Events of Default*

The occurrence and continuance of any of the following events is an Event of Default under the 2009 Indenture:

- (a) failure to pay when due the principal of, or premium, if any, or interest on, any Appropriation Obligations or any Parity Swap Payment Obligations, except to the extent that such failure is due to an Event of Nonappropriation;
- (b) failure to pay as required by the terms of the 2009 Indenture any Subordinated Swap Payment Obligations or Credit Facility Payment Obligations, except to the extent that such failure is due to an insufficiency of Appropriated Funds to make such payment;
- (c) failure to pay when due the tender price on any Appropriation Obligation upon mandatory or optional tender for purchase as provided in the 2009 Indenture, except to the extent that such failure is due to (1) an insufficiency of appropriated funds to make such payment with respect to any Appropriation Obligations for which there is no liquidity facility or (2) the Credit Issuer under a liquidity facility being relieved of its obligation to pay the Tender Price due to an Event of Nonappropriation or to a failure to pay that is due to an Event of Nonappropriation or to any other insufficiency of Appropriated Funds to make such payment; or

(d) the State defaults in the due and punctual performance of any of the other covenants, conditions, agreements, and provisions on the part of the State to be performed pursuant to the Appropriation Obligations or the 2009 Indenture (including any Supplemental Indenture) and the default continues for 30 days after written notice specifying the default and requiring that it be remedied has been given to the State by the Trustee, which may give the notice in its discretion and must give the notice upon receipt of a written request of the Registered Owners of at least 25% of the aggregate principal amount of any Series of Appropriation Obligations then Outstanding that it do so, or as otherwise provided in a Supplemental Indenture. However, if the default is one which can be remedied but cannot be remedied within that 30-day period, the Trustee may (except as limited by a Supplemental Indenture) grant an extension of the 30-day period if the State institutes corrective action within that 30-day period and diligently pursues that action until the default is remedied.

#### *Remedies*

Upon the occurrence of any Event of Default the Trustee may take whatever action at law or in equity it deems necessary or desirable (1) to collect any amounts then due under the 2009 Indenture or the Appropriation Obligations, any Swap Payment Obligations, or any Credit Facility Payment Obligations, (2) to enforce performance of any obligation, agreement, or covenant of the State under the 2009 Indenture or the Appropriation Obligations, of a Credit Issuer under any Credit Facility issued or entered into with respect to any Appropriation Obligations, or of the grantor of any other collateral given to secure the payment of any Appropriation Obligations, or (3) to otherwise enforce any of its rights. However, actions against the State shall be limited to those permitted by the Statutes and the Constitution of the State.

Nothing in the 2009 Indenture is intended as a waiver by the State of its sovereign immunity, any procedural requirements for any remedy, or any defenses available to it.

#### *Right to Direct Proceedings*

Except as a Supplemental Indenture may otherwise provide with respect to rights of Credit Issuers to act in the stead of Registered Owners, as described under “**SUMMARY OF THE 2009 INDENTURE; Certain Rights of Credit Issuers**” below, the Registered Owners of the Appropriation Obligations have the right to direct the exercise of any rights or remedies under the 2009 Indenture, and the method and place of conducting all proceedings to be taken in connection with the enforcement of the 2009 Indenture. The directions of the Registered Owners of Appropriation Obligations are to be contained in a request which is signed by the Registered Owners of at least a majority of the aggregate principal amount of the Appropriation Obligations then Outstanding and delivered to the Trustee, and accompanied with indemnification of the Trustee as is provided in the 2009 Indenture.

#### *Application of Funds*

Upon an Event of Default or an Event of Nonappropriation, any Appropriated Funds received or held by the Trustee will be applied as follows:

- FIRST: To the payment of (1) the costs and expenses associated with the Trustee’s carrying out its obligations with respect to the Event of Nonappropriation or the exercise of any remedy related to an Event of Default, including reasonable compensation to the Trustee and its attorneys and agents, and (2) any Trustee’s Expenses.
- SECOND: To the payment of interest, principal, and premium, if any, then due on the Appropriation Obligations (other than Appropriation Obligations called for redemption for the payment of which money is held pursuant to the provisions of the 2009 Indenture described above under “**SUMMARY OF THE 2009 INDENTURE; Discharge of 2009 Indenture**”) and Parity Swap Payment Obligations, in the order of the maturity of the payments of interest, principal and premium, if any and Parity Swap Payment Obligations then due ratably, and, if the amount available is not

sufficient to pay in full interest, principal, premium, and Parity Swap Payment Obligations due on any particular date, then first to the payment of interest and Parity Swap Payment Obligations ratably, according to the amounts due, to the persons entitled to it without discrimination or privilege and second, to the amount of principal and premium, ratably, according to the amounts due, to the persons entitled to it without discrimination or privilege. However, (1) funds in a Proceeds Funding Account shall be used first for the payment of principal of the related Series of Notes, and (2) principal of Notes shall be payable from any funds other than funds in the related Proceeds Funding Account only after all other obligations described in this clause Second have been paid.

THIRD: Subject to the provisions of the 2009 Indenture described in “**SUMMARY OF THE 2009 INDENTURE; Appropriated Funds and Funds and Accounts; Deposit Into and Use of Monies in the Subordinated Payment Obligations Fund**”, to the payment of Subordinated Swap Payment Obligations and Credit Facility Payment Obligations then due in the order of the maturity of such payments and, if the amount available is not sufficient to pay in full the Subordinated Swap Payment Obligations and Credit Facility Payment Obligations due on any particular date, then to their payment ratably, according to the amounts due, to the persons entitled to it without discrimination or privilege.

FOURTH: To the payment of any other sums required to be paid by the State pursuant to any provisions of the 2009 Indenture.

Whenever money is to be applied as described above, the money is to be applied at the times the Trustee determines, having due regard for the amount of money available for application and the likelihood of additional money becoming available for application in the future. Whenever the Trustee applies such funds it will fix the date (which will be an Interest Payment Date unless it deems another date more suitable) upon which the application is to be made and on that date interest on the amounts of principal paid ceases to accrue.

Any monies derived from an appropriation may only be applied in a manner consistent with its appropriation.

#### *Remedies Vested in Trustee*

Any suit or proceeding instituted by the Trustee is to be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants the Registered Owners. Any resulting recovery or judgment is for the benefit of the Registered Owners of the Outstanding Appropriation Obligations, the Swap Providers, and the Credit Issuers in accordance with the terms of the 2009 Indenture.

