STATE OF WISCONSIN

Notice of Listed **Material Information** #2001-01
Dated January 26, 2001

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 Event pursuant to the State's Master Agreement on Continuing Disclosure.

Issuer: State of Wisconsin

CUSIP Numbers: 977053, 977055 and 977056 Prefix (All)
977087 Prefix (All)
977092 Prefix (All)
977109 Prefix (All)
977123 Prefix (All)

Material Information: Attached is a letter from the Director of the Legislative Fiscal Bureau to the Joint Committee on Finance. This letter provides an estimated general fund condition statement for the current fiscal year ending June 30, 2001. This letter also provides estimated revenue projections for each year of the next biennium.

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.

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State of Wisconsin

January 25, 2001

Senator Brian Burke, Senate Chair
Representative John Gard, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Burke and Representative Gard:

Annually, this office prepares general fund expenditure and revenue projections for the Legislature as it begins to consider the state's budget and other legislation.

In the odd-numbered years, the report includes estimated tax collections and expenditures for the current fiscal year and revenue projections for each year of the next biennium. The purpose of this report is to present the conclusions of our analysis.

Comparison with the Administration's November 20, 2000, Report

On November 20, 2000, the Departments of Administration and Revenue submitted a report to the Governor and Legislature that identified revenue projections for the 2000-01 fiscal year and the 2001-03 biennium. Our analysis indicates that for that three-year period, the state's general fund will have $651 million less than is reflected in the November 20 report.

The $651 million is the net result of: (1) a projected decrease in tax collections of $664 million for the three-year period; (2) a decline in departmental revenues of $13 million for 2000-01; and (3) reduced expenditures of $26 million for 2000-01.

Prior to addressing the reasons for this difference, it is important to note the nature of the November 20 document. The DOA/DOR report is required, by statute, to be submitted at that time to inform the Governor of the magnitude of agency budget requests and present a projection of tax collections. Given its timing in the 2000-01 fiscal year, sufficient data is not available to reestimate certain revenues and expenditures for the current fiscal year. Thus, as indicated in their report, departmental revenues and expenditures were not reestimated by DOA. This is consistent with previous November 20 reports.

In addition, since the November 20 report was prepared, national economic forecasts indicate a weakening of the economy and the necessity to revise the projections.

2000-01 General Fund Condition Statement

Based upon our analysis, we believe that the gross balance in the state's general fund will be $277 million on June 30, 2001. After consideration of the required statutory balance ($134 million), the net balance will be $143 million. This is shown in Table 1. The $277 million gross balance of 2000-01 will be carried forward as the opening balance of the next biennium.

The administration's November 20 report contained a 2000-01 general fund condition statement that showed a gross balance of $261 million. Thus, the projected gross balance of this report ($277 million) is $16 million more than that shown in the November 20 report.

The $16 million increase in the 2000-01 balance consists of an increase in tax collections of $3 million and a decrease in departmental revenues of $13 million and decreased expenditures of $26 million. The decrease in estimated expenditures is, in part, the result of recent cost-cutting measures which have been imposed by the administration on state agencies for the remainder of the current fiscal year.

TABLE 1

Estimated 2000-01 General Fund Condition Statement

Revenues	2000-01
Opening Balance, July 1	$835,714,000
Taxes	10,185,000,000
Departmental Revenues	
Tobacco Settlement	121,539,100
Other	181,307,000
Total Available	$11,323,560,100
Appropriations	
Gross Appropriations	$11,076,302,400
Compensation Reserves	117,750,000
Less: Lapses and Sum Sufficient Reestimates	-148,057,500
Net	$11,045,994,900
Balances	
Gross Balance	$277,565,200
Less: Required Statutory Balance	-134,328,600
Net Balance, June 30	$143,236,600

General Fund Tax Revenues

The following sections provide information related to general fund tax revenues for 2000-01 and the 2001-03 biennium. The information provided includes a review of the economy in 2000, a discussion of the national economic forecast for 2001 through 2003, and detailed general fund tax revenue projections for the current fiscal year and the next biennium.

Review of the Economy in 2000

Last January, this office prepared general fund revenue estimates for the 1999-01 biennium based on the January, 2000, forecast of the economy prepared by Standard & Poor's Data Resources, Inc. (DRI). In general, the economic expansion was projected to continue, with low levels of unemployment, through 2000 and 2001. Despite rising oil prices, inflation was expected to remain low. Personal income and consumer spending were forecast to follow a pattern of relatively strong but moderating growth. The pattern reflected expectations that consumer confidence (as measured by the University of Michigan's Index of Consumer Sentiment) would remain strong while declining slightly over the forecast period. The DRI forecast also assumed that the Federal Reserve would raise interest rates twice in the first half of 2000, successfully containing inflation without negatively impacting the stock market. A federal tax cut was expected in 2001.

