PART VIII

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS

Part VIII of the 2018 Annual Report provides information about petroleum inspection fee revenue obligations issued by the State of Wisconsin **(State)** in the form of fixed rate bonds and variable rate bonds. Selected information is provided in this introduction for the convenience of the readers; however, all information presented in Part VIII of the 2018 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2018)	$27,195,000
Amount Outstanding of Fixed-Rate Obligations	27,195,000
Amount Outstanding of Variable-Rate Obligations	0
Ratings[a] (Fitch/S&P)	
Senior Bonds	AA/AA[b]

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.
Final Maturity	The final maturity of the Bonds is scheduled to occur on July 1, 2019. Upon making the final payment of principal and interest on the Bonds, the State intends to terminate the Program Resolution.
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	APPENDIX A to this Part VIII of the 2018 Annual Report includes the auditor's report and the audited financial statement.

[a] 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 2018 Annual Report about any rating assigned to any petroleum inspection fee revenue obligations based on any bond insurance policy.

[b] On November 16, 2018, S&P Global Ratings issued press releases that address the application of their recently-released priority lien criteria to certain credits of U.S. state issuers. The releases indicate that no rating changes are expected for the Bonds.

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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. 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 2018 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 2018 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 2018 Annual Report. No information or resource referred to in the 2018 Annual Report is part of the report unless expressly incorporated by reference.

Certain statements in this Part VIII of the 2018 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 2018 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, 2018.

Table VIII-1

OUTSTANDING PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS BY ISSUE (As of December 15, 2018)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Fixed-Rate Obligations				
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	$ 27,195,000
Total Fixed-Rate Obligations				$ 27,195,000
Variable-Rate Obligations				
2000- EMCP	5/9/00		$ 80,000,000	-0-
2002- EMCP	8/1/02		62,300,000	-0-
Total Variable-Rate Obligations				$ -0-
Total Outstanding Petroleum Inspection Fee Revenue Obligations				$ 27,195,000

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 15th for the previous ten years.

Table VIII-2

HISTORICAL OUTSTANDING PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS

Year (December 15)	Outstanding Senior Bonds	Outstanding Variable Rate Bonds	Total
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
2017	55,130,000	-0-	55,130,000

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 2018 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 2018 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 additional Bonds were to be issued, such additional Bonds could be issued 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.

In addition, the final maturity of the Bonds is scheduled to occur July 1, 2019 and the State, upon making the final payment of principal and interest, intends to terminate the Program Resolution.

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, 2018)

Year Ending (July 1)	Principal	Interest	Total Annual Debt Service	Projected Petroleum Inspection Fees[a]	Estimated Debt Service Coverage
2019	$27,195,000	$1,087,800	$28,282,800	$76,495,592	2.70
Total	$27,195,000	$1,087,800	$28,282,800		

[a] 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 15th day of each month, or the next business day if the 15th 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 15th, 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 20th, 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 final maturity of the Bonds is currently scheduled to occur on July 1, 2019. Upon making the final payment of principal and interest on the Bonds, the State intends to terminate the Program Resolution. At that time, the Department of Revenue will cease transfers of Petroleum Inspection Fees to the Trustee on the Revenue Payment Date.

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 2009 through 2018. 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)

Fiscal Year	Total Gallons Inspected	% Increase (Decrease) from Previous Year
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[(a)]	3,699,175,334	0.58
2014	3,392,388,870	(8.29)
2015[(b)]	4,061,698,396	19.73
2016[(b)]	3,791,904,561	(6.64)
2017	3,845,242,200	1.41
2018	3,965,482,415	3.13

(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.

Table VIII-5
GALLONS INSPECTED PER PETROLEUM PRODUCT AND SUBJECT TO PETROLEUM INSPECTION FEE
(Actual Basis)

Fiscal Year	Total Gallons of Gasoline Products Inspected	% Increase (Decrease) from Previous Year	Total Gallons of Oil Products Inspected	% Increase (Decrease) from Previous Year
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[(a)]	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[(b)]	2,776,126,199	18.55	1,285,572,197	22.37
2016[(b)]	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)
2018	2,742,165,401	2.29	1,223,317,014	5.06

[(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.