#### *Limitation on Rights and Remedies of the Registered Owners*

No Registered Owner of Appropriation Obligations, Swap Provider, or Credit Issuer has any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the 2009 Indenture, for the execution of any trust created under the 2009 Indenture, for the appointment of a receiver, or for any other remedy, unless

- (a) an Event of Default has occurred of which the Trustee has been notified as provided in the 2009 Indenture or of which the Trustee is deemed to have notice by the terms of the 2009 Indenture,
- (b) the Trustee has received a request to do so and has been offered a reasonable opportunity either to proceed to exercise the powers granted in the 2009 Indenture or to institute an action, suit, or proceeding in its own name,
- (c) the Trustee has been offered indemnity as provided in the 2009 Indenture, and

- (d) the Trustee thereafter fails or refuses to exercise the powers granted in the 2009 Indenture or to institute an action, suit, or proceeding in its own name.

No Registered Owner of Appropriation Obligations, Swap Provider, or Credit Issuer has any right to affect, disturb, or prejudice the security of the 2009 Indenture by its action or to enforce any right under the 2009 Indenture except in the manner provided in the 2009 Indenture and all proceedings at law or in equity are to be conducted in the manner provided in the 2009 Indenture for the equal and ratable benefit of all the Registered Owners, Swap Providers, or Credit Issuers in accordance with the priority provided in the 2009 Indenture. Nothing in the 2009 Indenture, however, affects or impairs the right of Registered Owners, Swap Providers, or Credit Issuers to enforce the payment of the principal of, and premium, if any, and interest on, any Appropriation Obligations, any Swap Payment Obligations, or any Credit Facility Payment Obligations, respectively, at and after their maturity or the obligation of the State to pay the principal of, and premium, if any, and interest on, the Appropriation Obligations issued under the 2009 Indenture, the Swap Payment Obligations, or the Credit Facility Payment Obligations, respectively, to the Registered Owners, the Swap Providers, and the Credit Issuers, respectively, at the times and places, from the sources, and in the manner expressed in the 2009 Indenture and the Appropriation Obligations, the Swap Agreements, and the Credit Facility Agreements.

#### *Waivers of Events of Default*

The Trustee may waive any Event of Default under the 2009 Indenture and its consequences and must do so upon receipt of a request to do so from the Registered Owners of a majority in aggregate principal amount of each Series of Appropriation Obligations then Outstanding, except as a Supplemental Indenture may otherwise provide with respect to rights of Credit Issuers to restrict such waivers (see **“SUMMARY OF THE 2009 INDENTURE; Certain Rights of Credit Issuers”**). However, the Trustee may not waive any Event of Default in the payment of the principal of, or premium, if any, or interest on, any Appropriation Obligations unless prior to the waiver all arrears of principal, premium, if any, and interest on the Appropriation Obligations for which appropriations have been made, and all expenses of the Trustee in connection with the Event of Default, have been paid or provided for.

#### **The Trustee**

##### *Acceptance of the Trusts*

The Trustee accepts and agrees to perform the duties of the Trustee under the 2009 Indenture upon the terms and conditions set forth therein.

##### *Trustee’s Expenses and Indemnification*

The Trustee is entitled to payment or reimbursement of its Trustee’s Expenses. Upon the occurrence of an Event of Default or an Event of Nonappropriation, the Trustee has a lien upon the Trust Estate for the payment of the Trustee’s Expenses, with right to payment prior to payment on account of any Appropriation Obligation, any Swap Payment Obligation, and any Credit Facility Payment Obligations. To the extent permitted by the Statutes and Constitution of the State, the Trustee shall be entitled to payment or reimbursement from the State to indemnify the Trustee for any loss, liability, or expense incurred without negligence, willful misconduct, or bad faith on its part, arising out of or in connection with the acceptance or administration of the 2009 Indenture, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under the 2009 Indenture.

##### *Notice to Registered Owners if an Event of Default or an Event of Nonappropriation Occurs*

If an Event of Default or an Event of Nonappropriation occurs of which the Trustee is required to take notice or of which it has been given notice, the Trustee agrees to give written notice of the Event of Default or Event of Nonappropriation by first-class mail to the Registered Owners of all Appropriation Obligations then Outstanding at the Registered Owner’s Addresses.

### *Intervention by Trustee*

The Trustee may, and upon receipt of a request to do so from the Registered Owners of a majority of the principal amount of Appropriation Obligations then Outstanding and upon indemnity being provided as required by the 2009 Indenture the Trustee must, intervene on behalf of the Registered Owners of Appropriation Obligations in any judicial proceeding to which the State is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Registered Owners of Appropriation Obligations. The rights and obligations of the Trustee described in this paragraph are subject to the approval of a court of competent jurisdiction.

### *Successor Trustee; Resignation or Removal of the Trustee; Successor or Temporary Trustee*

Any corporation or association (1) into which the Trustee may be converted or merged, (2) with which the Trustee may be consolidated, (3) to which the Trustee may sell or transfer its trust business and assets as a whole or substantially as a whole, or (4) resulting from a conversion, sale, merger, consolidation, or transfer to which the Trustee is a party shall become successor Trustee under the 2009 Indenture without the execution or filing of any instrument or any further act.

The Trustee may at any time resign by giving 30 days' written notice by registered or certified mail to the State and the Registered Owners. The Trustee may be removed at any time without cause (1) at the direction of the State (so long as no Default or Event of Default under the 2009 Indenture has occurred, whether or not continuing) or (2) by an instrument or concurrent instruments in writing signed by the Registered Owners of a majority of the aggregate principal amount of the Appropriation Obligations then Outstanding and delivered to the Trustee and the State. A resignation or removal takes effect upon the appointment of a successor Trustee by the Registered Owners or a temporary Trustee by the State and the successor or temporary Trustee's acceptance of its appointment.

In case the Trustee resigns, is removed, is dissolved, is in the course of dissolution or liquidation, is taken under the control of a public officer, has a receiver appointed for it by a court, or otherwise becomes incapable of acting under the 2009 Indenture, a successor may be appointed by an instrument in writing signed by the Registered Owners of a majority of the aggregate principal amount of the Appropriation Obligations then Outstanding. In case of a vacancy the State may appoint a temporary Trustee to fill the vacancy until a successor Trustee has been appointed by the Registered Owners of Appropriation Obligations in the manner described above. Any temporary Trustee appointed by the State shall be superseded by the Trustee appointed by the Registered Owners of Appropriation Obligations. Every Trustee so appointed must be a trust company or a bank in good standing that is a member of the Federal Deposit Insurance Corporation, having a reported capital and surplus of not less than \$10 million or having assets under administration of not less than \$200 million (if there is an institution willing, qualified, and able to accept the trust upon reasonable and customary terms), and having the qualifications required by the Act.

