

**03-14  
December 2003**

An Audit

# **Petroleum Inspection Fee Revenue Obligations Program**

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State Auditor - Janice Mueller

Audit Prepared by

Bryan Naab, Director and Contact Person  
Carrie Ferguson

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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December 16, 2003

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

At the request of the departments of Commerce and Administration, and to meet 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 ending June 30, 2003, and June 30, 2002. We were able to express our unqualified opinion on the program's Statement of Changes in Program Assets and related notes.

Under the Petroleum Inspection Fee Revenue Obligations Program, the State issues revenue obligations, such as bonds and commercial paper, to provide financing for payment of claims under the Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. The obligations are not general obligation debt of the State. Instead, the revenue obligations are to be repaid from the \$0.03 per gallon fee charged suppliers for petroleum products sold in Wisconsin and collected by the Department of Revenue.

As of June 30, 2003, the State had issued \$342.55 million in revenue obligations, which was the maximum permitted under s. 101.143(9m), Wis. Stats., at that time. However, it is expected that PECFA claims submitted for payment will continue to exceed the amount of petroleum inspection fees available to pay them. In addition, as of June 30, 2003, the Department of Commerce had a backlog of nearly \$6 million in approved claims awaiting payment, nearly \$37 million in additional claims that had been received but not yet approved for payment, and an estimated \$99 million in costs incurred by landowners under the program but not yet claimed for reimbursement. As a result, in 2003 Wisconsin Act 33, the Legislature increased the statutory limit for the program's revenue obligations to \$436 million, plus an amount to pay issuance or administrative costs, to make any necessary deposits to reserve funds, or to pay accrued or capitalized interest. On September 17, 2003, the Building Commission authorized the sale of \$95.88 million in revenue obligations, which are expected to be issued during the current fiscal year.

We appreciate the courtesy and cooperation extended to us during the audit by staff of the departments of Commerce, Administration, and Revenue.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller  
State Auditor

JM/BN/ss



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## Audit Opinion ■

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### ***Independent Auditor's Report on the Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program***

We have audited the accompanying Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2003, and June 30, 2002. This financial statement is the responsibility of the program's management. Our responsibility is to express an opinion on the financial statement based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Statement of Changes in Program Assets 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 and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

#### 4 ■ ■ ■ ■ ■ AUDIT OPINION


As described in Note 2, to provide a meaningful presentation to 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2003, and June 30, 2002, and the program's receipts and disbursements for the fiscal years then ended, on the cash basis of accounting.

Our audits were conducted for the purpose of forming an opinion on Statement of Changes in Program Assets of the Petroleum Inspection Fee Revenue Obligations Program. The supplementary information included as Management's Discussion and Analysis on pages 5 through 9 is presented for purposes of additional analysis and is not a required part of the Statement of Changes in Program Assets. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the supplementary information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2003, on our consideration of the program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

December 9, 2003

LEGISLATIVE AUDIT BUREAU  
by   
Bryan Naab  
Audit Director



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# Management's Discussion and Analysis ■

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## *Prepared by Management of the Petroleum Inspection Fee Revenue Obligations Program*

Management's Discussion and Analysis (MD&A) is intended to provide users of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program's Statement of Changes in Program Assets with a narrative overview of the statement, as well as an analysis of some key data presented in the statement. The MD&A should be read in conjunction with the accompanying financial statement and notes. The financial statement, notes, and this discussion are the responsibility of the program's management.

### **Overview of the Statement of Changes in Program Assets**

The Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program is intended to show the changes in the program's assets for fiscal years (FYs) 2002-03 and 2001-02. Accounting for the program is done outside the State of Wisconsin's central accounting system.

The Statement of Changes in Program Assets presents the program's receipts and disbursements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Under the cash basis of accounting, receipts are recorded when received and disbursements are recorded when paid. The financial position and activity of the program is 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 to a full understanding of the data provided in the financial statement.

