

**OFFICIAL STATEMENT**

New Issue

*This Official Statement provides information on the Bonds. Some of the information appears on this cover page for ready reference. A prospective investor should read the entire Official Statement to make an informed investment decision.*

**\$13,740,000**

**STATE OF WISCONSIN**

**GENERAL OBLIGATION REFUNDING BONDS OF 2003, SERIES 2**

**Dated: April 1, 2003**

**Due: May 1 as shown below**

**Ratings—See pages 6-7**

Based on	Underlying	
<u>MBIA Insurance</u>	<u>Rating</u>	
AAA	AA	Fitch Ratings
Aaa	Aa3	Moody's Investors Service, Inc.
AAA	AA-	Standard & Poor's Ratings Services

**Tax Exemption** Interest on the Bonds is excluded from gross income and is not included as an item of tax preference for federal income tax purposes. Interest on the Bonds is subject to State of Wisconsin income and franchise taxes—*See pages 15-17.*

**Redemption** Bonds maturing on or after May 1, 2014 are callable at par at any time on or after May 1, 2013—*See page 2.*

Bonds maturing May 1, 2024 are subject to mandatory sinking fund redemption at par—*See pages 2-3.*

Bonds are subject to special redemption at par—*See pages 3-5.*

**Security** General obligations of the State of Wisconsin—*See page 2.*

**Insurance** The scheduled payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy that is being issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds—*Pages 12-14.*



**Purpose** Proceeds are being used for the replacement refunding of certain general obligation bonds previously issued to fund veterans housing loans—*See page 2.*

**Interest Payment Dates** May 1 and November 1, commencing November 1, 2003

**Closing/Settlement** On or about April 14, 2003

**Denominations** \$5,000

**Bond Counsel** Foley & Lardner

**Registrar/Paying Agent** State Treasurer

**Issuer Contact** Wisconsin Capital Finance Office—(608) 266-2305; [capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

**Book-Entry-Only Form** The Depository Trust Company—*See pages 7-8.*

**Annual Report** This Official Statement incorporates by reference **Parts I, II, and III of the State of Wisconsin Continuing Disclosure Annual Report**, dated December 23, 2002.

The prices and yields listed below were determined on April 1, 2003 at a negotiated sale. The Bonds were purchased at an aggregate purchase price of \$13,556,535.75, less an amount the Underwriters will retain to pay for the premium on the financial guaranty insurance policy.

CUSIP	Year (May 1)	Principal Amount	Interest Rate	Yield at Issuance	Price at Issuance	First Optional Redemption Date	Call Price
977056 4M9	2007	\$ 545,000	2.45%	2.45%	100.000%	Not Callable	-
977056 4N7	2008	565,000	2.85	2.85	100.000	Not Callable	-
977056 4P2	2009	575,000	3.20	3.20	100.000	Not Callable	-
977056 4Q0	2010	595,000	3.50	3.50	100.000	Not Callable	-
977056 4R8	2011	620,000	3.80	3.80	100.000	Not Callable	-
977056 4S6	2012	640,000	3.95	3.95	100.000	Not Callable	-
977056 4T4	2013	665,000	4.00	4.05	99.588	Not Callable	-
977056 4U1	2014	695,000	4.05	4.15	99.119	5/1/2013	100%
977056 4V9	2015	720,000	4.15	4.25	99.062	5/1/2013	100
977056 4W7	2016	750,000	4.25	4.35	99.010	5/1/2013	100
977056 4X5	2017	785,000	4.35	4.45	98.961	5/1/2013	100
977056 4Y3	2018	815,000	4.50	4.60	98.920	5/1/2013	100
977056 4Z0	2019	855,000	4.60	4.70	98.879	5/1/2013	100
977056 5A4	2020	890,000	4.65	4.75	98.838	5/1/2013	100
977056 5B2	2021	935,000	4.80	4.90	98.808	5/1/2013	100
977056 5C0	2024 <sup>(a)</sup>	3,090,000	5.00	5.00	100.000	5/1/2013	100

(Accrued Interest To Be Added)

**ROBERT W. BAIRD & CO.**

**LOOP CAPITAL MARKETS, LLC**

April 3, 2003

<sup>(a)</sup> This maturity is a term bond. For a schedule of the mandatory sinking fund redemption payments, see “**THE BONDS; Redemption Provisions; Mandatory Sinking Fund Redemption**” herein.

This document is the “official” statement—that is, it contains the only authorized information about the offering of the Bonds. This document isn’t an offer or solicitation for the Bonds, and no unlawful offer, solicitation, or sale may occur through the use of this document or otherwise. This document isn’t a contract, and it provides no investment advice. Prospective investors should consult their advisors and legal counsel with questions about this document, the Bonds, and anything else related to the offering.

The purpose of this document is to provide prospective investors with information that may be important in making an investment decision. It may not be used for any other purpose without the State’s permission. The State is the author of this document and is responsible for its accuracy and completeness. The Underwriters are not the authors of this document. In accordance with their responsibilities under federal securities laws, the Underwriters are required to review the information in this document and must have a reasonable basis for their belief in the accuracy and completeness of its key representations.

The estimates, forecasts, projections, and opinions in this document aren’t hard facts, and no one guarantees them. Some of the people who prepared, compiled, or reviewed this information had specific functions that covered some aspects of the offering but not others. For example, financial staff focused on quantitative financial information, and legal counsel focused on specific documents or legal issues assigned to them.

No dealer, broker, sales representative, or other person has been authorized to give any information or to make any representations about the Bonds other than what is in this document. The information and expressions of opinion in this document may change without notice. Neither the delivery of this document nor any sale of the Bonds implies that there has been no change in the other matters contained in this document since its date. Material referred to in this document is not part of this document unless expressly included.

In connection with the offering of the bonds being purchased by the Underwriters, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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# STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF THE BONDS

## BUILDING COMMISSION MEMBERS

<b>Voting Members</b>	<b>Term of Office Expires</b>
Governor Jim Doyle, Chairperson	January 8, 2007
Senator Fred A. Risser, Vice-Chairperson	January 3, 2005
Senator Robert Cowles	January 3, 2005
Senator Carol Roessler	January 3, 2005
Representative Jeffrey Plale	January 3, 2005
Representative Daniel Vrakas	January 3, 2005
Representative Jeff Fitzgerald	January 3, 2005
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
<b>Nonvoting, Advisory Members</b>	
Mr. Marc J. Marotta, Secretary Department of Administration	At the pleasure of the Governor
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	—
Mr. Dave Haley, State Chief Architect Department of Administration	—
<b>Building Commission Secretary</b>	
Mr. Robert G. Cramer, Administrator Division of Facilities Development Department of Administration	At the pleasure of the Building Commission and Secretary of Administration

## OTHER PARTICIPANTS

Mr. Jack C. Voight State Treasurer	January 8, 2007
Ms. Peggy A. Lautenschlager State Attorney General	January 8, 2007

## DEBT MANAGEMENT AND DISCLOSURE

Department of Administration  
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## SUMMARY DESCRIPTION OF BONDS

*Selected information is presented on this page for the convenience of the reader. A prospective investor should read the entire Official Statement to make an informed investment decision.*

Description:	State of Wisconsin General Obligation Refunding Bonds of 2003, Series 2
Principal Amount:	\$13,740,000
Denominations:	\$5,000 and integral multiples
Date of Issue:	April 1, 2003
Record Date:	April 15 and October 15
Interest Payment:	May 1 and November 1, commencing November 1, 2003
Maturities:	May 1, 2007-2021, 2024— <i>See cover</i>
Redemption:	<i>Optional</i> — Bonds maturing on or after May 1, 2014 are callable at par (100%) at anytime on or after May 1, 2013— <i>See page 2</i> <i>Sinking Fund</i> — Bonds maturing on May 1, 2024 are subject to mandatory sinking fund redemption at par— <i>See page 3</i> <i>Special</i> — Bonds are subject to special redemption at par— <i>See pages 3-5</i>
Form:	Book entry only— <i>See pages 7-8</i>
Paying Agent:	All payments of principal and interest on the Bonds will be paid by the State Treasurer. All payments will be made to The Depository Trust Company, which will distribute payments to Beneficial Owners as described herein.
Security:	The Bonds are general obligations. As of December 1, 2002, there were \$4,386,223,967 of outstanding general obligations of the State.
Insurance	The scheduled payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy that is being issued by MBIA simultaneously with the delivery of the Bonds— <i>See pages 12-14.</i>
Authority for Issuance:	The Bonds are issued under Article VIII of the Wisconsin Constitution and Chapters 18, 20, and 45 of the Wisconsin Statutes.
Purpose:	The proceeds of the Bonds will be used for the replacement refunding of certain general obligation bonds previously issued to fund veterans housing loans.
Additional General Obligation Debt:	The State may issue additional general obligation debt.
Legality of Investment:	State law provides that the Bonds are legal investments for all banks, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, credit unions, investment companies, and other persons or entities carrying on a banking business; for all executors, administrators, guardians, trustees, and other fiduciaries; and for the State and all public officers, municipal corporations, political subdivisions, and public bodies.
Tax Exemption:	Interest on the Bonds is not included in gross income and not an item of tax preference for federal income tax purposes— <i>See pages 15-17.</i> Interest on the Bonds is subject to State of Wisconsin income and franchise taxes— <i>See page 17.</i>
Legal Opinion:	Validity and tax opinion to be provided by Foley & Lardner— <i>See APPENDIX B</i>

**OFFICIAL STATEMENT**  
**\$13,740,000**  
**STATE OF WISCONSIN**  
**GENERAL OBLIGATION REFUNDING BONDS OF 2003, SERIES 2**

**INTRODUCTION**

This Official Statement sets forth information concerning the \$13,740,000 General Obligation Refunding Bonds of 2003, Series 2 (**Bonds**) issued by the State of Wisconsin (**State**). This Official Statement includes by reference Parts I, II, and III of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2002 (**2002 Annual Report**).

The Bonds are authorized under the Wisconsin Constitution and the Wisconsin Statutes as well as authorizing resolutions that the State of Wisconsin Building Commission (**Commission**) adopted on September 18, 2002 and February 27, 2003.

The Commission, an agency of the State, is empowered by law to authorize, issue, and sell all the State's general obligations. The Commission is assisted and staffed by the State of Wisconsin Department of Administration (**Department of Administration**).

The Commission has authorized the Department of Administration to prepare this Official Statement. This Official Statement contains information furnished by the State or obtained from the sources indicated.

**THE STATE**

The State is located in the Midwest among the northernmost tier of states. The State ranks 18th among the states in population and 26th in land area. Wisconsin attained statehood in 1848, its capital is Madison, and its largest city is Milwaukee.

Information concerning the State, its financial condition, and its general obligation debt is included as **APPENDIX A**, which includes by reference Part II and Part III of the 2002 Annual Report. **APPENDIX A** also includes information on the following:

- Projected ending condition of the general fund for the 2002-03 fiscal year.
- Budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1).
- Estimated tax collections for the 2003-04 and 2004-05 fiscal years, as released on January 23, 2003 in a memorandum from the Legislative Fiscal Bureau.
- Governor's proposed budget for the 2003-05 biennium (2003 Senate Bill 44).

Requests for additional information about the State may be directed to.

*Contact:* Capital Finance Office  
*Attn:* Capital Finance Director  
*Phone:* (608) 266-2305  
*Mail:* 101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
*E-mail:* [capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

## PLAN OF REFUNDING

The Bonds are being issued for the replacement refunding on May 1, 2003 of certain maturities of tax-exempt general obligation bonds (**Refunded Bonds**) that mature on that date and were previously issued to fund loans to veterans under the State's veterans housing loan program. The proceeds of the Bonds will replace moneys on hand in the Veterans Mortgage Loan Repayment Fund for payment on May 1, 2003 for the Refunded Bonds. This will allow moneys on hand and attributable to these Refunded Bonds to be used to fund future veterans housing loans to veterans, regardless of whether they are "qualified veterans" under federal tax law. As a result of the issuance of the Bonds and other funds on hand, approximately \$14 million will be made available to originate veterans housing loans.

## THE BONDS

### General

The **front cover of this Official Statement** sets forth the maturity dates, amounts, and interest rates for the Bonds.

The Bonds will be dated April 1, 2003 and will bear interest from that date payable on May 1 and November 1 of each year, beginning on November 1, 2003.

Interest on the Bonds will be computed on the basis of a 30-day month and a 360-day year. Payments of principal and interest for each Bond will be paid to the registered owner of the Bonds, which initially will be a nominee of The Depository Trust Company, New York, New York (**DTC**). See "**THE BONDS; Book-Entry-Only Form**".

The Bonds are issued as fully registered bonds without coupons in principal denominations of \$5,000 or multiples of \$5,000.

### Security

The Bonds are direct and general obligations of the State. The full faith, credit, and taxing power of the State are irrevocably pledged to make principal and interest payments on the Bonds. There has been irrevocably appropriated, as a first charge upon all revenues of the State, a sum sufficient for the payment of the principal of and interest on the Bonds as the Bonds mature and become due. The Bonds are secured equally with all other outstanding general obligations issued by the State. The scheduled payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy that is being issued by MBIA Insurance Corporation (**MBIA**) simultaneously with the delivery of the Bonds. See "**OTHER INFORMATION; The MBIA Insurance Corporation Insurance Policy**".

### Redemption Provisions

#### *Optional Redemption*

The Bonds are subject to optional redemption before their maturity date. The Bonds maturing on or after May 1, 2014 may be redeemed on or any date after May 1, 2013, in whole or in part in multiples of \$5,000, at a redemption price equal to par (100%) plus accrued interest to the redemption date. The Commission may decide whether to redeem Bonds, and it may direct the amounts and maturities of the Bonds to be redeemed.

#### *Mandatory Sinking Fund Redemption*

The Bonds due on May 1, 2024 (**2024 Term Bonds**) are subject to redemption before their maturity date at a redemption price equal to par (100%) of the principal amount to be redeemed, plus accrued interest to the date of redemption, from mandatory sinking fund installments that are

required to be made in amounts sufficient to redeem on May 1 of each year the respective amount of the 2024 Term Bonds specified below:

<b>Redemption Date (May 1)</b>	<b>Principal Amount</b>
2022	\$ 980,000
2023	1,030,000
2024 <sup>(a)</sup>	1,080,000

<sup>(a)</sup> Stated maturity

Optional or special redemption (or the purchase in lieu thereof) of the 2024 Term Bonds, for which sinking fund installments have been established shall be applied to reduce the sinking fund installments established for the respective Term Bonds so redeemed or purchased in such manner as the Commission shall direct.

*Special Redemption*

The Bonds are subject to special redemption prior to maturity, at the option of the Commission, on any date, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, from:

- Prepayments of veterans housing loans funded from or attributed to *any* series of tax-exempt general obligation bonds issued to fund loans to veterans under the veterans housing loan program (**Tax-Exempt Veterans Mortgage Bonds**).
- Payments on veterans housing loans, interest or income on investments in certain accounts, or money available from the Insurance Reserve Account, in excess of amounts required to meet scheduled debt service on all Tax-Exempt Veterans Mortgage Bonds and other costs associated with the veterans housing loan program.

These special redemption provisions are commonly referred to as a “cross-call”. In the event of a partial redemption, the Commission shall direct the maturities of the Bonds and the amounts thereof so to be redeemed.

Prepayments of mortgages originated with or attributed to any series of taxable general obligations issued primarily to fund loans to veterans who are not “qualified veterans” under federal tax law (**Taxable Veterans Mortgage Bonds**) shall not be used for special redemption of Tax-Exempt Veterans Mortgage Bonds, and prepayments of mortgages originated with or attributed to any series of Tax-Exempt Veterans Mortgage Bonds shall not be used for special redemption of Taxable Veterans Mortgage Bonds.