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)

Fiscal Year (June 30)	Total Fees	% Increase (Decrease) From Previous Year
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[a]	80.2	12.67
2016[a]	74.6	(6.97)
2017	76.6	2.69
2018	79.8	4.18

[a] 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)

Fiscal Year (June 30)	Maximum Monthly Amount	Average Monthly Amount	Minimum Monthly Amount
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
2018	9.7	6.6	3.8

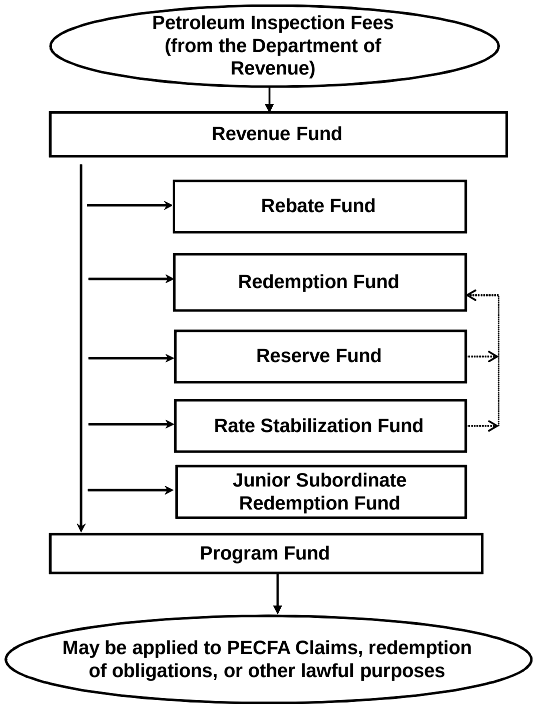
Source: Departments of Natural Resources and Revenue.

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 2018 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.

The final maturity of the Bonds is currently scheduled to occur on July 1, 2019. Upon making the final payment of principal and interest on the Bonds, the State intends to terminate the Program Resolution. At that time, the Department of Revenue will cease transfers of Petroleum Inspection Fees to the Trustee on the Revenue Payment Date.

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

While the following risk factors are provided, the final maturity of the Bonds is scheduled to occur on July 1, 2019 and as of the date of this Part VIII of the 2018 Annual Report, 49% of the debt service due on July 1, 2019 has been deposited with and is being held by the Trustee. The State, upon making the final payment of principal and interest due July 1, 2019, intends to terminate the Program Resolution.

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 92% of the Petroleum Inspection Fees collected in the 2017-18 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 2018 Annual Report.

Under existing statutory authority as of the date of the 2018 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 2018 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 15th 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 2018 Annual Report, there is no Reserve Fund Requirement and there is no money in the Reserve Fund.*

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 2018 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.

The final maturity of the Bonds is currently scheduled to occur on July 1, 2019. Upon making the final payment of principal and interest on the Bonds, the State intends to terminate the Program Resolution. At that time, the Department of Revenue will cease transfers of the Petroleum Inspection Fees to the Trustee on the Revenue Payment Date.

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 2018 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 1st of each year and ending on June 30th 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, 2018 and June 30, 2017. Any web sites listed in the auditor's report and the audited financial statements are not incorporated by reference into this Part VIII of the 2018 Annual Report.

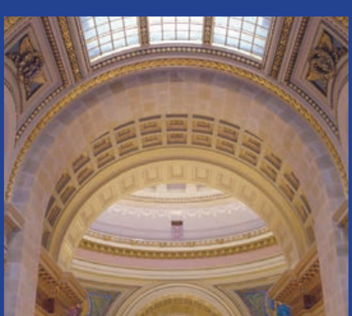
{This page number is the last sequential page number of the 2018 Annual Report to be used in Part VIII of the 2018 Annual Report. The following uses page numbers from the auditor's report and financial statement. The sequential page numbers for the 2018 Annual Report continue in Part IX.}

Report 18-15
November 2018

Petroleum Inspection Fee Revenue Obligations Program

Fiscal Year 2017-18

STATE OF WISCONSIN



Legislative Audit Bureau

Report 18-15
November 2018

Petroleum Inspection Fee Revenue Obligations Program

Fiscal Year 2017-18

Report 18-15
November 2018

LEGISLATIVE AUDIT BUREAU

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.