### Noteworthy Financial Activity

The program was originated in January 2000 pursuant to a State of Wisconsin Building Commission Program Resolution adopted on January 19, 2000, and amended and restated on May 2, 2000, for the purpose of financing the payment of claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. The Program Resolution establishes special trust funds and accounts and 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 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.

As shown in Table A, program assets as of June 30, 2003 and June 30, 2002, were \$19,484,638 and \$19,959,529, respectively, and were invested as follows:

Table A

#### Program Assets

	June 30, 2003	June 30, 2002	Percentage Change
Program Assets Reserved for Debt Service:			
Demand Deposits	\$ 19,379,255	\$19,556,765	-0.9%
Investments	96,926	400,682	-75.8
<b>Total</b>	<b>19,476,181</b>	<b>19,957,447</b>	<b>-2.4</b>
Unreserved Program Assets:			
Demand Deposits	8,457	2,082	306.2
<b>Total Program Assets, June 30</b>	<b><u>\$ 19,484,638</u></b>	<b><u>\$19,959,529</u></b>	<b>-2.4</b>

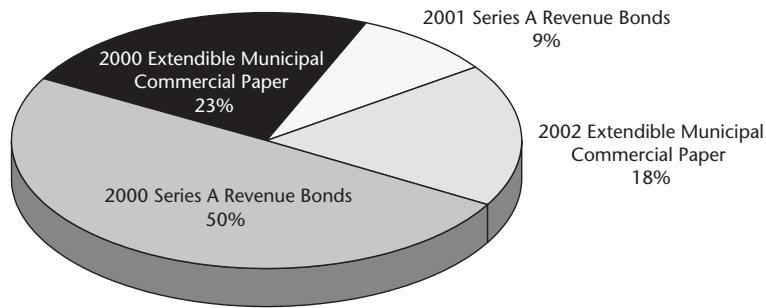
The program's revenue obligations are issued pursuant to Subchapter II of Chapter 18, of Wis. Stats.; s. 101.143(9m), Wis. Stats.; and the Program Resolution and supplemental resolutions adopted by the State of Wisconsin Building Commission. The revenue obligations are payable from, and primarily secured by,

petroleum inspection fees, as received by the trustee, that suppliers are charged on all petroleum products received for sale in Wisconsin. The revenue obligations are not general obligations of the State of Wisconsin.

During the FYs 2002-03 and 2001-02, \$62.3 million of 2002 Extendible Municipal Commercial Paper (EMCP) and \$30.0 million of 2001 Series A Revenue Bonds were issued, respectively. As of June 30, 2003, \$342.6 million of revenue obligations had been issued under the Program Resolution. Figure A displays the breakdown of the obligations by type, revenue bond or EMCP, and series.

Figure A

**Petroleum Inspection Fee Revenue Obligations Issued**



A portion of the bonds issued has already been repaid, and as of June 30, 2003, the total revenue obligations outstanding were \$329.4 million, consisting of \$187.1 million of revenue bonds and \$142.3 million of EMCP.

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, was 4.87 in FY 2002-03 and 9.84 in FY 2001-02. The ratios were based on \$24,072,057 and \$11,306,966 of total senior debt service and \$117,366,410 and \$111,273,965 of petroleum inspection fees remitted by the State to the trustee, respectively, in each of those years. The increase in total senior debt service from FY 2001-02 to FY 2002-03 is attributable primarily to the July 1, 2002 principal payment of \$11.4 million on the 2000 Series A Petroleum Inspection Fee Revenue Bonds. No principal was payable in FY 2001-02.

Petroleum inspection fees not retained by the trustee for debt service are transferred to the State by the trustee and are used up to the amount authorized by statute to pay PECFA claims, PECFA administrative costs, and other costs and transfers. The net petroleum inspection fees transfers were \$93,697,749 in FY 2002-03 and \$88,802,625 in FY 2001-02, as shown in Table B.