The State had outstanding, as of March 1, 2003, approximately \$333 million of Tax-Exempt Veterans Mortgage Bonds. All of the outstanding Tax-Exempt Veterans Mortgage Bonds are subject to the special redemption outlined above. **Table 1** presents information about the outstanding Tax-Exempt Veterans Mortgage Bonds that are subject to special redemption. The amount of outstanding Tax-Exempt Veterans Mortgage Bonds in Table 1 does include the Refunded Bonds.

**Table 1**  
**Summary of Outstanding Tax-Exempt Veterans Mortgage Bonds**  
**Subject to Special Redemption**  
**March 1, 2003**

<u>Series</u>	<u>Dated Date</u>	<u>Original Principal Amount Subject to Special Redemption</u>	<u>Outstanding Principal Amount Subject to Special Redemption</u>	<u>Range of Interest Rates on Outstanding Bonds</u>
1992 Series B	06/01/92	\$ 29,850,000	\$ 7,100,000	6.20–6.60%
1993 Series 6	10/15/93	20,000,000	14,075,000	4.55–5.30
1993 Series 5	12/01/93	135,255,000	98,020,000	4.55–5.40
1994 Series 2	03/01/94	58,525,000	23,820,000	5.30–6.20
1994 Series 3	09/15/94	10,400,000	2,520,000	5.30–5.80
1994 Series C	09/15/94	45,000,000	3,640,000	5.70–6.65
1995 Series 1	02/15/95	15,735,000	4,690,000	5.55–6.10
1995 Series B	02/15/95	29,265,000	8,060,000	6.50
1995 Series 2	10/15/95	42,850,000	31,670,000	5.20–5.75
1996 Series B	05/15/96	45,000,000	19,370,000	5.70–6.20
1996 Series D	10/15/96	30,000,000	16,405,000	5.75–6.00
1997 Series A	03/15/97	21,360,000	11,625,000	6.00
1997 Series 1	03/15/97	23,640,000	12,830,000	5.50–5.75
1997 Series C	09/15/97	45,000,000	38,700,000	4.50–5.50
1998 Series B	05/15/98	30,565,000	26,570,000	4.75–5.35
1998 Series E	10/15/98	6,155,000	5,270,000	4.60–4.80
1999 Series 1	05/01/99	15,790,000	8,945,000	4.70–5.30
			<u>\$333,310,000</u>	

In addition, the State recently completed a special redemption for some Tax-Exempt Veterans Mortgage Bonds on April 1, 2003. Table 2 includes a summary of this April 1, 2003 special redemption.

**Table 2**  
**April 1, 2003 Special Redemption**  
**Tax-Exempt Veterans Mortgage Bonds**

<u>Bond Issue</u>	<u>Maturity Date</u>	<u>Coupon</u>	<u>Redemption Amount</u>
1995 Series 1	2011	6.00%	\$ 560,000
	2012	6.00	325,000
1995 Series 2	2007	5.20	475,000
	2008	5.25	3,125,000
	2009	5.40	410,000
1995 Series B	2025	6.50	980,000
1996 Series B	2009	5.70	950,000
	2010	5.80	145,000
	2011	5.90	155,000
	2012	6.00	165,000
	2013	6.00	175,000
	2021	6.10	1,645,000
1996 Series D	2014	5.75	905,000
	2020	5.80	1,690,000



<u>Bond Issue</u>	<u>Maturity Date</u>	<u>Coupon</u>	<u>Redemption Amount</u>
1997 Series 1	2011	5.50	400,000
	2012	5.50	1,175,000
1997 Series A	2021	6.00	1,480,000
	2028	6.00	<u>415,000</u>
	Total:		<u>\$15,175,000</u>

The State has historically received, and expects to continue to receive, prepayments of veterans housing loans funded with Tax-Exempt Veterans Mortgage Bonds. The State may use, and has from time to time used, veterans housing loan prepayments to make new veterans housing loans. If the State determines that it is not feasible to make new veterans housing loans, the State intends to use these prepayments to purchase or redeem Tax-Exempt Veterans Mortgage Bonds as determined by the Commission.

Prior to calendar year 2002, it had been the working policy of the Department of Administration, on behalf of the Commission, to call Tax-Exempt Veterans Mortgage Bonds for special redemption based on the highest estimated market price, while taking into consideration the Legislature’s mandate that the veterans primary mortgage housing loan program be self-amortizing. Throughout calendar year 2002 and as of the date of this Official Statement, this working policy has been under review by the Department of Administration to determine the impact special redemption cross-calls have on both the cash flow that supports all Veterans Mortgage Bonds and the federal tax law restrictions imposed by the universal cap requirements. This special redemption working policy continues to be modified from time to time and subject to change at any time.

*Selection of Bonds*

If less than all the Bonds of a particular maturity are to be redeemed, the selection of Bonds to be redeemed depends on whether the Bonds are in book-entry-only form or are in certificated form. See “**THE BONDS; Book-Entry-Only Form**”. If the Bonds are in book-entry-only form, selection of the beneficial owners affected by the redemption will be made by the securities depository and its participants in accordance with their rules. If the Bonds are not in book-entry-only form, selection will be by lot.

*Notice of Redemption*

If the Bonds are in book-entry-only form, any redemption notice will be sent to the securities depository between 30 and 45 days before the redemption date. A redemption notice may be revoked by sending notice to the securities depository at least 15 days before the proposed redemption date.

If the Bonds are not in book-entry-only form, any redemption notice will be published between 30 and 45 days before the date of redemption in a financial newspaper published or circulated in New York, New York. The notice will also be mailed, postage prepaid, between 30 and 45 days before the redemption date to the registered owners of any Bonds to be redeemed. The mailing, however, will not be a condition to the redemption; any proceedings to redeem the Bonds will still be effective even if the notice is not given. A redemption notice may be revoked by publication of a notice at least 15 days before the proposed redemption date in a financial newspaper published or circulated in New York, New York. The revocation notice will also be mailed, postage prepaid, at least 15 days before the proposed redemption date to the registered owners of any Bonds to have been redeemed. The mailing, however, will not be a condition to the revocation; the revocation will still be effective even if the notice is not given.

Interest on any Bond called for redemption will cease to accrue on the redemption date so long as the Bond is paid or money is provided for its payment.

**Registration and Payment of Bonds**

How the Bonds are paid depends on whether or not they are in book-entry-only form.

If the Bonds are in book-entry-only form, payment of principal will be made by wire transfer to the securities depository or its nominee upon the presentation and surrender of the Bonds at the principal office of the Paying Agent—which is the State Treasurer. Payment of interest will be made by wire transfer to the securities depository or its nominee on the payment date.

If the Bonds are not in book-entry-only form, payment of principal will be made by check or draft issued upon the presentation and surrender of the Bonds at the principal office of the Paying Agent, as designated by the Commission. Payment of interest due on the Bonds will be made by check or draft mailed to the registered owner shown in the registration book at the close of business on the 15th day (whether or not a business day) of the calendar month before the interest payment date (**Record Date**).

**Sources and Uses of Funds**

The proceeds from the sale of the Bonds, not including accrued interest, are expected to be used as follows:

Sources

Principal Amount of the Bonds .....	\$ 13,740,000.00
Other Amounts Available to the State .....	225,464.25
Original Issue Discount .....	(71,071.05)
<b>TOTAL SOURCES.....</b>	<b>\$ 13,894,393.20</b>

Uses

Deposit to Bond Security and Redemption Fund .....	\$ 13,740,000.00
Premium on Financial Guarantee Insurance Policy.....	42,000.00
Underwriters’ Discount .....	112,393.20
<b>TOTAL USES.....</b>	<b>\$ 13,894,393.20</b>

**Ratings**

At the State’s request, several rating agencies have rated the Bonds with the understanding that a financial guaranty insurance policy insuring the scheduled payment of principal of and interest on the Bonds is being issued by MBIA simultaneously with the delivery of the Bonds:

<u>Rating</u>	<u>Rating Agency</u>
AAA	Fitch Ratings
Aaa	Moody’s Investors Service, Inc.
AAA	Standard & Poor’s Ratings Services

In addition, at the State’s request, several rating agencies have assigned an underlying rating to the Bonds:

<u>Rating</u>	<u>Rating Agency</u>
AA	Fitch Ratings <sup>(1)</sup>
Aa3	Moody’s Investors Service, Inc. <sup>(2)</sup>
AA-	Standard & Poor’s Ratings Services

(1) On March 26, 2003, Fitch Ratings placed the rating on the State's general obligations on "rating watch negative".

(2) On March 4, 2002, Moody's Investors Service, Inc. revised the rating outlook on the State's general obligations from "stable" to "negative".

Any explanation of what a rating means may only be obtained from the rating service giving the rating. No one can offer any assurance that a rating given to the Bonds will be maintained for any period of time; a rating agency may lower or withdraw the rating it gives if in its judgment circumstances so warrant. Any downgrade or withdrawal of a rating may adversely affect the market price of the Bonds.

### **Book-Entry-Only Form**

DTC will act as securities depository for the Bonds. The State Treasurer will register all Bonds in the name of Cede & Co. (DTC's partnership nominee). DTC will receive one registered certificate for each maturity.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the same law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). The rules applicable to DTC and its Direct and Indirect Participants—that is, Participants—are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To make the system work more smoothly, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. This doesn't affect the beneficial ownership of any Bond. DTC has no idea who the Beneficial Owners of the Bonds are; its records show only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as Cede & Co. is the registered owner of the Bonds as nominee for DTC, references to the Bond owners means Cede & Co. and not the Beneficial Owners.

Notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any legal requirements.

The State will send redemption notices to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants.

The State will make payments on the Bonds to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of the Participant and not of the State or DTC, subject to any legal requirements. The State is responsible for sending payments to DTC. DTC is responsible for disbursing those payments to Direct Participants. Both Direct and Indirect Participants are responsible for disbursing those payments to the Beneficial Owners.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered at the State's expense.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If that happens, bond certificates will be printed and delivered at the State's expense.

The information in this section about DTC and DTC's book-entry system has been obtained from DTC; the State takes no responsibility for its accuracy.

No one can give any assurance that DTC, Direct Participants, or Indirect Participants will promptly transfer payments or notices received with respect to the Bonds. The State is not responsible for the failure of DTC, Direct Participants, or Indirect Participants to transfer to the Beneficial Owner payments or notices received with respect to the Bonds.

Similarly, no one can give any assurance that DTC will abide by its procedures or that its procedures will not be changed. In the event that the State designates a successor securities depository, the successor may establish different procedures.

## **VETERANS HOUSING LOAN PROGRAM**

### **General**

The veterans housing loan program, operated by the State of Wisconsin Department of Veterans Affairs (DVA), is the largest revenue-supported program of the State. Lending activities under the program began in 1974. The program is currently funded by either Tax-Exempt Veterans Mortgage Bonds or Taxable Veterans Mortgage Bonds, collectively referred to as **Veterans Mortgage Bonds**.

### *Primary Mortgage Housing Loan Program Requirements*

Veterans who wish to purchase, build, or purchase and rehabilitate homes that satisfy certain cost or value limitations in relation to the veteran's income may apply for a veterans primary mortgage home loan. The home loan may be for the purchase of an existing home, for a construction loan, for refinancing the balance due on a construction period loan, bridge loan, or other financing with a term of 24 months or less, or for a combined purchase and rehabilitation loan of up to 95% of the home's value for a term not exceeding 30 years. A loan application is reviewed first by a local lending institution and then by DVA. If the application is approved, the local lending institution originates the loan as agent for DVA and acts as loan servicer thereafter. There are numerous other standards required to be satisfied as part of underwriting, including a first, or primary mortgage, and a shelter-cost ratio of generally less than 25% of income. This ratio may go up to as much as 33% under certain favorable credit circumstances or must be reduced if certain credit risks are present. The originator of the home loan may charge the borrower an origination fee of one point (approximately two points in the case of construction loans and three points on the rehabilitation portion of purchase-rehabilitation loans).

Primary mortgage home loans have been funded with either Tax-Exempt Veterans Mortgage Bonds or Taxable Veterans Mortgage Bonds.

### *Home Improvement Loan Program (HILP)*

In addition to primary mortgage home loans described above, DVA also makes HILP loans that are funded solely with proceeds of Taxable Veterans Mortgage Bonds. This program has a maximum loan amount of \$25,000 and is processed through county veterans service officers rather than lending institutions. HILP loans have a maximum term of 15 years. HILP loans in excess of \$3,000 are secured by either a first or second mortgage on the improved property and require a minimum equity position of 10% after considering the HILP loan. HILP loans under \$3,000 may be guaranteed by a guarantor or secured by a first or second mortgage. HILP loans use the same basic underwriting standards as the primary mortgage home loan program but do not include loan-servicing charges.

### *Mortgage Interest Rates*

It has been the policy of DVA to set the interest rate charged to a borrower at a level sufficient to pay the debt service on the Veterans Mortgage Bonds funding the loan, the cost of program administration and, if deemed necessary, a loan loss reserve (which since 1985 has been charged to fund the Insurance Reserve Account described below).

In setting the interest rate, DVA has previously chosen to provide a subsidy for veterans primary mortgage loans and some HILP loans funded with Taxable Veterans Mortgage Bonds. The result is that the lending rate may be lower than the true interest cost rate on the Taxable Veterans Mortgage Bond issue funding the HILP loans.

DVA has not determined if any subsidy or similar arrangement will be available for veterans primary mortgage home loans or HILP loans funded with future issues of Taxable Veterans Mortgage Bonds.

### *Default Risks and Other Information*

Tax-Exempt Veterans Mortgage Bonds issued prior to 1985 assumed a certain level of prepayments in estimating program cash flow. No prepayments have been assumed in scheduling principal payments for Veterans Mortgage Bonds issued since 1985. Based on September 1, 2002 balances and existing DVA assumptions, the cash flow of the mortgages is sufficient to meet future debt service payments even if no mortgages are prepaid. Program loans may be assumed only by other qualifying veteran borrowers.

After deducting a servicing charge (.375% per annum), the participating lender deposits the veteran's monthly loan repayments and any prepayments into the Veterans Mortgage Loan Repayment Fund, a segregated statutory fund. An irrevocable appropriation is provided by law as a first charge on assets of the Repayment Fund in a sum sufficient to provide for the repayment of principal of, premium, if any, and interest on State general obligation debt issued to fund the program.

Program loans financed with Veterans Mortgage Bonds are not required to be insured or guaranteed (casualty insurance coverage is, however, required). Instead, the default risk with respect to such loans is borne by the program. The ability of DVA to dispose of defaulted properties and realize the amount of the outstanding principal balances of the related loans has varied in recent years depending upon the location of such properties within the State and their physical condition upon foreclosure. Although DVA expects that it will continue to experience liquidation losses, it expects that such losses will not require recourse to the State's General Fund but rather will be covered by the Insurance Reserve Account within the Fund. As of December 31, 2002, of the 9,682 outstanding veterans primary mortgage home loans financed by the program, there were 77 loans in an aggregate principal amount of approximately \$3.76 million for which payments were 60 days or longer past due. The insurance reserve requirement (4% of outstanding loans) is currently satisfied in full.

## **OTHER INFORMATION**

### **Limitations on Issuance of General Obligations**

All general obligations issued by the State fall within a debt limit set forth in the Wisconsin Constitution and Statutes. There is an annual limit of three-quarters of one percent, and a cumulative limit of five percent, of the aggregate value of all taxable property in the State. The annual limit is currently \$2,514,948,590 and the aggregate limit is currently \$16,766,323,935. A refunding obligation does not count for purposes of the annual debt limit or the cumulative debt limit. Accrued interest on any obligation that is not paid during the fiscal year in which it accrues is treated as debt and taken into account for purposes of the debt limitations. As of December 1, 2002, there were \$4,386,223,967 of outstanding general obligations of the State.

