Report 08-14
November 2008

An Audit

Petroleum Inspection Fee Revenue Obligations Program

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CONTENTS

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Janice Mueller
State Auditor

November 25, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

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, 2008, and June 30, 2007. We express our unqualified audit opinion on the Statement of Changes in Program Assets and related notes.

Under the program, the State has issued revenue obligations, such as bonds and commercial paper, to provide financing for payment of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) program. 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, which is collected by the Department of Revenue.

During fiscal year (FY) 2007-08, the State collected $76.6 million in petroleum inspection fees and made $30.4 million in scheduled debt service payments, including $20.3 million in principal repayment and $10.1 million in interest. As of June 30, 2008, a total of $252.3 million in revenue obligations remained outstanding, to be repaid from future petroleum inspection fees.

Petroleum inspection fees in excess of debt service requirements are deposited to the Petroleum Inspection Fund and are used to pay PECFA claims and for other purposes authorized by the Legislature, including the early redemption of petroleum inspection fee revenue obligations. During FY 2007-08, $47.0 million in inspection fees was deposited to the Petroleum Inspection Fund while $16.8 million in PECFA claims was paid from the Fund. The remaining $30.2 million was used for a variety of purposes, including a $20.3 million transfer authorized by the Legislature to the Transportation Fund, as well as $1.0 million in transfers to the General Fund to help meet lapse requirements included in 2007 Wis. Acts 20 and 226.

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

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, 2008, and June 30, 2007. 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.

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, 2008, and June 30, 2007, 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 9 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 7, 2008, on our consideration of the program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 audits.

LEGISLATIVE AUDIT BUREAU

November 7, 2008 by Bryan Naab

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) 2007-08 and 2006-07. 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 $66.1 million as of June 30, 2006, $26.8 million as of June 30, 2007, and $27.0 million as of June 30, 2008. Program assets are classified as reserved for debt service or unreserved.

Table A

Program Assets

	June 30, 2006	June 30, 2007	Percentage Change, 2006 to 2007	June 30, 2008	Percentage Change, 2007 to 2008
Program Assets Reserved for Debt Service:					
Demand deposits	$55,949,997	$ 3,310,284	(94.1)%	$24,850,272	650.7%
Investments	10,126,184	23,472,181	131.8	2,160,759	(90.8)
Total	66,076,181	26,782,465	(59.5)	27,011,031	0.9
Unreserved Program Assets:					
Demand deposits	3,428	3,383	(1.3)	3,017	(10.8)
Total Program Assets, June 30	**$66,079,609**	**$26,785,848**	(59.5)	**$27,014,048**	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. From June 30, 2006, to June 30, 2007, total reserved funds showed a net decrease of 59.5 percent, primarily as the result of funds previously transferred to the trustee and being used after June 30, 2006, for the early redemption of certain revenue obligations. From June 30, 2007, to June 30, 2008, total reserved funds showed a net increase of 0.9 percent.

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. Effective April 1, 2006, the fee amount required under s. 168.12(1), Wis. Stats., was reduced from $0.03 to $0.02 per gallon.

No additional bonds or extendible municipal commercial paper were issued during FY 2007-08 and FY 2006-07. As of June 30, 2008, 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, 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. As of June 30, 2007, revenue obligations outstanding totaled $272.6 million and consisted of $130.3 million in revenue bonds and $142.3 million in extendible municipal commercial paper.

On July 1, 2006, the State called the entire $30.0 million outstanding on the 2001 Series A Petroleum Inspection Fee Revenue Bonds for early redemption. This early redemption was funded by a $30.1 million transfer from the Petroleum Inspection Fund to the trustee on December 16, 2005. Transferred funds were invested to provide for the payment of principal, interest, and any redemption premium on the early redemption of $15.0 million of 2001 Series A Petroleum Inspection Fee Revenue Bonds with a maturity date of July 1, 2007, and $15.0 million of 2001 Series A Petroleum Inspection Fee Revenue Bonds with a maturity date of July 1, 2008. These bonds were redeemed for 100 percent of their face value, plus interest of $750,000.

On August 1, 2006, the State called for early redemption the $7.9 million outstanding on the 2000 Series A Petroleum Inspection Fee Revenue Bonds maturing on July 1, 2012. This early redemption was funded by an $8.0 million transfer from the Petroleum Inspection Fund to the trustee on June 22, 2006. Transferred funds were invested to provide for the payment of principal, interest, and any redemption premium. The bonds were redeemed at 102 percent of their face value, resulting in a redemption premium of $157,700. Accrued interest on the early redemption totaled $36,140.

