



STATE OF WISCONSIN

Notice of Listed **Material Information** #2001-05
Dated May 15, 2001

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Material Information: Attached is a **letter, dated May 15, 2001, from the Director of the Legislative Fiscal Bureau to the Joint Committee on Finance**. This letter provides revised general fund tax revenue estimates for the current 2000-01 fiscal year and each year of the 2001-03 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.

/s/ Frank R. Hoadley

Frank R. Hoadley, Capital Finance Director
State of Wisconsin Capital Finance Office
Wisconsin Department of Administration
101 East Wilson Street
Madison, WI 53702
Phone: (608) 266-2305
Fax: (608) 266-7645

Legislative Fiscal Bureau

Robert Wm. Lang, Director

One East Main, Suite 301 • Madison, WI 53703
Telephone: (608) 266-3847 • Fax: (608) 267-6873



State of Wisconsin

May 15, 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:

In January, 2001, this office prepared estimates of general fund tax collections for 2000-01 and the two years of the 2001-03 biennium. These figures were incorporated into the Governor's 2001-03 budget bill.

Last week, tax collections data through April became available. In addition, the May, 2001, national economic forecast by Standard and Poor's Data Resources, Inc. (DRI) was released. Based upon our review of the collections data and economic forecast, we now believe that general fund tax revenues will be lower than the amounts estimated last January by \$129 million in 2000-01, \$180 million in 2001-02 and \$311 million in 2002-03. The three-year reduction in the estimates totals \$620 million, or approximately 1.9%.

The decrease is primarily due to lower individual income, sales and corporate income tax revenues. Actual year-to-date collections of these taxes are lower than anticipated and the forecast of personal income, taxable consumption expenditures and corporate profits has been reduced considerably since January. Estimated cigarette tax and estate tax revenues have also been decreased, based on collections data. The public utility and insurance premiums taxes have been increased slightly in the current year.

Table 1 presents the revised tax revenue estimates and Table 2 outlines the May, 2001, economic forecast by DRI. The tax revenue estimates in Table 1 reflect current law and do not incorporate any of the law changes recommended by the Governor in the budget bill. The sections following these tables provide additional detail regarding the economic forecast and the new revenue estimates.

TABLE 1**Projected General Fund Tax Collections
(\$ in Millions)**

	<u>1999-01 Biennium</u>		<u>2001-03 Biennium</u>	
	<u>1999-00 Actual</u>	<u>2000-01 Estimated</u>	<u>2001-02 Estimated</u>	<u>2002-03 Estimated</u>
Individual Income	\$5,962.0	\$5,110.0	\$5,445.0	\$5,685.0
General Sales and Use	3,501.7	3,620.0	3,745.0	3,965.0
Corporate Income & Franchise	644.6	564.0	586.0	600.0
Public Utility	259.9	236.0	244.0	250.0
Excise				
Cigarettes	247.6	244.0	241.0	239.0
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	87.0	90.0	92.0
Estate	133.3	85.0	110.0	120.0
Miscellaneous Taxes	<u>55.6</u>	<u>54.1</u>	<u>56.6</u>	<u>60.3</u>
TOTAL	\$10,945.9	\$10,056.5	\$10,575.2	\$11,070.6
Change from Prior Year		-\$889.4	\$518.7	\$495.4
Percent Change		-8.1%	5.2%	4.7%

TABLE 2**Summary of National Economic Indicators
Standard and Poor's Data Resources, Inc.****May, 2001
(\$ in Billions)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Nominal Gross Domestic Product	\$9,963.1	\$10,404.8	\$10,876.9	\$11,510.7
Percent Change	7.1%	4.4%	4.5%	5.8%
Real Gross Domestic Product	\$9,318.5	\$9,505.1	\$9,734.9	\$10,120.4
Percent Change	5.0%	2.0%	2.4%	4.0%
Consumer Price Index	3.4%	3.3%	2.0%	1.6%
Personal Income	\$8,281.7	\$8,664.3	\$9,040.0	\$9,553.4
Percent Change	6.3%	4.6%	4.3%	5.7%
Personal Consumption Expenditures	\$6,757.3	\$7,118.4	\$7,467.6	\$7,890.6
Percent Change	7.8%	5.3%	4.9%	5.7%
Corporate Profits Before Tax	\$925.6	\$879.6	\$926.6	\$989.4
Percent Change	12.5	-5.0%	5.3%	6.8%
Unemployment Rate	4.0%	4.7%	5.6%	5.6%