### **Borrowing Plans for 2003**

#### *General Obligations*

This is the second series of general obligations to be issued in this calendar year. The State has issued \$7 million of general obligation bonds for a current refunding of general obligations previously issued for the veterans housing loan program.

The Commission has also authorized the following general obligations that may be issued in calendar year 2003:

- Up to \$50 million of taxable general obligation bonds for the veterans housing loan program. The amount and timing of any taxable general obligation bonds depends on activity of the veterans housing loan program.
- Up to \$444 million of general obligation bonds to refund general obligation bonds previously issued for general governmental purposes. The amount and timing of any general obligation refunding bonds depends on market conditions.
- Up to \$13 million of general obligation bonds to refund general obligation bonds previously issued for the veterans housing loan program. The amount and timing of any general obligation refunding bonds depends on market conditions.

- Up to \$30 million of general obligation subsidy bonds to be purchased by the Environmental Improvement Fund for the Clean Water Fund Program. The amount and timing of general obligation subsidy bonds for this purpose depend on loan disbursements from the Clean Water Fund Program.

In addition, the State expects to authorize and issue the following general obligations in calendar year 2003:

- General obligations to fund general governmental purposes.

*Other Obligations*

The Commission has authorized \$250 million of transportation revenue refunding bonds to refund previously issued transportation revenue bonds. The amount and timing of any refunding bonds depends on market conditions. The Commission may also authorize and issue transportation revenue bonds in the fourth quarter to fund projects in the transportation revenue bond program.

The Commission has authorized \$125 million of clean water revenue refunding bonds to refund previously issued clean water revenue bonds. The amount and timing of any refunding bonds depends on market conditions. The Commission may also authorize and issue clean water revenue bonds in the third or fourth quarter to fund loans in the Clean Water Fund Program.

The Commission has authorized up to \$125 million of petroleum inspection fee revenue refunding bonds. The amount and timing of any refunding bonds depends on market conditions.

The State expects to issue master lease certificates of participation in the third or fourth quarter of this calendar year.

The State has not made a determination about selling operating notes, which are obligations issued for cash-flow purposes and mature in the same fiscal year of their issuance.

**Underwriting**

The Bonds, other than the 2024 Term Bonds, are being purchased by the **Underwriters**, for which Robert W. Baird & Co. is acting as representative. The Underwriters have agreed, subject to certain conditions, to purchase from the State such bonds at an aggregate purchase price, not including accrued interest, of \$10,424,535.75 (reflecting an original issue discount of \$71,071.05, underwriters' discount of \$112,393.20, which includes fees for the direct purchase noted below, and premium of \$42,000.00 to be paid by the Underwriters for the financial guaranty insurance policy). The 2024 Term Bonds are being purchased directly by an institutional investor, subject to certain conditions, at a purchase price, not including accrued interest, of \$3,090,000.00.

The Underwriters have agreed to reoffer the Bonds, other than the 2024 Term Bonds, at the public offering prices or yields set forth on the front cover of this Official Statement. Such bonds may be offered and sold to certain dealers (including dealers depositing such bonds into investment trusts) at prices lower than such public offering prices, and such prices may be changed, from time to time, by the Underwriters. The Underwriters' obligations are subject to certain conditions, and they will be obligated to purchase all the Bonds (except the 2024 Term Bonds) if any such bonds are purchased.

Certain legal matters will be passed upon for the Underwriters by their counsel, Gonzalez, Saggio & Harlan, L.L.P.

**Reference Information About the Bonds**

The table on the following page—as well as the table on the front cover—includes information about the Bonds and is provided for reference. The CUSIP number for each maturity has been obtained from sources the State believes to be reliable, but the State is not responsible for the correctness of the CUSIP numbers. To allow the computation of yield for federal tax law

compliance, the Underwriters have provided the reoffering yields and prices except with respect to the 2024 Term Bonds, which have not been reoffered. The price at issuance is the lower of the price to maturity or the price to call.

**\$13,740,000**

**State of Wisconsin**

**General Obligation Refunding Bonds of 2003, Series 2**

**Dated Date:** April 1, 2003

**First Interest Date:** November 1, 2003

**Closing/Settlement:** On or about April 14, 2003

**Special Redemption:** The Bonds are subject to special redemption at par. See "THE BONDS; Redemption Provisions".

CUSIP	Year (May 1)	Principal Amount	Interest Rate	Yield at Issuance	Price at Issuance	First Optional Redemption Date	Call Price
977056 4M9	2007	\$ 545,000	2.45%	2.45%	100.000%	Not Callable	-
977056 4N7	2008	565,000	2.85	2.85	100.000	Not Callable	-
977056 4P2	2009	575,000	3.20	3.20	100.000	Not Callable	-
977056 4Q0	2010	595,000	3.50	3.50	100.000	Not Callable	-
977056 4R8	2011	620,000	3.80	3.80	100.000	Not Callable	-
977056 4S6	2012	640,000	3.95	3.95	100.000	Not Callable	-
977056 4T4	2013	665,000	4.00	4.05	99.588	Not Callable	-
977056 4U1	2014	695,000	4.05	4.15	99.119	5/1/2013	100%
977056 4V9	2015	720,000	4.15	4.25	99.062	5/1/2013	100
977056 4W7	2016	750,000	4.25	4.35	99.010	5/1/2013	100
977056 4X5	2017	785,000	4.35	4.45	98.961	5/1/2013	100
977056 4Y3	2018	815,000	4.50	4.60	98.920	5/1/2013	100
977056 4Z0	2019	855,000	4.60	4.70	98.879	5/1/2013	100
977056 5A4	2020	890,000	4.65	4.75	98.838	5/1/2013	100
977056 5B2	2021	935,000	4.80	4.90	98.808	5/1/2013	100
977056 5C0	2024 <sup>(a)</sup>	3,090,000	5.00	5.00	100.000	5/1/2013	100

<sup>(a)</sup> This maturity is a term bond. For a schedule of the mandatory sinking fund redemption payments, see "THE BONDS; Redemption Provisions; *Mandatory Sinking Fund Redemption*" herein.

**Quantitative Analyst**

The State has employed cfX Incorporated to review, and provide quantitative analysis regarding, the cash flow of the veterans housing loan program to assure fulfillment of the legislative mandate that the program be self-amortizing.

**The MBIA Insurance Corporation Insurance Policy**

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to **APPENDIX C** for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the State to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (**Preference**).



MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence, or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

#### *MBIA*

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (**Company**). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore, and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "The MBIA Insurance Corporation Insurance Policy". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

#### *MBIA Information*

The following documents filed by the Company with the Securities and Exchange Commission (SEC) are incorporated herein by reference:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and
- The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002), are available (i) over the Internet at the SEC's web site; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2002, MBIA had admitted assets of \$9.0 billion (unaudited), total liabilities of \$5.9 billion (unaudited), and total capital and surplus of \$3.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

*Financial Strength Ratings of MBIA*

- Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."
- Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."
- Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell, or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

**Legal Investment**

State law provides that the Bonds are legal investments for the following:

- Banks, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, credit unions, investment companies, and other persons or entities carrying on a banking business.
- Executors, administrators, guardians, trustees, and other fiduciaries.
- The State and all public officers, municipal corporations, political subdivisions, and public bodies.

### **Legal Opinion**

Legal matters relating to the authorization, issuance, and sale of the Bonds are subject to the approval of Foley & Lardner (**Bond Counsel**). Bond Counsel will deliver an approving opinion when the Bonds are delivered, in substantially the form shown in **APPENDIX B**. If certificated Bonds are issued, the opinion will be printed on the reverse side of each Bond.

As required by law, the Attorney General will examine a certified copy of all proceedings leading to issuance of the Bonds. The Attorney General will deliver an opinion on the regularity and validity of the proceedings. In the event certificated Bonds are issued, a certificate of the Attorney General will be printed on the reverse side of each Bond.

### **Tax Exemption**

#### *Federal Income Tax*

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes. Interest also is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. For the purpose of computing the alternative minimum tax imposed on certain corporations, however, interest on the Bonds is taken into account in determining adjusted current earnings. Moreover, the State must comply with all requirements of the Internal Revenue Code of 1986, as amended (**Code**), that must be satisfied after the Bonds are issued for interest on the Bonds to be, or continue to be, excluded from gross income for federal income tax purposes. The State has promised to comply with those requirements to the extent it may lawfully do so. Its failure to do so may cause interest on the Bonds to be included in gross income for federal income tax purposes, perhaps even starting from the date the Bonds were issued. Bond Counsel expresses no opinion about other federal tax consequences arising regarding the Bonds. The proceedings authorizing the Bonds do not provide for an increase in interest rates or a redemption of the Bonds in the event of taxability.

In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of each Bond maturing on May 1, 2013 through May 1, 2021 (**Discount Bonds**), to the extent properly allocable to each owner of a Discount Bond, is excluded from gross income for federal income tax purposes to the same extent that any interest payable on such Discount Bond is or would be excluded from gross income for federal income tax purposes. The original issue discount is the excess of the stated redemption price at maturity of a Discount Bond over the initial offering price to the public, excluding underwriters or other intermediaries, at which price a substantial amount of such Discount Bonds were sold (**Issue Price**).

Under Section 1288 of the Code, original issue discount on Discount Bonds accrues on a compound interest basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals:

- The Issue Price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, *multiplied by*

- The yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of each accrual period), *less*
- Any interest payable on such Discount Bond during such accrual period.

The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period and will increase the owner's tax basis in such Discount Bond. The adjusted tax basis in a Discount Bond will be used to determine taxable gain or loss upon a disposition (for example, upon a sale, exchange, redemption, or payment at maturity) of such Discount Bond.

Owners of Discount Bonds who did not purchase such Discount Bonds in the initial offering at the Issue Price should consult their own tax advisors with respect to the tax consequences of owning such Discount Bond.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of holding such Discount Bonds. It is possible that under the applicable provisions governing the determination of state and local taxes, accrued original issue discount on the Discount Bonds may be deemed to be received in the year of accrual, even though there will not be a corresponding cash payment until a later year.

The Code contains many provisions that could affect the economic value of the Bonds to particular Bond owners. For example:

- Section 265 of the Code denies a deduction for interest on any indebtedness incurred or continued to purchase or carry the Bonds or, in the case of financial institutions, a portion of an owner's interest expense allocable to interest on the Bonds.
- Property and casualty insurance companies will be required in each taxable year to reduce the amount of their deductible losses by 15% of the amount of tax-exempt interest received or accrued during such taxable year, including interest on the Bonds, and life insurance companies are subject to similar provisions under which taxable income is increased by reason of receipt or accrual of tax-exempt interest.
- Interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code.
- Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of the S corporation is passive investment income.
- Section 86 of the Code requires certain recipients of social security and railroad retirement benefits to include a portion of such benefits in gross income by reason of receipt or accrual of interest on the Bonds.
- A portion of the original issue discount, if any, that accrues in each year to an owner of a Discount Bond may result in collateral federal income tax consequences similar to the consequences of receipt of interest on the Bonds and may result in tax liability in the year of accrual, even though the owner of the Discount Bond will not receive a corresponding cash payment until a later year.

This section does not present an exhaustive discussion of collateral tax consequences arising from ownership of the Bonds. There may be other federal tax law provisions that could adversely affect the value of an investment in the Bonds for particular owners of Bonds. Prospective investors should consult their own tax advisors about the tax consequences of owning a Bond.

*State of Wisconsin Income and Franchise Taxes*

Interest on the Bonds is subject to State of Wisconsin income and franchise taxes. Prospective investors should consult their own tax advisors about the state and local tax consequences of owning a Bond.

## **CONTINUING DISCLOSURE**

The State has made an undertaking, for the benefit of the beneficial owners of the Bonds (except the 2024 Term Bonds), to provide an annual report presenting certain financial information and operating data about the State (**Annual Reports**). By approximately December 27 of each year, the State will send the report to each nationally recognized municipal securities information repository (**NRMSIR**) and to any state information depository (**SID**). The State will also provide notices of the occurrence of certain events specified in the undertaking to each NRMSIR, or the Municipal Securities Rulemaking Board (**MSRB**), and to any SID. As of the date of this Official Statement, no SID has been established. [Part I of the 2002 Annual Report, which contains information on the undertaking, is included by reference as part of this Official Statement.](#)

Copies of the Annual Reports and notices may be obtained from:

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
(608) 266-2305  
[capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

The undertaking also describes the consequences if the State fails to provide any required information. The State must report the failure to the NRMSIRS, or the MSRB, and to any SID. In the last five years, the State has not failed to comply in any material respect with this or any similar undertaking.

Dated: April 3, 2003

## **STATE OF WISCONSIN**

/s/ JIM DOYLE

Governor Jim Doyle, Chairperson  
State of Wisconsin Building Commission

/s/ MARC J. MAROTTA

Marc J. Marotta, Secretary  
State of Wisconsin Department of Administration

/s/ ROBERT G. CRAMER

Robert G. Cramer, Secretary  
State of Wisconsin Building Commission

## APPENDIX A

### INFORMATION ABOUT THE STATE

This appendix includes information concerning the State of Wisconsin (**State**). [Part II](#) and [Part III](#) of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2002 (**2002 Annual Report**) are included by reference as part of this APPENDIX A.

This appendix also includes information on the following:

- Projected ending condition of general fund for the 2002-03 fiscal year, as released by the Legislative Fiscal Bureau in a memorandum dated January 23, 2003.
- Budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1).
- Estimated tax collections for the 2003-04 and 2004-05 fiscal years, as released by the Legislative Fiscal Bureau in a memorandum dated January 23, 2003.
- Governor's proposed budget for the 2003-05 biennium (2003 Senate Bill 44).

[Part II to the 2002 Annual Report](#) contains general information about the State. More specifically, that part presents information on the following matters:

- State's operations and financial procedures
- State's accounting and financial reporting
- Organization of, and services provided by, the State
- Results of fiscal year 2001-02
- State budget
- Obligations of the State
- State Investment Board
- Statistical information about the State's population, income, and employment

Included as [APPENDIX A to Part II of the 2002 Annual Report](#) are the audited general purpose external financial statements for the fiscal year ending June 30, 2002, prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Government Accounting Standards Board, and the State Auditor's report.

[Part III to the 2002 Annual Report](#) contains information concerning general obligations issued by the State. That part presents a discussion of the security provisions for general obligation debt (including the flow of funds to pay debt service on general obligations), data pertaining to the State's outstanding general obligation debt, and the portion of that general obligation debt that is revenue-supported general obligation debt.

The 2002 Annual Report has been filed with each nationally recognized municipal securities information repository (NRMSIR). Copies of the 2002 Annual Report are available from the Capital Finance Office web site and may also be obtained from:

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
(608) 266-2305  
[capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

As of the date of this Official Statement, Part II and Part III of the 2002 Annual Report is available from the Capital Finance Office web site at the following respective addresses:

[www.doa.state.wi.us/debf/capfin/02dis2.pdf](http://www.doa.state.wi.us/debf/capfin/02dis2.pdf)  
[www.doa.state.wi.us/debf/capfin/02dis3.pdf](http://www.doa.state.wi.us/debf/capfin/02dis3.pdf)

After publication and filing of the 2002 Annual Report, certain changes or events have occurred that affect items discussed in the 2002 Annual Report. Listed below, by reference to particular sections of the 2002 Annual Report, are changes or additions to the discussion contained in those particular sections. Many of the following changes have not been filed with the NRMSIRs. However, the State has filed, and expects to continue to file, certain informational notices with the NRMSIRs. These informational notices do not constitute listed material events under the State's Master Agreement on Continuing Disclosure.

