State of Wisconsin

Notice of Material Information

Dated January 21, 1998

Some bonds listed in this notice are not subject to the requirements of SEC Rule 15c2-12(b)(5) regarding an agreement to provide continuing disclosure.

Issuer:	State of Wisconsin
CUSIP Numbers:	977053, 977055, 977056 and 977087 Prefix (all).
Material Information:	The following document contains new information about revenue and expenditure projections for the State of Wisconsin.

- A letter dated January 15, 1998 from the Director of the Legislative Fiscal Bureau to the co-chairs of the Joint Committee on Finance of the Wisconsin Legislature containing revenue and expenditure projections for the Legislature.

This letter increases the projected gross general fund balance at the end of the biennium (June 30, 1999) to $420 million, which is $300 million greater than the amount indicated at the conclusion of the Fall, 1997 legislative floor periods, and which is also $300 million greater than the balance provided for in the State's 1997-99 biennial budget (1997 Wisconsin Act 27). This letter also outlines the mechanism to allocate a certain amount of the general fund balance as required by the State's 1997-99 biennial budget (1997 Wisconsin Act 27).

This document provides information which may be material to financial evaluation of the State of Wisconsin, however neither the preparation nor submission of this document constitutes a Listed Material Event pursuant to the State's Master Agreement on Continuing Disclosure.

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing Annual Reports and giving notice of Listed Material Events when notice is required by the State's Master Agreement on Continuing Disclosure.

/s/ FRANK R. HOADLEY
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[LETTERHEAD OF LEGISLATIVE FISCAL BUREAU]

January 15, 1998

Senator Brian Burke, Senate Chair
Representative John Gard, Assembly Chair
Joint Committee on Finance
119 Martin Luther King, Jr. Blvd.
Madison, WI 53703

Dear Senator Burke and Representative Gard:

This office has now completed its review of the status of the state's general fund for the remainder of the 1997-99 biennium. Our analysis included an examination of economic forecasts and tax collection and expenditure data for the first six months of the current fiscal year.

Based upon our review, we now project the closing, gross general fund balance at the end of the biennium (June 30, 1999) to be $420.0 million. This is $300.0 million above the level that was indicated at the conclusion of the Fall, 1997, legislative floor periods (thru 1997 Act 60). After consideration of the $99.4 million required statutory balance, the net balance at the end of the biennium is estimated at $320.6 million.

The $300.0 million is the result of increased estimated tax collections of $270.4 million, an increase of $5.7 million in departmental revenues and a net reduction of $23.9 million in estimated expenditures.

The following table reflects the estimated general fund condition statement which incorporates our revenue and expenditure projections. The statement includes all legislation enacted to date (1997 Acts 1 thru 60).

TABLE 1

1997-99 General Fund Condition Statement
January, 1998, Estimates

	1997-98	1998-99
Revenues		
Opening Balance, July 1	$331,145,100	$362,810,400
Estimated Taxes	9,355,200,000	9,776,100,000
Transfer from:		
Property Tax Relief Fund	257,755,900	0
Recycling Fund	3,850,000	0
Departmental Revenues	152,493,900	151,781,300
Total Available	$10,100,444,900	$10,290,691,7 00
Appropriations, Transfers and Reserves		
Gross Appropriations	$9,758,572,300	$9,880,267,900
Sum Sufficient Reestimates	5,964,000	-3,988,800
Compensation Reserves	34,915,600	66,338,400
Transfer to Local Government		
Property Insurance Fund	2,217,200	2,108,600
Less Lapses	-64,034,600	-74,052,000
Net	$9,737,634,500	$9,870,674,100
Balances		
Gross Balance	$362,810,400	$420,017,600
Less Required Statutory Balance	-97,994,500	-99,426,200
Net Balance, June 30	$264,815,900	$320,591,400

General Fund Taxes

The following section provides information on general fund tax revenues for the 1997-99 biennium, including a discussion of the national economic forecast for 1998 and 1999 and general fund tax revenue projections for 1997-98 and 1998-99.

National Economic Forecast. This office prepared revenue estimates for the 1997-99 biennium in January, 1997. At that time, the projections were based on an economic forecast of steady economic growth, modest inflation and low unemployment. Although the January, 1997, forecast anticipated that stronger long-run growth could not continue without higher inflation, the inflation rate has remained low despite a 3.7% increase in real gross domestic product (GDP) in 1997. This was the best overall economic growth rate since 1988, and was 1.4% higher than the January forecast of 2.3%. Other indicators (including personal income, consumption and corporate profits) were also greater than forecast in 1997, while unemployment (4.9% nationwide) and inflation (2.4%) were lower than estimated.