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit *www.legis.wisconsin.gov/lab.*

Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703; *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

Joe Chrisman
State Auditor

November 9, 2018

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, 2018, and June 30, 2017. We have provided an unmodified audit opinion on the Statement of Changes in Program Assets, which includes the related notes and 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, 2018, revenue obligations outstanding included $55.1 million of the 2016 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds. These bonds are scheduled to be paid off on July 1, 2019.

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 $79.7 million in fiscal year (FY) 2017-18. Of this amount, $28.6 million was retained by the program to pay principal and interest on outstanding obligations.

Revenue from the remaining fees, which totaled $51.1 million, was deposited in the Petroleum Inspection Fund. Of this amount, $6.1 million was used to pay PECFA claims; $32.0 million was transferred to other funds, including $30.3 million to the Transportation Fund as required by 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act; and $13.0 million was used for other purposes.

2015 Wisconsin Act 55 sunset the PECFA program. All claims for reimbursement of cleanup costs must be submitted before July 1, 2020. As of June 30, 2018, all submitted claims had been reviewed and approved.

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/ES/ss

Audit Opinion ■

STATE OF WISCONSIN | Legislative Audit Bureau
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Joe Chrisman
State Auditor

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

Ms. Ellen Nowak, Secretary
Department of Administration

Report on the Financial Statements

We have audited the accompanying cash basis Statement of Changes in Program Assets, which includes the related notes, of the State of Wisconsin Petroleum Inspection Fee Revenue Obligation Program as of and for the years ended June 30, 2018, and June 30, 2017.

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 entity'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 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 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, 2018, and June 30, 2017, 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, 2018, and June 30, 2017, 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.

As discussed in Note 5 to the Statement of Changes in Program Assets, all revenue bonds outstanding as of June 30, 2018, are scheduled to be paid off on July 1, 2019.

Our opinion is not modified with respect to 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 7, 2018, 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 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 program's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Joe Chrisman
State Auditor

November 7, 2018

Management's Discussion and Analysis ■

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) 2017-18 and FY 2016-17. Accounting for the program is done outside of 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 $31.5 million as of June 30, 2018, $26.5 million as of June 30, 2017, and $30.1 million as of June 30, 2016.

Table A

Program Assets

	June 30, 2018	June 30, 2017	Percentage Change 2017 to 2018	June 30, 2016	Percentage Change 2016 to 2017
Restricted for Debt Service	$31,488,791	$26,431,751	19.1%	$30,071,234	(12.2)%
Restricted for Other Purposes	3,445	88,811	(96.1)	3,008	2,852.5
Total Program Assets	**$31,492,236**	**$26,520,562**	18.7	**$30,074,242**	(11.8)

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, 2018, and 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, all program assets, including those restricted for debt service and for other purposes, were held in demand deposit accounts. As of June 30, 2018, June 30, 2017, and June 30, 2016, program assets restricted for debt service were primarily used to pay debt service payments scheduled for July 1, 2018, July 1, 2017, and July 1, 2016. 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, 2018, 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. The first principal payment on this issue was made on July 1, 2013, and the issue was paid off on July 1, 2017. 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 made on 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, 2018, revenue obligations outstanding included only $55.1 million of the 2016 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds. These bonds are scheduled to be paid off on July 1, 2019.

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 3.38 in FY 2017-18 and 2.57 in FY 2016-17. The FY 2017-18 debt service coverage ratio was calculated based on $79,761,760 in petroleum inspection fees remitted by the

State to the trustee, and senior debt service payments of $23,603,125. In FY 2016-17, the calculated ratio was 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.

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 $51.1 million in FY 2017-18, $45.4 million in FY 2016-17, and $45.9 million in FY 2015-16, as shown in Table B.

