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.

$175,000,000
STATE OF WISCONSIN
GENERAL OBLIGATION REFUNDING BONDS OF 2004, SERIES 3

Dated: Date of Delivery **Due: May 1 as shown below**

***Ratings**-See pages 3-4*

Based on FGIC Insurance	Underlying Ratings	
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 11-12*.

Redemption Bonds maturing on or after May 1, 2015 are subject to optional redemption at par (100%) on any date on or after May 1, 2014—*See page 2.*

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

Insurance A municipal bond new issue insurance policy will be issued concurrently with the issuance of the Bonds by Financial Guaranty Insurance Company, guaranteeing the payment when due of the principal of and interest on the Bonds maturing May 1, 2007 through 2022—*See pages 8-10.*

FGIC Financial Guaranty Insurance Company

Purpose Proceeds are being used to fund general obligation refunding notes that were previously issued to refund general obligation bonds or notes that matured on or about May 1, 2004—*See pages 1-2*.

Interest Payment Dates May 1 and November 1, beginning November 1, 2004

Closing/Settlement On or about June 15, 2004

Denominations Multiples of $5,000

Bond Counsel Foley & Lardner LLP

Registrar/Paying Agent Secretary of Administration

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

Book-Entry System The Depository Trust Company—*See pages 4-5*.

2003 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, 2003.

The prices and yields listed below were determined by negotiated sale. The Bonds were purchased at an aggregate purchase price of $186,966,489.54.

CUSIP	Due (May 1)	Principal Amount	Interest Rate	Yield at Issuance	Price at Issuance		First Call Date	Call Price
97705L CH8	2006	$ 15,085,000	4.00%	2.20%	103.291%		Not Callable	-
97705L CJ4	2007	15,685,000	5.00	2.59	106.638		Not Callable	-
97705L CK1	2008	16,470,000	5.00	3.01	107.228		Not Callable	-
97705L CL9	2009	17,295,000	5.00	3.30	107.597		Not Callable	-
97705L CM7	2010	18,150,000	5.25	3.53	109.053		Not Callable	-
97705L CN5	2011	18,125,000	5.25	3.70	109.332		Not Callable	-
97705L CP0	2012	11,710,000	5.25	3.89	109.147		Not Callable	-
97705L CQ8	2013	12,325,000	5.25	4.04	108.947		Not Callable	-
97705L CR6	2014	12,975,000	5.25	4.16	108.750		Not Callable	-
97705L CS4	2015	12,175,000	5.25	4.29	107.658	(a)	5/1/2014	100%
97705L CT2	2016	5,580,000	5.25	4.41	106.662	(a)	5/1/2014	100
97705L CU9	2017	4,635,000	5.25	4.51	105.840	(a)	5/1/2014	100
97705L CV7	2018	4,555,000	5.25	4.59	105.189	(a)	5/1/2014	100
97705L CW5	2019	3,720,000	5.25	4.67	104.542	(a)	5/1/2014	100
97705L CX3	2020	2,890,000	5.25	4.74	103.980	(a)	5/1/2014	100
97705L CY1	2021	1,765,000	5.25	4.80	103.501	(a)	5/1/2014	100
97705L CZ8	2022	1,860,000	5.25	4.87	102.945	(a)	5/1/2014	100

(a) These Bonds are priced to the May 1, 2014 first call date.

Bear, Stearns & Co. Inc.

Citigroup **JPMorgan** **Loop Capital Markets, LLC**

May 26, 2004

This document is the State's *official* statement about the offering of the Bonds; that is, it is the only document the State has authorized for providing information about the Bonds. This document is not 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 is not 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 are not 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, the Underwriters may overallot 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.

TABLE OF CONTENTS

STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF THE BONDS

BUILDING COMMISSION MEMBERS

Voting Members	**Term of Office Expires**
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 Spencer Black	January 3, 2005
Representative Jeff Fitzgerald	January 3, 2005
Representative Daniel Vrakas	January 3, 2005
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Dave Haley, State Chief Architect Department of Administration	——
Building Commission Secretary	
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

Ms. Peggy A. Lautenschlager State Attorney General	January 8, 2007
Mr. Marc J. Marotta, Secretary Department of Administration	At the pleasure of the Governor

DEBT MANAGEMENT AND DISCLOSURE

Department of Administration
Capital Finance Office
P.O. Box 7864
101 E. Wilson Street, 10th Floor
Madison, WI 53707-7864
Telefax (608) 266-7645
capfin@doa.state.wi.us

Mr. Frank R. Hoadley
Capital Finance Director
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frank.hoadley@doa.state.wi.us

Mr. Lawrence K. Dallia
Assistant Capital Finance Director
(608) 267-7399
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Mr. David R. Erdman
Capital Finance Officer
(608) 267-0374
david.erdman@doa.state.wi.us

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 2004, Series 3
Principal Amount:	$175,000,000
Denominations:	Multiples of $5,000
Date of Issue:	Date of delivery
Record Dates:	April 15 and October 15
Interest Payment:	May 1 and November 1, beginning November 1, 2004
Maturities:	May 1, 2006-2022—*See cover*
Redemption:	*Optional* — Bonds maturing on or after May 1, 2015 are subject to optional redemption at par (100%) on any date on or after May 1, 2014—*See page 2*
Form:	Book entry only—*See pages 4-5*
Paying Agent:	All payments of principal and interest on the Bonds will be paid through the Secretary of Administration, as paying agent. All payments initially will be made to The Depository Trust Company, which will distribute payments through DTC Participants as described herein.
Security:	The Bonds are general obligations of the State of Wisconsin. As of December 1, 2003, there were $4,370,162,682 of outstanding general obligations of the State.
Insurance	A municipal bond new issue insurance policy will be issued concurrently with the issuance of the Bonds by Financial Guaranty Insurance Company, guaranteeing the payment when due of the principal of and interest on the Bonds maturing May 1, 2007 through 2022—*See pages 8-10*.
Authority for Issuance:	The Bonds are issued under Article VIII of the Wisconsin Constitution and Chapters 18 and 20 of the Wisconsin Statutes.
Purpose:	The proceeds of the Bonds are being used to fund general obligation refunding notes that were previously issued to refund general obligation bonds or notes that matured on or about May 1, 2004.
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 excluded from gross income and is not included as an item of tax preference for federal income tax purposes—*See pages 11-12* Interest on the Bonds is subject to State of Wisconsin income and franchise taxes—*See page 12*
Legal Opinion:	Validity and tax opinion to be provided by Foley & Lardner LLP—*See APPENDIX B*

OFFICIAL STATEMENT

$175,000,000

STATE OF WISCONSIN

GENERAL OBLIGATION REFUNDING BONDS OF 2004, SERIES 3

INTRODUCTION

This Official Statement provides information about the $175,000,000 General Obligation Refunding Bonds of 2004, Series 3 **(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, 2003 **(2003 Annual Report)**.

The Bonds are authorized under the Wisconsin Constitution and the Wisconsin Statutes **(Act)**, as well as an authorizing resolution that the State of Wisconsin Building Commission **(Commission)** adopted on March 4, 2004 **(Resolution)**.

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 20th 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 2003 Annual Report. APPENDIX A also includes information on projected General Fund tax collections for the 2003-05 biennium, as released by the Legislature Fiscal Bureau on February 10, 2004, and other updates to Parts II and III of the 2003 Annual Report.

