

An Audit

Petroleum Inspection Fee Revenue Obligations Program

2009-2010 Joint Legislative Audit Committee Members

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State Auditor – Janice Mueller

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Janice Mueller
State Auditor

November 18, 2009

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

At the request of the departments of Commerce and Administration, and in accordance with s. 13.94(1s), 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, 2009, and June 30, 2008. We have provided our unqualified audit opinion on the Statement of Changes in Program Assets.

Under the program, the State issued \$387.6 million in revenue bonds and commercial paper to provide financing for payment of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) program and other program-related costs. These 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 sold in Wisconsin. During fiscal year 2008-09, the State collected \$73.4 million in petroleum inspection fees and made \$28.2 million in debt service payments. As of June 30, 2009, a total of \$231.0 million in revenue obligations was outstanding.

Petroleum inspection fees in excess of debt service requirements, which amounted to more than \$45.0 million for fiscal year 2008-09, were deposited to the Petroleum Inspection Fund, and \$10.4 million was subsequently used to pay PECFA claims. The remaining \$34.6 million was used for a variety of purposes, including a \$6.3 million transfer authorized by the Legislature to the Transportation Fund, as well as \$16.9 million in transfers to the General Fund to help the departments of Commerce and Natural Resources meet lapse requirements related to 2007 Wisconsin Acts 20 and 226 and 2009 Wisconsin Act 2.

In 2009 Wisconsin Act 28, the Legislature authorized \$54.3 million in transfers during the 2009-11 biennium from the Petroleum Inspection Fund to the General Fund, the Transportation Fund, and two other funds. A portion of the funding for these transfers will be made possible by refinancing a portion of the program's debt in fall 2009, which will have the effect of reducing debt service payments during the 2009-11 biennium. However, the refinancing also extends the period of indebtedness and, therefore, the time that the \$0.02 per gallon petroleum inspection fee will need to be charged.

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

Respectfully submitted,

Janice Mueller
State Auditor

JM/BN/ss

Audit Opinion ■

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, 2009, and June 30, 2008. 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.

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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, 2009, and June 30, 2008, 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 the 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 8 is presented for purposes of additional analysis and is not a required part of the financial statement. 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 information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2009, on our consideration of the program's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

November 6, 2009

LEGISLATIVE AUDIT BUREAU
by 
Bryan Naab
Deputy State Auditor for Financial Audit

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 years (FYs) 2008-09 and 2007-08. 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. Both the financial position and the activity of the program 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 administered by the Wisconsin Department of Commerce and 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.

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 Mellon Trust Company N.A., formerly known as the Bank of New York 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 \$27.2 million as of June 30, 2009, \$27.0 million as of June 30, 2008, and \$26.8 million as of June 30, 2007. Program assets are classified as reserved for debt service or unreserved.

Table A

Program Assets

	June 30, 2009	June 30, 2008	Percentage Change, 2008 to 2009	June 30, 2007	Percentage Change, 2007 to 2008
Program Assets Reserved for Debt Service:					
Demand deposits	\$27,244,422	\$24,850,272	9.6 %	\$ 3,310,284	650.7%
Investments	0	2,160,759	(100.0)	23,472,181	(90.8)
Total	27,244,422	27,011,031	0.9	26,782,465	0.9
Unreserved Program Assets:					
Demand deposits	2,642	3,017	(12.4)	3,383	(10.8)
Total Program Assets	<u>\$27,247,064</u>	<u>\$27,014,048</u>	0.9	<u>\$26,785,848</u>	0.9

Program assets reserved for debt service are available to pay principal and interest for revenue obligations. Reserved funds may be invested in direct obligations of the United States or held in demand deposit accounts. Total reserved funds showed a net increase of 0.9 percent both from June 30, 2008, to June 30, 2009, and from June 30, 2007, to June 30, 2008.