Table B

Petroleum Inspection Fees

	FY 2017-18	FY 2016-17	Percentage Change FY 2016-17 to FY 2017-18	FY 2015-16	Percentage Change FY 2015-16 to FY 2016-17
Petroleum Inspection Fees Remitted by the State to the Trustee	$79,761,760	$76,644,662	4.1%	$74,638,566	2.7%
Petroleum Inspection Fees Retained by the Trustee	28,632,967	31,262,922	(8.4)	28,744,220	8.8
Petroleum Inspection Fees Transferred from the Trustee to the State	**$51,128,793**	**$45,381,740**	12.7	**$45,894,346**	(1.1)

Claims paid from the petroleum inspection fees transferred to the State totaled $6.1 million in FY 2017-18 and $5.2 million in FY 2016-17. No claims were paid from the proceeds of revenue obligations or any related interest and investment income during FY 2017-18, FY 2016-17, and FY 2015-16. All submitted claims had been reviewed and approved as of June 30, 2018.

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.

■ ■ ■ ■

Financial Statement

Statement of Changes in Program Assets for the Fiscal Years Ended June 30, 2018, and June 30, 2017

	Fiscal Year 2017-18		Fiscal Year 2016-17	
Program Assets, July 1		$ 26,520,562		$ 30,074,242
RECEIPTS				
Net Proceeds from Sale of Revenue Refunding Obligations		0		66,405,080
Petroleum Inspection Fees Remitted by the State of Wisconsin to the Trustee	$ 79,761,760		$ 76,644,662	
Less: Petroleum Inspection Fees Transferred from the Trustee to the State of Wisconsin Petroleum Inspection Fund (see Note 7)	(51,128,793)		(45,381,740)	
Petroleum Inspection Fees Retained by the Trustee		28,632,967		31,262,922
Interest and Investment Income		28,886		61,029
Total Receipts		**28,661,853**		**97,729,031**
TOTAL PROGRAM ASSETS AVAILABLE		**55,182,415**		**127,803,273**
DISBURSEMENTS				
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	20,925,000		27,800,000	
Senior Debt Service—Bond Interest	2,678,125		1,826,739	
Senior Debt Service—Commercial Paper Interest	0		164,454	
Total Senior Debt Service		23,603,125		29,791,193
Junior Subordinate Debt Service—Commercial Paper Principal		0		71,150,000
Total Debt Service		23,603,125		100,941,193
Debt Issuance Costs		0		176,372
Other Costs		87,054		165,146
Total Disbursements		**23,690,179**		**101,282,711**
Program Assets Restricted for:				
Debt Service (see Note 4)	31,488,791		26,431,751	
Other Purposes (see Note 4)	3,445		88,811	
PROGRAM ASSETS, JUNE 30		**$ 31,492,236**		**$ 26,520,562**

The accompanying notes are an integral part of this statement.

Notes to the Statement of Changes in Program Assets

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, 2018, 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, 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, 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, and does not, 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, 2018, the demand deposit accounts with the trustee and the extendible municipal commercial paper issuing and paying agent totaled $209,586. 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, 2018, $209,586 was insured against loss by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2017, $250,862 was insured against loss by the FDIC. The remaining balance of $16,293,902 as of June 30, 2017, 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, 2018, the program held investments purchased for $31,282,650 consisting of U.S. Treasury notes with a total face value of $31,357,000. 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.

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, 2018, the investments held by the program had a fair market value of $31,340,170. U.S. Treasury notes in the face amount of $29,003,000, which were to be used for scheduled debt service payments on July 2, 2018, matured on June 30, 2018. U.S. Treasury notes in the face amount of $90,000, which are to be used for scheduled debt service payments on January 1, 2019, mature on December 31, 2018. U.S. Treasury notes in the face amount of $2,264,000, which are to be used for scheduled debt service payments on July 1, 2019, mature on June 30, 2019. 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, which were to be used for scheduled debt service payments on

July 3, 2017, matured on July 3, 2017. U.S. Treasury notes in the face amount of $1,099,000, which were to be used for scheduled debt service payments on January 1, 2018, matured on December 31, 2017. U.S. Treasury notes in the face amount of $2,704,000, which were to be used for scheduled debt service payments on July 1, 2018, matured on June 30, 2018. 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, 2018, the program's assets totaled $31,492,236. Of this amount, $31,488,791, consisting of investments and demand deposits, was restricted for debt service. The remaining $3,445, 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, 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.