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
Web site:	www.doa.wi.gov/capitalfinance

PLAN OF REFUNDING

The Bonds are being issued to fund the State of Wisconsin $175,000,000 General Obligation Refunding Notes of 2004, Series 1 **(Notes)** that the State previously issued to refund general obligation bonds or notes that matured on or about May 1, 2004 and were used for general governmental purposes. The Notes were issued on March 16, 2004 with a coupon of 0.96%. The maturity date of the Notes is July 15, 2004; however, the Notes may be called for redemption at par, plus accrued interest, on or after May 17, 2004. The CUSIP number of the Notes is 97705L BA4.

The State intends to redeem the Notes within three days after the delivery of the Bonds. Bond proceeds will be sufficient to pay principal and accrued interest on the Notes to and including the redemption date. Bond proceeds will be deposited into the State's Capital Improvement Fund until the time they are used to pay principal and interest on the Notes. Other Bond proceeds beyond the amount needed to redeem the Notes will be deposited into the State's Bond Security and Redemption Fund and used to pay interest due on the Bonds. See "THE BONDS; Sources and Uses of Funds".

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 their date of delivery and will bear interest from that date payable on May 1 and November 1 of each year, beginning on November 1, 2004.

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. The Bonds are being issued initially in book-entry-only form, so the registered owner will be the nominee of a securities depository—initially, 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 to make principal and interest payments on the Bonds as the payments become due. The Bonds are secured equally with all other outstanding general obligations issued by the State.

A municipal bond new issue insurance policy will be issued concurrently with the issuance of the Bonds by Financial Guaranty Insurance Company **(Financial Guaranty)**, guaranteeing the payment when due of the principal of and interest on the Bonds maturing May 1, 2007 through 2022 **(Insured Bonds)**. See "OTHER INFORMATION; Bond Insurance".

Redemption Provisions

Optional Redemption

The Bonds are subject to optional redemption before their maturity date. The Bonds maturing on or after May 1, 2015 may be redeemed on any date on or after May 1, 2014, 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.

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 Secretary of Administration. 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)**.

Ratings

At the State's request, several rating agencies have rated the Insured Bonds with the understanding that a municipal bond new issue insurance policy, guaranteeing the payment when due of principal of and interest on the Insured Bonds, will be issued by Financial Guaranty concurrently with the issuance of the Bonds:

Rating	Rating Agency
AAA	Fitch Ratings
Aaa	Moody's Investors Service, Inc.
AAA	Standard & Poor's Ratings Services

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

Rating	Rating Agency
AA–	Fitch Ratings
Aa3	Moody's Investors Service, Inc. [1]
AA–	Standard & Poor's Ratings Services

[1] Moody's Investors Service, Inc. has assigned a rating outlook on the State's general obligations of "negative".

Any explanation of what a rating means may only be obtained from the rating agency 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.

Sources and Uses of Funds

The proceeds from the sale of the Bonds are expected to be used as follows:

Sources	
Principal Amount of the Bonds	$175,000,000.00
Original Issue Premium	12,897,356.95
TOTAL SOURCES	$187,897,356.95
Uses	
Deposit to Capital Improvement Fund (Fund Notes)	$175,429,333.33
Deposit to Bond Security and Redemption Fund	11,191,342.82
Underwriters' Discount	930,867.41
Bond Insurance Premium	345,813.39
TOTAL USES	$187,897,356.95

Book-Entry-Only Form

The Bonds will initially be issued in book-entry-only form. Purchasers of the Bonds will not receive bond certificates but instead will have their ownership in the Bonds recorded in the book-entry system.

Bond certificates are to be issued and registered in the name of a nominee of The Depository Trust Company **(DTC)**, New York, New York, which acts as securities depository for the Bonds. Ownership of the Bonds by the purchasers is shown in the records of brokers and other organizations participating in the DTC book-entry system **(DTC Participants)**. All transfers of ownership in the Bonds must be made, directly or indirectly, through DTC Participants.

Payment

The State will make all payments of principal of, interest on, and any redemption premium on the Bonds to DTC. Owners of the Bonds will receive payments through the DTC Participants.

Notices and Voting Rights

The State will provide notices and other communications about the Bonds to DTC. Owners of the Bonds will receive any notices or communications through the DTC Participants. In any situation involving voting rights, DTC will not vote but rather give a proxy through the DTC Participants.

Redemption

If less than all of the Bonds of a given maturity are being redeemed, DTC's practice is to determine by lottery the amount of the Bonds to be redeemed from each DTC Participant.

Discontinued Service

In the event that participation in DTC's book-entry system were to be discontinued and a successor securities depository were not obtained, Bond certificates would be executed and delivered to DTC Participants.

Further Information

Further information concerning DTC and DTC's book-entry system is available at www.dtcc.com. The State is not responsible for any information available on DTC's web site. That information may be subject to change without notice.

The State is not responsible for a failure by DTC or any DTC Participant to transfer payments or notices to the owners of the Bonds or to follow the procedures established by DTC for its book-entry system.

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 $2,705,326,585, and the aggregate limit is currently $18,035,510,565. A funding or 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, 2003, there were $4,370,162,682 of outstanding general obligations of the State.

Borrowing Plans for 2004

General Obligations

This is the seventh series of general obligations to be issued in this calendar year. The State has already issued the following general obligations:

- $323 million of general obligation bonds to refund general obligation bonds previously issued for general governmental purposes.
- $307 million of general obligation bonds for general governmental purposes.
- $100 million of general obligation extendible municipal commercial paper notes for general governmental purposes.
- $175 million of Notes to refund general obligation bonds previously issued for general governmental purposes and maturing on or about May 1, 2004. The Bonds will fund these Notes.

- $10 million of general obligation subsidy bonds purchased by the Environmental Improvement Fund for the Clean Water Fund Program.

The Commission has also authorized the following general obligations that may be issued in calendar year 2004:

- Up to $20 million of taxable general obligation bonds for the veterans housing loan program. The amount and timing of any taxable general obligation bonds depend on activity of the veterans housing loan program.
- Up to $143 million of general obligation bonds to refund additional general obligation bonds previously issued for general governmental purposes. The amount and timing of any additional general obligation refunding bonds for this purpose depend on market conditions.
- Up to $121 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 for this purpose depend 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 any additional general obligation subsidy bonds for this purpose depend on loan disbursements from the Clean Water Fund Program.

In addition, the State expects the Commission to authorize additional general obligations for general governmental purposes. This authorization is expected to occur in the third or fourth quarter of calendar year 2004 and will be issued as general obligation bonds or extendible municipal commercial paper.

Other Obligations

The Commission has authorized up to $250 million of transportation revenue refunding bonds to refund previously issued transportation revenue bonds. The amount and timing of any refunding bonds depend on market conditions.

The State has issued $117 million of clean water revenue bonds to fund loans in the Clean Water Fund Program and to complete a current refunding. The Commission has authorized $108 million of additional clean water revenue refunding bonds to refund previously issued clean water revenue bonds. The amount and timing of any refunding bonds depend on market conditions.

The State has issued $45 million of petroleum inspection fee revenue bonds to fund claims under a soil remediation program. The State has also issued $95 million of petroleum inspection fee revenue refunding bonds to complete an advance refunding. The Commission has authorized $51 million of additional petroleum inspection fee revenue obligations to fund claims under the soil remediation program. The State expects to issue these obligations in the third or fourth quarter of this calendar year. In addition, on May 27, 2004, the Commission will be asked to consider the authorization of up to $109 million of additional petroleum inspection fee revenue refunding bonds. The amount and timing of any refunding bonds depend on market conditions.

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

No determination has been made whether operating notes will be issued in calendar year 2004.