National Economic Forecast

Like the January DRI forecast (which was used for the previous estimates), the May forecast anticipates continued positive economic growth through 2003. A recession is not forecast at this time. Gross domestic product (GDP) is estimated to grow at 4.4% in 2001, 4.5% in 2002 and 5.8% in 2003. Growth in real (inflation-adjusted) GDP is expected to be 2.0% in 2001, 2.4% in 2002 and 4.0% in 2003. While positive growth is anticipated, the expected rates of growth are significantly lower than has been experienced in recent years (GDP grew by 5.8% in 1999 and 7.1% in 2000). In addition, the May forecast is less favorable than the January forecast, which estimated GDP growth at 4.7% in 2001, 6.0% in 2002 and 6.6% in 2003.

Growth in personal income is projected at 4.6% in 2001, 4.3% in 2002 and 5.7% in 2003. The estimate for 2001 is almost the same as in the January forecast, while the projections for 2002 and 2003 are lower by 1.0% and 0.5%, respectively. Personal consumption expenditures are expected to increase by 5.3% in 2001, 4.9% in 2002 and 5.7% in 2003. The projection for 2001 is slightly higher than the January forecast, while the estimates for 2002 and 2003 are significantly lower (-1.0% and -0.6%). In addition, the new forecast anticipates that a greater share of spending will be for gasoline, which is not subject to the sales tax, with a smaller share spent on durable goods and other taxable items.

Following strong growth in 1999 and 2000 (8.5% and 12.5%), pre-tax corporate profits are expected to decline by 5.0% in 2001 and then grow by 5.3% in 2002 and 6.8% in 2003. These estimates are significant decreases from the January forecast. The reduction is 3.6% in 2001, 5.9% in 2002 and 0.1% in 2003.

Inflation is expected to remain relatively low, with the consumer price index at 3.3% in 2001, 2.0% in 2002 and 1.6% in 2003. The estimates for 2001 and 2002 are higher than the January forecast by 0.7% and 0.2%, respectively, while the 2003 estimate is 0.4% lower. Unemployment is expected to increase over the forecast period, from 4.0% in 2000 to 4.7% in 2001, and 5.6% in 2002 and 2003. The estimates for 2002 and 2003 are considerably higher than the January projections of 5.0% and 4.7%, respectively.

A number of factors contribute to the lower economic forecast. Employment dropped significantly in March and April, causing the unemployment rate to reach 4.5%. This rate is quite low by historical standards but is an increase over the 3.9% rate in the fall of 2000. These job losses, along with reduced household wealth due to the stock market's recent poor performance, are expected to cause continued declines in consumer confidence and decreased consumer spending. High gasoline prices are also expected to lead to reduced purchases of other goods and services. Business investment and profitability are also areas of weakness, particularly in the manufacturing and technology sectors, which are already believed to be in a recession. Weakness in overseas markets and a relatively strong dollar are also resulting in lower exports. Because the number of new workers is expected to exceed demand for employees in the near term, the unemployment rate is expected to increase to 5.6% in 2002 and 2003.

There are also some positive factors that are expected to prevent the overall economy from going into a recession (generally defined as at least two consecutive quarters of negative growth in real GDP). First, preliminary data indicates that real GDP growth in the first quarter of 2001 was 2.0%, which is slightly higher than DRI's estimate of 1.7% last January and significantly higher than more recent forecasts. Final sales also exceeded estimates in the first quarter and April. In addition, the housing market remains strong, which could help offset losses in household wealth from financial investments. Following recent increases, inflation is expected to moderate over the forecast period, with relatively high energy prices being offset by slow growth in wages. Finally, DRI believes that the stock market has bottomed out. Little net gain is anticipated over the next several months but improvement is expected later in 2001.