Table B

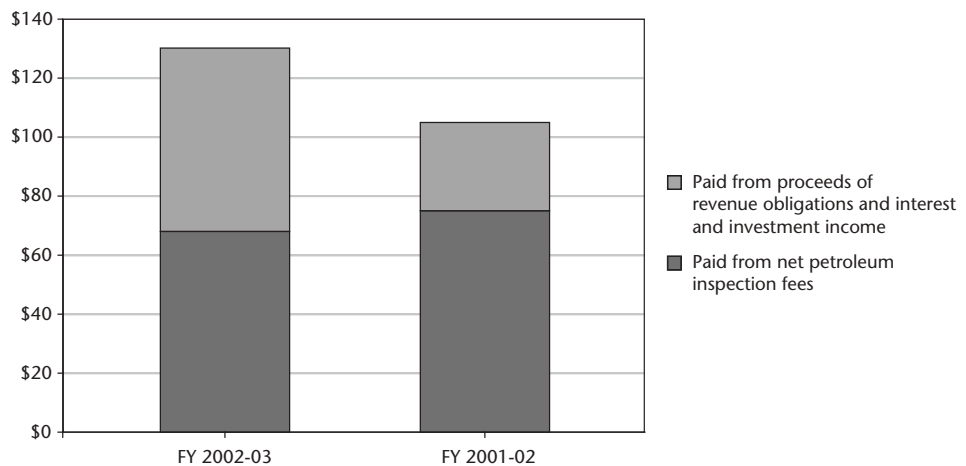
**Petroleum Inspection Fees**

	FY 2002-03	FY 2001-02	Percentage Change
Petroleum Inspection Fees Remitted by the State to the Trustee	\$117,336,410	\$111,273,965	5.4%
Petroleum Inspection Fees Retained by the Trustee	23,638,661	22,471,340	5.2
<b>Net Petroleum Inspection Fees Transferred by the Trustee to the State</b>	<b><u>\$93,697,749</u></b>	<b><u>\$88,802,625</u></b>	<b>5.5</b>

During FY 2002-03, \$68.0 million of claims was paid from net petroleum inspection fees. This amount represents a decrease of 9.3 percent from the \$75.0 million paid from the fees in FY 2001-02, attributable to the limited amount of budgetary authority under the biennial appropriation in s. 20.143(3)(v), Wis. Stats. In addition, \$62.3 million and \$30.0 million of claims were paid from the proceeds of revenue obligations, interest, and investments during FY 2002-03 and FY 2001-02, respectively. Figure B shows the funding of PECFA claims paid in FY 2002-03 and FY 2001-02.

Figure B

**Petroleum Environmental Cleanup Fund Award Claims Paid (in millions)**



Due in great part to the issuance of the additional revenue obligations in FY 2002-03, the Department of Commerce was able to reduce the amount of approved but unpaid PECFA claims by \$25.0 million, from \$30.7 million at June 30, 2002, to \$5.7 million at June 30, 2003.

In addition to the \$5.7 million in approved claims waiting for payment as of June 30, 2003, approximately \$37.0 million of claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department estimates there were approximately \$99 million of additional claims that had not been submitted as of June 30, 2003, for costs that landowners had already incurred as of that date. In addition, the Department estimates that an additional \$3.1 million in liabilities may exist related to claimants appealing the Department's determinations on previously finalized claims.

The Department expects new PECFA claims received to continue to exceed the amount of petroleum inspection fees available to pay them. The issuance of the revenue obligations in August and September 2002 exhausted the program's debt issuance authority under s. 101.143(9m), Wis. Stats., as of June 30, 2003. However, in 2003 Wisconsin Act 33, which was enacted on July 24, 2003, the Legislature amended s. 101.143 (9m)(g)(2), Wis. Stats., to increase by \$94 million the total revenue obligations the program may issue to pay PECFA claims. On September 17, 2003, the State of Wisconsin Building Commission passed Resolution 20, authorizing the issuance and sale of \$95.9 million of additional Petroleum Inspection Fee Revenue Obligations, consisting of not to exceed \$94.0 million to pay approved PECFA claims and not to exceed \$1.9 million to pay debt issuance or administrative expenses, make any necessary deposits to a reserve fund, or pay accrued or capitalized interest. It is anticipated that proceeds from those obligations will be available to begin paying PECFA claims in January 2004.