### *Separate Trustee or Co-Trustee*

The 2009 Indenture provides for the appointment of a separate trustee or co-trustee if desirable or necessary in connection with litigation under the 2009 Indenture, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights, or remedies granted to it under the 2009 Indenture or hold title to the Trust Estate.

## **Supplemental Indentures**

### *Supplemental Indentures Not Requiring the Consent of Registered Owners*

The State and the Trustee may, without the consent of or notice to the Registered Owner of Appropriation Obligations, Swap Providers, or Credit Issuers, enter into Supplemental Indentures which are not inconsistent with the terms and provisions of the 2009 Indenture:

- (a) to provide for the issuance of Appropriation Obligations;
- (b) to cure any ambiguity or formal defect or omission in the 2009 Indenture;



- (c) to grant to or confer upon the Trustee any additional rights, remedies, powers, or authority that may lawfully be granted to or conferred upon the Registered Owners, Swap Providers, Credit Issuers, or the Trustee, so long as such amendment does not adversely affect the rights or interests of any Registered Owner, Swap Provider, or Credit Issuer that has not consented to such amendment;
- (d) to subject additional revenues, properties, or collateral to the 2009 Indenture;
- (e) to surrender or condition the exercise of any right or power granted to the State in the 2009 Indenture; or
- (f) to supplement the 2009 Indenture in any other way which, in the judgment of the Trustee, is not to the material prejudice of the Trustee, the Registered Owners of Appropriation Obligations, any Swap Provider, or any Credit Issuer that has not consented to such supplement.

*Supplemental Indentures Requiring the Consent of the Registered Owners and Swap Providers*

In addition to Supplemental Indentures described above under “**SUMMARY OF THE 2009 INDENTURE; Supplemental Indentures; Supplemental Indentures Not Requiring the Consent of Registered Owners**”, the State and the Trustee, with the prior written consent of the Registered Owners of a majority of the aggregate principal amount of each Series of Appropriation Obligations then Outstanding and each Swap Provider, may enter into Supplemental Indentures as the State and the Trustee deem necessary and desirable for the purpose of amending any of the terms or provisions contained in the 2009 Indenture (including any Supplemental Indenture). No Supplemental Indenture, however, may permit (1) an extension of the stated maturity or reduction in the principal amount or Redemption Price of, a reduction in the rate or an extension of the time for paying interest on, or a reduction in the amount or an extension of the time for any payment required by any sinking fund applicable to any Appropriation Obligations without the consent of the Registered Owners of all the Appropriation Obligations that would be affected by the action to be taken, (2) the creation of any lien prior to or (except in connection with the issuance of Appropriation Obligations or the incurrence of Credit Facility Payment Obligations or Swap Payment Obligations) on a parity with the lien of the 2009 Indenture, without the consent of the Registered Owners of all Appropriation Obligations at the time Outstanding, or (3) a reduction in the aggregate principal amount of Appropriation Obligations the Registered Owners of which are required to consent to any Supplemental Indenture, without the consent of the Registered Owners of all Appropriation Obligations at the time Outstanding that would be affected by the action to be taken.

If at any time the State requests the Trustee to enter into such a Supplemental Indenture, the Trustee shall send notice of the proposed execution of the Supplemental Indenture by registered or certified mail to the Registered Owner of each of the Appropriation Obligations at the Registered Owner’s Address. The notice will briefly set forth the nature of the proposed Supplemental Indenture and state that copies of it are on file at the Designated Trust Office of the Trustee for inspection by the Registered Owner of any Appropriation Obligation. If, within 60 days or any longer period as is prescribed by the State following the mailing of the notice, consent of the requisite Registered Owners has been obtained, no Registered Owner of any Appropriation Obligation shall have any right to object to any of the terms and provisions of the 2009 Indenture or their operation, in any manner to question the propriety of the execution of the Supplemental Indenture or to enjoin or restrain the Trustee or the State from executing the Supplemental Indenture or from taking any action pursuant to the provisions of the Supplemental Indenture. Upon the execution of any Supplemental Indenture as provided in the 2009 Indenture, the 2009 Indenture shall be modified and amended in accordance with it.

**Certain Rights of Credit Issuers**

The 2009 Indenture provides that a Credit Issuer with respect to a Series of Appropriation Obligations may have certain rights, including the rights: (1) to be subrogated to the rights of the Owners of Appropriation Obligations of such Series that are paid by its Credit Facility, and to have those Appropriation Obligations continue to be treated as Outstanding under the 2009 Indenture; (2) to be treated as the Registered Owner of the Appropriation Obligations of such Series for such purposes as the



Supplemental Indenture may provide; (3) to limit the future issuance of Appropriation Obligations (other than Funding Obligations, which a Credit Issuer may not limit); (4) to prohibit Supplemental Indentures affecting such Series of Appropriation Obligations without its consent; and (5) to limit waivers of Events of Default without its consent.

## **Miscellaneous**

### *Consent of Registered Owners*

Any instrument required by the 2009 Indenture to be signed by Registered Owners may be in any number of concurrent writings of similar tenor. Proof of the execution of any such instrument is sufficient for any of the purposes of the 2009 Indenture if it contains or is accompanied by (1) a certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction to the effect that the person signing the writing acknowledged before him the execution thereof or (2) an affidavit of any witness to the execution. The ownership of Appropriation Obligations and the amount, series, numbers, and other identification of them and the date on which they were held are conclusively proved by the Registration Books.

### *Notices*

Unless provided to the contrary in the 2009 Indenture, all notices or other communications under the 2009 Indenture are deemed given when delivered, received by facsimile or e-mail, or mailed by first-class mail, postage prepaid, addressed to the parties at the addresses set forth in the 2009 Indenture.

### *Obligations Due on Saturdays, Sundays, or Holidays*

If any date on which an obligation of the Trustee or the State is to be performed falls on a day that is not a Business Day, then the payment or fulfillment of the obligation may be made on the next succeeding Business Day with the same effect as if made on the date due except that (1) a Supplemental Indenture authorizing a Series of Appropriation Obligations may provide that interest on such Appropriation Obligations continues to accrue to the date of actual payment and (2) in the case of the end of a Fiscal Year, such payment or fulfillment shall be made on the preceding Business Day.