In addition to these positive developments, it is anticipated that monetary and fiscal policy will help prevent a recession. The forecast assumes that the Federal Reserve will decrease interest rates this month and again later this year. Specifically, it is expected that the federal funds rate will be reduced from 4.5% to 3.5% over the next several months. In terms of fiscal policy, a \$100 billion federal tax rebate is assumed in the second half of 2001, followed by permanent tax cuts beginning in 2002 totaling \$1.35 trillion over 10 years.

Although a recession is not predicted at this time, DRI believes that the odds of one occurring in 2001 or 2002 are close to even. As in the January forecast, the primary concern is that corporate earnings turn out to be weaker than expected, leading to further declines in the stock market and consumer confidence. This sequence of events, which DRI assigns a 40% probability, could result in a recession in 2001.

Revised General Fund Tax Estimates

Individual Income Tax. Individual income tax receipts are reestimated at \$5,110.0 million in 2000-01, \$5,445.0 million in 2001-02 and \$5,685.0 million in 2002-03. The revised figures are lower than the January projections by \$50.0 million in 2000-01, \$55.0 million in 2001-02 and \$135.0 million in 2002-03.

In January, we estimated that income tax collections would decrease in 2000-01 by 13.5% from the 1999-00 amount, primarily as a result of the income tax reductions enacted during the 1999-01 legislative session. The reestimate for 2000-01 is based on year-to-date collections and historical collection patterns. As of April, year-to-date income tax revenues have declined by 9.7% over last year (the year-to-date figure for 1999-00 has been adjusted to include April, 2000, withholding payments not recorded until May, 2000). Withholding collections are lower by 4.1% (after the same adjustment in withholding payments) and declaration payments are 4.5% higher. Tax refunds are 63.7% higher than at this time during the previous year. The increase in refunds is attributable to the fact that the withholding tables were not adjusted to reflect the lower tax rates until July 1, 2000, and to the reinstatement of the property tax/rent credit in 2000. Refunds and withholding payments made through August 15, 2001, that are attributable to the 2000-01 fiscal year will be included in 2000-01 collection totals. It is expected that the withholding and refund patterns evidenced to date will continue through the remainder of the fiscal year and result in a decrease in income tax revenues for 2000-01 of 14.3%.

The income tax estimates for the 2001-03 biennium have been reduced as a result of the lower estimate for 2000-01 and of changes in the forecast for personal income growth for 2003. The reestimates assume growth rates for individual income tax revenues of 6.6% and 4.4% in 2001-02 and 2002-03, respectively (in January, growth was projected at 6.6% in 2001-02 and 5.8% in 2002-03). The reduced growth rate in the second year is based on a decline in the May forecast for personal income growth.

Sales Tax. Through April, 2001, total sales tax collections had grown over year-to-date collections as of April, 2000, by 3.3%. Our estimate in January, 2001, was for an annual increase of 3.9% at the close of the fiscal year. At this time, based on the year-to-date collections and a reduced forecast of taxable consumption expenditures, we believe that sales tax revenues will be lower than our January estimates by \$20.0 million in 2000-01, by \$65.0 million in 2001-02 and by \$115.0 million in 2002-03. The revised estimates are \$3,620.0 million, \$3,745.0 million and \$3,965.0 million, respectively. The downward revisions reflect current predictions for slower growth extending further into the 2001-03 biennium than anticipated at the time of our January forecast.

Corporate Income and Franchise Tax. Corporate income and franchise tax collections are currently estimated to be \$150.0 million, or \$50.0 million a year from 2000-01 to 2002-03, lower than amounts forecast in January. Specifically, collections are now estimated to be \$564.0 million in 2000-01, \$586.0 million in 2001-02 and \$600.0 million in 2002-03. January estimates were \$614.0 million, \$636.0 million and \$650.0 million, respectively. The revised lower estimates reflect monthly collections which, through April, are almost 13% lower than collections for the same period in 1999-00. In addition, the economic forecast by DRI projects lower economic growth between 2001 and 2003 than was the case under the January, 2001, forecast. Corporate profits are expected to decrease 5.0% in 2001 and then gradually rebound but at lower levels than forecast in January. In addition, business investment is weak and the demand for computer and communications equipment has slumped. Business exports are also expected to decline over the next few years.