Because of the early redemption of all the outstanding 2001 Series A Petroleum Inspection Fee Revenue Bonds, and the 2000 Series A Petroleum Inspection Fee Revenue Bonds maturing on July 1, 2012, $37.9 million in debt was redeemed during FY 2006-07 in addition to the $19.8 million already required in scheduled debt service payments. The early redemption will result in a decrease of $4.8 million in scheduled interest payments through July 2012.

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 2.52 in FY 2007-08 and 1.07 in FY 2006-07. The FY 2007-08 debt service coverage ratio was calculated 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. In FY 2006-07, the calculated ratio was based on $75,361,454 in petroleum inspection fees remitted by the State to the trustee, and senior debt service payments of $70,418,380. The 1.07 ratio in FY 2006-07 is largely due to the inclusion of $37.9 million in senior debt service payments for the early redemption of revenue obligations that were paid by additional petroleum inspection fees remitted by the State to the trustee. If the $37.9 million were removed from the senior debt payment total, the calculated ratio for FY 2006-07 would be 2.32.

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 $82.7 million in FY 2005-06, $44.2 million in FY 2006-07, and $47.0 million in FY 2007-08, as shown in Table B.

Table B

Petroleum Inspection Fees

	FY 2005-06	FY 2006-07	Percentage Change, FY 2005-06 to FY 2006-07	FY 2007-08	Percentage Change, FY 2006-07 to FY 2007-08
Petroleum Inspection Fees Remitted by the State to the Trustee	$114,948,709	$75,361,454	(34.4)%	$76,557,606	1.6%
Petroleum Inspection Fees Retained by the Trustee	32,279,060	31,152,711	(3.5)	29,561,333	(5.1)
Petroleum Inspection Fees Transferred by the Trustee to the State	**$ 82,669,649**	**$44,208,743**	(46.5)	**$46,996,273**	6.3

FY 2006-07 was the first full fiscal year in which the fee amount was reduced from $0.03 to $0.02 per gallon. Had a fee of $0.02 per gallon been in effect for all of FY 2005-06, the amount collected would have been $79.2 million, and the amount transferred to the State would have been $46.9 million.

During FY 2007-08, claims totaling $16.8 million were paid from petroleum inspection fees transferred to the State. This amount represents a decrease of 16.8 percent from the $20.2 million in claims paid from fees in FY 2006-07. During FY 2006-07, claims paid from fees decreased 18.5 percent from the $24.8 million paid in FY 2005-06. 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 interest and investment income during FYs 2007-08, 2006-07, and 2005-06.

As of June 30, 2008, approved but unpaid claims totaled $0.9 million, which is $0.5 million less than approved but unpaid claims as of June 30, 2007. Approximately $1.7 million in claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department of Commerce estimates that approximately $15.7 million in additional claims had not been submitted as of June 30, 2008, for costs that landowners had already incurred as of that date. In addition, the Department of Commerce estimates that an additional $0.1 million in liabilities may exist related to claimants appealing its determinations on previously finalized claims.

On October 5, 2006, Standard and Poor's, one of three agencies rating the State of Wisconsin's petroleum inspection fee revenue obligations, revised its long-term rating on the bonds from "AA-" to "AA." This upgrade reflected a revision of Standard & Poor's special tax criteria and the strength of the pledged revenue stream for the outstanding bonds, which consists of a statewide, single-tax source that is relatively inelastic to economic cycles. On that date, Standard and Poor's affirmed the "A-1+" rating on the extendible municipal commercial paper.

■ ■ ■ ■

Financial Statement

Statement of Changes in Program Assets for the Fiscal Years Ended June 30, 2008 and 2007

