



## STATE OF WISCONSIN

Notice of Listed **Material Event** #2001-09  
Dated August 28, 2001

Some of the bonds listed in this Notice (the "Bonds") **are subject to the requirements of SEC Rule 15c2-12(b)(5)** regarding an agreement to provide continuing disclosure. The following constitutes a listed material event as defined by the rule.

Issuer: State of Wisconsin  
Master Lease Certificates of Participation

Material Event: Rating Change—**Downgrade**


CUSIP Numbers: 977087 Prefix (All)

Summary: Moody's Investors Service has downgraded the rating on the State's master lease certificates of participation from Aa3 to A1. **Attached to this notice is a copy of the rating update issued by Moody's Investors Service.**

The current ratings for the State's Clean Water Revenue Bonds (rated Aa2 by Moody's Investors Service), Petroleum Inspection Fee Revenue Bonds (rated Aa3), and Transportation Revenue Bonds (rated Aa3) are unchanged by this action.

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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 <b>Moody's Investors Service</b>		<b>Global Credit Research</b>
		<b>Rating Update</b>
		28 AUG 2001

<b>Rating Update: <a href="#">Wisconsin (State of)</a></b>
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<b>MOODY'S DOWNGRADES STATE OF WISCONSIN GO'S TO Aa3 FROM Aa2</b>
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<p><b>About \$4.15 billion in Debt Affected</b></p> <p>State WI</p> <p><b>Opinion</b></p> <p>NEW YORK, Aug 28, 2001 -- Moody's has downgraded to Aa3 from Aa2 the State of Wisconsin's general obligation bond rating and revised the rating outlook from negative to stable. About \$4.07 billion of general obligation bonds are currently outstanding. This rating action is precipitated by the weakening of the state's financial condition due to persistent structural budget imbalance and disappointing revenue growth. These problems are exacerbated by the state's tradition of maintaining only narrow cash balances and reserves. The Aa3 rating incorporates the fundamental strength of Wisconsin's economy, as currently adversely affected by the national economic slowdown, and the state's medium, well-managed debt position.</p> <p>At this time, Moody's has also lowered the rating on the state's Master Lease Certificates of Participation outstanding in the amount of \$81 million to A1 from Aa3. The current ratings for the Clean Water Revenue Bonds (rated Aa2), the Petroleum Inspection Fee Revenue Bonds (rated Aa3) and the Transportation Revenue Bonds (rated Aa3) are unchanged by this action.</p> <p><b>TIGHT 2001-2003 BIENNIAL BUDGET RELIES ON TOBACCO BOND PROCEEDS AND OTHER ONE-SHOTS</b></p> <p>The biennial budget for fiscal 2001-03 is driven by significant spending pressures, primarily in three areas: the state's commitment to fund two-thirds of the cost of K-12 education (which absorbs 40% of the state's General Purpose Revenue spending), increased corrections costs, and the growing costs of the state's Medical Assistance program.</p>
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The budget is balanced through a number of actions, the bulk of which produce non-recurring resources. The largest of these is the securitization of Wisconsin's share of the national tobacco settlement. The adopted budget calls for using \$450 million to balance the 2002-03 budget and about \$156 million of annual tobacco payments in each of fiscal 2002 and 2003.

In addition, other non-recurring actions include reducing the required statutory balance by \$50 million, delaying a \$115 million school aid payment in June 2003, restructuring and refunding existing debt for debt service savings of \$75 million, increasing federal Medicaid reimbursements under the IGT (Intergovernmental Transfer program) of \$132 million and other actions.

The governor is presently considering vetoes of several legislatively enacted revenue and expenditure items in the budget and is expected to announce those actions shortly. The governor in the state of Wisconsin has very strong veto powers and extensive ability to exercise budgetary controls over the adopted budget. While these actions are expected to help to reduce the structural imbalance caused by the extensive use of one time revenue and expenditure actions, Moody's expects the resulting structural deficit to still be significant, creating budget gaps that will need to be addressed in future years.

#### HISTORICAL BUDGET PRACTICES MAKE WISCONSIN SITUATION MORE SEVERE THAN IN OTHER STATES

While many states with manufacturing-based economies have experienced recent revenue weakness, the situation in Wisconsin is more acute because of the state's traditional policies of maintaining minimal reserves and paying relatively little planning attention to recurring spending commitments. Under current law, Wisconsin is required only to maintain a budget balance of 1.4% of appropriations, now reduced in this budget to \$90 million or 0.8%, a level that provides little fiscal cushion. In addition, most other states have a funded "Rainy Day" reserve to help weather various fiscal emergencies.

The governor has proposed and the legislature has enacted a new Budget Stabilization Fund that would allocate half of any future unanticipated revenues to the fund until it reached 5% of General Fund expenditures. However, no funds are currently appropriated to the fund and given the current condition of the state's general fund, are not likely to be allocated in the current biennium.