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## **Statement of Changes in Program Assets** ■





## Statement of Changes in Program Assets for the Fiscal Years Ended June 30, 2003 and 2002

	Fiscal Year 2002-03	Fiscal Year 2001-02
Program Assets, July 1	\$ 19,959,529	\$ 7,559,723
<b>RECEIPTS</b>		
Proceeds from Sale of Bonds (see Note 5)	0	31,423,050
Proceeds from Sale of Extendible Municipal Commercial Paper (see Note 5)	62,300,000	0
Petroleum Inspection Fees Remitted by the State of Wisconsin to the Trustee (see Note 6)	\$ 117,336,410	\$ 111,273,965
Less: Petroleum Inspection Fees Transferred from the Trustee to the State of Wisconsin Petroleum Inspection Fund (see Note 6)	<u>(93,697,749)</u>	<u>(88,802,625)</u>
Petroleum Inspection Fees Retained by the Trustee	23,638,661	22,471,340
Interest and Investment Income	<u>90,637</u>	<u>166,338</u>
<b>Total Receipts</b>	<b><u>86,029,298</u></b>	<b><u>54,060,728</u></b>
<b>TOTAL PROGRAM ASSETS AVAILABLE</b>	<b><u>105,988,827</u></b>	<b><u>61,620,451</u></b>
<b>DISBURSEMENTS</b>		
Transfers of Proceeds from Sale of Revenue Obligations and Interest and Investment Income to the State of Wisconsin Petroleum Inspection Fund (see Notes 1 and 8)	62,267,902	29,985,371
Debt Service (see Note 5):		
Senior debt service—bond principal	11,440,000	0
Senior debt service—bond interest	10,839,807	9,600,240
Senior debt service—commercial paper interest	1,792,250	1,703,726
Junior subordinate debt service—commercial paper principal	<u>0</u>	<u>0</u>
Total Debt Service	24,072,057	11,303,966
Debt Issuance Costs	67,171	297,963
Other Costs	<u>97,059</u>	<u>73,622</u>
<b>Total Disbursements</b>	<b><u>86,504,189</u></b>	<b><u>41,660,922</u></b>
Program Assets Reserved for Debt Service (see Note 4)	19,476,181	19,957,447
Unreserved Program Assets (see Note 4)	<u>8,457</u>	<u>2,082</u>
<b>PROGRAM ASSETS, JUNE 30</b>	<b><u>\$ 19,484,638</u></b>	<b><u>\$ 19,959,529</u></b>

The accompanying notes are an integral part of this statement.



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## Notes to the Changes in Program Assets ■

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### 1. DESCRIPTION OF THE PROGRAM

The State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program, which is administered jointly by the Wisconsin Department of Commerce and the Wisconsin Department of Administration, 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, and amended and restated on May 2, 2000 (the Program Resolution). 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 administered by the State of Wisconsin Department of Commerce.

The Program Resolution establishes special trust funds and accounts and 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 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 is also the registrar for the revenue obligations. In addition, the Bank of New York is the issuing and paying agent for revenue bonds; U.S. Bank Trust National Association is the issuing and paying agent for extendible municipal commercial paper.

Revenue bond and extendible municipal commercial paper proceeds are held by the trustee until the Department of Commerce and the Department of Administration request the trustee to remit specific amounts to the State to pay PECFA claims.

The petroleum inspection fee revenue obligations are payable from, and primarily secured by, petroleum inspection fees that result from a \$0.03 per gallon fee charged suppliers for petroleum products received for sale in Wisconsin. These petroleum inspection fees are paid monthly by suppliers to the State of Wisconsin Department of Revenue, which subsequently forwards the fees to the program's trustee. All revenues and assets of the program are restricted for the purposes provided by the Program Resolution under which the revenue obligations are issued. The trustee transfers fees in excess of the amount needed to meet debt service requirements and pay Petroleum Inspection Fee Revenue Obligations Program administrative costs to the State of Wisconsin Petroleum Inspection Fund. The Department of Commerce uses the transferred fees to pay PECFA claims, PECFA program administrative costs, and other costs and transfers.