**State Budget; Budget for 2001-03 (Part II–Pages 24-28).** Add the following new sections:

*Projected Condition of General Fund for 2002-03 Fiscal Year*

On January 23, 2003, the Legislative Fiscal Bureau provided projections of the ending general fund condition for the 2002-03 fiscal year. These projections show a gross ending balance (not including the statutory required reserve) of negative \$373 million. This is approximately \$188 million less than the balance that was projected as a result of the revenue estimates provided by the Department of Revenue on November 20, 2002. The difference is the result of:

- Decrease of \$178 million in estimated tax collections.
- Decrease of \$49 million in departmental revenues.
- Decrease of \$39 million in expenditures.

These projections were part of a report that included tax collection estimates for the 2003-04 and 2004-05 fiscal years. A complete copy of the [memorandum from the Legislative Fiscal Bureau appears on pages A-7 to A-24 of this Official Statement.](#)

*Budget Emergency Bill for 2002-03*

On February 27, 2003, the Governor signed into law the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1). As a result of this bill, the projected ending balance for the 2002-03 fiscal year is reduced by approximately \$90 million to a negative \$284 million. *The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, which did occur, and the Wisconsin Constitution also requires that if final budgetary expenses of any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.* As shown below, the Governor's budget for the 2003-05 biennium proposes actions to balance the budget in the 2003-04 fiscal year.

A copy of 2003 Wisconsin Act 1 may be obtained from:

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
(608) 266-2305  
[capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

*Proposed Budget for 2003-05*

The Governor's proposed budget for the 2003-04 and 2004-05 fiscal years was introduced on February 18, 2003. The Governor's proposed budget is summarized on pages A-3 through A-6. The tax collection estimates for the 2003-04 and 2004-05 fiscal years are taken from projections in

a memorandum released by the Legislative Fiscal Bureau on January 23, 2003. A complete copy of the [memorandum from the Legislative Fiscal Bureau appears on pages A-7 to A-24 of this Official Statement.](#)

Additional information on the Governor's proposed budget can be obtained from:

State of Wisconsin Capital Finance Office  
 Department of Administration  
 101 East Wilson Street  
 P.O. Box 7864  
 Madison, WI 53707-7864  
 (608) 266-2305  
[capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

*Updated Budget Tables*

The tables on pages A-3 and A-4 provide a general summary, and the tables on pages A-5 and A-6 provide a more detailed summary of (1) the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1), and (2) the Governor's proposed budget for the 2003-04 and 2004-05 fiscal years (2003 Senate Bill 44).

**State Budget Summary**  
**Budget Emergency Bill for 2002-03 Fiscal Year**  
**Governor's Proposed Budget for 2003-04 and 2004-05 Fiscal Years**

**General Fund Basis**  
**(Amounts in Millions)**

	<b><u>Revised</u></b> <b><u>Budget 2002-03</u></b>	<b><u>Proposed</u></b> <b><u>Budget 2003-04</u></b>	<b><u>Proposed</u></b> <b><u>Budget 2004-05</u></b>
Beginning Balance	\$ 54	\$ (284)	\$ 44
Tax Revenues	10,223	10,747	11,351
Tobacco Settlement Payments	149	n/a	n/a
Tribal Gaming Revenues	n/a	112	227
Nontax Revenues	<u>8,240</u>	<u>8,970</u>	<u>9,068</u>
Total Amount Available	\$18,666	\$19,545	\$20,690
Total Disbursements/Reserves	<u>\$18,950</u>	<u>\$19,536</u>	<u>\$20,682</u>
Estimated Gross Balance	\$ (284)	\$ 9	\$ 8
Required Statutory Reserve	<u>0<sup>(b)</sup></u>	<u>35</u>	<u>40</u>
Net Balance	\$ (284) <sup>(c)</sup>	\$ 44	\$ 48



**All-Funds Basis <sup>(a)</sup>**  
**(Amounts in Millions)**

	<b>Revised Budget 2002-03</b>	<b>Proposed Budget 2003-04</b>	<b>Proposed Budget 2004-05</b>
Beginning Balance	\$ 54	\$ (284)	\$ 44
Tax Revenues	10,223	10,747	11,351
Tobacco Settlement Payments	149	n/a	n/a
Tribal Gaming Revenues	n/a	112	227
Nontax Revenues	<u>20,988</u>	<u>21,022</u>	<u>20,653</u>
Total Amount Available	\$31,414	\$31,597	\$32,275
Total Disbursements/Reserves	<u>\$31,698</u>	<u>\$31,588</u>	<u>\$32,267</u>
Estimated Gross Balance	\$ (284)	\$ 9	\$ 8
Required Statutory Reserve	<u>0<sup>(b)</sup></u>	<u>35</u>	<u>40</u>
Net Balance	\$ (284) <sup>(c)</sup>	\$ 44	\$ 48

<sup>(a)</sup> The All-Funds budget assumes that federal funds, revenues paid into specific funds, other than the General Fund, for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt are expended in a like amount. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

<sup>(b)</sup> The budget emergency bill for the 2002-03 fiscal year includes an exemption from the statutory balance requirement for that fiscal year.

<sup>(c)</sup> The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, and the Wisconsin Constitution also requires that, if final budgetary expenses of any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.

**Table II-4; State Budget-General Fund (Part II–Page 27).** Replace with the following:

	Actual 2001-2002 <sup>(b)</sup>	Revised Budget 2002-2003 2003 Act 1	2003-2004 Governor's Proposal	2004-2005 Governor's Proposal
<b>RECEIPTS</b>				
Fund Balance from Prior Year.....	\$ 207,508,000	\$ 53,782,000	\$ (283,633,300)	\$ 43,893,100
<b>Tax Revenue</b>				
State Taxes Deposited to General Fund				
Individual Income.....	4,979,662,000	5,120,000,000	5,410,000,000	5,800,000,000
General Sales and Use.....	3,695,796,000	3,760,000,000	3,915,400,000	4,107,200,000
Corporate Franchise and Income.....	503,008,000	490,000,000	540,000,000	555,000,000
Public Utility.....	252,237,000	260,400,000	268,000,000	278,000,000
Excise				
Cigarette/Tobacco Products.....	302,701,000	307,900,000	305,200,000	302,600,000
Liquor and Wine.....	35,984,000	36,300,000	37,200,000	38,500,000
Malt Beverage.....	9,597,000	9,700,000	9,800,000	9,900,000
Inheritance, Estate & Gift.....	82,635,000	67,000,000	105,000,000	95,000,000
Insurance Company.....	96,055,000	105,000,000	85,000,000	90,000,000
Other.....	79,028,000	67,200,000	71,300,000	74,700,000
Subtotal.....	10,036,703,000	10,223,500,000	10,746,900,000	11,350,900,000
<b>Nontax Revenue</b>				
Departmental Revenue				
Tobacco Settlement.....	156,215,305	149,081,600	n/a	n/a
Tobacco Securitization.....	681,000,000	n/a	n/a	n/a
Tribal Gaming Revenues.....	n/a	n/a	112,000,000	125,000,000
Other.....	216,528,695	278,613,700	218,843,900	227,677,100
Program Revenue-Federal.....	6,372,653,000	4,860,982,500	5,380,774,700	5,445,453,700
Program Revenue-Other.....	3,386,974,000	3,100,962,000	3,370,065,400	3,497,353,000
Subtotal.....	10,813,371,000	8,389,639,800	9,081,684,000	9,295,483,800
Total Available.....	\$ 21,057,582,000	\$ 18,666,921,800	\$ 19,544,950,700	\$ 20,690,276,900
<b>DISBURSEMENTS AND RESERVES</b>				
Commerce.....	\$ 212,449,000	\$ 228,319,500	\$ 272,489,600	\$ 277,347,300
Education.....	8,603,653,000	8,849,025,300	9,219,739,400	9,328,870,900
Environmental Resources.....	227,949,000	248,745,100	254,517,700	258,657,900
Human Relations and Resources.....	8,538,786,000	7,552,695,500	7,291,079,100	8,298,025,100
General Executive.....	614,520,000	637,880,200	612,401,200	617,955,900
Judicial.....	107,534,000	103,786,900	111,371,300	111,573,800
Legislative.....	62,114,000	57,649,200	56,596,700	56,608,200
General Appropriations.....	2,881,603,000	1,386,187,500	1,716,354,000	1,672,665,800
Subtotal.....	21,248,608,000	19,064,289,200	19,534,549,000	20,621,704,900
Less: (Lapses).....	n/a	(208,894,700)	(164,649,400)	(171,873,700)
Compensation Reserves.....	n/a	79,815,500	115,812,900	176,359,600
Required Statutory Balance.....	n/a	0 <sup>(d)</sup>	35,000,000	40,000,000
Transfer to Tobacco Control Board.....	n/a	15,345,100	15,345,100	15,345,100
Changes in Continuing Balance.....	(268,454,000)	n/a	n/a	n/a
Total Disbursements & Reserves.....	\$ 20,980,154,000	\$ 18,950,555,100	\$ 19,536,057,600	\$ 20,681,535,900
Fund Balance.....	\$ 77,428,000	\$ (283,633,300) <sup>(e)</sup>	\$ 8,893,100	\$ 8,741,000
Undesignated Balance.....	\$ 44,469,000 <sup>(c)</sup>	\$ (283,633,300)	\$ 43,893,100	\$ 48,741,000

(a) The amounts shown are based on statutorily required accounting and not on GAAP.

(b) The amounts shown are unaudited and rounded to the nearest thousand dollars.

(c) The General Fund balance reported in the Annual Fiscal Report, Budgetary Basis, for the fiscal year ending June 30, 2002, includes a negative \$9 million ending balance in the Program Revenue portion of the General Fund.

(d) A required balance for the 2002-03 fiscal year was not specified.

(e) As required by the Wisconsin Constitution, the budget for the 2002-03 fiscal year was balanced when it became law on July 26, 2002 (2001 Act 109). The projected fund balance reflects the revenue estimates and projections contained in a memorandum released by the Legislative Fiscal Bureau on January 23, 2003 and the general fund condition statement following enactment of the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1). The Wisconsin Constitution requires that if final budgetary expenses in any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.

**Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.**

**Table II-6; State Budget-All Funds (Part II–Page 28). Replace with the following:**

	Actual 2001-2002 <sup>(b)</sup>	Revised Budget 2002-2003 2003 Act 1	2003-2004 Governor's Proposal	2004-2005 Governor's Proposal
<b>RECEIPTS</b>				
Fund Balance from Prior Year.....	\$ 207,508,000	\$ 53,782,000	\$ (283,633,300)	\$ 43,893,100
<b>Tax Revenue</b>				
Individual Income.....	4,979,662,000	5,120,000,000	5,410,000,000	5,800,000,000
General Sales and Use.....	3,695,796,000	3,760,000,000	3,915,400,000	4,107,200,000
Corporate Franchise and Income.....	503,008,000	490,000,000	540,000,000	555,000,000
Public Utility.....	252,237,000	260,400,000	268,000,000	278,000,000
<b>Excise</b>				
Cigarette/Tobacco Products.....	302,701,000	307,900,000	305,200,000	302,600,000
Liquor and Wine.....	35,984,000	36,300,000	37,200,000	38,500,000
Malt Beverage.....	9,597,000	9,700,000	9,800,000	9,900,000
Inheritance, Estate & Gift.....	82,635,000	67,000,000	105,000,000	95,000,000
Insurance Company.....	96,055,000	105,000,000	85,000,000	90,000,000
Other.....	1,134,073,000	67,200,000 <sup>(c)</sup>	71,300,000 <sup>(c)</sup>	74,700,000 <sup>(c)</sup>
Subtotal.....	11,091,748,000	10,223,500,000	10,746,900,000	11,350,900,000
<b>Nontax Revenue</b>				
<b>Departmental Revenue</b>				
Tobacco Settlement.....	156,215,305	149,081,600	n/a	n/a
Tobacco Securitization.....	681,000,000	n/a	n/a	n/a
Tribal Gaming Revenues.....	n/a	n/a	112,000,000	125,000,000
Other.....	216,528,695	278,613,700	218,843,900	227,677,100
Total Federal Aids.....	7,203,159,000	5,687,824,500	6,005,768,900	6,095,515,300
Total Program Revenue.....	3,386,974,000	3,101,975,200	3,370,065,400	3,497,353,000
Total Segregated Funds.....	4,847,843,000	3,647,172,000	4,116,780,000	3,246,864,900
Bond Authority.....	785,364,000	383,000,000	475,000,000	485,000,000
Employee Benefit Contributions <sup>(d)</sup> .....	(1,598,517,000)	7,889,603,973	6,835,282,000	7,203,432,000
Subtotal.....	15,678,567,000	21,137,270,973	21,133,740,200	20,880,842,300
Total Available.....	\$ 26,977,823,000	\$ 31,414,552,973	\$ 31,597,006,900	\$ 32,275,635,400
<b>DISBURSEMENTS AND RESERVES</b>				
Commerce.....	\$ 428,003,000	\$ 417,323,800	\$ 657,665,100	\$ 466,316,200
Education.....	8,863,016,000	8,921,866,800	9,334,467,000	9,469,125,000
Environmental Resources.....	2,803,318,000	2,750,095,800	2,591,382,000	2,759,020,000
Human Relations and Resources.....	10,147,579,000	8,230,228,400	8,690,644,300	8,892,649,800
General Executive.....	5,007,479,000	771,359,700	749,975,000	755,842,100
Judicial.....	107,866,000	104,496,000	112,086,200	112,288,700
Legislative.....	62,114,000	57,649,200	56,596,700	56,608,200
General Appropriations.....	4,224,747,000	2,286,296,700	2,083,506,900	2,006,781,400
General Obligation Bond Program.....	542,938,000	383,000,000	475,000,000	485,000,000
Employee Benefit Payments <sup>(d)</sup> .....	3,963,334,000	3,830,081,149	4,028,899,000	4,428,317,000
Reserve for Employee Benefit Payments <sup>(d)</sup> .....	n/a	4,059,522,824	2,806,383,000	2,775,115,000
Subtotal.....	36,150,394,000	31,811,920,373	31,586,605,200	32,207,063,400
Less: (Lapses).....	n/a	(208,894,700)	(164,649,400)	(171,873,700)
Compensation Reserves.....	n/a	79,815,500	115,812,900	176,359,600
Required Statutory Balance.....	n/a	0 <sup>(f)</sup>	35,000,000	40,000,000
Transfer to Tobacco Control Board.....	n/a	15,345,100	15,345,100	15,345,100
Change in Continuing Balance.....	(9,249,999,000)	n/a	n/a	n/a
Total Disbursements & Reserves.....	\$ 26,900,395,000	\$ 31,698,186,273	\$ 31,588,113,800	\$ 32,266,894,400
Fund Balance.....	\$ 77,428,000	\$ (283,633,300) <sup>(g)</sup>	\$ 8,893,100	\$ 8,741,000
Undesignated Balance.....	\$ 44,469,000 <sup>(e)</sup>	\$ (283,633,300)	\$ 43,893,100	\$ 48,741,000

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The all-funds budget assumes that federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt are expended in a like amount. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

(b) The amounts shown are unaudited and rounded to the nearest thousand dollars.

(c) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected \$865 million of motor fuel taxes in the 2001-02 fiscal year.

(d) State law separates the accounting of employee benefits from the budget. They are included for purposes of comparability to the figures presented in this table and Tables II-1 and II-2 in Part II of the 2002 Annual Report.

(e) The General Fund balance reported in the Annual Fiscal Report, Budgetary Basis, for the fiscal year ending June 30, 2002, includes a negative \$9 million ending balance in the Program Revenue portion of the General Fund.

(f) A required balance for the 2002-03 fiscal year was not specified.