The program's revenue obligations are issued pursuant to subchapter II of ch. 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 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 and subsequently transferred to and received by the trustee. The fee amount imposed under s. 168.12(1), Wis. Stats., is currently \$0.02 per gallon.

No additional bonds or extendible municipal commercial paper were issued during FY 2008-09 and FY 2007-08. As of June 30, 2009, a total of \$387.6 million in revenue obligations had been issued under the program resolution and the supplemental resolutions for the purposes of paying PECFA claims, paying issuance or administrative expenses, making deposits to reserve funds, or paying accrued or capitalized interest.

A portion of the revenue bonds issued has already been repaid, and as of June 30, 2009, revenue obligations outstanding totaled \$231.0 million and consisted of \$88.7 million in revenue bonds and \$142.3 million in extendible municipal commercial paper. As of June 30, 2008, revenue obligations outstanding totaled \$252.3 million and consisted of \$110.0 million in revenue bonds and \$142.3 million in extendible municipal commercial paper.

In October 2009, the State issued 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds in the amount of \$117.5 million. The proceeds of this issue are being used, along with other funds on deposit with the program trustee, for early redemption or to fund previously issued obligations. It is anticipated that on November 9, 2009, the remaining \$19.0 million of outstanding 2004 Series A Petroleum Inspection Fee Revenue Bonds and the remaining \$47.4 million of outstanding 2004 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds will be redeemed early. It is also anticipated that \$71,150,000 of the \$142,300,000 in outstanding extendible municipal commercial paper will be funded on or before December 11, 2009. After the early redemption or funding of these obligations, debt outstanding will consist of 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds in the amount of \$117.5 million, and \$71,150,000 in extendible municipal commercial paper.

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 2.60 in FY 2008-09 and 2.52 in FY 2007-08. The FY 2008-09 debt service coverage ratio was calculated based on \$73,358,641 in petroleum inspection fees remitted by the State to the trustee, and senior debt service payments of \$28,178,211. In FY 2007-08, the calculated ratio was based on \$76,557,606 in petroleum inspection fees remitted by the State to the trustee, and senior debt service payments of \$30,356,353.

Petroleum inspection fees not retained by the trustee for debt service are transferred by the trustee to the State. Petroleum inspection fee revenue, up to the amount authorized by statute, is used to pay PECFA claims, PECFA administrative costs, and other costs and transfers, including optional transfers to the trustee for early redemption of revenue obligations. Petroleum inspection fees transferred to the State were \$45.0 million in FY 2008-09, \$47.0 million in FY 2007-08, and \$44.2 million in FY 2006-07, as shown in Table B.

Table B

Petroleum Inspection Fees

	FY 2008-09	FY 2007-08	Percentage Change, FY 2007-08 to FY 2008-09	FY 2006-07	Percentage Change, FY 2006-07 to FY 2007-08
Petroleum Inspection Fees Remitted by the State to the Trustee	\$73,358,641	\$76,557,606	(4.2)%	\$75,361,454	1.6%
Petroleum Inspection Fees Retained by the Trustee	28,341,339	29,561,333	(4.1)	31,152,711	(5.1)
Petroleum Inspection Fees Transferred by the Trustee to the State	<u>\$45,017,302</u>	<u>\$46,996,273</u>	(4.2)	<u>\$44,208,743</u>	6.3

During FY 2008-09, claims totaling \$10.4 million were paid from petroleum inspection fees transferred to the State. This amount represents a decrease of 38.1 percent from the \$16.8 million in claims paid from fees in FY 2007-08. During FY 2007-08, claims paid from fees decreased 16.8 percent from the \$20.2 million paid in FY 2006-07. Both decreases resulted from the identification of fewer new sites needing cleanup and from decreases in the average dollar value of claims. No claims were paid from the proceeds of revenue obligations and any related interest and investment income during FYs 2008-09, 2007-08, and 2006-07.