The Statement of Changes in Program Assets presents only the Petroleum Inspection Fee Revenue Obligations Program and is not intended to present fairly the financial activity of the State of Wisconsin.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Statement of Changes in Program Assets presents the Petroleum Inspection Fee Revenue Obligations Program's receipts and disbursements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Under the cash basis of accounting, receipts are recorded when received and disbursements are recorded when paid. The program's assets may include cash, consisting of demand deposits held by The Bank of New York and U.S. Bank Trust National Association, and investments. The financial position and activity of the program is 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's deposit and investment policies are governed by Wisconsin Statutes and the Program Resolution. The program is authorized by statutes and the Program Resolution to deposit funds with the trustee and the commercial paper issuing and paying agent. The program is also authorized by statutes and the Program Resolution to invest funds reserved for debt service in direct obligations of the United States. In addition, the program is

authorized to invest funds not reserved for debt service in direct obligations of the United States; high-quality corporate commercial paper; certificates of deposit; and other investments authorized under s. 25.17(3)(b), Wis. Stats., and permitted by the Program Resolution.

As of June 30, 2003, the demand deposit accounts with the trustee and the commercial paper issuing and paying agent totaled \$19,387,712. As of June 30, 2002, the demand deposit accounts with the trustee and the commercial paper issuing and paying agent totaled \$19,558,847. Each year, \$200,000 was insured against loss by the Federal Deposit Insurance Corporation and, therefore, is categorized as risk category 1 deposits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3. The remaining \$19,187,712 as of June 30, 2003, and \$19,358,847 as of June 30, 2002, was not insured or collateralized and, therefore, is categorized as risk category 3.

As of June 30, 2003, the program held investments purchased for and with a fair value of \$96,926, consisting of shares of Federated U.S. Treasury Cash Reserves, a mutual fund invested in a portfolio of U.S. Treasury securities maturing in 397 days or less, with a dollar-weighted average portfolio maturity of 90 days or less. These mutual fund investments are not required to be categorized under GASB Statement No. 3.

In December 2003, after discussions with legal counsel, the program's management determined that because these investments were in a mutual fund invested in a portfolio of U.S. Treasury Securities, instead of invested directly in obligations of the U.S. Treasury, they were not authorized by Wisconsin Statutes and the Program Resolution. During FY 2002-03, the highest month-end balance of investments in this fund was \$245,296. On December 8, 2003, the program liquidated its investment in the mutual fund and deposited the proceeds in a demand deposit account authorized by statute and the Program Resolution.

As of June 30, 2002, the program held investments, purchased for \$400,682, consisting of U.S. Treasury bills with a face value of \$404,000. These investments, which matured on December 12, 2002, had a fair value of \$400,853 as of June 30, 2002. These investments were registered and held by the program's agent in the program's name and, therefore, were categorized as risk category 1 investments in accordance with GASB Statement No. 3.

#### **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 agents are reported as Program Assets Reserved for Debt Service. Program assets in excess of those reserved for debt service are reported as Unreserved Program Assets. The program's unreserved assets are available to pay PECFA claims, debt issuance costs, or administrative costs of the program.

As of June 30, 2003, the program's assets totaled \$19,484,638. Of this amount, \$19,476,181, consisting of \$19,379,255 of demand deposits and \$96,926 of investments, was reserved for debt service. The remaining \$8,457, consisting of demand deposits, was unreserved.

As of June 30, 2002, the program's assets totaled \$19,959,529. Of this amount, \$19,957,447, consisting of \$19,556,765 of demand deposits and \$400,682 of investments, was reserved for debt service. The remaining \$2,082, consisting of demand deposits, was unreserved.