	Fiscal Year 2007-08		Fiscal Year 2006-07	
Program Assets, July 1		$ 26,785,848		$ 66,079,609
RECEIPTS				
Proceeds from Sale of Revenue Obligations		0		0
Petroleum Inspection Fees Remitted by the State of Wisconsin to the Trustee	$ 76,557,606		$ 75,361,454	
Less: Petroleum Inspection Fees Transferred from the Trustee to the State of Wisconsin Petroleum Inspection Fund (see Note 7)	(46,996,273)		(44,208,743)	
Petroleum Inspection Fees Retained by the Trustee		29,561,333		31,152,711
Interest and Investment Income		1,140,693		244,110
Total Receipts		**30,702,026**		**31,396,821**
TOTAL PROGRAM ASSETS AVAILABLE		**57,487,874**		**97,476,430**
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	20,270,000		57,660,000	
Senior debt service–bond interest	5,671,325		7,665,383	
Senior debt service–commercial paper interest	4,415,028		5,092,997	
Junior subordinate debt service–commercial paper principal	0		0	
Total Debt Service		30,356,353		70,418,380
Debt Issuance Costs		0		0
Other Costs		117,473		272,202
Total Disbursements		**30,473,826**		**70,690,582**
Program Assets Reserved for Debt Service (see Note 4)	27,011,031		26,782,465	
Unreserved Program Assets (see Note 4)	3,017		3,383	
PROGRAM ASSETS, JUNE 30		**$ 27,014,048**		**$ 26,785,848**

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 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, and an unlimited amount of revenue refunding obligations. 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.

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, 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 revenue bonds;

U.S. Bank Trust National Association is the issuing and paying agent for 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 fee authorized in s. 168.12(1), Wis. Stats., to be charged suppliers of petroleum products received for sale in Wisconsin. Prior to April 2006, the fee was $0.03 per gallon. However, effective April 1, 2006, it was reduced to $0.02 per gallon as required by 2005 Wisconsin Acts 25 and 85. 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, 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, 2007, the demand deposit accounts with the trustee and the extendible municipal commercial paper issuing and paying agent totaled $3,313,667. Each year, $200,000 was insured against loss by the Federal Deposit Insurance Corporation (FDIC). The remaining balances of $24,653,289 as of June 30, 2008, and $3,113,667 as of June 30, 2007, were 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 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, 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. As of June 30, 2007, the program held investments purchased for $23,472,181, consisting of U.S. Treasury bills and notes with a combined total face value of $23,635,000. 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, 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, mature 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, mature on December 31, 2008.

As of June 30, 2007, the investments held by the program had a fair market value of $23,635,525. U.S. Treasury notes in the face amount of $21,480,000, which were used for scheduled debt service payments on July 1, 2007, matured on June 30, 2007, but were not payable until July 2, 2007. U.S. Treasury notes in the face amount of $425,000, which were used for scheduled debt service payments on January 1, 2008, matured on December 31, 2007. U.S. Treasury notes in the face amount of $1,730,000, to be used for scheduled debt service payments on July 1, 2008, matured on June 30, 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, 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.

As of June 30, 2007, the program's assets totaled $26,785,848. Of this amount, $26,782,465, consisting of demand deposits of $3,310,284 and investments acquired for $23,472,181, was reserved for debt service. The remaining $3,383, 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, 2007, and June 30, 2008, 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
2006-07	$187,950,000	$0	$57,660,000	$130,290,000
2007-08	130,290,000	0	20,270,000	110,020,000

In addition to the scheduled debt service payments, on July 1, 2006, the State called for early redemption $15.0 million of the 2001 Series A Petroleum Inspection Fee Revenue Bonds with a scheduled maturity date of July 1, 2007, and $15.0 million of the 2001 Series A Petroleum Inspection Fee Revenue Bonds with a scheduled maturity date of July 1, 2008. These bonds were called at 100 percent of face value. In addition, on August 1, 2006, the State called for early redemption $7.9 million of the 2000 Series A Petroleum Inspection Fee Revenue Bonds with a scheduled maturity date of July 1, 2012. These bonds were called at 102 percent of face value, resulting in a premium payment of $157,700. The premium payment is reported in other costs on the financial statement.

The senior revenue bonds issued by the program and outstanding as of June 30, 2008, were as follows:

Senior Revenue Bonds

Date Issued	Series	Interest Rates	Maturity Through	First Optional Redemption Date	Amount Issued	June 30, 2008 Amount Outstanding
02/04/2004	2004 Series A	3.0 to 5.0%	7/1/2012	07/01/2009	$ 45,000,000	$ 30,145,000
05/20/2004	2004 Series 1	5.0	7/1/2012	07/01/2009	95,470,000	79,875,000
			Total Senior Revenue Bonds		$140,470,000	$110,020,000

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, 2008, 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

Fiscal Year Ending June 30	Principal Amount	Interest Amount	Total Debt Service on Bonds
2009	$ 21,280,000	$ 4,685,825	$ 25,965,825
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	18,285,000	390,825	18,675,825
Total	$110,020,000	$12,571,875	$122,591,875

The following table presents the extendible municipal commercial paper activity for FYs 2007-08 and 2006-07.