The DRI economic forecast projected that the annual growth in real (inflation-adjusted) gross domestic product (GDP) would slow from 4.0% in 1999 to 3.7% in 2000 and 3.1% in 2001. Similarly, the growth in nominal (current dollar) GDP was forecast to decrease from 5.4% in 1999 to 4.9% in 2000 and 4.6% in 2001. Inflation and unemployment would remain fairly stable. The estimated annual change in the consumer price index (CPI) was 2.1% in 1999, 2.3% in 2000 and 2.1% in 2001. The unemployment rate was projected to be 4.2% in 1999, 4.0% in 2000 and 4.2% again in 2001. Consumer spending was expected to moderate, with the annual increase declining from 6.8% in 1999 to 5.2% in 2001.

Perceptions of the U.S. economy changed considerably during the year. Economic growth continued to be vigorous through the first half of 2000. The annualized growth in real GDP was 4.8% in the first quarter and 5.6% in the second quarter of 2000. Personal consumption grew 8.6% in the first quarter and 7.9% in the second. The respective increases in business investment were 21.0% and 14.6%, while industrial production grew 6.5% and 7.9%, respectively.

However, the high level of economic growth in 1999 and early 2000 caused concern that inflationary pressures could rapidly build in the economy. The Federal Reserve responded with six increases in interest rates over a year, which raised the federal funds rate by a total of 1.75 percentage points. At the same time, energy prices increased substantially. The price of oil increased to over $30 a barrel (before subsiding somewhat) while natural gas prices increased from $2.50 to $8.50 per million BTU.

Consumer spending, which accounts for nearly two-thirds of the nation's total economic activity, has been the main support of the economic expansion. For the last eight years, spending has risen more rapidly than income. This level of spending has been primarily supported by the stock market's climb, which has increased the wealth of many consumers so quickly they were willing to spend more than they would have without the growth in investments. Consumers believed that stock market investments were their savings. However, in 2000, the Federal Reserve's interest rate increases raised investor concerns about lower corporate earnings and a slide started in the stock market. The decline in the stock market was exacerbated by a series of negative corporate earnings reports and revisions. Technology stocks were particularly hard hit and many technology companies announced layoffs and/or went out of business. By December, the Nasdaq stock market had fallen nearly 50% while the Standard & Poor's 500 index fell 14% for the year. The dramatic drop in the stock market caused households to lose $1.9 trillion in wealth. According to the DRI forecast model, this took $50 billion out of consumer spending. Consumption was also restrained by high energy prices that reduced discretionary income. Through November, consumer confidence remained high, but these factors, along with the contested presidential election, worked to cause the University of Michigan index to drop from 107.6 in November to 98.4 in December. These factors also contributed to relatively lackluster Christmas sales. The annualized growth in personal consumption expenditures dropped to 7.7% in the third quarter and then to 6.9% in the fourth quarter of 2000.

Corporate profits (after tax) increased at an annual average of over 16% in the first three quarters of 2000. However, higher energy prices, increased labor costs (particularly health care), slumping consumer confidence and higher interest rates slowed profit growth to 7.3% in the fourth quarter. The prospect of slower growth generated fears about corporate credit quality and bond markets began requiring higher rates on corporate debt. Banks raised credit standards and the plunge in world stock markets made new equity issues unattractive. As a result, the rate of growth in business investment and production declined. Real nonresidential fixed investment grew 7.7% in the third quarter and 1.9% in the fourth quarter of 2000. Similarly, the growth in industrial production dropped to 3.7% and 1.1%, respectively.

While growth in the economy slowed during 2000, both inflation and unemployment remained low. For the year, the CPI increased 3.4%; the unemployment rate was 4.0%. The growth in personal income slowed, but remained relatively strong at 6.3%.

National Economic Forecast

The revenue estimates contained in this report are based on the January, 2001, forecast of the economy by Standard & Poor's DRI.