Underwriting

The Bonds are being purchased by the **Underwriters**, for which Bear, Stearns & Co. Inc. is acting as the representative. The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the State at an aggregate purchase price of $186,966,489.54 (reflecting an original issue premium of $12,897,356.95 and underwriters' discount of $930,867.41). The Underwriters have agreed to reoffer the Bonds at the public offering prices or yields set forth on the front cover of this Official Statement. The Bonds may be offered and sold to certain dealers (including dealers depositing the 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 if any 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 below—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. For each of the Bonds maturing on or after May 1, 2015, the yield and dollar price at issuance were computed by the Underwriters to the lower of the first call date or the nominal maturity date.

$175,000,000
State of Wisconsin
General Obligation Refunding Bonds of 2004, Series 3

Dated Date: Date of Delivery
First Interest Date: November 1, 2004
Issuance Date: On or about June 15, 2004

CUSIP	Due (May 1)	Principal Amount	Interest Rate	Yield at Issuance	Price at Issuance	First Call Date	Call Price
97705L CH8	2006	$ 15,085,000	4.00%	2.20%	103.291%	Not Callable	-
97705L CJ4	2007	15,685,000	5.00	2.59	106.638	Not Callable	-
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97705L CM7	2010	18,150,000	5.25	3.53	109.053	Not Callable	-
97705L CN5	2011	18,125,000	5.25	3.70	109.332	Not Callable	-
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97705L CR6	2014	12,975,000	5.25	4.16	108.750	Not Callable	-
97705L CS4	2015	12,175,000	5.25	4.29	107.658 [a]	5/1/2014	100%
97705L CT2	2016	5,580,000	5.25	4.41	106.662 [a]	5/1/2014	100
97705L CU9	2017	4,635,000	5.25	4.51	105.840 [a]	5/1/2014	100
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97705L CX3	2020	2,890,000	5.25	4.74	103.980 [a]	5/1/2014	100
97705L CY1	2021	1,765,000	5.25	4.80	103.501 [a]	5/1/2014	100
97705L CZ8	2022	1,860,000	5.25	4.87	102.945 [a]	5/1/2014	100

[a] These Bonds are priced to the May 1, 2014 first call date.

Financial Advisor

First Albany Capital Inc. has been employed by the State to perform professional services in the capacity of financial advisor. The financial advisor has provided advice on the plan of refunding and the structure of the Bonds, reviewed certain legal and disclosure documents, including this Official Statement, for financial matters, and reviewed the pricing of the Bonds by the Underwriters.

Bond Insurance

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy for the Insured Bonds **(Policy)**. The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the State. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent **(Fiscal Agent)**, on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Insured Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the State. The Fiscal Agent will disburse such amount due on any Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term **Nonpayment** in respect of an Insured Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of an Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Insured Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. If the Insured Bonds are accelerated or become subject to mandatory redemption, Financial Guaranty will be obligated to pay principal (or accreted value, if applicable) and interest on the originally scheduled principal (including mandatory sinking fund redemption) and interest payment dates. Upon such payment, Financial Guaranty will become the owner of the Insured Bond, appurtenant coupon or right to payment of principal or interest on such Insured Bond and will be fully subrogated to all of the Insured Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the State, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the Insured Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Insured Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom. Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation, a Delaware corporation.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. **(PMI)**, affiliates of The Blackstone Group L.P. **(Blackstone)**, affiliates of The Cypress Group L.L.C. **(Cypress)** and affiliates of CIVC Partners L.P. (CIVC) acquired FGIC Corporation **(FGIC Acquisition)** from a subsidiary of General Electric Capital Corporation **(GE Capital)**. PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. GE Capital retained approximately $234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law **(Article 69)**, a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles **(SAP)** and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately $42.4 billion and $47.9 billion par value of securities, respectively (of which approximately 79% and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately $260.3 million and $232.6 million, respectively. For the year ended December 31, 2003, Financial Guaranty had reinsured, through facultative arrangements, approximately 2.0% of the risks it had written.

As of December 31, 2003, Financial Guaranty had net admitted assets of approximately $2.741 billion, total liabilities of approximately $1.587 billion, and total capital and surplus of approximately $1.153 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The audited financial statements of Financial Guaranty as of December 31, 2003 and 2002, which have been filed with the Nationally Recognized Municipal Securities Information

Repositories **(NRMSIRs)**, are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "OTHER INFORMATION; Bond Insurance," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement**.** All financial statements of Financial Guaranty (if any) included in documents filed by the State with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are 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 Insured Bonds. Financial Guaranty does not guarantee the market price or investment value of the Insured Bonds nor does it guarantee that the ratings on the Insured Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Insured Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "OTHER INFORMATION; Bond Insurance". In addition, Financial Guaranty makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds.

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 Opinions

Bond Opinion

Legal matters relating to the authorization, issuance, and sale of the Bonds are subject to the approval of Foley & Lardner LLP (**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.

Attorney General

As required by law, the office of 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. Such interest also is not an item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers. 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.

Each of the Bonds has an issue price that is greater than the amount payable at maturity (**Premium Bonds**).

Any Premium Bond purchased in the initial offering at the issue price will have "amortizable bond premium" within the meaning of Section 171 of the Code. An owner of a Premium Bond that has amortizable bond premium is not allowed any deduction for the amortizable bond premium. During each taxable year, such an owner must reduce his or her tax basis in the Premium Bond by the amount of the amortizable bond premium that is allocable to the portion of such taxable year during which the owner owned the Premium Bond. The adjusted tax basis in a Premium 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 the Premium Bond.

Owners of Premium Bonds who do not purchase their Premium Bonds in the initial offering at the issue price should consult their own tax advisors with respect to the tax consequences of owning Premium Bonds.

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 those benefits in gross income by reason of receipt or accrual of interest on the Bonds.

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, to provide an annual report presenting certain financial information and operating data about the State **(Annual Reports)**. By December 27 of each year, the State will send the report to each NRMSIR and to any appropriate state information depository **(SID)** for the State**.** 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. At this time, there is no appropriate SID for the State. Part I of the 2003 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
www.doa.wi.gov/capitalfinance

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: May 26, 2004

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, 2003 **(2003 Annual Report)** are included by reference as part of this APPENDIX A.

This appendix also includes information recently released by the Legislative Fiscal Bureau **(LFB)**, which includes (1) re-estimates of departmental revenues and expenditures, and (2) projected General Fund tax collections for the 2003-05 biennium and the effect on the General Fund balance at the end of the 2003-05 biennium.

Part II to the 2003 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 2002-03
- 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 2003 Annual Report are the audited general purpose external financial statements for the fiscal year ending June 30, 2003, prepared in conformity with generally accepted accounting principles **(GAAP)** for governments as prescribed by the Government Accounting Standards Board, and the State Auditors' report.

Part III to the 2003 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 2003 Annual Report has been filed with each nationally recognized municipal securities information repository **(NRMSIR)**. As of the date of this Official Statement, Part II and Part III of the 2003 Annual Report are available from the part of the Capital Finance Office web site called "Official Disclosure for Bonds, Notes, and Other Securities Issued by the State of Wisconsin". The Capital Finance Office web site is located at the following address:

www.doa.state.wi.us/capitalfinance

Copies of the 2003 Annual Report 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

Listed below, by reference to particular sections of the 2003 Annual Report, are changes or additions to the discussion contained in those particular sections. Many of the following changes or additions 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 may not constitute listed material events under the State's Master Agreement on Continuing Disclosure.