Change in Extendible Municipal Commercial Paper Outstanding

Fiscal Year	Balance July 1	Commercial Paper Issued	Principal Repaid	Balance June 30
2006-07	$142,300,000	$0	$0	$142,300,000
2007-08	142,300,000	0	0	142,300,000

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. As of June 30, 2007, the $142,300,000 in outstanding extendible municipal commercial paper had interest rates ranging from 3.72 percent to 3.78 percent, and maturities ranging from August 6 to August 9, 2007.

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 2007-08 and FY 2006-07. 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 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. For June 2007, the program’s variable-rate take-out capacity was calculated to be $261,114,762, which was $118,814,762 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 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 2007-08, these other petroleum inspection fees totaled $3,355 and were made available to the trustee. In FY 2006-07, the other petroleum inspection fees totaled $2,600 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, 2008, or June 30, 2007.

From July 1, 2006, through 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 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.

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 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	5,648,114	2,385,245	3,262,869
Total FY 2007-08	$76,557,606	$29,561,333	$46,996,273

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 2006	$ 6,033,594	$ 2,491,022	$ 3,542,572
August	5,057,625	2,476,842	2,580,783
September	5,651,331	2,480,967	3,170,364
October	6,315,007	2,505,548	3,809,459
November	7,265,512	2,617,842	4,647,670
December	8,053,971[1]	2,617,841	5,436,130
January 2007	6,286,026	2,722,260	3,563,766
February	6,028,213	2,626,841	3,401,372
March	5,870,844	2,626,842	3,244,002
April	6,801,714	2,655,544	4,146,170
May	5,318,781	2,662,842	2,655,939
June	6,678,836	2,668,320	4,010,516
Total FY 2006-07	$75,361,454	$31,152,711	$44,208,743

[1] Includes $1,358,652 that had been erroneously excluded from the transfers to the trustee during July 2006 through October 2006.

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 2007-08 and FY 2006-07 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

	Fiscal Year 2007-08		Fiscal Year 2006-07	
Fees Remitted to the Trustee		$76,557,606		$75,361,454
Senior Debt Service:				
Principal—bonds	$20,270,000		$57,660,000	
Interest—bonds	5,671,325		7,665,383	
Interest—commercial paper	4,415,028		5,092,997	
Total Senior Debt Service		$30,356,353		$70,418,380
Debt Service Coverage Ratio for Senior Debt		2.52		1.07

The FY 2006-07 senior debt service amounts include $37,885,000 in principal on bonds and $36,140 in interest on bonds, paid with money transferred to the trustee from the State's Petroleum Inspection Fund. If these amounts were removed from the computation, the debt service coverage ratio for senior debt would be 2.32.

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 2007-08 and FY 2006-07.

Summary of PECFA Claims
July 1, 2006, through June 30, 2008
(in millions)

	FY 2007-08	FY 2006-07
Approved but Unpaid PECFA Claims as of July 1	$ 1.4	$ 0.8
Claims Approved for Payment During the Fiscal Year	16.3	20.8
Total Approved PECFA Claims	17.7	21.6
Less Claims Paid:		
Paid from proceeds of revenue obligations and interest and investment income	0.0	0.0
Paid from petroleum inspection fees	16.8	20.2
Total Claims Paid During the Fiscal Year	16.8	20.2
Approved But Unpaid PECFA Claims as of June 30	$ 0.9	$ 1.4

In addition to the $0.9 million in approved claims waiting for payment as of June 30, 2008, approximately $1.7 million in claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department of Commerce estimates that approximately $15.7 million in additional claims for costs that landowners had already incurred had not been submitted as of June 30, 2008. It also estimates that an additional $0.1 million in liabilities may exist related to claimants appealing its determinations on previously finalized claims.

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Report on 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, 2008, and June 30, 2007, and have issued our report thereon dated November 7, 2008. 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 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the program's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant* *deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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 for the information and use of the program's management and the Wisconsin Legislature. This 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 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.

LEGISLATIVE AUDIT BUREAU

November 7, 2008

by Bryan Naab

Bryan Naab
Deputy State Auditor for Financial Audit