Although the rate of economic growth has declined and there is a real risk of recession, DRI projects that positive economic growth will continue in 2001, but at a lower rate than in recent years. No recession is forecast. After stabilizing at the lower level, the rate of economic growth is expected to rebound in 2002 and 2003. After dropping from 5.1% in 2000 to 2.5% in 2001, real GDP growth is forecast to increase to 4.3% in 2002 and 4.6% in 2003. Nominal GDP growth is expected to decrease from 7.3% in 2000 to 4.7% in 2001 and then to increase to 6.0% in 2002 and 6.6% in 2003. The forecast indicates that, although it includes four consecutive quarters averaging around 2% economic growth, the future is unlikely to be that smooth. Actual growth could be significantly weaker, with negative growth in one of the quarters.

A number of positive factors work in favor of continued but slower growth. Inflation, especially excluding energy costs, remains modest. The unemployment rate is at its lowest level since 1970. The federal budget surplus provides an opportunity for various fiscal policy initiatives. Even with the decline in the stock market in 2000, household wealth remained at 6.3 times household disposable income. Similarly, the December decrease in consumer confidence still left the index at a higher level than any time before 1999. In the past, consumer confidence index levels in the 70's were associated with recessions. The index was in the high 90's in December.

On January 3, 2001, in response to the rapidly slowing economy and tumbling stock market, the Federal Reserve cut the federal funds rate by a half of a percentage point to 6.0% and the discount rate by a quarter of a percentage point to 5.75%. DRI expects the Federal Reserve to continue reducing rates until the end of the year, when the federal funds rate is projected to be 5.0%. This is anticipated to have a positive effect on both financial markets and real economic activity.

Initially, the January 3 rate cut improved investor confidence by showing the Federal Reserve's intention to stop the decline in economic growth. Reacting to the Federal Reserve's action, the Dow Jones stock index rose nearly 3%, while the Nasdaq jumped 14%, its largest one-day gain ever. DRI is not quite as enthusiastic as the market. The forecast assumes lower earnings for a few more quarters, with the rate cuts offsetting the effect of earnings weakness on the market. It is believed that the market has passed its trough, but will rebound gradually over the forecast period.

The shift to a more aggressive monetary policy is anticipated to ease credit terms for both consumers and businesses. Consumer purchases of durable goods, housing and autos, and business investment are expected to receive a boost. Business credit terms and equity markets are expected to improve and have a positive effect on future business investment.

However, it is believed to take six to 12 months for the full effect of monetary stimulus to be felt in the economy. In the interim, certain factors could act to blunt the effect of the Federal Reserve's interest rate cuts. Too many missed earning targets by corporations could negate the psychological effect of the Federal Reserve's actions on financial markets. Continued deterioration in corporate earnings could reduce profits, lead to more layoffs and increase unemployment. Higher energy prices could reduce discretionary income for consumers and corporate profits. Both consumer and business spending would be similarly reduced.

The DRI forecast assumes that these factors will not be substantial enough to continue the economic slowdown beyond 2001 or to cause a recession. In general, the economic variables included in the DRI forecast reflect the projected slowdown in economic growth in 2001 followed by increased growth rates in 2002 and 2003. As noted, the consumer has been a primary force in the economic expansion and will continue to be a significant source of growth during the next few years. It is expected that personal consumption will be supported by continued increases in personal income, low inflation and a rebound in consumer confidence. DRI projects that personal income will increase by 4.7% in 2001, 5.4% in 2002 and 6.2% in 2003. After dropping from 107.6 in 2000 to 95.6 in 2001, the consumer confidence index is expected to increase to 99.5 in 2002 and to 102.4 in 2003. The annual growth in personal consumption expenditures is forecast to be 5.0% in 2001, 5.9% in 2002, and 6.3% in 2003.

In part due to the slowing economy, the outlook for inflation remains good. Weak goods prices during the next six months are anticipated to be complemented by declining energy prices and a looser labor market, which is expected to restrain inflation over the next eight quarters. Manufacturing prices have been weak, reflecting the liquidation of inventories as businesses adjust to a lower level of growth. Prices for building materials, appliances, motor vehicles, plastics, metals, pulp, and electronic components prices have moderated or even fallen since August. The annual change in the consumer price index is projected to be 2.6% in 2001, 1.8% in 2002 and 2.0% in 2003. However, energy and health care costs remain areas for concern. Although oil and natural gas prices are projected to decrease during 2001, natural gas prices are expected to remain historically high. In addition, electricity prices are forecast to rise. Medical care costs are also beginning to accelerate. Most workers have been shifted to managed-care plans, so there are few savings left to be realized from requiring this type of plan for employees.