State Budget; Budget for 2003-05 (Page 28). Update with the following:

LFB Re-Estimates of Departmental Revenues and Expenditures

On January 15, 2004, LFB released a re-estimate of departmental revenues and expenditures for the 2003-05 biennium. This re-estimate did not include tax collections and did not revise the General Fund condition statement. A complete copy of the January 15, 2004 letter from the LFB appears on pages A-15 to A-19 of this Official Statement.

LFB Projected General Fund Tax Collections and General Fund Balance

On February 10, 2004, LFB released projections of General Fund tax collections for the 2003-05 biennium. This letter also included a projected gross ending General Fund balance of negative $32 million, not including the statutory required reserve, for the end of the biennium (June 30, 2005). This is approximately $219 million less than the balance that was indicated upon enactment of the State's 2003-05 biennial budget (2003 Wisconsin Act 33). The difference is the result of:

- An increase of $1 million in the 2003-04 fiscal year opening balance.
- A decrease of $222 million in estimated tax collections.
- A decrease of $3 million in net expenditures.

A complete copy of the letter from LFB appears on pages A-3 to A-14 of this Official Statement.

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.

The projected gross ending General Fund balance for the end of the 2003-05 biennium does not include four sum-certain general program revenue **(GPR)** appropriation items that were identified in the January 15, 2004 letter from LFB. See pages A-15 to A-19. Unlike sum-sufficient appropriations, which are automatically adjusted, sum-certain appropriations cannot be adjusted unless changed by the Legislature. Thus, if a sum-certain appropriation requires a funding increase, the Legislature has the option of reducing parameters, increasing the appropriation, prorating available funding, or letting the funded program cease due to insufficient funds. The largest of these four sum-certain appropriations is an appropriation for medical assistance benefits. As outlined in the January 15, 2004 letter, it is estimated that, if the State were unable to secure additional federal medicaid revenues, then $311 million in State funds would be needed to support projected medical assistance benefits in the 2003-05 biennium. In addition, estimated State funding for caseload and other costs within the State's medical assistance program may be short by approximately $90 million in the 2003-05 biennium.

Medical Assistance Benefits

Certain events concerning medical assistance benefits have occurred after LFB released its projections on January 15, 2004 and February 10, 2004.

- 2003 Wisconsin Act 129 provided for the transfer of approximately $124 million from the General Fund to the Medical Assistance Trust Fund. This act was signed into law on February 26, 2004 and provided for the refunding, for payment in later years, of approximately $175 million of certain general obligation bonds and variable-rate notes that were scheduled to mature on or after May 1, 2004.
- 2003 Wisconsin Act 318 will allow the State to receive approximately $53 million of federal medical assistance funds. This act, which was signed into law by Governor Doyle on May 25, 2004 and is expected to be effective June 2, 2004, makes corrections to a prior State intergovernmental transfer proposal that federal authorities would not approve.

Supreme Court Decision Regarding Panzer v. Doyle (Concerning Amendments to Gaming Compacts)

On May 13, 2004, the Wisconsin Supreme Court released its opinion in the case of *Panzer v. Doyle*, deciding that the Governor's execution on the State's behalf of certain amendments to a gaming compact with a tribal government, namely, the Forest County Potawatomi, was unconstitutional. The court concluded that the Governor exceeded his authority by entering into a compact of indefinite duration, that the compact authorized some types of games that were prohibited under the state constitution, and that, without legislative approval, the Governor lacked power to waive the State's sovereign immunity in the compact.

Although the lawsuit concerned only certain amendments to a gaming compact with one tribal government, the reasoning of the opinion would apply to certain amendments to other gaming compacts that the Governor executed on the State's behalf on or after January 1, 2003 with other tribal governments.

The decision does not concern the original gaming compacts and amendments to them that were executed in calendar years 1998 and 1999. For some of the amendments executed on or after January 1, 2003, a possible result of the decision is that the original compacts, as amended in calendar years 1998 and 1999, remain in effect. The State's 2003-05 biennial budget assumed the following payments from the Forest County Potawatomi under its gaming compact.

Forest County Potawatomi

	Fiscal Year Ending June 30, 2004	Fiscal Year Ending June 30, 2005	Total
Total Payments	$40,500,000	$43,625,000	$84,125,000
Payments Presumed Unaffected by *Panzer v. Doyle*	(0)	(0)	(0)
Payments Presumed Subject to *Panzer v. Doyle*	$40,500,000	$43,625,000	$84,125,000

The 2003-05 biennial budget assumed the following payments from all gaming compacts, including payments from the Forest County Potawatomi.

All Gaming Compacts

	Fiscal Year Ending June 30, 2004	Fiscal Year Ending June 30, 2005	Total
Total Payments	$101,965,600	$104,516,300	$206,481,900
Payments Presumed Unaffected by *Panzer v. Doyle*	(28,336,300)	(27,275,000)	(55,611,300)
Payments Presumed Subject to *Panzer v. Doyle*	$ 73,629,300	$ 77,241,300	$150,870,600

In light of the Supreme Court's decision, it is uncertain whether or to what extent the tribal governments will make these payments. A substantial reduction in the payments could cause estimated General Fund expenditures to exceed estimated General Fund revenues for the fiscal year ending June 30, 2005. Wisconsin Statutes provide that, following the enactment of the budget, if the Secretary of Administration determines that budgeted General Fund expenditures will exceed revenues by more than one-half of one percent of General Fund revenues, the Secretary of Administration must notify the Governor and the Legislature, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter. At this time, the fiscal effect of this decision cannot be quantified, and as a result, the Secretary of Administration cannot determine if budgeted General Fund expenditures will exceed revenues by more than one-half of one percent of General Fund revenues. The Governor has begun discussions with tribal governments about how the decision affects the gaming compact amendments that were executed on or after January 1, 2003.

Legislative Fiscal Bureau

Robert Wm. Lang, Director

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

State of Wisconsin

February 10, 2004

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

Dear Representative Kaufert and Senator Darling:

On January 15, 2004, I sent a letter to you that discussed this office's review of general fund, non-tax revenues and expenditures for the 2003-05 biennium. That letter indicated that once the January, 2004, economic forecast of Global Insight, Inc., was available, we would prepare our projections of general fund tax collections and inform you of the results of our analysis. We have now completed our review.

Based upon our analysis, we project the closing, gross general fund balance at the end of the biennium to be -$32.2 million. This is $218.6 million below the level ($186.4 million) that was indicated upon enactment of the state's 2003-05 biennial budget (2003 Act 33).

The $218.6 million is the net result of an increase in the 2003-04 opening balance of $1.4 million, a decrease in estimated tax collections of $222.4 million, a decrease in departmental revenues of $0.3 million, and a reduction in net expenditures (sum sufficient appropriations and lapses) of $2.7 million. [With the exception of the estimated tax collections and a recent revision of debt service payments, these revenue and expenditure amounts are identified in the January 15 letter.]

In addition to the projected gross general fund deficit of $32.2 million, Act 33 requires that the state maintain a statutory balance in 2004-05 of $40.0 million. Thus, to address the projected deficit and maintain the required statutory balance, the general fund would need to be improved by $72.2 million.

The following table reflects the estimated general fund condition statement, which incorporates our revenue and expenditure projections.