Estate Tax. Annual estate tax 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 January estimate assumed that estate tax revenues in 2000-01 would be 28.7% lower than the \$133.3 million collected in 1999-00. However, based on year-to-date collections, estate tax revenues are reestimated at \$85.0 million for 2000-01, which is a 36.2% decline from 1999-00. The estimates for 2001-03 have been reduced to \$110.0 million in 2001-02 and \$120.0 million in 2002-03. The reestimates for the three years are lower than the January figures by \$10.0 million in 2000-01 and \$5.0 million in each year of the 2001-03 biennium.

Excise Taxes. Through April, 2001, collections from the excise tax on cigarettes were down by approximately 1.65% relative to the year-to-date total in April, 2000, which is a larger decline than was anticipated in the January estimates. Based on this data, revenues from the cigarette tax are estimated to be lower than our January estimates by \$3.5 million in 2000-01, by \$4.7 million in 2001-02 and by \$6.2 million in 2002-03.

Collections from the other excise taxes -- those levied on liquor and wine, beer, and tobacco products -- are consistent with our January projections.

Other General Fund Taxes. Based on year-to-date revenues, public utility and insurance tax collections have been revised upward by \$3.0 million and \$2.0 million, respectively, in 2000-01. As collections from the other general fund taxes are consistent with our January projections, no changes are estimated over the three-year period for these taxes.

Condition of the 2001-03 General Fund

Table 3 identifies the condition of the state's 2001-03 general fund. The table contains the provisions of the Governor's 2001-03 budget (SB 55) with the following modifications:

- The revised tax collection estimates contained in this letter.
- Executive actions, to date, by the Joint Committee on Finance on the Governor's 2001-03 budget recommendations. To date, actions by the Committee have improved the general fund balance by \$24.0 million. Of that amount, \$22.4 million is attributable to votes by the Committee and \$1.6 million is contained within the list of items that the Committee's Co-chairs removed from the budget as policy items.

TABLE 3

**2001-03 General Fund Condition Statement
(\$ in Millions)**

	<u>2001-02</u>	<u>2002-03</u>
Revenues		
Opening Balance, July 1	\$165	-\$56
Estimated Taxes	10,610	11,125
Departmental Revenues		
Tobacco Settlement	153	155
Tobacco Securitization	350	0
Other	<u>180</u>	<u>184</u>
Total Available	\$11,458	\$11,408
Appropriations and Reserves		
Gross Appropriations	\$11,585	\$11,870
Compensation Reserves	28	83
Transfer to Tobacco Control Fund	12	21
Less Estimated Lapses	<u>-111</u>	<u>-115</u>
Net Appropriations	\$11,514	\$11,859
Balances		
Gross Balance	-\$56	-\$451
Less Required Statutory Balance	<u>-139</u>	<u>-143</u>
Net Balance, June 30	-\$195	-\$594

The purpose of Table 3 is to provide an indication of the status of the 2001-03 general fund at this point in the Finance Committee's budget deliberations. As shown, the 2001-03 budget reflects a projected general fund deficit of \$594 million at the end of the biennium. This figure assumes that the \$143 million statutory balance of SB 55 (1.2% of gross appropriations and compensation reserves) would be maintained.

On April 26, 2001, I prepared a memorandum which identified reestimates of some of the tax law changes, departmental revenues and appropriations of SB 55. Because the Finance Committee has not yet addressed these issues, they are not incorporated into Table 3.

We will continue to monitor tax collections data and economic developments and keep you apprised of any further modifications that may be necessary.

Sincerely,

A handwritten signature in black ink that reads "Bob". The letters are stylized and cursive.

Robert Wm. Lang
Director

RWL/sas
cc: Members, Wisconsin Legislature