(g) As required by the Wisconsin Constitution, the budget for the 2002-03 fiscal year was balanced when it became law on July 26, 2002 (2001 Act 109). The projected fund balance reflects the revenue estimates and projections contained in a memorandum released by the Legislative Fiscal Bureau on January 23, 2003 and the general fund condition statement following enactment of the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1). The Wisconsin Constitution requires that if final budgetary expenses in any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

# Legislative Fiscal Bureau

Robert Wm. Lang, Director



State of Wisconsin

One East Main, Suite 301 • Madison, WI 53703  
Email: Fiscal.Bureau@legis.state.wi.us  
Telephone: (608) 266-3847 • Fax: (608) 267-6873

January 23, 2003

Senator Alberta Darling, Senate Chair  
Representative Dean Kaufert, Assembly Chair  
Joint Committee on Finance  
State Capitol  
Madison, WI 53702

Dear Senator Darling and Representative Kaufert:

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, our report includes estimated revenues and expenditures for the current fiscal year and tax collection 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, 2002, Report**

On November 20, 2002, the Departments of Administration and Revenue submitted a report to the Governor and Legislature that identified revenue projections for the 2002-03 fiscal year and the 2003-05 biennium. Our analysis indicates that for that three-year period, the state's general fund will have \$656 million less than is reflected in the November 20 report.

The \$656 million is the net result of: (1) a projected decrease in tax collections of \$646 million for the three-year period; (2) a decline in departmental revenues of \$49 million for 2002-03; and (3) reduced expenditures of \$39 million for 2002-03.

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, Governor-Elect, and Legislature of the magnitude of agency budget requests and present a projection of tax collections. Given the report's timing in the 2002-03 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.

**2002-03 General Fund Condition Statement**

Our analysis indicates that, unless addressed by the Governor and Legislature prior to the end of the current fiscal year, the gross balance of the general fund on June 30, 2003, will be -\$373 million. This is shown in Table 1.

**TABLE 1**

**Estimated 2002-03 General Fund Condition Statement**

	<u>2002-03</u>
<b>Revenues</b>	
Opening Balance, July 1	\$53,782,000
Taxes	10,223,500,000
Departmental Revenues	
Tobacco Settlement	149,081,600
Other	<u>216,673,800</u>
Total Available	\$10,643,037,400
 <b>Appropriations</b>	
Gross Appropriations	\$11,121,564,300
Compensation Reserves	79,815,500
Transfer to Tobacco Control Board	15,345,100
Less: Lapses and Sum Sufficient Reestimates	<u>-200,490,700</u>
Net Appropriations	\$11,016,234,200
 <b>Balance</b>	
Gross Balance	-\$373,196,800

The administration's November 20 report contained a 2002-03 general fund condition statement that showed a gross balance of -\$185 million. Thus, the projected gross balance of this report (-\$373 million) is \$188 million less than that shown in the November 20 report.

The \$188 million consists of a decrease in estimated tax collections of \$178 million, a decrease in departmental revenues of \$49 million, and decreased expenditures of \$39 million. The reduction in departmental revenues is primarily due to a projected reduction of \$27 million in interest earnings, and an \$8.5 million decline in tobacco settlement monies because of a reduction in the volume of cigarettes shipped in, or to, the United States. The primary item of the expenditure reduction is a projected lapse of \$24.3 million from the appropriation for SeniorCare (prescription drug program for the elderly). When the SeniorCare program was enacted in the 2001-03 biennial budget, it was not anticipated that federal funds would be available to support the program. That changed in July, 2002, when the U.S. Department of Health and Human Services waived a federal law and allowed the state to claim medical assistance (MA) matching funds for a portion of Wisconsin's eligible, elderly population. In addition, enrollments in the program are below budgeted estimates.

In reviewing the 2002-03 condition statement, the following points should be noted. First, it is currently estimated that MA and BadgerCare benefit costs will exceed amounts budgeted for these programs in 2002-03 by \$64 million GPR. If this shortfall were to be addressed in 2002-03, the gross balance of -\$373 million would instead be -\$437 million. Second, it is uncertain at this time if the 2001-03 collective bargaining agreements and proposed amendments to the state compensation plan will be approved by the Legislature and Governor. If they do not take effect in 2002-03, the deficit figure shown above would improve by an estimated \$33 million. Finally, the -\$373 million is a gross balance figure and does not include a statutory reserve amount. If the Governor and Legislature were to address the gross deficit and maintain a statutory balance (\$134 million), the total amount needed in 2002-03 would be \$507 million.

### **2003-05 Projected Imbalance**

In addition to projecting the \$185 million deficit for 2002-03, the administration's November 20 report indicated a potential general fund imbalance for the 2003-05 biennium. In preparing the estimate, the November 20 report assumed the following: (1) a 2003-04 opening balance of -\$185 million; (2) the general fund revenue estimates for each year of the next biennium as contained in the November 20 report; (3) general fund appropriation amounts requested by state agencies for 2003-05; and (4) the current statutory balance requirements of 1.6% of appropriations in 2003-04 and 1.8% in 2004-05. Using those assumptions, the November 20 report showed an imbalance in 2003-04 of \$1,597 million and an additional imbalance of \$972 million in 2004-05. Thus, for the 2003-05 biennium, the November 20 report showed an imbalance of \$2,569 million (\$1,597 million plus \$972 million).

If the 2003-04 opening balance of -\$373 million and the 2003-05 tax collections of this report were used along with the other assumptions of the November 20 document, the projected imbalance would be \$1,999 million in 2003-04 and an additional \$1,226 million in 2004-05 for a biennial total of \$3,225 million. This is \$656 million more than the \$2,569 million imbalance figure of the November 20 report for the next biennium.

The imbalance figure above is shown for comparative purposes only. At this time, the level of appropriations, departmental revenues, compensation reserves, and other items of the Governor's budget recommendations and those of the Legislature for 2003-05 are unknown. Also, the Constitution requires that the Legislature adopt a balanced budget. Thus, any imbalance projections for 2003-05 will be addressed by the Governor and Legislature in upcoming budget recommendations and deliberations.

## **General Fund Tax Revenues**

The following sections provide information related to general fund tax revenues for 2002-03 and the 2003-05 biennium. The information provided includes a review of the economy in 2002, a discussion of the national economic forecast for 2003 through 2005, and detailed general fund tax revenue projections for the current fiscal year and the next biennium.

### **Review of the Economy in 2002**

Last January, this office prepared general fund revenue estimates for the 2001-03 biennium based on the January, 2002, forecast of the economy prepared by DRI-WEFA (a subsidiary of Global Insight, Inc. that was formed by integrating DRI and Wharton Econometric Forecasting Associates). Global Insight, Inc. now prepares the forecast. The forecast reflected the effects on the national economy of the recession that was declared to have started in March, 2001, by the National Bureau of Economic Research. The recession was projected to bottom out in the first quarter of 2002, followed by gradually accelerating growth during the rest of the year. Relatively strong growth was forecast for 2003. The forecast indicated that the federal tax cuts approved before the September 11, 2001, terrorist attacks, increased federal spending on education, security, defense, and intelligence, and monetary policy that enhanced liquidity and produced low interest rates would all contribute to an economic turn-around. The forecast also assumed a reversal of a build-up of inventories beginning in the first quarter of 2002, and increased expenditures for travel and leisure activities as the impact of September 11 began to fade.

Nominal gross domestic product (GDP) was projected to increase 1.9% in 2002 and 6.0% in 2003, while real GDP was forecast to increase by 0.6% in 2002 and 3.7% in 2003. Inflation would remain relatively low, with the consumer price index at 1.9% in 2002 and 2.6% in 2003. The economic slowdown would cause unemployment to increase to 6.2% in 2002 and then decrease slightly to 5.9% in 2003, as the economy rebounded. Reflecting increased unemployment and the sluggish economy, the growth in personal income was projected to slow in 2002, then pick up in 2003. Growth in personal income was anticipated to be 2.2% in 2002 and increase to 5.2% in 2003, as employment began to grow again. Consumer spending was expected to drop in early 2002 then increase and help spur economic recovery beginning in the spring of 2002. The January, 2002, forecast assumed growth in personal consumption expenditures of 2.3% in 2002 and 6.1% in 2003.

Based on estimated growth in real GDP, it appears that the recession ended in the fourth quarter of 2001, and positive growth occurred in each quarter of 2002. However, when the final numbers are computed for 2002, the economy's quarterly growth rates will exhibit an erratic

pattern, with peaks of 5% and 4% of real growth in the first and third quarters and lower growth rates of 1.3% and 1.0% in the second and fourth quarters, respectively. Consumer spending was the primary force behind economic growth during the year, although spending patterns were somewhat inconsistent. Consumer spending increased by 4.5% last year, with growth rates ranging from 3.9% in the first quarter to 5.4% in the third quarter. Both total personal income and disposable personal income increased to support spending. In 2002, personal income increased 3.0%, while disposable income increased 5.9%. Low prices, product innovations, low interest rates, and the return of zero-percent financing for automobiles led to additional purchases. In addition, falling mortgage rates and increasing home values allowed consumers to tap into the equity in their homes for additional funds for consumer purchases. Although consumers generally kept spending through the year, their mood mirrored the erratic pattern of the economy. Consumer confidence improved over most of the first half of 2002, declined for five months, rebounded in November, and then dropped back at year-end. The Conference Board's index of consumer confidence was 80.3 for December, down from 84.9 in November. The University of Michigan's index of consumer sentiment increased in December to 86.7 from 84.2 in November. Overall, the confidence indices taken together made no strong gains through the end of the year. Consumers were concerned about the stagnant job market, falling stock market, and the possibility of war in the Middle East.

The continuing boom in the housing market made a significant contribution to economic growth during the year. Primarily as a result of low interest rates, sales of both new and existing homes posted their best year ever. Sales of new houses increased 7.6% over 2001 while existing home sales increased from about 5.3 million to 5.6 million, or 5.6% for the year. The increased demand for housing stimulated construction as housing starts were up 5.5% in 2002. The growing demand also bid up home prices as the average price for new homes increased from \$210,100 in 2001 to \$223,300 in 2002. Similarly, the average price of existing homes went from \$184,200 in 2001 to \$200,000 in 2002. Assisted by the expansionary monetary policy followed by the Federal Reserve, mortgage interest rates fell to historic lows. In November, the Federal Open Market Committee cut the target federal funds rate 50 basis points to 1.25%. This was the first decrease in 2002, but the twelfth rate cut in two years. The annual average conventional 30-year fixed mortgage rate dropped from 7.0% in 2001 to 6.5% in 2002. The combination of low interest rates and rising home values spurred homeowners to refinance. According to the Mortgage Bankers Association of America, an estimated \$1.24 trillion in mortgages were refinanced in 2002, and a study by an economist at Goldman, Sachs & Co. found that refinancing provided an amount equal to 2% of disposable income during the first half of 2002.

The year-end employment picture was not good. Payroll contracted by 101,000 in December and there were downward revisions in reported employment for October and November. However, the monthly unemployment rate remained unchanged at 6.0%. For the year, the unemployment rate was 5.8%, up from 4.8% for 2001. The unemployment rate reflects weak labor force growth. Businesses have been reluctant to add employees. In addition, firms are uncertain about the potential economic impact of a war with Iraq, the standoff with North Korea, and any future terrorist attacks. This uncertainty has also contributed to a lack of business investment. Firms are not sure that demand will remain strong enough to justify an increase in capital budgets and to start new capital projects. In addition, operating rates at many companies are quite low. The average



factory operating rate was 70% for 2002. Finally, strong productivity growth allows businesses to increase output without adding new machinery. Real nonresidential fixed investment decreased 5.7% for the year, while purchases of equipment and software declined 1.8%.

In 2002, productivity gains were the best in decades. Nonfarm output per hour increased 4.7%, while manufacturing output per hour increased 5.2%. In 2001, the rate of growth of those factors was 1.1% and 0.9% respectively. At the same time, compensation per hour increased 2.9% and unit labor costs actually declined 1.8%. As a result, businesses were able to increase employee pay and improve profitability. As noted, personal income increased 3.0% in 2002. After declining in 2001, after-tax corporate profits turned around and started increasing throughout the year. The bonus depreciation provisions enacted in the federal Job Creation and Worker Assistance Act of 2002 also increased business cash flow.

Inflation remained contained in 2002, with consumer prices increasing 1.6% for the year. Producer prices for finished goods declined by 1.3% for the year. However, energy prices jumped 9.0% in the last quarter, as a result of the strike against the Venezuela national oil company and concern over war with Iraq. Core CPI inflation was a stable 2.0% for the same quarter.

Although the value of the dollar began declining against most currencies of industrialized countries in 2002, it did not drop far enough to have a positive effect on international trade. As a result, trade was a drag on the U. S. economy for the year. The strong dollar makes imports relatively cheap, while U.S. exporting firms have difficulty selling products and services overseas. The annualized current account balance deficit was almost \$500 billion. America is importing more than it exports, while the income it gets from foreign investments is less than the amount paid to foreigners for investments in the U. S. The combination of a relatively strong dollar and tough competition from countries with low production costs has led to elimination of two million jobs in the manufacturing sector of the economy since 2000.

A series of corporate governance scandals, major bankruptcies, and revelations of accounting fraud that began in late 2001 shook the financial markets in 2002. These events severely undermined confidence in the financial markets. Combined with sluggish economic growth and corporate earnings, rising unemployment, and apprehension about war and terrorism, the market declined in 2002. The market did rally some late in the year, climbing two straight months in the fourth quarter, the first time since March, 1998. However, this was not enough to offset the annual decline. By the end of 2002, the market value of household equity holdings had fallen by an estimated \$3.2 trillion, bringing the three-year decrease to \$7.0 trillion, or 22%. Similarly, for 2002, the Dow index was down 17%, the S&P 500 was down 24%, and the Nasdaq was down 33%. The last time the market saw a three-year run in losses was 1939 to 1941.

### **National Economic Forecast**

The revenue estimates included in this report are based on the January, 2003, forecast of the economy by Global Insight, Inc.

As 2003 began, the United States faced a world filled with uncertainties that could have significant consequences beyond the effects on the economy. The possibility of war with Iraq looms, the North Korean government has revived a program for enriching uranium and threatened aggression if certain conditions are not met, and terrorist groups remain at large and dangerous. The events surrounding potential war in Iraq, the outcome of the confrontation with North Korea, and possible terrorist activities could have substantial impacts on the U. S. economy.

Many economists believe that apprehension by consumers and businesses regarding potential war in Iraq helped contribute to a slowdown in the economy at the end of 2002. The final quarter of 2002 is expected to have a real annual rate of GDP growth of 1.0%. Final demand, reflecting depressed consumer confidence, only increased at an annual rate of 0.3%. Industrial production dropped and the unemployment rate increased. However, according to Global Insight, Inc., the slowdown in growth and increase in unemployment in the fourth quarter of 2002 gives a misleading picture of the health of the economy. Personal income grew at an annual rate of 3.8% and consumer spending for nondurables and services increased more than in the third quarter. After-tax corporate profits were strong and real nonresidential fixed investment changed from a negative annual rate of growth to a positive increase of 3.3%. Government purchases also contributed to economic growth. Inflation remained constrained and interest rates were low.

The Global Insight, Inc. forecast incorporates the effects of a war with Iraq, new federal income tax cuts, and the extension of unemployment benefits into its economic projections for 2003 and beyond. Concern about possible setbacks and a jump in oil prices are expected to depress consumer confidence and the stock market. Consumer spending and business investment will be constrained until a successful outcome of the war is assured.

An additional \$50 billion in federal spending is projected, with most of the initial spending for activating reserves and combat pay. Federal expenditures to replace equipment and munitions used in the war will occur in late 2003 and 2004. The tax cut package finally adopted by Congress and approved by the President and the extension of unemployment benefits is assumed to amount to another \$50 billion. Thus the total fiscal stimulus provided by possible war with Iraq, federal tax cuts, and extended unemployment benefits is forecast to be \$100 billion over the next 18 months.