TABLE 1

2003-05 General Fund Condition Statement

	2003-04	2004-05
Revenues		
Opening Balance, July 1	-$282,221,000	$74,542,200
Estimated Taxes	10,670,400,000	11,195,800,000
Departmental Revenues		
Tribal Gaming Revenues	79,158,400	80,595,400
Other	328,979,100	329,206,800
Total Available	$10,796,316,500	$11,680,144,400
Appropriations and Reserves		
Gross Appropriations	$10,849,730,300	$11,771,084,700
Compensation Reserves	109,152,900	163,019,600
Less Estimated Lapses	-237,108,900	-221,725,400
Total Expenditures	$10,721,774,300	$11,712,378,900
Balances		
Gross Balance	$74,542,200	-$32,234,500
Less Required Statutory Balance	-35,000,000	-40,000,000
Net Balance, June 30	$39,542,200	-$72,234,500

It is important to note that the above condition statement does not include the four sum certain GPR appropriation items that were identified in the January 15 letter. Unlike sum sufficient appropriations, which are automatically adjusted to fund selected programs, sum certain appropriations are those with a specific dollar amount that cannot be modified unless changed by the Legislature. Thus, if it is determined that a program under a sum certain appropriation will, unless modified, require a funding increase, the Legislature has the option of reducing the program's parameters, increasing the appropriation, prorating available funding, or letting the program cease due to insufficient funds.

The four sum certain appropriations are: (1) Elections Board federal matching funds ($1.3 million); (2) foster care adoption assistance ($5.1 million); (3) Office of the State Public Defender ($9.2 million); and (4) medical assistance (MA) benefits. If the state is unable to secure any additional federal MA matching funds, $401.0 million in state funds would be needed to support projected MA benefits in the 2003-05 biennium.

General Fund Taxes

The following section provides information on general fund tax revenues for the 2003-05 biennium, including a discussion of the national economic forecast for 2004 and 2005 and general fund tax revenue projections for fiscal years 2003-04 and 2004-05.

National Economic Forecast. This office first issued revenue estimates for the 2003-05 biennium in January, 2003, based on the January, 2003, forecast of the U.S. economy prepared by Global Insight, Inc. At that time, the recession that began in the first quarter of 2001 had ended and the economy had expanded during each of the four quarters of 2002. Although the economy was facing a great deal of uncertainty due to the possibility of war with Iraq, the resumption of a nuclear weapons program in North Korea, and the prospect of additional terrorist attacks, positive growth was expected to continue during calendar years 2003 through 2005, with growth in nominal (current-dollar) gross domestic product (GDP) estimated at 5.2% in 2003, 7.2% in 2004, and 5.7% in 2005. Global Insight, Inc. included the effects of a relatively brief war with Iraq in the first half of 2003 and new federal income tax cuts in its projections. The primary risk to the forecast was that a more protracted war would occur, leading to lower consumer confidence and continued reluctance by businesses to invest.

In considering the January, 2003, forecast, it was our judgment that Global Insight, Inc.'s projections may have been overly optimistic. Therefore, our estimates for the two largest tax sources (the individual income tax and sales tax) were based on lower estimates of economic growth.

In May, 2003, this office reviewed tax collections data and more recent economic forecasts to determine whether the revenue estimates should be adjusted prior to the Legislature's completion of work on the 2003-05 biennial budget bill. At that time, in the aggregate, collections were tracking closely with the 2002-03 estimates. In addition, while the new economic forecasts were less favorable than the January forecast, we believed they were still consistent with our January tax revenue estimates. Therefore, we concluded that a revision was not warranted.

The economy continued to expand throughout 2003, with relatively slow growth during the first half of the year followed by a very strong third quarter, when real GDP increased by 8.2% and nominal GDP increased by 10.0% over the same period in 2002. It is believed that growth moderated to a more sustainable level in the fourth quarter so that nominal GDP growth for all of 2003 is now estimated at 4.8% and annual real growth is estimated at 3.2%. Other economic indicators (personal income, consumption, and business investment) have shown a similar pattern of slow initial growth followed by acceleration in the second half of the year. Corporate profits have shown strong increases throughout the year, with growth rates for before-tax profits in excess of 10% in three of the four quarters of 2003. If the effects of the federal bonus depreciation provisions are excluded, corporate earnings grew by approximately 25% in the second half of 2003. After declining in the first quarter, values of equity shares increased significantly throughout the remainder of the year. These gains were due, in part, to continued low interest rates and stimulative fiscal policy by the federal government.

Despite these positive developments, the economic growth experienced in 2003 was somewhat less than anticipated by Global Insight, Inc. last January. A continuing area of concern has been a slower than expected increase in employment. Following declines in 2001 and 2002, total employment (based on the survey of business establishments) continued to decrease slightly during the first three quarters of 2003, and began to rise in the fourth quarter. Total employment at the end of 2003 is now estimated at 130.1 million persons, virtually unchanged from the beginning of the year but 2.4 million lower than at the start of 2001, when employment peaked. It is believed that businesses have been able to take advantage of improvements in productivity and increased use of foreign contractors to boost production and achieve strong profits without significant increases in staff. However, it is possible that the official employment estimates generated by the business establishment survey may understate actual employment trends because they do not adequately account for business start-ups during the early stages of an economic recovery.

The current (January, 2004) economic forecast by Global Insight, Inc. is for continued positive growth in 2004 and 2005. Real growth is anticipated to be stronger than projected last January. However, with significantly lower rates of inflation, nominal growth is forecast to be somewhat weaker. Growth in real GDP is now estimated at 4.7% in 2004 and 4.0% in 2005, compared to projections of 4.7% and 3.3% last January. Nominal GDP, which is more relevant for tax revenue estimates, is now projected to increase by 6.1% in 2004 and 5.4% in 2005, compared to the previous estimates of 7.2% and 5.7%, respectively.

Global Insight, Inc. expects the main drivers of the economy to be continued low interest rates and federal tax cuts, which will result in higher refund checks this spring. The forecast anticipates that the Federal Reserve will not raise interest rates until June, 2004, when the federal funds rate will be increased from 1.0% to 1.5% (50 basis points). An additional 50 basis-point increase is expected by year-end. However, given the soft labor market and the expectation of continued low inflation, it is possible that the current rates will be maintained for a longer period of time. Further, even if rates are raised as projected by Global Insight, Inc., they would still be very low compared to historical levels. The forecast also assumes that Congress will not allow all of the recent federal income tax cuts to expire as scheduled, although it is anticipated that over time the tax code will be modified to bring the effective personal income tax rate closer to its historical average (8.3% of GDP). A weak dollar is also expected to contribute to significantly increased exports due to reduced real prices for American products overseas, and businesses are expected to replace equipment that has become obsolete.

These factors should lead to increased production and investment by manufacturing firms and other businesses and to higher levels of employment. After decreasing in 2001 and 2002 and growing slowly in 2003, overall industrial production (which includes manufacturing, mining, and utilities) is expected to increase by 5.1% in 2004 and 5.6% in 2005. If just the manufacturing sector is considered, output growth is expected to be even stronger, with projected increases of 5.6% and 6.2%, respectively. Business investment is estimated to increase by nearly 15% in 2004 and 10% in 2005. After declining in 2001 and 2002, exports of American products grew by an estimated 4.1% in 2003 and are projected to increase by more than 10% in each of the next two years.

The current low interest rates are also expected to boost residential construction to record levels in 2004; growth over 2003, which was also a record year, is estimated at 7.2%. As interest rates rise, residential construction is expected to decline slightly in 2005. Similarly, housing starts are also expected to peak in 2004. Following declines in the past two years, nonresidential construction is expected to rebound strongly, with growth of 4.5% in 2004 and 15.2% in 2005. It is believed that this sector will see small improvements during the next several months and then begin to increase rapidly as businesses gain confidence in the economy and commit to building offices, stores, and factories to support future operations.