## **GLOSSARY**

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

**2003 Bonds** means the 2003 Series A Bonds and the 2003 Series B Bonds.

**2003 Indenture** means the Trust Indenture, dated as of December 1, 2003, between the State, acting by and through the Department of Administration, under the authority of the Act, and the Trustee, as trustee, as supplemented and amended from time to time.

**2003 Series A Bonds** means the State of Wisconsin General Fund Annual Appropriation Bonds of 2003, Series A (Taxable Fixed Rate).

**2003 Series B Bonds** means the State of Wisconsin General Fund Annual Appropriation Bonds of 2003, Series B (Taxable Auction Rate Certificates), which were refunded in full with proceeds of the 2008 Bonds.

**2008 Bonds** means the 2008 Series A Bonds, 2008 Series B Bonds, and 2008 Series C Bonds.

**2008 Series A Bonds** means the State of Wisconsin General Fund Annual Appropriation Bonds of 2008, Series A (Taxable Fixed Rate), which were refunded in full with proceeds of the 2016 Series A Bonds.

**2008 Series B Bonds** means the State of Wisconsin General Fund Annual Appropriation Bonds of 2008, Series B (Taxable Floating Rate Notes).

**2008 Series C Bonds** means the State of Wisconsin General Fund Annual Appropriation Bonds of 2008, Series C (Taxable Floating Rate Notes),

**2009 Bonds** means the State of Wisconsin General Fund Annual Appropriation Bonds of 2009, Series A.

**2009 Indenture** means the Trust Indenture, dated as of April 1, 2009, between the State, acting by and through the Department of Administration, under the authority of the Act, and the Trustee, as trustee, as supplemented and amended from time to time.

**2012 Bonds** means the State of Wisconsin General Fund Annual Appropriation Refunding Bonds of 2012, Series A (Taxable).

**2016 Bonds** means the 2016 Series A Bonds and the 2016 Series B Bonds.

**2016 Series A Bonds** means the State of Wisconsin General Fund Annual Appropriation Refunding Bonds of 2016, Series A (Taxable).

**2016 Series B Bonds** means the State of Wisconsin General Fund Annual Appropriation Refunding Bonds of 2016, Series B (Taxable).

**2017 Bonds** means the 2017 Series A Bonds, the 2017 Series B Bonds and the 2017 Series C Bonds.

**2017 Series A Bonds** means the State of Wisconsin General Fund Annual Appropriation Refunding Bonds of 2017, Series A (Federally Taxable).

**2017 Series B Bonds** means the State of Wisconsin General Fund Annual Appropriation Refunding Bonds of 2017, Series B (Federally Tax-Exempt).

**2017 Series C Bonds** means the State of Wisconsin General Fund Annual Appropriation Refunding Bonds of 2017, Series C (Taxable).

**Accumulated Unused Sick Leave Liability** means the State's unfunded liability under Sections 40.05(4)(b), (bc), and (bw) and subchapter IX of Chapter 40, Wisconsin Statutes, as certified by the Secretary of the Wisconsin Department of Employee Trust Funds.

**Act or Enabling Act** means Section 16.527 of the Wisconsin Statutes, as from time to time amended.

**Annual Appropriation Amount** means, with respect to the 2003 Indenture, for any Fiscal Year which is the first Fiscal Year of a Biennium, an amount equal to the sum of the amounts in the following clauses (a) through (g) for such Fiscal Year, plus the amount in the following clause (h), and for any Fiscal Year which is the second Fiscal Year of a Biennium, an amount equal to the sum of the amounts in the following clauses (a) through (g) for such Fiscal Year or for the immediately succeeding Fiscal Year, whichever is greater, plus the amount in the following clause (h):

- (a) the amount of principal of 2003 Indenture Bonds Outstanding coming due during the Fiscal Year;
- (b) the amount of principal of 2003 Indenture Bonds Outstanding to be redeemed (whether pursuant to mandatory or optional redemption provisions) during the Fiscal Year, with the amount to be redeemed pursuant to optional redemption determined based on the schedule or formula, if any, set forth in the Supplemental Indenture pursuant to which the Additional 2003 Indenture Bonds are issued, for the Fiscal Year;
- (c) interest to be paid during the Fiscal Year with respect to Fixed Rate 2003 Indenture Bonds Outstanding;
- (d) interest that would be payable during the Fiscal Year with respect to Variable Rate 2003 Indenture Bonds Outstanding, determined at the maximum rate specified with respect thereto;
- (e) the maximum amount of any Swap Payment Obligations (other than Swap Termination Payments) that would be payable during the Fiscal Year under Swap Agreements that provide for a variable rate or rates to be paid by the State to the Swap Provider; *provided*, that any payment that is determined without limit as to amount shall be determined at a rate equal to the rate that would result if the index provided in such Swap Agreement were at 15% per annum;

- (f) the maximum amount of Credit Facility Payment Obligations due during the Fiscal Year except to the extent included in (a) through (e) above;
- (g) estimated administrative expenses, if they will be payable from the Operating Expense Fund during the Fiscal Year; and
- (h) the amount of all Swap Termination Payments which are unpaid and owing as of the September 1 immediately preceding the commencement of the Biennium which includes the Fiscal Year with respect to which the Annual Appropriation Amount is being determined, plus interest to accrue on such Swap Termination Payments to the date on which they are reasonably expected to be made, *provided* that for interest determined based on a variable rate, interest shall be calculated at the maximum rate permitted in the Swap Agreement and if no maximum rate is specified, a rate of 15% per annum;

and means, with respect to the 2009 Indenture, for any Fiscal Year that is the first Fiscal Year of a Biennium, an amount equal to the sum of the amounts in the following clauses (a) through (i) for such Fiscal Year, plus the amount in the following clause (j), and for any Fiscal Year that is the second Fiscal Year of a Biennium (beginning with Fiscal Year 2012-13), an amount equal to the sum of the amounts in the following clauses (a) through (i) for such Fiscal Year or for the immediately succeeding Fiscal Year, whichever is greater, plus the amount in the following clause (j):