Evidence of a slowing economy can be seen in recent unemployment claims data, which are now close to 350,000 a week. The bulk of the layoffs have been in the manufacturing and finance sectors of the economy. Many of the laid-off manufacturing workers can be expected to be called back when business improves, while others whose layoffs were due to structural problems will have to seek new work. Employment is expected to fall somewhat during the first three quarters of 2001. As a result, the unemployment rate is expected to increase to over 5% by the beginning of 2002 and then decrease as the economy improves over the remainder of 2002 and 2003. DRI estimates that the unemployment rate will be 4.7% in 2001, increase to 5.0% in 2002, and then drop back to 4.7% in 2003.

Although consumer confidence has declined, mortgage rates have dropped to their lowest level since 1999. DRI expects housing starts to remain strong but experience the same slippage in 2001 as in 2000. The Federal Reserve's reductions in interest rates should help keep mortgage rates low over the forecast period. Housing starts are projected to drop from 1.6 million in 2000 to about 1.5 million in 2001, and then increase to about 1.6 million in 2002 and 1.7 million in 2003. The lower mortgage rates may also help consumer spending if families reduce their housing costs by refinancing.

Corporate profits slowed sharply in the fourth quarter of 2000 and are expected to continue to slide in early 2001 before rebounding later in the year. Many companies have employment levels, inventory and investment associated with a better economic climate and must adjust. After-tax profits are forecast to rise in 2002 and increase at a lower rate in 2003. For many firms, high levels of business investment over the past few years have resulted in low marginal costs for producing goods but high fixed costs. As production declines during the economic downturn, it is anticipated that profit margins will be squeezed by high operating costs and declining productivity. At the same time, corporate credit markets have tightened. Consequently, businesses have less cash to finance new investment. The DRI forecast anticipates a substantial slowdown in business investment in 2001 and a gradual increase in 2002 and 2003 as the economy improves and corporate earnings increase. The largest growth is projected to be in purchases of computers and software, but at a much lower level than in the past few years when many companies replaced computer systems to avoid possible Y2K problems. Under the forecast, after-tax profits are expected to increase only 0.4% in 2001 and then improve to 11.5% annual growth in 2002 and 6.7% in 2003. The annual change in real nonresidential fixed investment is projected to decrease to 3.7% in 2001 and then increase to 6.0% in 2002 and 8.3% in 2003.

The U.S. has been running large and growing trade and current account deficits. In December, 2000, the current account deficit (the net flow of trade and investment into the country) exceeded 4% of GDP, compared to an average 1.7% from 1992 to 1998. In many ways the deficits are the result of economic strength. However, the strong dollar hinders the ability of U.S. companies to compete in world markets and the U.S. economy is stronger than those of our trading partners. As a result, exports are weak while imports are quite strong. If the trade imbalance is reversed too abruptly, the dollar could fall significantly, inflation would rise and economic output would contract. However, DRI expects the trade situation to slowly move toward balance. The euro is projected to continue to appreciate against the dollar in the short term. The forecast also anticipates that the U.S. economy will cool down more than Europe, with a similar pattern of growth across continents. Imports are projected to slow, while exports increase as a more competitive dollar balances weaker overseas growth.

DRI expects much of the tax package proposed by President Bush to be passed by Congress, with faster implementation. Spending increases are anticipated to be slightly less in defense and slightly more in domestic spending than the Bush campaign proposed.

Table 2 shows projected values for several economic indicators that underlie our general fund revenue estimates for 2000-01 and the 2001-03 biennium.

Although DRI is not predicting a recession, the forecast notes that the odds of one occurring in 2001 or 2002 are approaching even. The primary risk is that corporate earnings would continue to be depressed by high energy prices, deteriorating global competitiveness and reduced sales. In response, the stock market would continue its slide and a bear market would result. Lower household wealth would then cause consumer confidence to fall, further reducing consumer spending. As a result, the economy would fall into recession in 2001. DRI believes the probability of this sequence of events is 40%.