The present economic expansion is in its seventh year. It is anticipated that the economy will continue to expand through 1998 and 1999, although at a slower rate than in 1997. The January, 1998, U.S. economic forecast prepared by Standard & Poor's DRI (DRI/McGraw-Hill) projects that growth in real GDP will slow to 2.3% in 1998 and 1.5% in 1999. Economists forecast continued low levels of inflation, falling below 2% in 1998 and then increasing only slightly in 1999. However, the softer economy is expected to increase the unemployment rate to 5.3% by 1999.

Projections of real GDP have been adjusted downward to reflect the impact of the Asian financial crisis. However, it is anticipated that the "Asian flu" will not lead to a recession in the U.S.. The primary impact will come from reduced exports, due to the strength of the dollar relative to Asian currencies, but the effect of this decrease is expected to be moderate since exports to Asian nations make up a very small portion of U.S. GDP. The impact on American financial markets is also projected to be relatively small, and the U.S. stock market has recovered almost all of its loss from October. The forecast assumes that the Federal Reserve will cut interest rates in late-1998 to offset the impact of Asia's financial problems. However, if the Asian crisis proves to be less severe than expected, interest rates could be raised this Spring.

Growth in consumer spending is anticipated to moderate during 1998 and 1999 following strong growth in the third quarter of 1997. This mirrors an expected decrease in consumer confidence (as measured by the University of Michigan's Index of Consumer Sentiment), which reached record levels in 1997. Economists conclude the high level of confidence reflects the belief by consumers that they will maintain recent employment and income gains as opposed to a belief that the economy will improve dramatically in the future. After a very strong year in 1997 (8.6% growth), before-tax corporate profits are expected to increase by 1.2% in 1998 and decrease slightly in 1999 (-0.7%).

The most likely risk to the forecast is a near-term mild recession if the impact of the Asian difficulties is worse than expected, causing a large drop in consumer confidence and spending.

Table 2 shows a summary of national economic indicators drawn from the January, 1998, interim forecast by Standard & Poor's DRI.

General Fund Tax Projections. Our estimates of general fund tax collections for the 1997-99 biennium are based on the January, 1998, Standard & Poor's DRI forecast of national economic growth. Projections of general fund tax collections for the 1997-99 biennium are shown in Table 3.

TABLE 2

Summary of National Economic Indicators -- Data Resources, Inc.
January, 1998
($ in Billions)

	1996	1997	1998	1999
Nominal Gross Domestic Product	$7,636.0	$8,080.7	$8,423.0	$8,703.5
Percent Change	5.1%	5.8%	4.2%	3.3%
Real Gross Domestic Product	6,928.4	7,188.0	7,352.6	7,464.6
Percent Change	2.8%	3.7%	2.3%	1.5%
Consumer Price Index	2.9%	2.4%	1.9%	2.2%
Personal Income	6,495.2	6,873.5	7,217.3	7,490.4
Percent Change	5.6%	5.8%	5.0%	3.8%
Personal Consumption Expend.	5,207.6	5,488.8	5,759.5	6,003.6
Percent Change	5.0%	5.4%	4.9%	4.2%
Corporate Profits Before Tax	676.6	734.8	743.9	738.6
Percent Change	8.7%	8.6%	1.2%	-0.7%
Unemployment Rate	5.4%	4.9%	4.8%	5.3%

TABLE 3

Projected General Fund Tax Collections
($ in Millions)

	1996-97	Budget Estimates (Thru Act 60)		Revised Estimates January, 1998	
Source	Tax Collections	1997-98	1998-99	1997-98	1998-99
Individual	$4,558.3	$4,807.0	$4,976.8	$4,920.0	$5,165.0
Sales and Use	2,864.4	3,015.0	3,194.3	3,000.0	3,135.0
Corporate	643.8	647.4	666.9	645.0	655.0
Public Utilities	306.2	274.0	269.9	277.3	272.8
Excise Taxes					
Cigarette	204.6	243.7	254.5	245.1	256.1
Liquor	31.3	30.5	30.5	32.0	32.3
Beer	9.2	9.0	9.0	9.5	9.5
Tobacco	8.8	9.0	9.5	9.7	10.6
Adult Entertainment	0.0	0.4	1.5	0.4	1.5
Insurance	94.6	93.0	93.5	95.0	95.0
Estate	50.8	45.0	45.0	73.0	55.0
Pari-Mutuel	2.6	2.7	2.7	2.2	2.2
Miscellaneous	42.9	44.5	45.6	46.0	46.1
Amnesty	0.0	0.0	40.0	0.0	40.0
TOTAL	$8,817.5	$9,221.2	$9,639.7	$9,355.2	$9,776.1