As of June 30, 2009, approved but unpaid claims totaled \$0.8 million, which is \$0.1 million less than approved but unpaid claims as of June 30, 2008. Approximately \$1.4 million in claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department of Commerce estimates that approximately \$12.8 million in additional claims had not been submitted as of June 30, 2009, for costs that landowners had already incurred as of that date. In addition, the Department of Commerce estimates that an additional \$49,000 in liabilities may exist related to claimants appealing its determinations on previously finalized claims.



Financial Statement ■

Statement of Changes in Program Assets for the Fiscal Years Ended June 30, 2009 and 2008

	Fiscal Year 2008-09	Fiscal Year 2007-08
Program Assets, July 1	<u>\$ 27,014,048</u>	<u>\$ 26,785,848</u>
RECEIPTS		
Proceeds from Sale of Revenue Obligations	0	0
Petroleum Inspection Fees Remitted by the State of Wisconsin to the Trustee	\$ 73,358,641	\$ 76,557,606
Less: Petroleum Inspection Fees Transferred from the Trustee to the State of Wisconsin Petroleum Inspection Fund (see Note 7)	<u>(45,017,302)</u>	<u>(46,996,273)</u>
Petroleum Inspection Fees Retained by the Trustee	28,341,339	29,561,333
Interest and Investment Income	<u>179,148</u>	<u>1,140,693</u>
Total Receipts	<u>28,520,487</u>	<u>30,702,026</u>
TOTAL PROGRAM ASSETS AVAILABLE	<u>55,534,535</u>	<u>57,487,874</u>
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 Note 5):		
Senior debt service—bond principal	21,280,000	20,270,000
Senior debt service—bond interest	4,685,825	5,671,325
Senior debt service—commercial paper interest	2,212,386	4,415,028
Junior subordinate debt service—commercial paper principal	<u>0</u>	<u>0</u>
Total Debt Service	28,178,211	30,356,353
Debt Issuance Costs	0	0
Other Costs	<u>109,260</u>	<u>117,473</u>
Total Disbursements	<u>28,287,471</u>	<u>30,473,826</u>
Program Assets Reserved for Debt Service (see Note 4)	27,244,422	27,011,031
Unreserved Program Assets (see Note 4)	<u>2,642</u>	<u>3,017</u>
PROGRAM ASSETS, JUNE 30	<u>\$ 27,247,064</u>	<u>\$ 27,014,048</u>

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, 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; 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 administered by the Wisconsin Department of Commerce.

Pursuant to the State of Wisconsin Building Commission Program Resolution, the Building Commission may from time to time adopt supplemental resolutions authorizing the issuance of revenue obligations up to the aggregate amount authorized by Wisconsin Statutes. As of June 30, 2009, all authorized revenue obligations have been issued. In addition, the Building Commission may from time to time adopt supplemental resolutions authorizing the issuance of an unlimited amount of revenue refunding obligations.

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 Mellon Trust Company N.A., formerly known as the Bank of New York Trust Company N.A., has been appointed 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. In addition, the Bank of New York Mellon Trust Company N.A. is the issuing and paying agent for the revenue bonds.

U.S. Bank Trust National Association is the issuing and paying agent for the extendible municipal commercial paper.

When issued, 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. 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., to be charged 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 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 by the trustee to the State of Wisconsin Petroleum Inspection Fund. Subject to appropriation, the Department of Commerce uses the transferred fees to pay PECFA claims, PECFA program administrative costs, and other costs and transfers. In addition, an appropriation exists that allows for excess petroleum inspection fees to be optionally transferred to the trustee to redeem revenue obligations early.

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 Mellon Trust Company N.A. and U.S. Bank Trust N.A., and investments valued at historical cost. 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 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 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.

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, 2009, the demand deposit accounts with the trustee and the extendible municipal commercial paper issuing and paying agent totaled \$27,247,064. As of June 30, 2008, the demand deposit accounts with the trustee and the extendible municipal commercial paper issuing and paying agent totaled \$24,853,289. As of June 30, 2009, \$500,000 was insured against loss by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$26,747,064 as of June 30, 2009, was not insured or collateralized. As of June 30, 2008, \$200,000 was insured against loss by the FDIC. The remaining balance of \$24,653,289 as of June 30, 2008, was not insured or collateralized. The program does not have a specific deposit policy related to custodial credit risk.