In spite of the recent increases in economic output and corporate profits, job growth has not met prior expectations. As noted, Global Insight, Inc. now estimates total U.S. employment at the end of 2003 to be 130.1 million persons, which is 2.8 million (2.1%) fewer than was anticipated last January. The reduced jobs numbers are contributing to slower gains in personal income. The current forecast estimates personal income growth at 3.1% in 2003, 4.8% in 2004, and 5.6% in 2005. Compared to last January's forecast, these growth rates are significantly lower in 2003 and 2004 (-1.8%) and the same in 2005. The U.S. unemployment rate for 2003 is currently estimated at 6.0%, which is slightly lower than projected last January, but this reduction is due to people dropping out of the labor force rather than to additional jobs being created. The unemployment rate in 2004 and 2005 is projected to be 5.7% and 5.3%, respectively, which is somewhat higher than last year's forecast of 5.3% and 5.0%. Although hiring has picked up recently and is anticipated to increase more rapidly during the next two years, particularly in late 2004 and 2005, this growth will not be sufficient to raise personal income to the prior estimated levels. The forecast anticipates that total employment will reach its pre-recession level during the third quarter of 2004, and then continue increasing throughout 2005. Lost manufacturing jobs will be replaced with service-sector jobs, particularly in education and health services.

Growth in nominal personal consumption expenditures is now estimated at 5.0% in 2003, 4.9% in 2004, and 5.1% in 2005. The estimate for 2003 is 0.2% higher than projected last January, but the estimates for 2004 and 2005 are lower by 1.8% and 0.8%, respectively. Real spending is expected to be higher than estimated last January, but decreased estimates of personal income and prices result in the slower growth rates for current-dollar consumption. Car and light truck sales have grown continuously since 1996, and there is little pent-up demand for vehicles. In addition, the driving-age population will increase more slowly over the next five years than it has in recent years. Therefore, vehicle sales are expected to show relatively weak growth in 2004 (2.7%) and decline slightly in 2005 (-0.7%). However, sales of computers, software, and restaurant meals are projected to show strong increases in both years. Purchases of services, which have been increasing more rapidly than other types of consumption in recent years, are anticipated to grow at about the same rate as overall consumption in 2004 and slightly faster in 2005. Following a large increase in 2003 due to higher oil prices, expenditures for gasoline and heating fuel are expected to decline by 4.9% in 2004 and increase moderately (by 3.3%) in 2005 as prices fall.

Before-tax corporate book profits were strong in 2002 and 2003, with growth of 6.9% and 13.6% in those years. Growth is expected to moderate somewhat to 11.6% in 2004 and then increase sharply to 24.0% in 2005. It should be noted, however, that book profits are calculated based on federal tax law, which includes the temporary bonus depreciation provisions that were implemented beginning in 2001. In general, these provisions permit an increased first-year depreciation allowance for equipment acquired after September 10, 2001, and placed into service before January 1, 2005. For certain types of property produced by the taxpayer, the placed-into-service date is extended to January 1, 2006. The 24% growth rate projected for book profits in 2005 is due primarily to the termination of bonus depreciation for most types of equipment, which will significantly increase the amount of earnings reported to the Internal Revenue Service.

The bonus depreciation provisions were not adopted for state tax purposes in Wisconsin. Therefore, in the near-term, a better measure of corporate earnings for state tax purposes is economic profits, which is before-tax book profits with adjustments to make the treatment of depreciation more consistent over time and across industry sectors and to account for gains or losses due to changing prices of inventory. Growth in economic profits was even stronger than book profits in recent years (17.4% in 2002 and 17.5% in 2003), because book profits were understated due to the bonus depreciation deductions. Continued strong growth of 14.5% is projected for 2004, as businesses continue to take advantage of productivity gains and a soft labor market. Economic profits are expected to decrease slightly (by 2.3%) in 2005 as the labor market tightens and wages increase. However, the decline is not anticipated to begin until the second half of the year, and economic profits are still estimated to be significantly higher than the pre-recession peak achieved in 1997.

As mentioned, inflation is expected to remain low, with a projected increase in the consumer price index (CPI) of 1.4% in 2004 and 1.3% in 2005. These estimates, which reflect falling oil prices, excess capacity in the U.S. economy, and increases in global manufacturing capacity, are significantly lower than last January's projections of 2.4% and 2.6% for those years. These lower inflation estimates contribute to decreased projections of nominal personal income and consumption, compared to last January's forecast.

The primary risk to the forecast is that businesses will be able to continue to meet demand without significant staffing increases, by making increased use of technology and foreign labor. The resulting lower levels of employment would lead to slower growth in personal income and consumption. Another recession is not contemplated under this scenario, but economic growth (real GDP) would be about 1.0% lower in 2004 and 0.4% lower in 2005 than the baseline forecast. Global Insight, Inc. assigns a 20% probability to this sequence of events.

On the other hand, it is possible that the baseline forecast is too pessimistic regarding business investment, consumer spending, and foreign economic growth. Global Insight, Inc's. "optimistic scenario" (which is also assigned a 20% probability) assumes that each of these factors is more favorable than under the baseline forecast, resulting in increased demand, output, and employment. Under these circumstances, real GDP growth would be about 0.7% higher in 2004 and 0.3% higher in 2005 than under the baseline forecast.

Table 2 presents a summary of national economic indicators as estimated by Global Insight, Inc.

TABLE 2

Summary of National Economic Indicators
Global Insight, Inc.
January, 2004
($ in Billions)

	2002	2003	2004	2005
Nominal Gross Domestic Product	$10,480.8	$10,985.9	$11,653.0	$12,285.3
Percent Change	3.8%	4.8%	6.1%	5.4%
Real Gross Domestic Product	10,083.1	10,401.6	10,895.1	11,325.9
Percent Change	2.2%	3.2%	4.7%	4.0%
Consumer Price Index	1.6%	2.3%	1.4%	1.3%
Personal Income	8,910.3	9,190.0	9,627.1	10,169.6
Percent Change	2.3%	3.1%	4.8%	5.6%
Personal Consumption Expenditures	7,385.4	7,752.5	8,131.4	8,543.0
Percent Change	4.8%	5.0%	4.9%	5.1%
Corporate Profits Before Tax	745.0	846.3	944.2	1,171.0
Percent Change	6.9%	13.6%	11.6%	24.0%
Unemployment Rate	5.8%	6.0%	5.7%	5.3%

General Fund Tax Projections. In total, general fund tax collections in 2002-03 were approximately $24 million less than the amount estimated last January, a variance of -0.2%. However, for individual taxes, the differences between actual collections and the estimates were more pronounced. Individual income tax collections were $68 million lower than estimated and sales tax collections were $22 million lower. These reductions were partially offset by increased revenues from the corporate income and franchise tax ($37 million), public utility taxes ($16 million), and insurance company taxes ($10 million). In total, revenues from the remaining taxes were about $3 million higher than estimated.

The following table shows revised estimates of general fund tax revenues for the 2003-05 biennium. These estimates are based on actual collections last year, current-year collections data, and the January, 2004, Global Insight, Inc. forecast of national economic growth. In addition, the estimates reflect all of the tax law changes included in Act 33 and subsequent enacted legislation.