A resolution of the situation in Iraq, combined with the underlying strengths in the economy and the fiscal stimulus provided by war expenditures, the federal tax cuts, and unemployment compensation benefits, are expected to propel economic recovery beginning in the second half of 2003 and carrying on into 2004. Economic expansion will continue in 2005, but at a lower rate. For the forecast period, moderating growth in consumer spending will be offset by the jump in federal spending, the reversal of business investment in equipment from annual decreases to annual increases, and a decline in the value of the dollar that will improve trade. Global Insight, Inc. estimates that real GDP will grow at an annual rate of 5.5% the last two quarters of 2003. For the year, real GDP will increase 3.1%, compared to 2.4% for 2002. Real GDP growth will increase to 4.7% in 2004, and then moderate to 3.3% in 2005. Nominal GDP, which increased 3.6% in 2002, is projected to increase 5.2% in 2003, 7.2% in 2004, and 5.7% in 2005.

Consumer spending was the primary force behind economic growth in 2002. Purchasing power was enhanced by zero-percent financing for autos, federal tax cuts, and low mortgage interest rates that allowed individuals to borrow from the equity of their homes through refinancing or by taking out new home-equity loans. Despite the year-end drop in consumer confidence and slowdown in spending, the consumer will continue to be a key contributor to economic growth. Since the factors, such as mortgage refinancings, that spurred consumer spending are likely to be less significant, increasing income is expected to be the primary source of additional spending. Continued productivity gains and slowly increasing employment will cause incomes to grow. Increasing productivity gives employers the opportunity to increase wages for their workers and still maintain or increase profit margins. The Global Insight, Inc. forecast estimates that personal income will increase 5.0% in 2003, 6.5% in 2004, and 5.6% in 2005. Productivity (output per hour) is projected to increase 3.3% in 2003, 2.5% in 2004, then slow to 2.0% in 2005. Although consumer spending is expected to continue pushing economic growth during the next three years, the anticipated war with Iraq will weaken consumer spending in the first half of 2003. Oil prices are forecast to increase to almost \$32 per barrel in the first quarter and consumer confidence will fall. However, it is projected that later in 2003 oil prices will decline and consumer confidence and the stock market will surge. Spending is forecast to jump in late 2003 and 2004, as increasing incomes and the proposed federal tax cut provide consumers with more disposable income. Increased hiring over the forecast period will also raise the willingness of consumers to spend. The forecast estimates the annual growth in personal consumption expenditures will be 4.4% for the first half of 2003, then increase to 5.2% for the second half of the year. Annually, personal consumption expenditures are expected to increase 4.8% in 2003, 6.7% in 2004, and 5.8% in 2005. The consumer sentiment index is projected to jump almost ten points from 86.9 in 2003 to 96.4 in 2004. The index will then stabilize at 95.8 in 2005.

At the start of 2003, the state of affairs in the world is reinforcing risk-averse behavior in businesses. In addition to the possibility of war with Iraq and confrontation with North Korea, the strike against the national oil company in Venezuela has created fears of an oil-price spike. Until these situations are cleared up, businesses will be reluctant to undertake substantial investment projects. A strong economic recovery depends on businesses' willingness to take risks and invest. Without investment, businesses are not making commitments to future growth and new hires. The forecast assumes that, once the situation with Iraq is resolved, business investment will be a primary contributor to economic growth from the second half of 2003 through 2005. The underlying factors for increased investment seem to be in place. Businesses have engaged in cost-cutting activities over the past two years. Jobs have been pared, major capital investment projects have been delayed, and worker productivity has increased. As a result, income from sales is generally going directly to a firm's bottom line. Federal bonus depreciation tax provisions will provide additional short-term cash flow to certain businesses as well. Improved earnings and cash flow are expected to drive a rebound in capital spending. In addition, a weakening dollar should make exports more competitive and foreign goods more expensive. This will improve the pricing power of U. S. businesses. The forecast assumes that, in the aftermath of a successful resolution of the situation in Iraq, the economy will experience a substantial increase in growth. Finally, increasing consumer demand is helping raise earnings. Reflecting increased consumer spending and continued strong productivity, pre-tax corporate profits will surge to an annual rate of growth of

15.0% in 2003 and 16.5% in 2004. Businesses will make the capital purchases and start the capital investment projects that have been postponed the past two years. With the ratio of inventories to sales below the ten-year trend, new orders for replacements are likely. This should spur additional investment to support expanded output. Under the forecast, real nonresidential fixed investment is projected to increase 4.8% in 2003, 10.7% in 2004, and 8.2% in 2005. Similarly, real investment in equipment and software is expected to grow by 7.6% in 2003, 12.1% in 2004, and 7.0% in 2005.

The state of the labor market deteriorated in the fourth quarter of 2002, as the unemployment rate moved up to 6.0% and the economy lost jobs. Businesses have focused on reducing costs and have been reluctant to add workers. Moreover, increased productivity from the existing workforce lets businesses increase output without increasing the workforce. Employers will have to regain confidence in the stability of demand and profits before they begin hiring at a pace strong enough to significantly lower the unemployment rate. However, by historical standards, the 6.0% jobless rate is quite low at this stage of a recovery. Under the forecast, the unemployment rate is expected to edge up to 6.4% by the second quarter of 2003. Then, as the economy accelerates in the second half of the year, employment will improve gradually from the third quarter of 2003 through 2005. The annual unemployment rate is projected to be 6.2% in 2003, 5.3% in 2004, and 5.0% in 2005. After increasing only 0.7% in 2003, payroll employment will increase 2.6% in 2004 and 1.9% in 2005.

The housing market was a major contributor to economic growth in 2002. The historic low level of mortgage rates and decline of the stock market made housing a preferred investment. The low mortgage rates accelerated the transition of some households from renters to buyers, and allowed current owners to expand consumption of housing without significantly increasing their housing budgets. The Global Insight, Inc. forecast sees a reduced role for housing and construction as factors in economic growth. Early in 2003, a downswing in housing activity is anticipated once the negative impact of rising unemployment and weak wage gains outweigh the positive impact of low mortgage rates. Beginning in the second half of the year, increasing interest rates are expected to offset an improving employment outlook. The average conventional 30-year mortgage rate is projected to increase slightly from 6.5% in 2002 to 6.7% in 2003, and then jump to 8.1% in 2004, and 8.2% in 2005. Conversely, total housing starts are forecast to drop from 1.69 million units in 2002 to 1.56 million units in 2003, before rebounding somewhat to 1.64 million and 1.67 million units in 2004 and 2005, respectively. Sales of existing homes will follow a similar pattern, while sales of new homes will show annual declines. Real residential construction is projected to decrease 1.3% in 2003, and then increase 2.3% in 2004 and jump 5.4% in 2005.

The U. S. trade deficit is expected to set a record high in 2002, even though the dollar fell to a three-year low against the Euro by mid-January, 2003. Although the dollar has dropped from its peak in February, 2002, it has not fallen enough to create a competitive environment for U. S. exporters. In recessions and times of slow economic growth, trade deficits typically narrow as consumer spending weakens, and a weak economy tends to undermine the value of the dollar, and imports become more expensive and exports cheaper for foreign consumers. While U. S. economic growth has been sluggish, the economies of many of the United States' trading partners are growing more slowly, depressing overseas demand for U. S. goods, services, and financial assets. And even

though the value of the dollar is falling relative to the currencies of other trading partners, many economists believe it could take up to two years for a drop in the currency to translate into noticeable export gains or declining imports. Rather than show a fairly smooth quarterly pattern of gradual expansion of the trade deficit, the forecast projects a minor improvement in trade for several quarters of 2003, as automotive manufacturers reduce North American production and imports of completed vehicles into the United States. The trade deficit is then expected to deteriorate until later in the forecast period when foreign economies improve. The trade deficit is forecast to increase from \$414.9 billion in 2002 to \$421.5 billion in 2003 and \$431.1 billion in 2004, before dropping to \$423.2 billion in 2005.

The forecast indicates that, despite recent jumps in energy prices, the inflation environment remains benign. While many broad measures of inflation have been showing modest acceleration recently, and inflation is expected to rise, Global Insight, Inc. does not consider the rise alarming. The annual rate of increase in core inflation (the Consumer Price Index, excluding food and energy) decreased through November. Part of the drop in core inflation was due to lower wage cost escalation. Lower labor cost increases may have been the single most important reason inflation has been trending down over the past few years. The annual increase in total labor costs decreased from 4.6% in 2000 to 3.7% in 2002. The annual growth in labor costs is projected to decrease to 3.3% in 2003, then to increase 4.0% in 2004 and 3.7% in 2005, as the economy rebounds. However, there is some concern about the rising cost of employee benefits, particularly health care. The producer price index (PPI) for finished goods is also seemingly under control, having declined 1.3% in 2002, partially due to decreased auto prices. The CPI and PPI are expected to increase in the first half of 2003, as a result of the strike against the Venezuelan national oil company and the possibility of war in Iraq. The PPI for energy is expected to increase 15.3% in the first quarter of 2003, while the CPI for energy will be up 17.7% for the same period. However, when these matters are resolved, energy prices are expected to drop. The drop in energy prices is expected to dampen the inflationary effects of the increased ability of producers to raise prices as the economy recovers beginning in the second half of 2003. Moreover, sluggish growth in the manufacturing sector and moderate increases in employment costs will keep prices under control. The annual change in the PPI is expected to be 1.2% in 2003 and 2004, and 1.4% in 2005. The annual increase in the CPI is projected to be 2.3% in 2003, 2.4% in 2004, and 2.6% in 2005. Finally, core inflation is forecast to grow 2.2% in 2003 and 2.7% in both 2004 and 2005.

For most of the past two years, monetary policy has been the primary government tool used to manage the economy. The Federal Reserve's actions to continuously cut interest rates have thus far prevented the economy from tumbling into a major recession. The rate reductions have had the greatest effect on the automotive, housing, and mortgage markets. However, the lower rates have not had a significant effect on business investment. Global Insight, Inc. does not expect the Federal Reserve to take any actions during the first two quarters of 2003. Once the situation in Iraq is successfully resolved, economic growth will begin to surge and pressure will increase on prices. The forecast indicates that, in order to head off any inflationary pressures related to the recovery, the Federal Reserve will approve a rate hike next summer. The timing could be affected by the situation in Iraq or passage of a version of the administration's fiscal package.

In early January, President Bush proposed a fiscal stimulus package of tax cuts, extended unemployment compensation benefits, and personal re-employment accounts, with a total cost of almost \$700 billion over ten years. [The extended unemployment benefits package has already been enacted into law.] As noted, the forecast includes the estimated effect of a stimulus package on the economy. In addition, the forecast assumes that Congress will pass an omnibus budget bill that is close to the administration's target. Increased federal outlays are anticipated for income security, Medicare, Medicaid, and defense. The federal deficit is expected to be \$300 billion or more for the next two years. A budget surplus is not projected until 2011.

Over the past six quarters, state and local governments, in aggregate, have been running an annual operating deficit of about \$50 billion, or about 4% of their operating budgets. This amounts to about 20% of non-wage, non-transfer spending. Since state and local governments must have balanced budgets, these governments have worked to fund the deficits mainly through the use of reserve funds, accounting adjustments, and short-term borrowing. These devices are generally not permanent solutions. As a result, Global Insight, Inc. anticipates that, during the next few years, state and local governments will use layoffs and spending cuts to bring their budgets back into balance. Also, some revenue increases, beyond cigarette taxes and casino gambling, are anticipated.

Table 2 shows projected values for several economic indicators that underlie the general fund revenue estimates for 2002-03 and the 2003-05 biennium.

**TABLE 2**

**Summary of National Economic Indicators**  
**Global Insight, Inc.**  
**January, 2003**  
**(\$ in Billions)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Nominal Gross Domestic Product	\$10,448.9	\$10,987.1	\$11,775.8	\$12,448.7
Percent Change	3.6%	5.2%	7.2%	5.7%
Real Gross Domestic Product	\$9,437.7	\$9,730.0	\$10,188.0	\$10,524.3
Percent Change	2.4%	3.1%	4.7%	3.3%
Consumer Price Index	1.6%	2.3%	2.4%	2.6%
Personal Income	\$8,947.0	\$9,391.6	\$10,004.3	\$10,566.7
Percent Change	3.0%	5.0%	6.5%	5.6%
Personal Consumption Expenditures	\$7,299.0	\$7,650.6	\$8,164.6	\$8,640.9
Percent Change	4.5%	4.8%	6.7%	5.8%
Corporate Profits Before Tax	\$659.4	\$758.4	\$883.4	\$851.1
Percent Change	-1.6%	15.0%	16.5%	-3.7%
Unemployment Rate	5.8%	6.2%	5.3%	5.0%

The January, 2003, Global Insight, Inc. economic forecast includes a fairly extensive list of risks that could have an effect on the U. S. economy in 2003, which are described below. Most of these risks would negatively impact the economy; however, the last three risks would lead to stronger growth.

Extensive War with Iraq. Although the effects of a short war with Iraq have been built into the forecast, there is a possibility that the war could be longer and more difficult. In such a scenario, oil prices would increase more and the negative impacts on the stock market and consumer confidence would be greater. The additional uncertainty and higher oil prices could trigger recessions in the United States and other countries.

Major Terrorist Attack. A major terrorist attack in the United States or Europe would severely damage business and consumer confidence and reduce the prospects for economic recovery.

Stock Market Dive. Lackluster earnings, further corporate scandals, and geopolitical events, such as a nuclear showdown with North Korea, could cause stock prices to drop again. Though

unlikely, a further large decrease in key market indexes could significantly weaken consumer spending and prevent a recovery in capital expenditures.

Housing "Bubble" Bursts. About a dozen urban housing markets in the U. S. have exhibited some symptoms of "bubble" activity, especially at the high ends of the price spectrum. Recent data indicates that these "bubbles" are slowly deflating rather than bursting. A plunge in housing prices could only occur if interest rates jumped, which is a remote possibility in 2003. However, a drop in housing wealth could reduce consumer spending.

U. S. Dollar Crashes. If the U. S. dollar were to fall precipitously, both inflation and interest rates in the U.S. could spike. A plunge in the dollar would also undermine the export-led recoveries in Europe and Asia. Global Insight, Inc. indicates that the odds of a crash in the value of the dollar are low for two reasons. First, stronger growth in the U. S. relative to most other parts of the world will support the dollar. Second, if the dollar actually started a free-fall, the Federal Reserve and central banks in other countries would likely intervene to prevent disruption of global markets.

A Financial Crisis in a Foreign Country. Many analysts worry that a world financial crisis could be set off by a default in a large, emerging market such as Brazil, or by a financial meltdown in Japan. The likelihood of this scenario is low.

Capital Spending Accelerates. Typically, spending on equipment and structures tends to rebound strongly after a recession. It is believed that worldwide weak growth and large amounts of excess capacity are discouraging companies from making capital investments. However, ratios of inventories to sales and corporate sector net investment to GDP are at historically very low levels. There is a possibility that there is a pent-up demand for capital spending that could take off after the uncertainty about the war with Iraq dissipates. This could significantly increase economic growth above the forecasted level.

Stronger Economic Growth in Europe and Japan. The forecast anticipates weak growth in Europe and Japan. The European Central Bank is showing greater willingness to promote growth. This, combined with more flexibility on fiscal policy, could mean greater growth in domestic European demand. At the same time, banking reform could occur in Japan. If accompanied by macroeconomic policies to offset any initial negative impact on growth, the net result could benefit the worldwide economy.

No War with Iraq. The forecast assumes a short war with Iraq. An alternative would be no attack on Iraq. Under this scenario, there would be less short-term fiscal stimulus from the federal government because of lower military spending. However, the economy would get a boost in 2003 from four other sources: (1) lower oil prices; (2) higher consumer sentiment, resulting in stronger consumer spending; (3) an earlier rebound in capital spending, particularly on equipment; and (4) higher economic growth in foreign trading partners, resulting in increased exports. Under this alternative, a broad recovery starts early in 2003.