- (a) the amount of principal of Outstanding 2009 Indenture Bonds maturing during the Fiscal Year;
- (b) the amount of principal of Outstanding 2009 Indenture Bonds scheduled to be redeemed pursuant to mandatory or Scheduled Optional Redemptions during the Fiscal Year;
- (c) the amount of interest to be paid during the Fiscal Year with respect to Outstanding Fixed Rate Appropriation Obligations;
- (d) the amount of interest that would be payable during the Fiscal Year with respect to Outstanding Variable Rate Appropriation Obligations, calculated at the Maximum Rate with respect thereto for any portion of such Fiscal Year for which the interest rate has not been determined;
- (e) the amount of interest that would be payable during the Fiscal Year with respect to Funding Obligations, assuming that any Outstanding Notes maturing during or prior to such Fiscal Year are retired on the maturity date thereof through the contemporaneous issuance of Funding Obligations in an aggregate principal amount determined by the Department to be sufficient to provide funds to pay the principal amount of such maturing Notes, which Funding Obligations mature on the last day of such Fiscal Year and bear interest, payable on the last day of such Fiscal Year, at a rate of 15% per annum;
- (f) the amount, if any, certified by an Authorized Department Representative to be the expected principal amortization in such Fiscal Year for Funding Obligations described in clause (e) above;
- (g) the maximum amount of any Swap Payment Obligations (other than Swap Termination Payments) that would be payable during the Fiscal Year under Swap Agreements that provide for a variable rate or rates to be paid by the State to the Swap Provider, with any payment that is determined without limit as to amount being calculated at a rate equal to the rate that would result if the index provided in such Swap Agreement were at 15% per annum;
- (h) the maximum amount of Credit Facility Payment Obligations due during the Fiscal Year, except to the extent included in clauses (a) through (g) above;
- (i) the estimated amount of administrative expenses that will be payable from the Operating Expense Fund during the Fiscal Year; and
- (j) the amount of all Swap Termination Payments that are unpaid and owing as of the September 1 immediately preceding the commencement of the Biennium that includes the Fiscal Year with respect to which the Annual Appropriation Amount is being determined, plus interest accrued

and to accrue on such Swap Termination Payments to the date on which they are expected to be made (with interest based on a variable rate calculated at the maximum rate permitted in the Swap Agreement, or if no maximum rate is specified, at a rate of 15% per annum).

**Appropriated Funds** means (a) with respect to the 2003 Indenture, all amounts appropriated by law pursuant to Sections 20.505(1)(br), 20.505(1)(iq), and 20.505(1)(it) of the Wisconsin Statutes, or any successor provisions, from year to year with respect to the Bonds, Swap Payment Obligations, and Credit Facility Payment Obligations; (b) with respect to the 2009 Indenture, all amounts appropriated by law pursuant to Sections 20.505(1)(bq), 20.505(1)(iw), and 20.505(1)(it) of the Wisconsin Statutes, or any successor provisions, from year to year with respect to the Indenture Obligations, any other amounts appropriated by law for payment of the Indenture Obligations, and (c) any other amounts appropriated by law for payment of the Bonds, Swap Payment Obligations, and Credit Facility Payment Obligations.

**Appropriations Fund** means the fund by that name established pursuant to the respective Indenture.

**Appropriation Obligations** means, with respect to the 2009 Indenture, bonds or notes of the State issued, authenticated, and delivered pursuant to the 2009 Indenture.

**Authorized Department Representative** means the person identified in a written certificate which is signed by the Secretary of Administration, which contains a specimen of the Authorized Department Representative's signature, and which has been delivered to the Trustee. Authorized Department Representative includes any alternate or alternates designated in the certificate in the same manner. An Authorized Department Representative or alternate may be an employee of the Department.

**Authorizing Certification** means a written certification of the Department of Administration pursuant to section (5)(a) of the Act, as it may be amended in accordance with the terms of the respective Indenture, executed by the Secretary of Administration or his or her designee and delivered to the Governor, authorizing the execution and delivery of the 2003 Indenture or 2009 Indenture and the Bonds, or authorizing the execution and delivery of a Supplemental Indenture and one or more Series of Bonds.

**Biennium** means the two-Fiscal Year period beginning July 1<sup>st</sup> of each odd-numbered year.

**Bond Counsel** means legal counsel whose legal opinions on municipal bond issues are nationally recognized.

**Bondowner** means the Registered Owner of a Bond.

**Bond Insurance Policies** means, collectively, all policies of municipal bond insurance issued by the Bond Insurers insuring the Bonds.

**Bond Insurers** means (a) with respect to the 2003 Series A Bonds, the 2008 Series C Bonds, and certain 2008 Series B Bonds, Financial Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.), and (b) with respect to any Series of Additional Bonds, any Person that issues a Bond Insurance Policy insuring such Series of Bonds, as identified in the applicable Supplemental Indenture.

**Bonds** means the bonds of the State issued pursuant to the 2003 Indenture, including the 2003 Bonds, the 2008 Bonds, the 2012 Bonds, the 2016 Series A Bonds and any Additional Bonds issued pursuant to the 2003 Indenture, and obligations designated by the Department as "Bonds" in a Supplemental Indenture to the 2009 Indenture.

**Book Entry Form** or **Book Entry System** means, with respect to the Bonds, a form or system, as applicable, under which (1) the ownership of beneficial interests in the Bonds may be transferred only through a book entry system and (2) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Registered Owner, with the physical bond certificates immobilized in the custody of the Depository.

**Budget Bill** means, for any Biennium, (1) the executive budget bill or bills described under Section 16.47 of the Wisconsin Statutes, or any successor provision thereto, introduced into either house of the

legislature of the State, as introduced, (2) the budget bill as adopted by either house of the legislature of the State, and (3) the budget bill as approved in whole or in part by the Governor and enacted into law.

**Business Day** means a day which is not (1) a Saturday, Sunday, or legal holiday, (2) a day on which commercial banks are required or authorized by law to be closed in the State or in the city of the Designated Trust Office, or (3) a day on which The New York Stock Exchange is closed for the entire day or federal reserve banks are closed. A Supplemental Indenture authorizing a Series of Additional Bonds may provide for a different definition when used with respect to such Additional Bonds.

**Closing Statement** means the certificate signed by an Authorized Department Representative in connection with the issuance of Bonds, containing instructions regarding the disposition of proceeds of the Bonds, as required by the respective Indenture.

**Credit Facility** means any standby or direct pay letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy (including any Bond Insurance Policy), or other insurance commitment or other agreement or ancillary arrangement (other than a Swap Agreement), satisfactory to the State, that is provided by a commercial bank, insurance company, or other entity to pay or further secure payment of debt service on Bonds or the purchase of Bonds upon tender.

**Credit Facility Payment Obligations** means all payment and reimbursement obligations of the State to a Credit Issuer in connection with any Credit Facility securing all or a portion of any Bonds.

**Credit Issuer** means the issuer of a Credit Facility, including a Bond Insurer.

**DTC** means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York.

**Debt Service Account** means each Debt Service Account of the Debt Service Fund established pursuant to the respective Indenture.