**5. REVENUE BONDS AND EXTENDIBLE MUNICIPAL COMMERCIAL PAPER**

The program's revenue obligations are issued pursuant to Subchapter II of Chapter 18, Wis. Stats.; s. 101.143(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 all petroleum products received for sale in Wisconsin (see note 6). The revenue obligations are not general obligations of the State.

The senior revenue bonds issued by the program and outstanding as of June 30, 2003, were as follows:

<u>Date Issued</u>	<u>Series</u>	<u>Interest Rates</u>	<u>Interest Payable</u>	<u>Maturity Through</u>	<u>Amount Issued</u>	<u>June 30, 2003 Amount Outstanding</u>
03/02/2000	2000 Series A	5.25 to 6.0%	Semiannually on 1/1 and 7/1	07/01/2012	\$170,250,000	\$157,060,000
12/18/2001	2001 Series A	5.0	Semiannually on 1/1 and 7/1	07/01/2008	<u>30,000,000</u>	<u>30,000,000</u>
					\$200,250,000	\$187,060,000

Prior to their maturity, the 2000 Series A Petroleum Inspection Fee Revenue Bonds are subject to optional redemption on or after July 1, 2005, at prices ranging from 102 to 100 percent of the face value plus accrued interest. The 2001 Series A Petroleum Inspection Fee Revenue Bonds are subject to optional redemption on or after July 1, 2006, at a price of 100 percent of the face value plus accrued interest.

During the fiscal years ended June 30, the following changes occurred in revenue bonds outstanding:

<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Bonds Issued</u>	<u>Principal Repaid</u>	<u>Balance June 30</u>
FY 2001-02	\$168,500,000	\$30,000,000	\$ 0	\$198,500,000
FY 2002-03	198,500,000	0	11,440,000	187,060,000

As of June 30, 2003, the future debt service requirements for principal and interest for both Petroleum Inspection Fee Revenue Bonds 2000 Series A and 2001 Series A issues combined are as follows:

**Future Debt Service on Revenue Bonds**

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>	<u>Total Debt</u> <u>Service on Bonds</u>
2004	\$ 12,070,000	\$ 10,139,115	\$ 22,209,115
2005	12,735,000	9,425,140	22,160,140
2006	13,495,000	8,638,240	22,133,240
2007	14,305,000	7,829,884	22,134,884
2008	30,115,000	6,616,821	36,731,821
2009	30,980,000	4,979,840	35,959,840
2010	16,885,000	3,696,520	20,581,520
2011	17,800,000	2,743,875	20,543,875
2012	18,790,000	1,700,400	20,490,400
2013	<u>19,885,000</u>	<u>576,838</u>	<u>20,461,838</u>
Total	\$187,060,000	\$56,346,673	\$243,406,673

The program may also issue extendible municipal commercial paper, which may have maturities from 1 to 180 days and is not callable prior to maturity. The principal of and interest on the extendible municipal commercial paper will be paid at maturity unless the State exercises its option to extend the maturity date to a date that is up to 270 days after the original issue date. New (roll-over) extendible municipal commercial paper may be issued to pay the principal due on maturing extendible municipal commercial paper. Each note bears interest from its date of issuance, at the rate determined on the date of issuance.

*Interest payments on extendible municipal commercial paper are on a 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 roll-over notes, issuance of refunding senior bonds, certain moneys held by the trustee, or other funds made available by the State for this purpose.*

The following table presents the extendible municipal commercial paper activity for FY 2001-02 and FY 2002-03:

<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Commercial</u> <u>Paper Issued</u>	<u>Principal</u> <u>Repaid</u>	<u>Balance June 30</u>
FY 2001-02	\$80,000,000	\$ 0	\$0	\$ 80,000,000
FY 2002-03	80,000,000	62,300,00	0	142,300,000

As of June 30, 2003, the \$142,300,000 in outstanding extendible municipal commercial paper had interest rates ranging from 0.90 percent to 1.12 percent, and maturities ranging from July 1, 2003, to August 4, 2003. As of June 30, 2002, the \$80,000,000 in outstanding extendible municipal commercial paper had interest rates ranging from 1.45 percent to 1.75 percent, and maturities ranging from July 10 to August 20, 2002.