TABLE 3

Projected General Fund Tax Collections
($ in Millions)

Source	2002-03 Tax Collections	Budget Estimates (Act 33) 2003-04	Budget Estimates (Act 33) 2004-05	Revised Estimates January, 2004 2003-04	Revised Estimates January, 2004 2004-05
Individual Income	$5,052.5	$5,405.8	$5,795.8	$5,220.0	$5,560.0
General Sales and Use	3,738.0	3,915.4	4,107.2	3,900.0	4,095.0
Corporate Income & Franchise	526.5	539.8	554.4	650.0	630.0
Public Utility	276.8	268.0	278.0	261.0	271.0
Excise					
Cigarette	293.7	288.4	284.7	290.0	286.0
Liquor and Wine	36.0	37.2	38.5	39.0	40.0
Tobacco Products	15.5	16.8	17.9	15.6	16.0
Beer	9.5	9.8	9.9	9.7	9.8
Insurance Company	114.9	105.0	95.0	125.0	120.0
Estate	68.7	85.0	90.0	85.0	90.0
Miscellaneous Taxes	67.5	71.3	74.7	75.1	78.0
TOTAL	$10,199.6	$10,742.5	$11,346.1	$10,670.4	$11,195.8
Change from Prior Year					
Amount		$542.9	$603.6	$470.8	$525.4
Percent		5.3%	5.6%	4.6%	4.9%

As shown in Table 3, general fund tax collections are estimated to total $10,670.4 million in 2003-04 and $11,195.8 million in 2004-05. These amounts are lower than the Act 33 estimates by $72.1 million in 2003-04 and $150.3 million in 2004-05, which is a biennial decrease of 1.0% from the prior estimates. The reduction reflects a significant downward revision to the individual income tax and small decreases for the sales tax and utility taxes. These reductions are partially offset by a sizable upward revision for the corporate income and franchise tax and smaller increases for insurance company, excise, and miscellaneous taxes.

Individual Income Tax. The current estimates of individual income tax collections are $5,220.0 million in 2003-04 and $5,560.0 million in 2004-05, which are lower than the estimates under Act 33 by $185.8 million in the first year and $235.8 million in the second year. The revised estimates reflect growth of 3.3% in 2003-04 and 6.5% in 2004-05. The decreases in the estimates compared to those under Act 33 are due primarily to lower than expected collections last year and reduced projections of growth in personal income. Last January, the Global Insight, Inc. forecast was for personal income growth of 5.0% in 2003 and 6.5% in 2004. As noted, the current forecast for personal income growth is 3.1% for 2003 and 4.8% for 2004.

Through January, 2004, both income tax collections and withholding tax payments (the largest component of income tax revenues) were 1.1% higher than last year at this time. However, approximately $77 million in withholding tax payments that were deposited on Monday, February 2, had been received on the weekend and were associated with January collections. If this amount is added to actual withholding tax payments received through January 31, then such payments are 4.1% higher than at this time last year, and the adjusted total of income tax collections is 3.6% higher than income tax collections through January, 2003. The lower rate of growth for total collections, as compared to withholding, is a result of offsetting rates of growth in some of the other components of the individual income tax (for example, estimated tax payments, which reflect non-wage income, are 1.1% lower than at this time last year). An adjusted, year-to-date growth rate in individual income tax collections of 3.6% is consistent with the revised estimate for 2003-04, which assumes 3.3% growth.

General Sales and Use Tax. In 2002-03, state sales and use tax revenues amounted to $3,738.0 million, which was an increase of 1.1% over the prior year. State sales and use tax revenues are currently estimated at $3,900.0 million in 2003-04 and $4,095.0 million in 2004-05. These figures are lower than the estimates under Act 33 by $15.4 million and $12.2 million in 2003-04 and 2004-05, respectively. The revised projections are based on current collections data and the most recent forecast of 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 revised estimates represent projected growth of 4.3% for 2003-04 and 5.0% for 2004-05. Through January, year-to-date sales tax collections were 3.7% higher than the level collected during the same period of the prior fiscal year. This year-to-date growth rate is 0.8% lower than the 4.3% growth rate currently projected for the 2003-04 fiscal year. However, growth in sales tax revenues is expected to increase in the second half of the fiscal year, based in part on continued improvement in the economy, generally, and in part on economic stimulus anticipated from federal tax refunds (which should be higher than in recent years as a result of federal tax law changes).

The sales tax estimates for the 2003-05 biennium do not reflect a December 1, 2003, decision of the Tax Appeals Commission in the case of <u>Menasha Corporation vs. Wisconsin Department of</u>

Revenue (DOR) with respect to sales and use taxes on computer software. While pre-written computer software is subject to the state sales tax on tangible personal property, sales of custom computer software are not subject to tax. The Commission ruling, which DOR has appealed to the Circuit Court, broadens the interpretation of what computer software is considered to be nontaxable custom software.

DOR has estimated that, were the Circuit Court (and any subsequent courts on appeal) to uphold the Commission's decision, state sales and use taxes would be reduced by $55 million associated with such sales during 2003-04 and $59 million for sales during 2004-05. In addition, DOR projects that the state would be required to pay up to $228 million in refunds and interest for prior fiscal years. Generally, the statutes authorize claims for refunds to be filed for up to four years from the unextended due date of the claimant's income tax return for the year to which the claim relates. However, shorter or longer periods may apply under certain conditions. In the case of refund claims based on the taxability of computer software in the Menasha Corporation case, for example, a taxpayer may enter into an agreement with the Department under which the time to file a claim, for the years specified in the agreement, would be extended to six months after a final determination has been made.

Based on the Department's projections, the net effect of a final court decision upholding the Commission's ruling would be a reduction in the general fund of an estimated $342 million. The timing of any effect on the general fund would depend on the timing of the Circuit Court decision, whether any subsequent appeals were filed, and the timing of the receipt by the Department of associated refund requests. It is possible that final resolution of the case will occur after the current biennium.

Corporate Income and Franchise Tax. Corporate income and franchise tax collections were $526.5 million in 2002-03, which was approximately $37 million more than estimated in January, 2003. The increase reflected the early stages of economic recovery, productivity gains, and a related growth in corporate profits. Collections are projected to be $650 million in 2003-04 and $630 million in 2004-05. These amounts represent an annual increase of 23.5% in 2003-04 and a decrease of 3.1% in 2004-05, and are higher than the January, 2003, estimates by $110.2 million in 2003-04 and $75.6 million in 2004-05.

The new estimates reflect the effects of long-run productivity growth, elements of the recession and recent recovery, and corporate income and franchise tax collections. Through January, collections were 42.6% higher than 2002-03 collections for the same period. It should be noted that about $46 million of the increase is due to one-time payments from delinquencies and audit activities conducted by the Department of Revenue. Declaration payments, which exclude these one-time monies, are up by more than 11% over a year ago. Productivity has been strong since the mid-1990s as a result of the incorporation of computer and communications technologies into business operations. This has led to improved corporate earnings, and since the economic downturn and resulting layoffs, the corporate share of earnings has increased relative to the share allocated to labor. The current forecast projects relatively strong exports, investment in equipment, and industrial production over the next few years, which should continue earnings increases. However, productivity growth is expected to moderate and employment is projected to increase, so that the long-term corporate share of profits should decline somewhat. In addition, the estimate is adjusted to reflect the one-time funds that are included in 2003-04 collections.