## General Fund Tax Collections

Table 3 shows revenue estimates for all general fund tax sources for the 2002-03 fiscal year and each year of the 2003-05 biennium. Over the three-year period, these estimates are lower than the Department of Revenue's November 20 projections by \$646.1 million (\$177.5 million in 2002-03, \$215.1 million in 2003-04, and \$253.5 million in 2004-05). In the current fiscal year, the difference is primarily due to the individual income and sales taxes, and reflects more recent collections and employment data that are less favorable than the information that was available when DOR's estimates were prepared. In the two years of the 2003-05 biennium, overall growth rates similar to DOR's are projected (5.1% in 2003-04 and 5.6% in 2004-05). However, the reduced base-year (2002-03) estimate results in lower projections in each of the two out-years. Revenues from the estate tax are also expected to be significantly lower than DOR's figures during the next two fiscal years, based on collection patterns that prevailed prior to the recent federal and state law changes in that tax (as discussed later in this report in the section on estate taxes).

**TABLE 3**

### Projected General Fund Tax Collections (\$ in Millions)

	<u>2001-03 Biennium</u>		<u>2003-05 Biennium</u>	
	<u>2001-02</u> <u>Actual</u>	<u>2002-03</u> <u>Estimated</u>	<u>2003-04</u> <u>Estimated</u>	<u>2004-05</u> <u>Estimated</u>
Individual Income	\$4,979.7	\$5,120.0	\$5,410.0	\$5,800.0
Sales and Use	3,695.8	3,760.0	3,910.0	4,100.0
Corporate Income & Franchise	503.0	490.0	540.0	555.0
Public Utility	252.2	260.4	268.0	278.0
Excise				
Cigarettes	288.8	292.0	288.4	284.7
Liquor and Wine	36.0	36.3	37.2	38.5
Tobacco Products	13.9	15.9	16.8	17.9
Beer	9.6	9.7	9.8	9.9
Insurance Company	96.1	105.0	105.0	95.0
Estate	82.6	67.0	85.0	90.0
Miscellaneous Taxes	<u>62.5</u>	<u>67.2</u>	<u>71.3</u>	<u>74.7</u>
<b>TOTAL</b>	<b>\$10,020.2</b>	<b>\$10,223.5</b>	<b>\$10,741.5</b>	<b>\$11,343.7</b>
Change from Prior Year		\$203.3	\$518.0	\$602.2
Percent Change		2.0%	5.1%	5.6%

**Individual Income Tax.** Individual income tax receipts are estimated to total \$5,120.0 million in 2002-03, which represents a 2.8% increase over collections during 2001-02. For the 2003-05 biennium, individual income tax collections are estimated to be \$5,410.0 million in 2003-

04 and \$5,800.0 million in 2004-05. These figures represent increases of 5.7% and 7.2%, respectively, over prior year estimates, and are based on the forecast and assumptions about taxable personal income growth in 2003 and 2004.

**General Sales and Use Tax.** Sales tax revenues totaled \$3,695.8 million in 2001-02 and are estimated at \$3,760.0 million in 2002-03, \$3,910.0 million in 2003-04, and \$4,100.0 million in 2004-05. These projections are based on historical experience 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 1.7% in 2002-03, 4.0% in 2003-04, and 4.9% in 2004-05.

**Corporate Income and Franchise Tax.** Corporate income and franchise tax revenues are projected to decline from \$503.0 million in 2001-02 to \$490.0 million in 2002-03. Revenues are then forecast to increase to \$540.0 million in 2003-04 and to \$555.0 million in 2004-05.

The 2002-03 estimate reflects lower year-to-date corporate income and franchise tax collections and slow profit growth in the first quarter of 2003. Through December, 2002, monthly corporate income and franchise tax collections have declined significantly from 2001-02 monthly collections. In addition, corporate profits declined in 2002 and are not expected to rebound until the spring of 2003.

As the economy expands beginning in the second half of 2003, improving employment and consumer spending are expected to increase demand for business outputs and services. A surge in capital spending will also increase demand for business products. Continued productivity growth is expected to contribute to profit margins.

**Public Utility Taxes.** Public utility taxes are estimated to be \$260.4 million in 2002-03. The estimate represents a 3.3% increase over the \$252.2 million in utility taxes collected in 2001-02 and is based on year-to-date collections and assumptions about the pattern of estimated tax payments over the remainder of the fiscal year. Utility tax revenues are estimated at \$268.0 million in 2003-04 and \$278.0 million in 2004-05, representing year-over-year increases of 2.9% and 3.7%. These figures incorporate the reduced tax rate on wholesale electricity sales that was provided under 2001 Wisconsin Act 16 (the 2001-03 biennial budget), starting with receipts from electricity sales in 2004.

**Excise Taxes.** Excise taxes on cigarettes, tobacco products, and alcoholic beverages totaled \$348.3 million in 2001-02. These collections are projected to be \$353.9 million in 2002-03, \$352.2 million in 2003-04, and \$351.0 million in 2004-05. Revenues from the most significant of the excise taxes, the cigarette tax, are projected to decline during both years of the 2003-05 biennium, reflecting the continuation of a trend of gradual year-to-year consumption declines. An 18¢ increase in the cigarette excise tax (from 59¢ per pack to 77¢ per pack) was enacted in Act 16 and took effect on October 1, 2001. Because the higher rate will be in effect for the entirety of fiscal year 2002-03 but was in effect only for nine months of fiscal year 2001-02, a year-over-year

increase in revenues (1.1%) is projected for 2002-03, even though year-over-year pack sales are expected to decline.

Estimates of revenues from the tobacco products tax also reflect a rate increase--from 20% of the manufacturer's list price to 25% of the price, effective October 1, 2001. In addition, sales of tobacco products are expected to grow each year during the 2003-05 biennium, trending in the opposite direction of cigarettes.

The remaining excise taxes on beer, wine, and liquor are estimated to post modest year-over-year revenue increases during all three years for which estimates have been prepared.

**Insurance Premiums Taxes.** Insurance premiums taxes are projected to increase from \$96.1 million in 2001-02 to \$105 million in 2002-03 and in 2003-04. It is estimated that insurance premiums tax revenues will then decrease to \$95 million in 2004-05. The increased revenues in the first two years are due to a significant annual increase in premiums, mainly from higher prices and to a lesser extent from higher demand. Investment income is generally a significant source of income for insurers. In response to lower investment income, which reflects declining returns from equity markets, insurance companies have increased premium rates to maintain some level of profitability. Industrywide net written premiums are expected to increase 13.6% in 2002 and 12.3% in 2003. Insurance premiums tax collections to-date are significantly above last year's level. Collections are expected to moderate in 2005 as the improving economy and equity markets reduce the importance of premiums as a source of insurance company profits.

**Estate Taxes.** Estate tax revenues are estimated at \$67.0 million in 2002-03, \$85.0 million in 2003-04, and \$90.0 million in 2004-05. These estimates reflect a decrease of 18.9% in 2002-03 from 2001-02 collections of \$82.6 million, and increases of 26.9% and 5.9% in 2003-04 and 2004-05, respectively, over prior year estimates.

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. However, the variation in actual collections and estimated estate taxes from 2001-02 through 2004-05 primarily reflects the effects of the federal law changes under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and subsequent state law changes under Act 16.

Prior to Act 16, state estate taxes were coupled to federal law. Following the federal estate tax reductions under EGTRRA (which provided for the gradual elimination of the estate tax, starting with deaths in 2002, and the phase-out of the federal credit for state death taxes upon which the state estate tax was based), Act 16 decoupled state estate taxes from current federal law. Act 16 provided, instead, that state estate taxes would be linked to federal law in effect on December 31, 2000, (prior to the EGTRRA reductions) for a specified period starting October 1, 2002. The combined effect of the federal and state law changes was to temporarily reduce state estate taxes, which is reflected in the estimate of \$67.0 million in estate taxes in 2002-03. Starting with fiscal year 2003-04, it is expected that state estate tax revenues will return to levels similar to those

received prior to the change in the federal law. The estimates for 2003-04 and 2004-05 are based on collection patterns prior to EGTRRA.

**Miscellaneous Taxes.** Collections from the miscellaneous taxes--the real estate transfer fee, which comprises over 80% of miscellaneous tax revenues, and municipal and circuit court-related fees--are expected to increase by 7.4% during 2002-03, to an estimated \$67.2 million, then exhibit somewhat slower growth in the two years of the 2003-05 biennium, 6.1% and 4.8%, respectively. Interest rate increases expected to occur during the economic recovery, with their dampening effects on home sales and other property transfers, are the primary factor underlying the slower growth estimates in future years.

We will continue to monitor tax collections, economic forecasts, and expenditures and keep you apprised of any 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

**General Fund Information; General Fund Cash Flow (Part II–Pages 36-44).**

The following provide updates to various tables containing general fund information. Unless noted, the following information *reflects all fiscal bills through the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1) and the revised revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003.*

Many of the following tables show negative cash-basis balances for June 30, 2003. Wisconsin Statutes provide certain administrative remedies, such as interfund borrowing, to deal with periods when the balance, on a cash basis, is negative. If the amount of interfund borrowing available to the general fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

**Table II-7; State Budget-General Fund (Part II–Page 39).** Replace the table with the following:

**ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2002 TO FEBRUARY 28, 2003  
PROJECTED GENERAL FUND CASH FLOW; MARCH 1, 2003 TO JUNE 30, 2003<sup>(a)</sup>**

	(In Thousands of Dollars)											
	July 2002	August 2002	September 2002	October 2002	November 2002	December 2002	January 2003	February 2003	March 2003	April 2003	May 2003	June 2003
<b>BALANCES<sup>(b)</sup></b>												
<b>Beginning Balance</b>	-421,915	-616,711	-151,597	312,086	637,718	631,559	159,706	833,727	940,167	164,843	539,210	616,217
<b>Ending Balance<sup>(c)</sup></b>	-616,711	-151,597	312,086	637,718	631,559	159,706	833,727	940,167	164,843	539,210	616,217	-442,466
<b>Lowest Daily Balance<sup>(e)</sup></b>	-835,846	-682,211	-292,593	146,623	562,154	-164,082	159,706	677,134	30,477	-50,730	211,391	-885,348
<b>RECEIPTS</b>												
<b>TAX RECEIPTS</b>												
Individual Income	515,747	350,778	629,833	469,429	306,427	591,751	753,704	448,331	350,156	827,814	377,062	539,169
Sales & Use	360,882	367,587	361,239	344,735	335,382	318,549	366,893	283,770	277,257	300,438	340,468	332,183
Corporate Income	14,037	12,214	110,295	24,404	14,643	120,855	21,494	12,509	132,435	24,079	14,679	107,958
Public Utility	197	19	211	4,299	145,137	5,492	-2,773	5,070	195	7,831	122,370	244
Excise	32,420	32,992	32,434	32,234	33,477	26,215	28,962	31,172	25,875	28,564	27,740	30,862
Insurance	1,086	1,897	22,836	784	1,291	23,036	1,889	16,309	18,478	25,134	4,074	23,885
Inheritance	6,834	7,406	14,701	3,871	4,538	3,497	7,799	2,124	6,103	7,820	3,001	4,890
<b>Subtotal Tax Receipts</b>	<b>931,203</b>	<b>772,893</b>	<b>1,171,549</b>	<b>879,756</b>	<b>840,895</b>	<b>1,089,395</b>	<b>1,177,968</b>	<b>799,285</b>	<b>810,499</b>	<b>1,221,680</b>	<b>889,394</b>	<b>1,039,191</b>
<b>NON-TAX RECEIPTS</b>												
Federal	451,110	384,251	473,314	500,946	491,232	443,561	628,967	537,288	407,376	460,810	448,197	477,983
Other & Transfers <sup>(d)</sup>	318,163	479,857	381,016	225,312	150,199	173,532	298,922	385,219	301,938	303,491	287,377	286,292
Note Proceeds <sup>(e)</sup>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Subtotal Non-Tax Receipts</b>	<b>769,273</b>	<b>864,108</b>	<b>854,330</b>	<b>726,258</b>	<b>641,431</b>	<b>617,093</b>	<b>927,889</b>	<b>922,507</b>	<b>709,314</b>	<b>764,301</b>	<b>735,574</b>	<b>764,275</b>
<b>TOTAL RECEIPTS</b>	<b>1,700,476</b>	<b>1,637,001</b>	<b>2,025,879</b>	<b>1,606,014</b>	<b>1,482,326</b>	<b>1,706,488</b>	<b>2,105,857</b>	<b>1,721,792</b>	<b>1,519,813</b>	<b>1,985,981</b>	<b>1,624,968</b>	<b>1,803,466</b>
<b>DISBURSEMENTS</b>												
Local Aids <sup>(f)</sup>	903,055	166,454	704,521	101,549	410,446	1,175,368	223,251	244,546	1,197,945	117,616	247,682	1,807,322
Income Maintenance	357,630	355,727	306,119	359,298	357,037	365,688	357,190	353,772	300,811	377,619	337,044	307,078
Payroll and Related	289,522	317,944	213,252	361,884	396,657	234,841	410,335	305,602	221,408	333,915	435,905	249,021
Tax Refunds	46,735	41,583	44,505	55,983	70,935	133,298	70,374	377,534	351,035	320,504	242,077	218,062
Debt Service	0	1,159	0	120,742	1,281	0	0	893	0	255,480	29,399	0
Miscellaneous	298,330	289,020	293,799	280,926	252,129	269,146	370,686	333,005	223,938	206,480	255,854	280,666
Note Repayment <sup>(e)</sup>	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL DISBURSEMENTS</b>	<b>1,895,272</b>	<b>1,171,887</b>	<b>1,562,196</b>	<b>1,280,382</b>	<b>1,488,485</b>	<b>2,178,341</b>	<b>1,431,836</b>	<b>1,615,352</b>	<b>2,295,137</b>	<b>1,611,614</b>	<b>1,547,961</b>	<b>2,862,149</b>

(a) Projections include assumptions from all fiscal bills enacted into law through 2003 Wisconsin Act 1 but are presented on a cash basis and not a budgetary basis. The projections also reflect the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003. Projections do not include interfund transfers.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The designated funds are expected to range from \$150 to \$300 million during the 2002-03 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately \$50 million during the 2002-03 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately \$556 million for the 2002-03 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately \$334 million) for a period of up to 30 days. If the amount of interfund borrowing available to the general fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(d) Reflects receipt on August 1, 2002 of \$231 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement.

(e) Does not include any proceeds from the issuance of operating notes and as a result does not include any impoundment payments.

(f) Reflects use in November 2002 of approximately \$600 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement to make a portion of the shared revenue payment.