**Debt Service Fund** means the fund by that name established pursuant to the respective Indenture.

**Default** means the occurrence of an event which, with the lapse of time or the giving of notice or both, is an Event of Default.

**Defeasance Obligations** means, with respect to the 2003 Indenture, noncallable U.S. Government Obligations or obligations issued by one of the agencies of the United States of America, not redeemable at the option of the State or anyone acting on its behalf prior to maturity. The 2003 Indenture provides further restrictions on Defeasance Obligations in connection with the defeasance of the 2003 Series A Bonds, the 2008 Series C Bonds, and certain of the 2008 Series B Bonds and provides that a Supplemental Indenture authorizing a Series of Additional Bonds may include further restrictions on Defeasance Obligations in connection with the defeasance of such Series of Additional Bonds.

**Defeasance Obligations** means, with respect to the 2009 Indenture, the investments identified as such in a Supplemental Indenture authorizing a particular series of Appropriation Obligations, and with respect to the 2009 Bonds, 2016 Series B Bonds, and 2017 Bonds, means noncallable U.S. Government Obligations or obligations issued by one of the agencies of the United States of America not redeemable at the option of the State or anyone acting on its behalf prior to maturity.

**Department** or **Department of Administration** or **DOA** means the Department of Administration of the State.

**Deposit Amount** means the amount certified by the Secretary of Administration as the net amount reasonably expected to be needed during the applicable Fiscal Year to pay principal of Bonds (whether at maturity or by redemption prior to maturity and including any amount set forth in a schedule or formula, if any, set forth in a Supplemental Indenture pursuant to which Additional Bonds are issued), interest on Bonds or, with respect to the 2009 Indenture, Notes, and any Swap Payment Obligations (other than Swap Termination Payments), and to pay administrative expenses. The amount certified shall take into account amounts held by the Trustee in the Proceeds Account, but shall not take into account amounts

held by the Trustee in the Stabilization Fund, that may be applied to such payments. The amount certified shall also take into account the effect of any reasonably expected refunding of Bonds or, with respect to the 2009 Indenture, Notes.

**Depository** means any securities depository that is a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934, operating and maintaining, with its Participants or otherwise, a Book Entry System to record ownership of beneficial interests in the Bonds and to effect transfers of the beneficial ownership in the Bonds in Book Entry Form.

**Designated Trust Office** means the corporate trust office designated by the Trustee.

**Event of Default** has the respective meaning attributed to it under “**SUMMARY OF THE 2003 INDENTURE; Defaults and Remedies**” and “**SUMMARY OF THE 2009 INDENTURE; Defaults and Remedies.**”

**Event of Nonappropriation** means the insufficiency of Appropriated Funds in any Fiscal Year to pay when due all principal, redemption premium, and interest on the Bonds and all Parity Swap Payment Obligations.

**Fiscal Year** means the 12-month fiscal period commencing on July 1<sup>st</sup> of each year and ending on June 30<sup>th</sup> of the succeeding year.

**Fitch** shall mean Fitch Ratings and its successors and assigns.

**Fixed Rate Bonds** (or **Fixed Rate** when used with respect to Bonds) means any Bonds, the interest rate on which is established (with no right to vary) at a single numerical rate for the remaining term of such Bonds.

**Funded Interest** means proceeds of the Bonds deposited with the Trustee to pay interest on Bonds or any Parity Swap Payment Obligations.

**Funding Obligations** means, with respect to the 2009 Indenture, Bonds or Notes issued under the 2009 Indenture for the purpose of funding or refunding Notes at or prior to their maturity (and, to the extent provided in the related Authorizing Certification, to pay any issuance or administrative expenses or Funded Interest with respect thereto as authorized by the Act).

**Governor** means the governor of the State.

**Indenture Funds** means the funds created under of the respective Indenture.

**Indenture Obligations** means with respect to the 2009 Indenture, Appropriation Obligations, Swap Payment Obligations, and Credit Facility Payment Obligations.

**Interest Payment Date** means any date specified in the respective Indenture or a Supplemental Indenture for the payment of interest on Bonds.

**Issuance Expenses** means fees and expenses incurred or to be incurred by or on behalf of the State, the Trustee, or Bond Counsel for the Bonds in connection with the issuance and sale of the Bonds including, but not limited to, underwriting costs (whether in the form of discount in the purchase of the Bonds or otherwise), fees and expenses of legal counsel (including Bond Counsel, counsel to the Trustee, and counsel to the Purchaser), fees and expenses of financial advisors, feasibility consultants, and accountants, rating agency fees, fees of the Trustee, printing costs, recording expenses, fees and expenses related to any Credit Facility or Swap Agreement in connection with the Bonds, fees and costs related to exchange listings, and costs associated with the acquisition of securities for any defeasance escrow and for verifying the sufficiency of any defeasance escrow and any other fees, costs, or expenses in connection with the respective Indenture or the Bonds as determined by an Authorized Department Representative.

**Maximum Rate** means, with respect to the 2003 Indenture, the lesser of (a) 15% per annum or such higher rate as the State may establish with a Rating Confirmation or (b) the maximum rate of interest

permitted by the laws of the State. With respect to the 2008 Series B Bonds and 2008 Series C Bonds, the State established a maximum rate of 35%. **Maximum Rate** means, with respect to a Series of Variable Rate Appropriation Obligations under the 2009 Indenture, the rate per annum established in or pursuant to the Supplemental Indenture authorizing such Appropriation Obligations as the maximum interest rate that may be borne by such Appropriation Obligations at any time.

**Moody's** means Moody's Investors Service, Inc. and its successors and assigns.

**Notes** means, with respect to the 2009 Indenture, Appropriation Obligations designated by the Department as "Notes" in the Supplemental Indenture pursuant to which they are issued.

**Operating Expense Fund** means the fund by that name established pursuant to the respective Indenture.

**Opinion of Bond Counsel** means an opinion in writing signed by legal counsel who shall be nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers.

**Opinion of Counsel** means an opinion in writing signed by legal counsel who may be an employee of or counsel to the State and who shall be satisfactory to the Trustee.