Additional series of senior bonds may be issued on a 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, 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 takeout capacity" and "variable rate debt exposure." The "variable rate takeout 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 2002-03 and FY 2001-02. Because the State'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 takeout capacity, the State needed to take no further action. For June 2003, the program's variable rate takeout capacity was calculated to be \$411,969,142, which was \$269,669,142 higher than the variable rate debt exposure of \$142,300,000. For June 2002, the program's variable rate takeout capacity was calculated to be \$358,999,526, which was \$278,999,526 higher than the variable rate debt exposure of \$80,000,000.

## 6. PETROLEUM INSPECTION FEES

Petroleum inspection fees result from the fees imposed under s. 168.12(1) Wis. Stats., and payments received under ss. 101.143(4)(h)1m, 101.143(5)(a), and 101.143(5)(c), Wis. Stats. Under s. 168.12(1), Wis. Stats., a \$0.03 per gallon fee is imposed by the State on suppliers for all petroleum products received for sale in Wisconsin. The fees are paid to the State of Wisconsin Department of Revenue by suppliers along with motor fuel taxes. The Department of Revenue determines the amount collected for the fees and remits it to the program's trustee on a monthly basis. The other petroleum inspection fees consist of penalty payments made under s. 101.143(4)(h)1m, Wis. Stats., by consultants for submitting claims for ineligible costs; proceeds under s. 101.143(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. 101.143(5)(c), Wis. Stats., related to the Wisconsin Attorney General's actions against fraudulent claims.



The trustee transfers the petroleum inspection fees in excess of the amount needed to meet debt service requirements and to pay Petroleum Inspection Fee Revenue Obligations Program administrative costs to the State of Wisconsin Petroleum Inspection Fund, free of the first lien pledge of the Program Resolution. The Department of Commerce uses the net fees to pay PECFA claims, PECFA program administrative costs, and other costs and transfers.

From July 1, 2001, through June 30, 2003, the following amounts of petroleum inspection fees 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.

<u>Month</u>	<u>Petroleum Inspection Fees Remitted by the State to the Trustee</u>	<u>Petroleum Inspection Fees Fees Retained by the Trustee</u>	<u>Petroleum Inspection Fees Transferred by the Trustee to the State</u>
July 2002	\$ 10,206,822	\$ 1,899,073	\$ 8,307,749
August	8,273,380	1,978,073	6,295,307
September	13,834,541	2,006,073	11,828,468
October	10,148,782	2,026,073	8,122,709
November	6,659,739	2,006,073	4,653,666
December	12,357,338	1,608,935	10,748,403
January 2003	5,503,883	2,095,372	3,408,511
February	12,261,961	2,002,420	10,259,541
March	10,693,166	2,004,420	8,688,746
April	7,449,198	2,027,920	5,421,278
May	8,759,379	2,004,420	6,754,959
June	<u>11,188,221</u>	<u>1,979,809</u>	<u>9,208,412</u>
Total FY 2002-03	<u>\$117,336,410</u>	<u>\$23,638,661</u>	<u>\$93,697,749</u>
July 2001	\$ 8,309,278	\$ 1,941,734	\$ 6,367,544
August	10,548,627	1,928,353	8,620,274
September	9,764,092	1,928,353	7,835,739
October	10,183,431	1,948,353	8,235,078
November	8,632,607	1,829,353	6,803,254
December	9,890,802	1,829,354	8,061,448
January 2002	8,400,417	1,846,853	6,553,564
February	9,699,880	1,836,853	7,863,027
March	9,306,455	1,829,354	7,477,101
April	8,160,396	1,846,354	6,314,042
May	8,908,468	1,823,353	7,085,115
June	<u>9,469,512</u>	<u>1,883,073</u>	<u>7,586,439</u>
Total FY 2001-02	<u>\$111,273,965</u>	<u>\$22,471,340</u>	<u>\$88,802,625</u>

**7. 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 2002-03 and FY 2001-02 are provided below and 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.