As shown in Table 3, general fund tax revenues are estimated to total $9,355.2 million in 1997-98 and $9,776.1 million in 1998-99. These amounts are higher than the previous estimates by $134.0 million in the first year and $136.4 million in the second year of the biennium. The increase is primarily in the individual income tax and, to a lesser extent, the estate tax, which have been revised upward based on recent collections data and the new economic forecast. The increases in these taxes are partially offset by reductions in the sales and use tax and the corporate income and franchise tax. Smaller revisions are estimated for most of the other taxes.

A brief summary of current collections data and the projected impact of national economic conditions by source of state tax revenues follows.

Individual Income Tax. The current estimates of individual income tax collections are higher than previous estimates by $113.0 million in 1997-98 and $188.2 million in 1998-99. This reflects total estimated revenues of $4,920.0 million in 1997-98 and $5,165.0 million in 1998-99 and growth of 7.9% and 5.0% over prior years, respectively. The additional revenues are due to collections data, an improved economic forecast and higher revenue in 1996-97 than previously projected. The lower rate of growth in 1998-99 is a result of both state tax law changes and the forecast of a slowing economy.

Through December of 1997, individual income tax collections, adjusted for pension refunds and the late processing of tax payments last fiscal year, were $164 million (9.0%) higher than the same period last year. Withholding payments, which make up the largest source of income tax revenues, have increased by 8.2% since last year. On the other hand, income tax refunds have also increased by 25.4% over the same period.

National personal income is projected to increase by 5.8% in 1997, 5.0% in 1998 and 3.8% in 1999. Although the current DRI forecast of total personal income is higher than the 1997 forecasts, the rate of growth is lower beginning in 1999. Based on the current forecast, the revised estimates assume that income tax collections will moderate over the second half of 1997-98 and during 1998-99.

The federal government and other states have also experienced strong growth in individual income tax revenues in 1997. Based on information available at the time, the Congressional Budget Office's <u>Economic and Budget Outlook</u> for September of 1997 projected that federal individual income tax collections would grow by 12% in federal fiscal year (FFY) 1997. About $46 billion of the increase is not explained by economic data. The CBO speculates that two-thirds of the unexplained amount is due to rapid growth in the stock market and an increase in pay to higher-income taxpayers; the CBO considers this additional revenue to be temporary. The CBO projects a much lower level of growth (4%) for FFY 1998.

The January, 1998, DRI forecast also indicates uncertainty as to the cause of the federal income tax windfall in 1997. DRI speculates that the revenue could have been from stocks, cashed out 401(k) plans and increased mutual fund ownership. However, DRI is optimistic that income tax collections will continue to outpace overall economic growth.

According to a report by the Center for the Study of the States, issued in December of 1997, total state individual income tax collections grew 9.5% in the third quarter of 1997 over the same period in 1996 (after adjusting for law changes). The third quarter increase was actually smaller than increases reported in the prior three quarters: 12.8% in the second quarter of 1997, 10.0% in the first quarter of 1997, and 11.2% in the fourth quarter of 1996. The report indicated that the additional revenue could be attributed to stock sales and higher wages and that it is anticipated that growth would slow in the future.

General Sales and Use Tax. Sales tax collections are estimated at $3,000.0 million in 1997-98 and $3,135.0 million in 1998-99, a reduction of $15.0 million and $59.3 million, respectively, from the prior estimates. The decreases reflect lower than anticipated revenue growth during the first six months of 1997-98 and a revision to the estimated fiscal effect of authorizing the Department of Revenue to enter into an agreement with direct marketers for the collection of sales and use taxes.

As of December, sales tax revenues (after adjustments to account for unusual collection patterns last year) were 4.37% higher than the same period in 1996-97. The revised estimates assume that growth, prior to the consideration of law changes, will be approximately 4.8% over the remainder of 1997-98 and 4% in 1998-99. The previous estimates assumed that underlying growth would be somewhat higher than these amounts.

The fiscal effect of the direct marketers agreement has also been reduced significantly. Based on information from DOR, it was estimated in 1997 Act 27 that this agreement would generate $6.8 million in 1997-98 and $29.3 million in 1998-99. These figures assumed that the agreement would take effect on January 1, 1998, and that it would apply to business and consumer purchases. The Department now indicates that the agreement will not take effect until July, and that it will likely apply only to business purchases. As a result, there will be no fiscal effect in 1997-98 and the estimate for 1998-99 has been reduced to $8.7 million, for a biennial decrease of $27.4 million.