**Outstanding**, when used with reference to 2003 Indenture Bonds, means all 2003 Indenture Bonds which have been authenticated and delivered by the Trustee under the 2003 Indenture except:

- Bonds or portions of Bonds after (1) payment at maturity or redemption prior to maturity (unless the 2003 Indenture or a Supplemental Indenture otherwise provides in the case of Bonds that have been paid with Credit Facility proceeds for which the Credit Issuer has not been reimbursed) or (2) delivery to the Trustee by the State for cancellation pursuant to the 2003 Indenture,
- Bonds for the payment or redemption of which there has been irrevocably deposited with the Secretary of Administration or Trustee, in trust, cash or Defeasance Obligations in accordance with the requirements of the 2003 Indenture and the Act.
- Bonds in lieu of which other Bonds have been authenticated upon transfer, exchange, or replacement as provided in the 2003 Indenture, and
- for purposes of any agreement, acceptance, approval, waiver, consent, request, or other action to be taken under the 2003 Indenture by the Registered Owners of a specified percentage of principal amount of Bonds, Bonds held by or for the account of the State.

and means, when used with reference to the 2009 Indenture, all 2009 Indenture Bonds or Appropriation Obligations which have been delivered by the Trustee under the 2009 Indenture except:

- Appropriation Obligations after (1) payment at maturity or redemption prior to maturity (unless a Supplemental Indenture otherwise provides in the case of Appropriation Obligations that have been paid with Credit Facility proceeds for which the Credit Issuer has not been reimbursed) or (2) delivery to the Trustee by the State for cancellation pursuant to the 2009 Indenture,
- Appropriation Obligations for the payment or redemption of which there has been irrevocably deposited with the Trustee, in trust, cash or Defeasance Obligations in accordance with the requirements of the 2009 Indenture and the Act, as described under "**SUMMARY OF THE 2009 INDENTURE; Discharge of 2009 Indenture**",
- Appropriation Obligations in lieu of which other Appropriation Obligations have been authenticated upon transfer, exchange, or replacement as provided in the 2009 Indenture,
- Appropriation Obligations not presented or tendered on the maturity, redemption, or tender date, and for the payment, redemption, or purchase of which sufficient funds have been deposited with the Trustee,
- Appropriation Obligations not treated as Outstanding pursuant to the Supplemental Indenture that authorized such Appropriation Obligations (and in this regard, the First Supplemental Indenture

provides that 2009 Series A Bonds in lieu of which other Appropriation Obligations have been issued upon surrender of the 2009 Series A Bonds for partial redemption are no longer treated as Outstanding); and

- for purposes of any action to be taken under the 2009 Indenture by the Registered Owners of a specified percentage of principal amount of Appropriation Obligations, Bonds, or Notes, any Appropriation Obligations held by or for the account of the State (unless all Appropriation Obligations, Bonds, or Notes, as the case may be, are so owned).

**Owner** or **Registered Owner**, when used with reference to a Bond, means the person who is the registered owner of a Bond, except that the respective Indenture or a Supplemental Indenture may provide that, for certain purposes, a Credit Issuer is treated as the Owner of Bonds secured by its Credit Facility, as described under “**SUMMARY OF THE 2003 INDENTURE; Certain Rights of Credit Issuers**” and “**SUMMARY OF THE 2009 INDENTURE; Certain Rights of Credit Issuers.**”

**Parity Swap Payment Obligations** means Swap Payment Obligations exclusive of all Swap Termination Payments, except for Swap Termination Payments the amount of which was included in the calculation of Annual Appropriation Amount for a Fiscal Year for which a Budget Bill has been enacted (but not including appropriations continued from the prior Fiscal Year pursuant to Section 20.002(1), Wisconsin Statutes).

**Participant** means a broker-dealer, bank, or other financial institution for which DTC or a successor Depository holds Bonds from time to time as a securities depository.

**Payment** means the payment of all, or part of, the Unfunded Prior Service Liability and Accumulated Unused Sick Leave Liability.

**Payment Cost** means any cost of the Payment and the issuance of the Bonds, including but not limited to paying accrued or Funded Interest, Issuance Expenses, making deposits to reserve funds, paying administrative expenses, paying the costs of credit enhancement, or making payments under any Swap Agreement or Credit Facility.

**Payment Date** means a date on which payment of a Principal Installment or Redemption Price or interest with respect to any Bonds or payment of any Swap Payment Obligations or Credit Facility Payment Obligations shall be due and payable.

**Person** means an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, or a government or any agency or political subdivision thereof.

**Principal Installment** means, as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, (1) the principal amount of Bonds of such Series due on a certain future date for which no sinking fund installments have been established, or (2) the unsatisfied balance of any sinking fund installments due on a certain future date for Bonds of such Series, or (3) if such future dates coincide as to different Series of Bonds, the sum of such principal amount of Bonds and of such unsatisfied balance of sinking fund installments due on such future date.

**Proceeds Account** means the Proceeds Account of the Debt Service Fund established pursuant to the 2003 Indenture, and the Proceeds Funding Account and Proceeds Interest Account of the Debt Service Fund established pursuant to the 2009 Indenture.

**Purchaser** means the initial purchaser of a Series of Bonds, whether one or more.

**Qualified Investments** means, with respect to the 2003 Indenture, any of the following obligations to the extent the same are at the time legal for investment of funds of the State under the Act or under other applicable law (provided that as long as any 2003 Indenture Bonds are insured by a Credit Issuer, Qualified Investments may be further limited as required by the Credit Issuer):



- direct obligations maturing within ten years or less from the date of settlement, of the United States or its agencies, corporations wholly owned by the United States, the international bank for reconstruction and development, the international finance corporation, the inter-American development bank, the African development bank, the Asian development bank, the federal national mortgage association, or any corporation chartered by an act of Congress,
- securities maturing within ten years or less from the date of settlement, guaranteed by the United States or, where the full faith and credit of the United States is pledged or, where securities are collateralized by government-insured investments or, where the securities are issued by a corporation created by act of Congress and related by such act,
- unsecured notes of financial and industrial issuers maturing within five years or less from the date of settlement and having one of the two highest ratings given by a nationally recognized rating service, but if the corporation issuing such notes has any long-term senior debt issues outstanding which also have been rated, the rating must be one of the three highest ratings so given,
- certificates of deposit issued by banks located in the United States and by savings and loan associations, savings banks, and credit unions located in the State,
- banker's acceptances accepted by banks located in the United States,
- commercial paper maturing within one year or less from the date of investment and rated prime by the national credit office, if the issuing corporation has one or more long-term senior debt issues outstanding, each of which has one of the three highest ratings issued by Moody's or S&P, and
- any other obligation or security which constitutes a permitted investment for money of the State under the Act or other applicable law;

and means with respect to the 2009 Indenture, any investments that are at the time legal for investment of funds of the State under the Act or under other applicable law, subject to any limitations that may be set forth in a Supplemental Indenture. The First and Second Supplemental Indenture contain no such limitations.