**Table II-8; General Fund Cash Receipts and Disbursements Year To Date; Compared to Estimates and Previous Fiscal Year. (Page 40).** Update the table with the following:

	<u>FY02 through February 2002</u>	<u>FY03 through February 2003</u>			Difference FY02 Actual to FY03 Actual
	<u>Actual</u>	<u>Actual</u>	<u>Estimate<sup>(b)</sup></u>	<u>Variance</u>	
<b>RECEIPTS</b>					
<b>Tax Receipts</b>					
Ind. Income	3,991,162	4,066,000	4,077,796	(11,796)	74,838
Sales	2,759,612	2,739,037	2,744,095	(5,058)	(20,575)
Corp. Income	338,371	330,451	347,762	(17,311)	(7,920)
Public Utility	137,139	157,652	135,356	22,296	20,513
Excise	236,033	249,906	250,252	(346)	13,873
Insurance	56,869	69,128	58,205	10,923	12,259
Inheritance	57,990	50,770	46,648	4,122	(7,220)
<b>Total Tax Receipts</b>	<b>7,577,176</b>	<b>7,662,944</b>	<b>7,660,114</b>	<b>2,830</b>	<b>85,768</b>
<b>Non-Tax Receipts</b>					
Federal	3,242,418	3,910,669	3,294,653	616,016	668,251
Other and Transfers	2,190,331	2,412,220	2,616,822	(204,602)	221,889
Note Proceeds <sup>(c)</sup>	800,000	-	-	-	(800,000) <sup>(c)</sup>
<b>Total Non-Tax Receipts</b>	<b>6,232,749</b>	<b>6,322,889</b>	<b>5,911,475</b>	<b>411,414</b>	<b>90,140</b>
<b>TOTAL RECEIPTS</b>	<b>13,809,925</b>	<b>13,985,833</b>	<b>13,571,589</b>	<b>414,244</b>	<b>175,908</b>
<b>DISBURSEMENTS</b>					
Local Aids	4,384,536	3,929,190	4,039,901	110,711	(455,346)
Income Maintenance	2,764,696	2,812,461	2,634,131	(178,330)	47,765
Payroll & Related	2,302,853	2,530,037	2,540,705	10,668	227,184
Tax Refunds	847,448	840,947	836,429	(4,518)	(6,501)
Debt Service	134,595	124,075	134,842	10,767	(10,520)
Miscellaneous	2,491,296	2,387,041	2,147,585	(239,456)	(104,255)
Note Repayment <sup>(c)</sup>	196,946	-	-	-	(196,946)
<b>TOTAL DISBURSEMENTS</b>	<b>13,122,370</b>	<b>12,623,751</b>	<b>12,333,593</b>	<b>(290,158)</b>	<b>(498,619)</b>
<b>VARIANCE FY03 YEAR-TO-DATE</b>				<b>124,086</b>	

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly general fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.
- (b) Estimates include assumptions from all fiscal bills enacted into law through 2003 Wisconsin Act 1 but are presented on a cash basis and not a budgetary basis. The projections also reflect the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003.
- (c) Operating Notes were issued in the 2001-02 fiscal year but, as of the date of this Official Statement, have not been issued for the 2002-03 fiscal year.

**Table II-9; General Fund Monthly Position (Page 41).** Update the table with the following:

**GENERAL FUND MONTHLY CASH POSITION<sup>(a)</sup>**  
**July 1, 2000 through February 28, 2003 — Actual**  
**March 1, 2003 through June 30, 2003 — Estimated<sup>(b)</sup>**  
 (Amounts in Thousands)

	<u>Starting Date</u>	<u>Starting Balance</u>	<u>Receipts<sup>(c)</sup></u>	<u>Disbursements<sup>(c)</sup></u>
2000	July.....	\$ 671,608	\$ 1,405,811	\$ 1,674,899
	August.....	402,520	1,391,600	1,036,240
	September.....	757,880	1,716,848	1,540,488
	October.....	934,240	1,545,868	1,039,609
	November.....	1,440,499	1,451,918	1,886,868
	December.....	1,005,549	<sup>(d)</sup> 1,335,205	2,070,373
2001	January.....	270,381	2,143,861	1,190,946
	February.....	1,223,296	1,494,577	1,339,377
	March.....	1,378,496	1,381,012	2,312,836
	April.....	446,672	2,042,531	1,469,093
	May.....	1,020,110	1,800,948	1,405,982
	June.....	1,415,076	<sup>(d)</sup> 1,698,317	2,831,828
	July.....	281,565	<sup>(d)</sup> 1,575,450	1,853,617
	August.....	3,398	<sup>(d)</sup> 1,497,565	1,103,304
	September.....	397,659	<sup>(d)</sup> 2,520,198	1,627,038
	October.....	1,290,819	1,631,893	1,101,102
	November.....	1,821,610	1,469,470	2,347,429
	December.....	943,651	<sup>(d)</sup> 1,530,624	2,090,608
2002	January.....	383,667	2,014,638	1,293,585
	February.....	1,104,720	1,570,087	1,705,687
	March.....	969,120	<sup>(d)</sup> 1,530,532	2,730,873
	April.....	(231,221)	<sup>(d)</sup> 2,070,342	1,573,434
	May.....	265,687	<sup>(d)</sup> 2,155,171	1,844,456
	June.....	576,402	<sup>(d)</sup> 1,753,300	2,751,617
	July.....	(421,915)	<sup>(d)</sup> 1,700,476	1,895,272
	August.....	(616,711)	<sup>(d)</sup> 1,637,001	1,171,887
	September.....	(151,597)	<sup>(d)</sup> 2,025,879	1,562,196
	October.....	312,086	1,606,014	1,280,382
	November.....	637,718	1,482,326	1,488,485
	December.....	631,559	<sup>(d)</sup> 1,706,488	2,178,341
2003	January.....	159,706	2,105,857	1,431,836
	February.....	833,727	1,721,792	1,615,352
	March.....	940,167	1,519,813	2,295,137
	April.....	164,843	<sup>(d)</sup> 1,985,981	1,611,614
	May.....	539,210	1,624,968	1,547,961
	June.....	616,217	<sup>(d)</sup> 1,803,466	2,862,149

<sup>(a)</sup> The General Fund balances presented in this table are not based on Generally Accepted Accounting Principles (GAAP).

<sup>(b)</sup> The monthly receipt and disbursement projections for March 1 through June 30, 2003 are based on all fiscal bills through 2003 Wisconsin Act 1 and also reflect the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003.

<sup>(c)</sup> The amounts shown in September 2001 include receipts from the issuance of operating notes and amounts shown in February–May 2002 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued in 2000-01 fiscal year, and as of this date, no operating notes have been issued for the 2002-03 fiscal year. As a result, the amounts shown for 2002-03 fiscal year do not include receipts or impoundment payments resulting from the issuance of any operating notes.

<sup>(d)</sup> The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately \$556 million for the 2002-03 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately \$334 million for the 2002-03 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the general fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

**Source: Wisconsin Department of Administration.**



**Table II-10; Balances in Funds Available for Interfund Borrowing (Page 42).** Update the table with the following:

**BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING<sup>(a)</sup>**  
**July 31, 2000 to February 28, 2003 — Actual**  
**March 31, 2003 to June 30, 2003— Estimated<sup>(b)</sup>**  
 (Amounts in Millions)

<u>Month (Last Day)</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
January .....		\$ 4,435	\$ 5,360	\$ 5,025
February .....		4,786	5,463	5,236
March .....		5,213	5,628	2,011 <sup>(b)</sup>
April .....		4,952	5,135	1,825
May .....		4,680	4,819	1,809
June .....		4,925	5,001	1,882
July .....	\$ 4,084	5,275	5,401	
August .....	3,743	4,785	4,844	
September .....	3,796	4,897	4,705	
October .....	3,378	4,328	4,043	
November .....	3,489	4,242	4,064	
December .....	3,701	4,737	4,437	

<sup>(a)</sup> Consists of the following funds:

Transportation	Common School
Conservation (Partial)	Normal School
Wisconsin Health Education Loan Repayment	University
Waste Management	Local Government Investment Pool
Wisconsin Election Campaign	Farms for the Future
Investment & Local Impact	Agrichemical Management
Elderly Property Tax Deferral	Historical Society Trust
Lottery	School Income Fund
Children's Trust	Benevolent
Racing	Groundwater
Work Injury Supplemental Benefit	Petroleum Storage Environmental Cleanup
Unemployment Compensation Interest Repayment	Environmental Improvement Fund
Uninsured Employers	Environmental
Health Insurance Risk Sharing Plan	Recycling
Local Government Property Insurance	University Trust Principal
Patients Compensation	Veterans Mortgage Loan Repayment
Mediation	State Building Trust
Agricultural College	

<sup>(b)</sup> Estimated balances for March 31, 2002 and subsequent months include as an assumption that only 20% of the amount will be available for the local government investment pool. The local government investment pool is composed of funds deposited by local units of government that may be withdrawn without notice. Balances in the local government investment pool the past five years have ranged from a low of \$2.096 billion on November 14, 1997 to a high of \$4.684 billion on March 26, 2002. Under Section 20.002 (11), Wisconsin Statutes, interfund borrowing is limited to 5% of the total general-purpose revenue appropriations then in effect and an additional 3% for a period of up to 30 days. The 5% amount is approximately \$556 million and the additional 3% amount for a period of up to 30 days is approximately \$334 million for the 2002-03 fiscal year.

**Source: Wisconsin Department of Administration.**

**Table II-11; General Fund Recorded Revenues (Page 43).** Update the table with the following:

**(Agency Recorded Basis)**  
**July 1, 2002 to February 28, 2003 compared with previous year <sup>(a)</sup>**

	Annual Fiscal Report Revenues <u>2001-02FY<sup>(b)</sup></u>	Projected Revenues <u>2002-03 FY<sup>(c)</sup></u>	Recorded Revenues July 1, 2001 to <u>February 28, 2002<sup>(d)</sup></u>	Recorded Revenues July 1, 2002 to <u>February 28, 2003<sup>(d)</sup></u>
Individual Income Taxes.....	\$ 4,979,662,000	\$ 5,120,000,000	\$ 3,159,592,128	\$ 3,210,296,038
General Sales and Use Taxes..	3,695,796,000	3,760,000,000	2,191,508,797	2,193,856,484
Corporate Franchise and Income Taxes.....	503,008,000	490,000,000	242,096,444	223,959,462
Public Utility Taxes .....	252,237,000	260,400,000	128,355,500	149,089,622
Excise Taxes .....	348,282,000	353,900,000	205,037,730	213,956,082
Inheritance Taxes .....	82,635,000	67,000,000	56,635,031	49,608,726
Insurance Company Taxes.....	96,055,000	105,000,000	43,313,838	50,664,066
Miscellaneous Taxes .....	79,028,000	67,200,000	45,018,117	54,749,598
SUBTOTAL.....	<u>10,036,703,000</u>	<u>10,223,500,000</u>	<u>6,071,557,584</u>	<u>6,146,180,079</u>
Federal and Other Inter- governmental Revenues <sup>(f)</sup> .....	6,372,653,000	4,860,982,500	3,687,929,274	4,521,792,426
Dedicated and Other Revenues <sup>(g)</sup> .....	<u>4,440,718,000</u>	<u>3,528,657,300</u>	<u>2,390,121,996</u>	<u>2,820,409,012</u>
TOTAL.....	<u>\$ 20,850,074,000</u>	<u>\$ 18,613,139,800</u>	<u>\$ 12,149,608,854</u>	<u>\$ 13,488,381,518</u>

(a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2001-02 fiscal year, dated October 15, 2002.

(c) Projected revenues are based on all fiscal bills through 2003 Wisconsin Act 1 and also reflect the revenue estimates for the 2002-03 fiscal year that were released by the Legislative Fiscal Bureau on January 23, 2003.

(d) The amounts shown are 2001-02 fiscal year revenues as recorded by state agencies.

(e) The amounts shown are 2002-03 fiscal year revenues as recorded by state agencies.

(f) This category includes intergovernmental transfers. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

(g) Certain transfers between General Fund appropriations are recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

**Source: Wisconsin Department of Administration.**

**Table II-12; General Fund Recorded Expenditures By Function (Page 44).** Update the table with the following:

**(Agency Recorded Basis)  
July 1, 2002 to February 28, 2003 compared with previous year <sup>(a)</sup>**

	Annual Fiscal Report Expenditures <u>2001-02 FY<sup>(b)</sup></u>	Appropriations <u>2002-03 FY<sup>(c)</sup></u>	Recorded Expenditures July 1, 2001 to <u>February 28, 2002<sup>(d)</sup></u>	Recorded Expenditures July 1, 2002 to <u>February 28, 2003<sup>(e)</sup></u>
Commerce.....	\$ 212,449,000	\$ 228,319,500	\$ 137,670,180	\$ 143,764,521
Education.....	8,603,653,000	8,849,025,300	4,706,940,949	4,987,850,769
Environmental Resources.....	227,949,000	248,745,100	125,994,449	134,663,518
Human Relations & Resources.....	8,538,786,000	7,552,695,500	5,323,628,788	5,769,875,906
General Executive.....	614,520,000	637,880,200	406,477,033	418,740,527
Judicial.....	107,534,000	103,786,900	75,929,814	77,224,620
Legislative.....	62,114,000	57,649,200	38,520,124	37,195,808
General Appropriations.....	<u>2,881,603,000</u>	<u>1,386,187,500</u>	<u>2,050,241,953</u>	<u>1,697,689,594</u>
<b>TOTAL.....</b>	<u><u>\$ 21,248,608,000</u></u>	<u><u>\$ 19,064,289,200</u></u>	<u><u>\$ 12,865,403,290</u></u>	<u><u>\$ 13,267,005,262</u></u>

(a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2001-02 fiscal year, dated October 15, 2002.

(c) Estimated appropriations based on all fiscal bills through 2003 Wisconsin Act 1.

(d) The amounts shown are 2001-02 fiscal year expenditures as recorded by state agencies.

(e) The amounts shown are 2002-03 fiscal year expenditures as recorded by state agencies.

**Source: Wisconsin Department of Administration.**

## Appendix B

### EXPECTED FORM OF LEGAL OPINION

*Upon delivery of the Bonds, it is expected that Foley & Lardner will deliver a legal opinion in substantially the following form:*

(Letterhead of Foley & Lardner)

**\$13,740,000**

**STATE OF WISCONSIN**

**GENERAL OBLIGATION REFUNDING BONDS OF 2003, SERIES 2**

We have served as bond counsel in connection with the issuance by the State of Wisconsin (**State**) of its \$13,740,000 General Obligation Refunding Bonds of 2003, Series 2, dated April 1, 2003 (**Bonds**). The Bonds are being issued pursuant to Chapter 18, Wisconsin Statutes (**Act**) and resolutions adopted by the State of Wisconsin Building Commission (**Commission**) on September 18, 2002 and February 27, 2003 (**Resolutions**).

We examined the law, a certified copy of the proceedings relating to the issuance of the Bonds, and certifications of public officials and others. As to questions of fact material to our opinion, we relied upon those certified proceedings and certifications without independently undertaking to verify them.

Based upon this examination, it is our opinion that, under existing law:

1. The Bonds are valid and binding general obligations of the State.
2. The Resolutions have been duly adopted by the Commission and is a valid and binding obligation of the State enforceable upon the State as provided in the Resolutions.
3. The full faith, credit, and taxing power of the State are irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Bonds as the Bonds mature and become due. There has been irrevocably appropriated, as a first charge upon all revenues of the State, a sum sufficient for such purpose.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes. It also is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. For the purpose of computing the alternative minimum tax imposed on certain corporations, however, interest on the Bonds is taken into account in determining adjusted current earnings. The State must comply with all requirements of the Internal Revenue Code that must be satisfied after the Bonds are issued for interest on the Bonds to be, or continue to be, excluded from gross income for federal income tax purposes. The State has agreed to do so. A failure to comply may cause interest on the Bonds to be included in gross income for federal income tax purposes, in some cases retroactive to the date the Bonds were issued. This letter expresses no opinion about other federal tax law consequences regarding the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or an equitable proceeding). This letter expresses no opinion as to the availability of any particular form of judicial relief.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any,

stated in the Official Statement), and we express no opinion relating thereto (except only the matters set forth as our opinion in the Official Statement). However, in serving as bond counsel, nothing has come to our attention that would lead us to believe that the Official Statement (except for the financial statements and other financial or statistical data included therein, as to which we express no view), as of the date of delivery of the Bonds, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

This letter speaks as of its date. We assume no duty to change this letter to reflect any facts or circumstances that later come to our attention or any changes in law.

Very truly yours,

FOLEY & LARDNER

**Appendix C**  
**FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation**  
**Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
PRESIDENT

Attest: \_\_\_\_\_

Assistant Secretary

STD-R-6  
4/95