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, 2017, and June 30, 2018, the following changes occurred in revenue bonds outstanding:

Change in Revenue Bonds Outstanding

Fiscal Year	Balance July 1	Bonds Issued	Principal Redeemed	Balance June 30
2016-17	$41,410,000	$62,445,000	$27,800,000	$76,055,000
2017-18	76,055,000	0	20,925,000	55,130,000

The senior revenue bonds issued by the program and outstanding as of June 30, 2018, were as follows:

Senior Revenue Bonds

Date Issued	Series	Interest Rates	Maturity Through	First Optional Redemption Date	Amount Issued	June 30, 2018 Amount Outstanding
10/20/2009	2009 Series 1	3.0 to 5.0%	7/1/2017	Not Callable	$117,460,000	$ 0
10/13/2016	2016 Series 1	4.0 to 5.0%	7/1/2019	Not Callable	62,445,000	55,130,000
				Total Senior Revenue Bonds	$179,905,000	$55,130,000

The 2016 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds are not subject to redemption prior to maturity and are scheduled to be paid off on July 1, 2019.

The program's future debt service requirements as of June 30, 2018, for principal and interest for the 2016 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds are as shown in the following table.

Future 2016 Series Debt Service on Revenue Bonds

Fiscal Year Ending June 30	Principal Amount	Interest Amount	Total Debt Service on Bonds
2019	$27,935,000	$1,646,500	$29,581,500
2020	27,195,000	543,900	27,738,900
	$55,130,000	$2,190,400	$57,320,400

The following table presents the extendible municipal commercial paper activity for FY 2016-17.

Change in Extendible Municipal Commercial Paper Outstanding

Fiscal Year	Balance July 1	Commercial Paper Issued	Principal Repaid	Balance June 30
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; therefore, no payments were required during FY 2017-18. No additional extendible municipal commercial paper was issued during FY 2017-18.

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 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.

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, 2018, 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 2017-18, these other petroleum inspection fees totaled $53,197 and were made available to the trustee. In FY 2016-17, these other petroleum inspection fees totaled $22,706 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, 2018, or June 30, 2017.

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 2017-18 and FY 2016-17.

FY 2017-18

Month	Petroleum Inspection Fees Remitted by the State to the Trustee	Petroleum Inspection Fees Retained by the Trustee	Petroleum Inspection Fees Transferred by the Trustee to the State
July 2017	$ 6,996,626	$ 2,327,917	$ 4,668,709
August	8,277,890	2,327,917	5,949,973
September	5,764,620	2,327,916	3,436,704
October	7,902,249	2,327,917	5,574,332
November	6,464,039	2,327,917	4,136,122
December	6,178,215	2,327,916	3,850,299
January 2018	6,382,031	2,327,917	4,054,114
February	3,803,070	2,444,350	1,358,720
March	9,656,432	2,511,684	7,144,748
April	5,887,048	2,511,683	3,375,365
May	6,095,700	2,512,933	3,582,767
June	6,353,840	2,356,900	3,996,940
Total FY 2017-18	$79,761,760	$28,632,967	$51,128,793

FY 2016-17

Month	Petroleum Inspection Fees Remitted by the State to the Trustee	Petroleum Inspection Fees Retained by the Trustee	Petroleum Inspection Fees Transferred by the Trustee to the State
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	5,186,384	2,327,916	2,858,468
Total FY 2016-17	$76,644,662	$31,262,922	$45,381,740

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 2017-18 and FY 2016-17 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

	Fiscal Year 2017-18		Fiscal Year 2016-17	
Fees Remitted to the Trustee		$79,761,760		$76,644,662
Senior Debt Service:				
Principal—Bonds	$20,925,000		$27,800,000	
Interest—Bonds	2,678,125		1,826,739	
Interest—Commercial Paper	0		164,454	
Total Senior Debt Service		$23,603,125		$29,791,193
Debt Service Coverage Ratio for Senior Debt		3.38		2.57

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 $6.1 million in FY 2017-18 and were $5.2 million in FY 2016-17.

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Auditor's Report

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Joe Chrisman
State Auditor

Report 18-15

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

Ms. Ellen Nowak, 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, 2018, and June 30, 2017, and have issued our report thereon dated November 7, 2018. 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 7, 2018