**Rating** means one of the rating categories of a Rating Agency maintaining a rating of the Bonds.

**Rating Agencies** or **Rating Agency** means Moody's, Fitch, S&P, or any other rating agency requested by the State to maintain a Rating on any of the Bonds.

**Rating Confirmation** means, with respect to the 2003 Indenture, a letter from each of at least two Rating Agencies then providing a Rating for the Bonds confirming that the action proposed to be taken by the State will not, in and of itself, have the effect of reducing the underlying Rating then applicable to the Bonds or of causing any such Rating Agency to suspend or withdraw the underlying Rating then applicable to the Bonds.

**Redemption Notice Information** means information in a written and dated notice from the Trustee which:

- identifies the Bonds to be redeemed by the name of the issue (including the name of the State and any Series designation), CUSIP number, if any, date of issue, interest rate (for Fixed Rate Bonds), maturity date, and any other descriptive information the Trustee deems desirable to accurately identify the Bonds to be redeemed and, if only a portion of some Bonds will be redeemed, the certificate numbers and the principal amount of those Bonds to be redeemed,
- identifies the date on which the notice is published and the date on which the Bonds will be redeemed,
- states the price at which the Bonds will be redeemed,

- states that interest on the Bonds or the portions of them called for redemption will stop accruing from the redemption date if funds sufficient for their redemption and available for that purpose are on deposit with the Trustee on the redemption date,
- states that payment for the Bonds will be made on the redemption date at the Designated Trust Office of the Trustee during normal business hours upon the surrender of the Bonds to be redeemed in whole or in part,
- identifies by name and phone number a representative of the Trustee who may be contacted for more information, and
- in the case of redemption of a Series of Bonds for which such a notice is authorized, states that such call for redemption is contingent upon the availability of Appropriated Funds to pay the Redemption Price thereof in full or upon the satisfaction of other conditions.

For so long as a Series of Bonds is in a Book Entry System, Redemption Notice Information also includes the information and procedures described in the applicable Letter of Representations.

**Redemption Price** means, with respect to any Bond issued pursuant to the 2003 Indenture, 100% of the principal amount thereof plus the applicable redemption premium, if any, payable upon redemption thereof and, with respect to any Appropriation Obligation issued pursuant to the 2009 Indenture, the amount required to be paid upon the redemption of such Appropriation Obligation pursuant to the Supplemental Indenture authorizing such Appropriation Obligation.

**Registered Owner's Address** means the address, which a Registered Owner may change upon written request to the Trustee, of the Registered Owner of any Bond as it appears in the Registration Books.

**Registration Books** means books maintained by the Trustee on behalf of the State at the Designated Trust Office of the Trustee for the purpose of recording the registration, transfer, exchange, or replacement of any of the Bonds.

**S&P** means S&P Global Ratings, a division of S&P Global, and its successors and assigns.

**Secretary or Secretary of Administration** means the Secretary of the Department.

**Series** means all Bonds or Notes designated as a Series in an Authorizing Certification, and any Bonds or Notes authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds or Notes thereafter authenticated and delivered in lieu of or in substitution of such Bonds or Notes.

**Stabilization Fund** means the reserve fund by that name established pursuant to the respective Indenture.

**Stabilization Fund Amount** means, for the 2003 Indenture, (1) for so long as any 2003 Bonds remain Outstanding, \$32,935,000 or such greater amount as may be deemed reasonable and designated in writing by an Authorized Department Representative, and (2) thereafter, such amount as may be deemed reasonable and designated in writing by an Authorized Department Representative; *provided* that the Stabilization Fund Amount shall not be reduced unless a Rating Confirmation and consent from each Swap Provider is obtained with respect to such reduction and, for the 2009 Indenture, the amount, if any, established by a Supplemental Indenture. The First, Second, Third, and Fourth Supplemental Indentures to the 2009 Indenture do not establish a Stabilization Fund Amount.

**State** means the State of Wisconsin.

**Subordinated Payment Obligations Fund** means the fund by that name established pursuant to the respective Indenture.

**Subordinated Swap Payment Obligations** means all Swap Payment Obligations payable by the State except Parity Swap Payment Obligations.

**Supplemental Indenture** means any trust indenture which has been duly executed and delivered by the State and the Trustee amendatory of the respective Indenture or supplemental to the respective Indenture, but only if and to the extent that such trust indenture is authorized under that Indenture.

**Swap Agreement** means any agreement or ancillary arrangement between the State and a Swap Provider relating to the Bonds and identified by the Department pursuant to the respective Indenture, including indexing agreements, interest exchange agreements, or any other similar transaction.

**Swap Payment Obligations** means, for any period of time, all net amounts payable by the State (including Swap Termination Payments payable by the State) under any Swap Agreement.

**Swap Provider** means the State's counterparty under a Swap Agreement.

**Swap Termination Payment** means, with respect to any Swap Agreement, any settlement amount payable by the applicable Swap Provider or the State by reason or on account of the early termination of such Swap Agreement, together with any interest thereon. The term Swap Termination Payment shall not include net unpaid amounts up to the Swap Agreement termination date which would have been payable by the Swap Provider or the State, as the case may be, pursuant to the terms of the applicable Swap Agreement irrespective of the early termination of such Swap Agreement.

**Trust Estate** means the property conveyed to the Trustee pursuant to the Granting Clauses of an Indenture.

**Trustee** means U.S. Bank National Association, as successor to Deutsche Bank Trust Company Americas, and its successors as trustee under each Indenture.

**Trustee's Consent** means the prior written consent of the Trustee.

**Trustee's Expenses** means the reasonable and necessary fees and expenses of the Trustee with respect to the respective Indenture or the Bonds and those for any legal, accounting, financial, or other experts reasonably retained by the Trustee. **Trustee's Expenses** also include the fees, charges, and expenses of any additional paying agent for the Bonds.

**Unfunded Prior Service Liability** means the State's unfunded prior service liability under Section 40.05(2)(b), Wisconsin Statutes, as certified by the Secretary of the Wisconsin Department of Employee Trust Funds.

**U.S. Government Obligations** means obligations which are direct, full faith and credit obligations of the United States of America or are obligations with respect to which the United States of America has unconditionally guaranteed the timely payment of all principal or interest or both, but only to the extent of the principal or interest so guaranteed.

**Variable Rate Bonds** means any Bonds which bear a variable interest rate or rates that are not established at the time of calculation at a single numerical rate for the remaining term of such Bonds.