Custodial credit risk for investments is the risk that in the event of failure of 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, 2009, the program did not hold any investments. As of June 30, 2008, the program held investments purchased for \$2,160,759, consisting of U.S. Treasury notes with a combined total face value of \$2,115,000. 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, 2009, the program did not hold any investments and, therefore, was not subject to interest rate risk as of June 30, 2009.

As of June 30, 2008, the investments held by the program had a fair market value of \$2,162,774. U.S. Treasury notes in the face amount of \$1,779,000, to be used for scheduled debt service payments on July 1, 2009, matured on June 30, 2009. U.S. Treasury notes in the face amount of \$336,000, to be used for scheduled debt service payments on January 1, 2009, matured on December 31, 2008.

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 for transfer to the State of Wisconsin Petroleum Inspection Fund. In addition, the program's unreserved assets are available to pay debt issuance costs or administrative costs of the program.

As of June 30, 2009, the program's assets totaled \$27,247,064. Of this amount, \$27,244,422, consisting of demand deposits, was reserved for debt service. The remaining \$2,642, consisting of demand deposits, was unreserved.

As of June 30, 2008, the program's assets totaled \$27,014,048. Of this amount, \$27,011,031, consisting of demand deposits of \$24,850,272 and investments acquired for \$2,160,759, was reserved for debt service. The remaining \$3,017, 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 ch. 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 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 also include 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 (rollover) extendible municipal commercial paper is expected to 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 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, 2008, and June 30, 2009, the following changes occurred in revenue bonds outstanding:

Change in Revenue Bonds Outstanding

<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Bonds Issued</u>	<u>Principal Redeemed</u>	<u>Balance June 30</u>
2007-08	\$130,290,000	\$0	\$20,270,000	\$110,020,000
2008-09	110,020,000	0	21,280,000	88,740,000

The senior revenue bonds issued by the program and outstanding as of June 30, 2009, were as follows:

Senior Revenue Bonds

<u>Date Issued</u>	<u>Series</u>	<u>Interest Rates</u>	<u>Maturity Through</u>	<u>First Optional Redemption Date</u>	<u>Amount Issued</u>	<u>June 30, 2009 Amount Outstanding</u>
02/04/2004	2004 Series A	3.0 to 5.0%	7/1/2012	07/01/2009	\$ 45,000,000	\$24,690,000
05/20/2004	2004 Series 1	5.0	7/1/2012	07/01/2009	<u>95,470,000</u>	<u>64,050,000</u>
Total Senior Revenue Bonds					\$140,470,000	\$88,740,000

The 2004 Series A and the 2004 Series 1 Petroleum Inspection Fee Revenue Bonds maturing on or after July 1, 2010, are subject to optional redemption on or after July 1, 2009, at prices ranging from 102 to 100 percent of the face value plus accrued interest.

The program's future debt service requirements as of June 30, 2009, for principal and interest for Petroleum Inspection Fee Revenue Bonds 2004 Series A and 2004 Series 1, are as shown on the following table.

Future Debt Service on Revenue Bonds

<u>Fiscal Year Ending June 30</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service on Bonds</u>
2010	\$22,350,000	\$3,622,350	\$25,972,350
2011	23,470,000	2,506,925	25,976,925
2012	24,635,000	1,365,950	26,000,950
2013	<u>18,285,000</u>	<u>390,825</u>	<u>18,675,825</u>
Total	\$88,740,000	\$7,886,050	\$96,626,050

The following table presents the extendible municipal commercial paper activity for FYs 2007-08 and 2008-09.