Corporate Income and Franchise Tax. Corporate income and franchise tax collections were $643.8 million in 1996-97, which was $6.2 million less than estimated. Collections are projected to be $645 million in 1997-98 and $655 million in 1998-99. These amounts represent an annual increase of 0.2% in 1997-98 and 1.6% in 1998-99.

The current estimates are $2.4 million lower in 1997-98 and $11.9 million lower in 1998-99 than previous estimates. The estimated decrease reflects lower corporate declaration payments in 1997-98 and economic forecasts of reduced corporate profits. The financial crisis in Asia is expected to reduce exports and to translate into fewer dollars of foreign profits for U.S. firms. Projected increased fringe benefits and unit labor costs will also cut into corporate profits. Economic growth is expected to slow and corporate profits generally reflect the performance of the economy.

Public Utilities. Public utility taxes are estimated to be $277.3 million in 1997-98 and $272.8 million in 1998-99. These estimates are higher than previous estimates by $3.3 million in 1997-98 and $2.9 million in 1998-99, and largely reflect revenue increases from telecommunications companies.

Excise Taxes. Excise taxes on cigarettes are projected to total $245.1 million in 1997-98 and $256.1 million in 1998-99. These estimates reflect declining taxable cigarette sales through December, which are 5% lower than the same time last fiscal year. However, the current estimates for the 1997-99 biennium are higher due to additional collections in 1996-97 than previously estimated.

Excise tax collections on beer, liquor and wine and other tobacco products are estimated to total $51.2 million in 1997-98 and $52.4 million in 1998-99, which reflects an increase of $2.7 million and $3.4 million, respectively, over previous estimates. These increases are largely attributable to higher collections through December as compared to the prior year. Over the biennium, the tax on beer is estimated to be $1.0 million higher, the tax on liquor and wine is estimated to be $3.3 million higher and the tax on tobacco products (except cigarettes) is estimated to be $1.8 million higher than previous estimates.

Act 27 created a 5% excise tax on the sale of adult entertainment products and services, except for movies and magazines, and including admittance to a strip club. This tax is to take effect on April 1, 1998, and is estimated to generate $375,000 in 1997-98 and $1.5 million in 1998-99. These estimates remain unchanged. However, as noted in previous fiscal estimates of this provision, the amount of revenue projected to be generated from this tax should be considered speculative since reliable data on taxable goods and services is not available and the tax could be subject to litigation.

Insurance Premiums Tax. Insurance premiums taxes are projected to be $95 million in 1997-98 and 1998-99. These estimates are $2 million higher in 1997-98 and $1.5 million higher in 1998-99 than previous estimates. The estimates were adjusted to reflect 1996-97 collections of $94.6 million, which were $2.1 million higher than projected. Stable collections are forecast for the remainder of the biennium.

Estate Tax. The estate tax is projected to generate $73.0 million in 1997-98 and $55.0 million in 1998-99, which is an increase of $28.0 million and $10.0 million over previous estimates, respectively. The higher estimate for 1997-98 reflects $50.8 million in collections through December, primarily due to a small number of large estates. The estimate for 1998-99 was increased to reflect higher levels of estate tax collections in recent years and was also adjusted to account for the increase in the federal unified credit.

Pari-Mutuel. Based on projections of wagering handles at the three remaining greyhound facilities, pari-mutuel taxes are estimated at $2.2 million in each year, a decrease of $0.5 million annually from the previous estimates.

Miscellaneous Taxes. Miscellaneous taxes are estimated to be $46.0 million in 1997-98 and $46.1 million in 1998-99. This represents an increase over previous estimates of $1.5 million in the first year and $0.5 million in the second year. These increases are primarily attributable to real estate transfer fee collections, which have been adjusted to reflect current forecasts of the sale of homes.

Amnesty. As under 1997 Act 27, the tax amnesty program is anticipated to generate $40 million in 1998-99.

General Fund Expenditures

It is projected that net, general fund expenditures for the biennium will be $23.9 million below previous projections. The $23.9 million consists of a general revision of lapsed balances and a reestimate of some specific programs such as the earned income tax credit, which is now projected to be $6.4 million below appropriated levels, and an adjustment of $6.5 million due to a reduced operating note in 1998-99.

There are three programs that have not been revised in our projections, but that merit mention.