**Debt Service Coverage Ratio for Senior Debt**

	<u>Fiscal Year 2002-03</u>	<u>Fiscal Year 2001-02</u>
Fees Remitted to the Trustee	\$117,336,410	\$111,273,965
Senior Debt Service:		
Principal—Bonds	\$11,440,000	\$ 0
Interest—Bonds	10,839,807	9,600,240
Interest—Commercial Paper	<u>1,792,250</u>	<u>1,703,726</u>
Total Senior Debt Service	\$ 24,072,057	\$ 11,303,966
Debt Service Coverage Ratio for Senior Debt	4.87	9.84

**8. 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 the claims. While the backlog has been largely eliminated, PECFA claims continue to be submitted to the Department of Commerce, and additional bonds and extendible municipal commercial paper continue to be issued to pay approved PECFA claims.

The following table summarizes the activity related to PECFA claims during FY 2001-02 and FY 2002-03.

**Summary of PECFA Claims**  
**July 1, 2001 through June 30, 2003**  
(in millions)

	<u>FY 2002-03</u>	<u>FY 2001-02</u>
Approved but Unpaid PECFA Claims as of July 1	\$ 30.7	\$ 14.6
Claims Approved for Payment during the Fiscal Year	<u>105.3</u>	<u>121.1</u>
Total Approved PECFA Claims	<u>136.0</u>	<u>135.7</u>
Less Claims Paid:		
Paid from Proceeds of Revenue Obligations and Interest and Investment Income	62.3	30.0
Paid From Net Petroleum Inspection Fees	<u>68.0</u>	<u>75.0</u>
Total Claims Paid during the Fiscal Year	<u>130.3</u>	<u>105.0</u>
Approved but Unpaid PECFA Claims as of June 30	\$ 5.7	\$ 30.7

In addition to the \$5.7 million in approved claims waiting for payment as of June 30, 2003, approximately \$37.0 million of claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department estimates that there were approximately \$99 million of additional claims that had not been submitted to the Department as of June 30, 2003, for costs that landowners had already incurred as of that date. In addition, the Department estimates that an additional \$3.1 million in liabilities may exist related to claimants appealing the Department's determinations on previously finalized claims.

**9. SUBSEQUENT EVENTS**

The Department expects new PECFA claims received to continue to exceed the amount of petroleum inspection fees available to pay them. In 2003 Wisconsin Act 33, which was enacted on July 24, 2003, the Legislature amended s. 101.143(9m), Wis. Stats., to increase from \$342 million to \$436 million the total revenue obligations the program may issue to pay for PECFA claims. On September 17, 2003, the State of Wisconsin Building Commission passed Resolution 20, authorizing the issuance of not to exceed \$95,880,000 in additional revenue obligations, consisting of not to exceed \$94,000,000 to pay approved PECFA claims and not to exceed \$1,880,000 to pay issuance or administrative expenses, make any necessary deposits to a reserve fund, or pay accrued or capitalized interest.

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# Report on Compliance and Control ■

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## *Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on Audits of a Financial Statement Performed in Accordance with Government Auditing Standards*

We have audited the cash-basis Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2003, and June 30, 2002, and have issued our report thereon dated December 9, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### COMPLIANCE

As part of obtaining reasonable assurance about whether the program's Statement of Changes in Program Assets is free of material misstatement, we performed tests of its 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed one area of noncompliance that is required to be reported under *Government Auditing Standards*.


As discussed in Note 3, based on the advice of legal counsel, program management determined that certain investments in a mutual fund invested in a portfolio of U.S. Treasury securities did not comply with requirements of Wisconsin Statutes and the Program Resolution because these investments did not constitute direct obligations of the U.S. Treasury. On December 8, 2003, program management liquidated these mutual fund investments and deposited the proceeds in an authorized demand deposit account.

#### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Changes in Program Assets and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This independent auditor's report is intended for the information and use of the program's management and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

December 9, 2003

LEGISLATIVE AUDIT BUREAU  
by   
Bryan Naab  
Audit Director