#### LARGE PLANNED SEASONAL BORROWING REFLECTS BUDGET STRESS AND NARROW RESERVES

Although seasonal borrowings were unnecessary in 1999 and 2000, the state plans to issue a large \$800 million operating note in September. The state's strong cash position during 1999 and 2000 has been eroded by revenue weakness and the budgeted use of non-recurring revenue. Wisconsin is one of only a handful of states that remains dependent on operating notes to correct for timing imbalances in its cash receipts and disbursements (primarily to localities, which are due mostly in the beginning of the fiscal year).

The operating notes of \$800 million fiscal 2002 will be the largest such note offerings

the state has made in absolute terms, although relative to general fund spending, several issues in the 1980s were proportionately larger. These swings in Wisconsin's cash needs demonstrate how the state's budgetary practices make it more vulnerable than most states to economic cycles.

#### GAAP DEFICIT LIKELY TO INCREASE

Another indication of Wisconsin's relatively weak financial condition is its GAAP deficit, which at the end of fiscal 2000 stood at \$830 million. Wisconsin has maintained a GAAP deficit since it converted to GAAP accounting in 1990. While the deficit had been trending down from a high of nearly \$1.8 billion in 1997, it is likely to grow substantially as a result of the budget actions adopted.

The establishment of an permanent endowment fund for future tobacco settlement revenues provides some additional future fiscal flexibility. The endowment fund will provide an annual source of revenue to the general fund (8.5% of market value of the fund) but the corpus also could be made available to meet future budgetary needs.

#### DEBT POSITION MODERATE

Wisconsin's tax-supported debt, comprised of general obligations, two dedicated revenue bond programs (transportation and PECFA), and some lease debt, poses a medium burden. Moody's 2001 State Debt Medians report shows Wisconsin ranked 13th among states, with a tax-supported debt per capita of \$859, compared to the state median of \$541. Debt service as a percent of general fund revenue is a moderate 3.4% and is expected to remain in that range.

#### WISCONSIN ECONOMY SLOWING WITH THE NATION'S

Wisconsin's economy, which outpaced the national economy during the 1990s, has slowed with the national economy. Indications of the slowdown are apparent both in unemployment rates and employment levels. The rising state unemployment rate is a reversal from previous concerns about labor shortages as a growth constraint. The Wisconsin annual rate in 2000 rose to 3.5%, still lower than the national rate of 4.0%, but higher than the 1999 rate of 3.0%. More recently, Wisconsin's July 2001 rate was 4.4%, down from the February rate of 5.1%. The July 2001 rate was slightly lower than the U.S. rate of 4.5%.

Non-farm employment grew at a slightly slower rate than the nation in 2000, continuing a pattern present since 1996. With employment growing 1.8% in 2000, Wisconsin's slowdown in employment growth seems to be approximating the national slowdown (U.S. nonfarm employment grew 2.0% in 2000). Most recently, as of July, Wisconsin showed no growth (0%) over the previous 12 months.

The healthy economic growth that Wisconsin experienced in the 1990s, despite labor constraints, reflected the restructuring and productivity improvement of manufacturing that began in the 1980s, along with a resumption of population growth bolstered by modest net migration from other states. Wisconsin employment grew 26.7% from 1990-00, compared to 21.8% growth nationally, although growth slowed in the second half of the decade. Unlike many states and the U.S. overall, total manufacturing jobs actually grew in Wisconsin during the 1990s, although declined

slightly in 1999 and 2000.

While not keeping pace with the state's total job growth (manufacturing was 22.1% of the state's job base in 2000 compared to nearly 25% when the decade began), the percentage of manufacturing jobs is still far above the national average of 14.0%. The national economic slowdown has primarily affected manufacturing dependent states and explains much of the revenue weakness that the state has experienced.

### **Outlook**

The outlook for the state of Wisconsin's General Obligation bonds is stable. Together with other one-shot items, the cash infusion of tobacco securitization receipts is expected to provide short-term financial resources during which the state can realign its revenues and expenditures. Initial steps towards this restructuring are called for in the enacted budget. However, structural problems are likely to persist into the next biennium, beginning July 1, 2003, and these could be compounded if economic weakness is more pronounced or prolonged than expected. In the longer term, financial reforms included in the enacted 2002-03 budget offer the prospects for building a firmer fiscal footing once stronger economic growth resumes.

### **KEY STATISTICS:**

2001 July unemployment rate: WI 4.5%

US 4.5%

1999 WI per capita personal income as percent of US: 96%

% change in population 1990-2000: WI 9.6%

US 13.2%

WI fiscal 2000 GAAP deficit: \$830 million

WI debt per capita: \$859

State median: \$541

WI rank among states: 13

WI debt as percent of personal income: 3.2%

State median: 2.1%

WI rank among states: 15

(Debt information is from Moody's 2001 Debt Medians report.)

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