Change in Extendible Municipal Commercial Paper Outstanding

<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Commercial Paper Issued</u>	<u>Principal Repaid</u>	<u>Balance June 30</u>
2007-08	\$142,300,000	\$0	\$0	\$142,300,000
2008-09	142,300,000	0	0	142,300,000

As of June 30, 2009, the \$142,300,000 in outstanding extendible municipal commercial paper had interest rates ranging from 0.45 percent to 0.70 percent, and maturities ranging from July 7 to September 1, 2009. As of June 30, 2008, the \$142,300,000 in outstanding extendible municipal commercial paper had interest rates ranging from 1.48 percent to 2.00 percent, and maturities ranging from July 8 to September 12, 2008.

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 and bonds issued to fund outstanding extendible municipal commercial paper, 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.” The “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 2008-09 and FY 2007-08. 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. For June 2009, the program’s variable-rate take-out capacity was calculated to be \$263,188,549, which was \$120,888,549 higher than the variable-rate debt exposure of \$142,300,000. For June 2008, the program’s variable-rate take-out capacity was calculated to be \$280,820,850, which was \$138,520,850 higher than the variable-rate debt exposure of \$142,300,000.

6. DEBT AUTHORITY FOR THE PROGRAM

The program’s revenue obligations are issued pursuant to subchapter II of ch. 18, Wis. Stats; s. 101.143(9m), Wis. Stats; and the program resolution and

supplemental resolutions adopted by the State of Wisconsin Building Commission. Wisconsin Statutes, as amended by 2007 Wisconsin Act 20, authorize 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. To date, the balance of revenue obligations has been issued. In addition to this limit on principal amount, the Building Commission may issue an unlimited amount of additional revenue obligations to fund or refund outstanding revenue obligations, to pay issuance and administrative costs, make any necessary deposits to reserve funds, or 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 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 \$0.02 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 Department of Commerce 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 bonds.

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. In FY 2008-09, these other petroleum inspection fees totaled \$23,578 and were made available to the trustee. In FY 2007-08, the other petroleum inspection fees totaled \$3,355 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, 2009, or June 30, 2008.

The following amounts of petroleum inspection fees were remitted by the Wisconsin Department of Revenue to the trustee, retained by the trustee to

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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>	Petroleum Inspection Fees Remitted by the State <u>to the Trustee</u>	Petroleum Inspection Fees Retained by the Trustee	Petroleum Inspection Fees Transferred by the Trustee <u>to the State</u>
July 2008	\$ 6,004,354	\$ 2,108,107	\$ 3,896,247
August	6,427,036	2,396,925	4,030,111
September	7,062,815	2,396,925	4,665,890
October	6,100,228	2,396,925	3,703,303
November	5,793,558	2,513,925	3,279,633
December	7,292,276	2,483,925	4,808,351
January 2009	4,902,036	2,338,894	2,563,142
February	5,855,030	2,378,925	3,476,105
March	6,073,123	2,378,925	3,694,198
April	5,359,027	2,396,685	2,962,342
May	6,687,917	2,276,045	4,411,872
June	<u>5,801,241</u>	<u>2,275,133</u>	<u>3,526,108</u>
Total FY 2008-09	<u>\$73,358,641</u>	<u>\$28,341,339</u>	<u>\$45,017,302</u>

<u>Month</u>	Petroleum Inspection Fees Remitted by the State <u>to the Trustee</u>	Petroleum Inspection Fees Retained by the Trustee	Petroleum Inspection Fees Transferred by the Trustee <u>to the State</u>
July 2007	\$ 5,792,685	\$ 2,528,680	\$ 3,264,005
August	7,356,027	2,634,120	4,721,907
September	6,469,578	2,635,779	3,833,799
October	6,830,957	2,658,884	4,172,073
November	7,368,089	2,628,879	4,739,210
December	6,468,087	2,628,880	3,839,207
January 2008	5,365,457	1,829,918	3,535,539
February	7,533,738	2,407,879	5,125,859
March	5,637,476	2,409,249	3,228,227
April	6,078,614	2,434,941	3,643,673
May	6,008,784	2,378,879	3,629,905
June	<u>5,648,114</u>	<u>2,385,245</u>	<u>3,262,869</u>
Total FY 2007-08	<u>\$76,557,606</u>	<u>\$29,561,333</u>	<u>\$46,996,273</u>