First, the state's budget contains an estimate of the amount needed to fund two-thirds of partial K-12 revenues in each year of the biennium. The actual amount of aid for 1998-99 will be set, by statute, by the Joint Committee on Finance inJune, 1998. The Committee will act on an estimate certified by the Department of Administration, Public Instruction and this office. For 1997-98, state support of partial school revenues was $12.4 million more than was necessary to achieve the two-thirds target. At this time, it appears that the budgeted funding level for equalization aids in 1998-99 could be approximately $15 million more than would be required to meet the state's two-thirds commitment. Given that a number of factors, such as school district spending and borrowing referenda, will not be known until June, no adjustment to the condition statement is made at this time for this item.

Second, our review of the medical assistance appropriation indicates that a lapse to the general fund of roughly $10 million could occur at the close of the biennium. However, the budget contains a provision that directs the Department of Health and Family Services (DHFS) to transfer funds to the COP program if there is a decline in nursing home utilization by MA recipients. At this time, that difference is projected to be approximately $8 million in 1997-98 and $10 million in 1998-99. Therefore, no lapse estimate is included in the condition statement of this memorandum.

Third, DHFS has received $30.5 million in federal revenues not anticipated during the 1997-99 budget deliberations. These revenues will be expended by DHFS for a variety of purposes pursuant to provisions in Act 27.

Act 27 contained a provision that encourages DHFS and counties to claim additional federal revenues available under the federal foster care, medical assistance and medicare programs. To the extent that DHFS is successful in increasing federal reimbursement through "income augmentation" activities, these additional revenues are available to support increases in community aids, costs exclusively related to income augmentation activities and other purposes approved by the Department of Administration (DOA). By statute, 50% of the additional federal revenue claimed under the federal foster care program must be used to increase funding for community aids.

As a result of these income augmentation activities, DHFS has obtained $30.5 million in increased federal payments, based on costs incurred between January, 1995, and May, 1997. Of this amount, 10% or $3.1 million will be paid to the consultant hired by DHFS to identify opportunities to claim additional federal revenues. In addition, $13.5 million will be distributed to counties through community aids, as required by Act 27. The remainder of funds would be used to fund a variety of costs, upon approval from DOA, including: (a) DHFS salary and fringe benefit pay plan costs ($4.9 million); (b) information technology infrastructure and enhancements ($4.8 million); and (c) District Attorney's Office Act 27 lapse requirement ($1.2 million). The remaining $3.0 million would be used for a variety of other programs within DHFS. Consequently, all income augmentation revenues identified in the plan submitted to DOA will be expended and no funding is expected to be deposited in the general fund for 1997-98. Additional federal revenues may be available in the 1997-99 biennium due to continuing income augmentation activities.

Use of General Fund Balances

Under 1997 Act 27, a mechanism was established to allocate up to $195 million in additional general fund balances to fund state employe compensation increases ($20 million) and to reduce or eliminate school aid payment delays ($175 million).

Under the procedure, the Legislative Fiscal Bureau is required to certify to the Joint Committee on Finance the Bureau's estimate of 1997-98 and 1998-99 net balances of the general fund. The certification, which is to be made by January 31, is based on a comparison of the estimated net balances under the 1997-99 budget as adopted by the Legislature (Enrolled AB 100) and the Bureau's January estimates.

After the Bureau's certification, the Co-chairs of the Finance Committee have 14 working days to schedule a meeting of the Committee to consider the certification. If no meeting is scheduled, the certification would be approved after 14 working days. If a meeting is scheduled, the certification must be approved by vote of the Committee before any transfer of funds can be made.

Under the provision, if there is an additional net balance, the first $20 million would be transferred to the Joint Committee on Finance's supplemental GPR appropriation and used to fund the costs of increases in employe compensation and fringe benefits. The next $75 million would be transferred to the property tax relief fund and used to "buy out" a corresponding delay in 1997-98 school aid payments into the 1998-99 fiscal year. Finally, the next $100 million would be transferred to the property tax relief fund and used to "buy out" a corresponding delay in 1998-99 school aid payments into the 1999-2000 fiscal year.

As shown in Table 1, the revised estimated net balance for 1998-99 is $320.6 million. This compares with the Enrolled AB 100 balance of $6.0 million for 1998-99. Thus, the estimated balances now exceed the balances of Enrolled AB 100 by $314.6 million. If the new balance is approved by the Joint Committee on Finance, $195 million would be used as indicated above and the remaining balance for all other purposes would be $125.6 million.

I will continue to monitor changes in the national economic forecast and tax collections and expenditures and will keep you informed of any further modifications which may be required. If I can provide additional information, please contact me.

Sincerely,

Robert Wm. Lang
Director

cc: Members, Wisconsin Legislature