TABLE 2

Summary of National Economic Indicators
Standard and Poor's Data Resources, Inc.
January, 2001
($ in Billions)

	2000	2001	2002	2003
Nominal Gross Domestic Product	$9,974.3	$10,447.2	$11,078.7	$11,811.3
Percent Change	7.3%	4.7%	6.0%	6.6%
Real Gross Domestic Product	$9,325.5	$9,556.7	$9,964.3	$10,427.4
Percent Change	5.1%	2.5%	4.3%	4.6%
Consumer Price Index	3.4%	2.6%	1.8%	2.0%
Personal Income	$8,282.9	$8,672.8	$9,139.5	$9,703.4
Percent Change	6.3%	4.7%	5.4%	6.2%
Personal Consumption Expenditures	$6,758.7	$7,098.9	$7,515.7	$7,987.3
Percent Change	7.8%	5.0%	5.9%	6.3%
Corporate Profits Before Tax	$932.8	$920.1	$1,023.6	$1,094.1
Percent Change	13.3%	-1.4%	11.2%	6.9%
Unemployment Rate	4.0%	4.7%	5.0%	4.7%

General Fund Tax Projections

Table 3 shows revenue estimates for all general fund tax sources for 2000-01 and the 2001-03 biennium. These figures are higher than the estimates prepared by the Department of Revenue last November by $3.0 million in 2000-01. The amounts in Table 3 are lower than DOR's November estimates by $245.9 million in 2001-02 and $421.1 million in 2002-03. The differences in the 2001-03 biennium are primarily due to the individual income, sales and estate taxes. Data on current-year collections and a weaker economic forecast indicate that revenues from these three taxes will be significantly lower than DOR's estimates. Reductions in these taxes are partially offset by higher estimated corporate and utility tax collections. The 7.0% decline in revenues between 1999-00 and 2000-01 primarily reflects the income tax reductions that were enacted during the last legislative session, which took effect in tax year 2000. In addition, utility tax revenues are expected to be lower than last year as the conversion from gross receipts taxation to ad valorem taxation of telecommunications companies is completed. More typical growth in collections is forecast in 2001-02 and 2002-03.

TABLE 3

Projected General Fund Tax Collections
($ in Millions)

	1999-01 Biennium		2001-03 Biennium	
	1999-00 Actual	2000-01 Estimated	2001-02 Estimated	2002-03 Estimated
Individual Income	$5,962.0	$5,160.0	$5,500.0	$5,820.0
General Sales and Use	3,501.7	3,640.0	3,810.0	4,080.0
Corporate Income & Franchise	644.6	614.0	636.0	650.0
Public Utility	259.9	233.0	244.0	250.0
Excise				
Cigarettes	247.6	247.5	245.7	245.2
Liquor and Wine	34.6	35.3	35.9	36.8
Tobacco Products	10.3	11.7	12.2	13.0
Beer	9.4	9.4	9.5	9.5
Insurance Company	86.9	85.0	90.0	92.0
Estate	133.3	95.0	115.0	125.0
Miscellaneous Taxes	55.6	54.1	56.6	60.3
TOTAL	$10,945.9	$10,185.0	$10,754.9	$11,381.8
Change from Prior Year		-$760.9	$569.9	$626.9
Percent Change		-7.0%	5.6%	5.8%

The following sections provide additional detail regarding the revenue estimates for each tax source.

Individual Income Tax. Individual income tax receipts are estimated to total $5,160.0 million in 2000-01. The estimate represents a 13.5% decrease from collections during 1999-00. The decrease is due to the income tax reductions enacted during the 1999-01 legislative session. A statutory increase in the sliding scale standard deduction, the creation of a fourth income tax bracket and the reduction in the tax rates, the creation of personal and senior exemptions, and an increase in the married couple credit are among the income tax reductions that took effect with the 2000 tax year, which are primarily reflected in 2000-01 revenues. An additional factor resulting in decreased collections in 2000-01 from 1999-00 is the absence of the property tax/rent credit for tax year 1999. (The credit, which was eliminated under 1999 Act 10, effective with tax year 1999, was re-instated for tax year 2000 and thereafter under 1999 Act 198.)

For the 2001-03 biennium, individual income tax collections are estimated to be $5,500.0 million in 2001-02 and $5,820.0 million in 2002-03, an increase of 6.6% and 5.8% over prior year estimates, respectively. These growth rates are more modest than those experienced in recent years due to indexing of the standard deduction and income tax brackets, and an additional increase in the married couple credit and a further reduction in the tax rates for the lowest three brackets, effective for tax year 2001. In addition, national personal income growth is expected to decrease slightly over the forecast period, and it is anticipated that the additional revenues realized in recent years from the growth in the stock market will begin to level off.

