



## STATE OF WISCONSIN

Notice of Listed **Material Information** #2002-02  
Dated January 24, 2002

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 General Obligation Bonds
- CUSIP Numbers:** 977053, 977055 and 977056 Prefix (All)
- Summary:** Standard & Poor's has placed the State of Wisconsin general obligation 'AA' rating on CreditWatch with negative implications. Attached is a **press release issued by Standard & Poor's Ratings Group.**
- Note:** The attached press release from Standard & Poor's Ratings Group does not mention the State of Wisconsin Master Lease Certificates of Participation (Base CUSIP 977087). Prior comment from Standard & Poor's indicates a view that the credit rating of the Master Lease Certificates of Participation is closely linked to the State of Wisconsin's general obligation credit rating.

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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## Research:

# Wisconsin 'AA' GO Rtg Placed On Watch Neg; Large Drop in Tax Rev Expected, Budg Reworking Needed

Publication Date: 24-Jan-2002

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CHICAGO (Standard & Poor's) Jan. 24, 2002—Standard & Poor's today placed Wisconsin's double-'A' GO rating on CreditWatch with negative implications following the state's announcement on Jan. 16, 2002, that tax revenues are expected to drop by as much as \$1.04 billion below amounts assumed in its 2001-2003 biennium budget, necessitating a drastic reworking of the budget. If corrective measures are not implemented on a timely basis, the budgetary fund balance is projected to fall to negative \$126 million by fiscal year-end 2002 and negative \$975 million by fiscal year-end 2003. If the state's contemplated budget reform measures are not successful in the short run, the state's rating is likely to be downgraded.

On Jan. 22, in response to the 2002-2003 revenue revisions, Gov. Scott McCallum submitted a budget reform bill to the state Legislature that called for additional cuts in the biennium budget, which will need legislative approval. There are no broad-based tax or revenue increases included in the budget reform bill. Key elements of Gov. McCallum's proposed changes to the remainder of the 2001-2003 biennium budget include the following:

- There will be funding cuts to most state agency budgets of 3.5% in 2002 and 5.0% in 2003;
- Funding cuts will be implemented for the University of Wisconsin school system in the amount of 1.0% in 2002 and 4.5% in 2003;
- There will be a phasing out of revenue sharing to cities and counties through fiscal 2004 totaling about \$1 billion per year.
- The state will use \$594 million in proceeds from anticipated tobacco securitization bonds to partially offset shared revenue payments to cities and counties in fiscals 2003 and 2004; another \$200 million of proceeds will be used to defease GO debt, replacing a like amount in general fund spending in fiscals 2002 or 2003; \$450 million of proceeds has already been budgeted for 2002. The state will take steps to repay this additional amount to the tobacco endowment fund starting in fiscal 2005.

State school aid, which provides two-thirds of school district funding, will not be cut as part of Gov. McCallum's budget reform proposal, and tax increases will not be contemplated. Gov. McCallum's announced goal is to make sufficient adjustments to the budget to maintain a general fund balance of at least 1.2%. Legislative approval of many key elements of the budget reform plan will be challenging.

The recently announced revenue shortfall places tremendous pressure on an already tight fiscal situation. As adopted by the state Legislature in August 2001, and incorporating Gov. McCallum's vetoes, the budgeted ending general fund budgetary balance for June 30, 2003, was \$142.4 million--a significant drop from the \$208 million fiscal year ending June 30, 2001, budgetary balance and barely above the state's statutory 1.2% minimum fund balance. The state now projects that its ending 2003 general fund balance will drop to negative \$975 million in the absence of

major changes to the 2001-2003 biennium budget.

Tax revenue collections for the first six months of fiscal 2002 through December 2001 are just 0.7% above actual collections for the prior year. Although sales tax collections are up 8% compared to the first six months of fiscal 2001, individual income tax receipts are down 3% and corporate franchise and income taxes are down 19%. The state's individual income tax receipts are being negatively affected by the rise in the state's unemployment rate from an average of 3.3% in 2000 to an average of 4.3% for the first nine months of 2001. The 2002 budget was founded on the assumption that total tax revenues would increase 5.8% for the year.

Gov. McCallum's response to lower-than-expected tax revenues comes on top of his December 2001 announcement of a hiring freeze and a number of budget cuts that are expected to trim \$151 million from 2002 spending and \$409 million from 2003 spending.



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