8. DEBT SERVICE COVERAGE RATIO FOR SENIOR DEBT

There are alternative methods to calculate debt service coverage. For purposes of additional analysis, the debt service coverage ratios for senior debt for FY 2008-09 and FY 2007-08 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.

Debt Service Coverage Ratio for Senior Debt

	<u>Fiscal Year 2008-09</u>	<u>Fiscal Year 2007-08</u>
Fees Remitted to the Trustee	\$73,358,641	\$76,557,606
Senior Debt Service:		
Principal—bonds	\$21,280,000	\$20,270,000
Interest—bonds	4,685,825	5,671,325
Interest—commercial paper	<u>2,212,386</u>	<u>4,415,028</u>
Total Senior Debt Service	\$28,178,211	\$30,356,353
Debt Service Coverage Ratio for Senior Debt	2.60	2.52

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 Department of Commerce.

The following table summarizes the activity related to PECFA claims during FY 2008-09 and FY 2007-08.

**Summary of PECFA Claims
July 1, 2007, through June 30, 2009
(in millions)**

	<u>FY 2008-09</u>	<u>FY 2007-08</u>
Approved but Unpaid PECFA Claims as of July 1	\$ 0.9	\$ 1.4
Claims Approved for Payment During the Fiscal Year	<u>10.3</u>	<u>16.3</u>
Total Approved PECFA Claims	11.2	17.7
Less Claims Paid:		
Paid from proceeds of revenue obligations and interest and investment income	0.0	0.0
Paid from petroleum inspection fees	<u>10.4</u>	<u>16.8</u>
Total Claims Paid During the Fiscal Year	<u>10.4</u>	<u>16.8</u>
Approved But Unpaid PECFA Claims as of June 30	\$ 0.8	\$ 0.9

In addition to the \$0.8 million in approved claims waiting for payment as of June 30, 2009, approximately \$1.4 million in claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department of Commerce estimates that approximately \$12.8 million in additional claims for costs that landowners had already incurred had not been submitted as of June 30, 2009. It also estimates that an additional \$49,000 in liabilities may exist related to claimants appealing its determinations on previously finalized claims.

10. SUBSEQUENT EVENTS

In October 2009, the State issued 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds in the amount of \$117,460,000. Interest rates range from 2.5 percent to 5 percent, with interest payments payable semiannually beginning July 1, 2010. The bonds mature on July 1 of the years 2013 through 2017.

The proceeds of this issue are being used, along with other funds on deposit with the program trustee, for early redemption or to fund previously issued obligations. It is anticipated that on November 9, 2009, the remaining \$19.0 million of outstanding 2004 Series A Petroleum Inspection Fee Revenue Bonds and the remaining \$47.4 million of outstanding 2004 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds will be redeemed early at a redemption price of 102 percent. It is also anticipated that \$71,150,000 of the \$142,300,000 in outstanding extendible municipal commercial paper will be funded on or before December 11, 2009.

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Report on Internal Control and Compliance ■

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the cash-basis Statement of Changes in Program Assets of the Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2009, and June 30, 2008, and have issued our report thereon dated November 6, 2009. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the program's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement of Changes in Program Assets, 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 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 will not be detected and corrected on a timely basis.


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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined in the preceding paragraph.

COMPLIANCE AND OTHER MATTERS

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 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*.

This independent auditor's report is intended solely for the information and use of the program's management and the Wisconsin Legislature. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the program's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

November 6, 2009

LEGISLATIVE AUDIT BUREAU
by 
Bryan Naab
Deputy State Auditor for Financial Audit