General Sales and Use Tax. Sales tax revenues totaled $3,501.7 million in 1999-00 and are estimated at $3,640.0 million in 2000-01, $3,810.0 million in 2001-02 and $4,080.0 million in 2002-03. These projections are based on current collections data and forecast growth in personal consumption expenditures, with adjustments for expenditures on food, gas and oil, and services to more closely reflect Wisconsin's sales tax base. The estimates represent growth rates of 3.9% in 2000-01, 4.7% in 2001-02, and 7.1% in 2002-03. The estimates in the 2001-03 biennium have been reduced to account for the exemption for certain vending machine sales that was included in the 1999-01 budget act. This exemption will take effect on July 1, 2001.

Corporate Income and Franchise Tax. Corporate income and franchise taxes are projected to decline from $644.6 million in 1999-00 to $614.0 million in 2000-01. Corporate tax revenues are then estimated to increase to $636.0 million in 2001-02 and $650.0 million in 2002-03.

The 2000-01 estimate reflects lower year-to-date collections and forecasts of declining profits. Through December, 2000, monthly corporate income and franchise tax collections have declined significantly from 1999-00 monthly collections. In addition, corporate profits are expected to decrease in 2001 as the economy slows and corporate costs increase.

Estimated revenues are projected to increase slightly in 2001-02 and 2002-03 as the economy rebounds and consumption increases. However, it is expected that profit growth will be constrained below pre-2001 levels by increased energy and health care costs. In addition, it is projected that a relatively high dollar and slowdown in foreign economies will limit exports and a lower level of capital investments will moderate employee productivity.

Public Utility Taxes. Public utility taxes are estimated to be $233.0 million in 2000-01, $244.0 million in 2001-02 and $250.0 million in 2002-03. These estimates represent a decrease of 10.4% in 2000-01, a 4.7% increase in 2001-02 and a 2.5% increase in 2002-03.

The decrease from 1999-00 revenues is attributable to the conversion of telephone companies from a gross receipts tax to ad valorem taxation, beginning with taxes due for 1998. The ad valorem tax on telephone companies generates less revenue than was generated from the gross receipts tax. The full effect of the conversion to ad valorem taxation was delayed by the imposition of a transitional adjustment fee for 1999 and 2000 on certain types of telephone companies (licensed providers of commercial mobile services and companies that provide basic local exchange services). Beginning with 2000-01, the transition to ad valorem taxation of telephone companies has been completed.

The projected increases in utility tax collections during the 2001-03 biennium are due to anticipated growth in the telecommunications industry and to expected increases in gross revenues license fees from light, heat and power companies associated with higher energy costs.

Excise Taxes. Excise taxes on cigarettes, tobacco products and alcoholic beverages totaled $301.9 million in 1999-00. These collections are projected to be $303.9 million in 2000-01, $303.3 million in 2001-02 and $304.5 million in 2002-03. Collections from the tobacco products tax, which is based on price, are expected to increase, while revenues from the other excise taxes, which are based on units of product, are expected to remain relatively flat over the forecast period.

Insurance Premium Taxes. Insurance premium taxes are projected to decrease from $86.9 million in 1999-00 to $85.0 million in 2000-01. Premium taxes are then estimated to increase to $90.0 million in 2001-02 and $92.0 million in 2002-03. The projected decline in 2000-01 reflects year-to-date monthly collections through December, which are lower than 1999-00 collections for the same period. The estimate of increased premium tax revenues for the next two years is based on industry forecasts of increased life and property and casualty insurance sales.

Estate Tax. Estate tax collections in 2000-01 are projected to total $95.0 million. This estimate represents a 28.7% decrease from estate tax revenues for 1999-00. Annual collections are significantly affected by the settlement, or lack thereof, of a small number of large estates. Collections may, therefore, vary considerably from year to year. The lower estimate for 2000-01 is based on year-to-date collections through December, 2000, which are considerably lower than collections through December of the prior fiscal year.

Estate tax collections have averaged $110 million per year for the past three years. Based on historical collections and the general trend toward the settlement of larger estates, it is projected that estate tax revenues will grow to $115.0 million in 2001-02 and $125.0 million in 2002-03.

Miscellaneous Taxes. Collections from miscellaneous taxes are expected to decline somewhat in 2000-01, from $55.6 million in 1999-00 to $54.1 million, primarily due to slower-than-anticipated collections from the real estate transfer fee. Revenues from miscellaneous taxes are expected to increase modestly in 2001-02 and 2002-03.

We will continue to monitor national economic forecasts and tax collections data and keep you informed of any further modifications that may be required.

Sincerely,

Bob

Robert Wm. Lang
Director

RWL/sas
cc: Members, Wisconsin Legislature