Public Utility Taxes. Public utility taxes were $276.8 million in 2002-03. Approximately $10.0 million of this amount represented one-time revenues following an audit and a property value dispute settlement, in each case related to telecommunications property. Utility taxes are currently estimated at $261.0 million in 2003-04 and $271.0 million in 2004-05. These projections are $7.0 million lower in both 2003-04 and 2004-05 than had previously been projected. These reductions primarily reflect decreased estimates of the taxes on utilities paying the ad valorem tax, particularly telecommunications companies and pipelines. The downward revisions are based on: (a) actual and anticipated decreases in the value of, and investment in, such utility property; and (b) a decrease in projected property tax rates compared to prior estimates.

Excise Taxes. Cigarette excise tax revenues, which were $293.7 million in 2002-03, are estimated to be $290.0 million in 2003-04 and $286.0 million in 2004-05. The current estimates represent increases of $1.6 million and $1.3 million over prior estimates for 2003-04 and 2004-05, respectively. The adjustments are based primarily on collections through January.

Excise tax revenues from liquor sales were $36.0 million in 2002-03, and are estimated at $39.0 million in 2003-04 and $40.0 million in 2004-05. The estimates for liquor excise tax revenues have been increased by $1.8 million in 2003-04 and $1.5 million in 2004-05 over the estimates under Act 33, based on year-to-date collections through January.

Also based on year-to-date collections, it is anticipated that tax revenues from tobacco products (excluding cigarettes) and beer will be slightly lower than the Act 33 estimates. Excise tax revenues from tobacco are currently estimated at $15.6 million in 2003-04 and $16.0 million in 2004-05, which are $1.2 million lower for 2003-04 and $1.9 million lower for 2004-05 than the previous estimates. State tax revenues from the occupational tax on beer are estimated at $9.7 million in 2003-04 and $9.8 million in 2004-05, which are $100,000 lower in each year than the estimates under Act 33.

Insurance Premiums Taxes. Insurance premiums taxes increased from $96.1 million in 2001-02 to $114.9 million in 2002-03, which reflected strong increases in written premiums throughout the insurance industry in 2002 and 2003. Premiums taxes are projected to increase to $125 million in 2003-04 and then decrease to $120 million in 2004-05. The projected increase in 2003-04 reflects year-to-date monthly premiums tax collections through January, which are higher than 2002-03 for the same period. The decrease in premium tax revenues in 2004-05 is based on expected moderation in the growth in life insurance and property and casualty insurance premium payments.

Estate Tax. Estate tax revenues totaled $68.7 million in 2002-03, and are estimated at $85.0 million in 2003-04 and $90.0 million in 2004-05. The estimates, which are unchanged from those under Act 33, represent growth of 23.7% and 5.9% for 2003-04 and 2004-05, respectively. The expected increase of 23.7% over the base year reflects a state law change under 2001 Act 16 (the 2001-03 biennial budget) that decoupled the state estate tax from current federal law for deaths occurring from October 1, 2002, through December 31, 2007.

Miscellaneous Taxes. Miscellaneous taxes include the real estate transfer fee, certain court-related fees, and the occupational tax on coal. In 2002-03, the state collected $67.5 million in miscellaneous taxes, with over 80% coming from the real estate transfer fee. The current estimates for miscellaneous tax revenues are $75.1 million in 2003-04 and $78.0 million in 2004-05, which exceed the Act 33 estimates by $3.8 million in the first year and $3.3 million in the second year. The increases reflect year-to-date collections as well as construction forecasts (which are relevant for projections of the real estate transfer fee) over the remainder of the biennium.

We will continue to monitor tax collections, economic forecasts, and expenditures and keep you apprised if any further modifications are necessary.

Sincerely,

Bob

Robert Wm. Lang
Director

RWL/sas
cc: Members, Wisconsin Legislature

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State of Wisconsin

January 15, 2004

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:

In January of each year, this office typically conducts a review of the status of the state's general fund and presents its findings to the Legislature. In the even-numbered year, the analysis includes an examination of economic forecasts and tax collection and expenditure data for the first six months of the current fiscal year. Our intention has been to complete that review and issue our findings prior to commencement of the January floorperiod (January 20 in 2004).

The economic forecast that we use as a primary resource in determining tax collection projections is prepared by Global Insight, Inc. In prior years, the January forecast has been available in the beginning of the month. This year, however, due to recent comprehensive revisions to the national income and product accounts by the U.S. Bureau of Economic Analysis, the January forecast has not yet been completed and will most likely not be available until later in the month. Therefore, we will not prepare our tax collection estimate until that report is completed.

We have, however, completed our review of departmental revenues and expenditures for the 2003-05 biennium. The purpose of this letter is to present our conclusions on those items. Following the identification of the reestimates is a discussion of the status of four programs that are funded with sum certain appropriations: (1) Elections Board federal HAVA matching funds; (2) foster care and adoption assistance; (3) the Office of the State Public Defender; and (4) medical assistance.

Reestimates

In summary, departmental revenues, sum sufficient appropriations, and lapses to the general fund are, in aggregate, virtually the same as those contained in the 2003-05 budget (2003 Wisconsin Act 33). Although there are a number of reestimates in each of these categories, the net effect on the general fund balance is a reduction of $4.9 million. (The gross general fund balance of Act 33 is $186.4 million. After consideration of the $40.0 million required statutory balance, the net balance of Act 33 is $146.4 million.)

2003-04 Opening Balance. Act 33 anticipated an opening general fund balance of -$283.6 million for 2003-04. The actual balance at the close of the 2002-03 fiscal year was -$282.2 million. Thus, the opening balance for 2003-04 is $1.4 million higher than shown in Act 33.

Departmental Revenues. Act 33 estimates departmental revenues at $409.6 million in 2003-04 and $408.6 million in 2004-05. Departmental revenues are non-tax receipts (including tribal gaming amounts) that are deposited into the general fund. Our review indicates that there is little change to the Act 33 estimates. The 2003-04 projection is now $408.1 million ($1.5 million below the Act 33 estimate) and the projection for 2004-05 is $409.8 million ($1.2 million above that of Act 33).

Sum Sufficient Appropriations. In aggregate, expenditures from sum sufficient, general purpose revenue (GPR) appropriations are expected to be slightly lower ($1.8 million in 2003-04 and $1.0 million in 2004-05) than those of Act 33. Some appropriations (such as the homestead and farmland preservation tax credits) require an upward revision, while others (such as payments for debt service and the income tax reciprocity programs) are less than amounts budgeted under Act 33.

Lapses. Lapses are amounts from sum certain, GPR appropriations that are not expected to be fully expended and then "lapse" or revert, to the general fund at the close of each fiscal year. Act 33 contains general fund lapse estimates of $237.1 million in 2003-04 and $224.6 million in 2004-05. Our review indicates that the Act 33 lapses should be adjusted downward by $2.9 million in 2003-04 and by $5.9 million in 2004-05.

Sum Certain Appropriations

Unlike sum sufficient appropriations, which are automatically adjusted to fund selected programs, sum certain appropriations are those with a specific dollar amount that cannot be modified unless changed by the Legislature. Thus, if it is determined that a program under a sum certain appropriation will, unless modified, require a funding increase, the Legislature has the option of reducing the program's parameters, increasing the appropriation, prorating available funding, or letting the program cease due to insufficient funds.

In the course of our review, we have identified the following four programs funded from sum certain appropriations that merit attention.

Elections Board Federal HAVA Matching Funds. The new federal Help America Vote Act (HAVA) requires Wisconsin to create an official centralized computerized statewide voter registration list system (at an estimated five-year cost of $21.2 to $42.9 million) and to equip all polling stations with voting systems accessible to individuals with disabilities, including non-visual accessibility for the blind and visually impaired (at an estimated cost of $8.2 to $16.4 million). HAVA requires these changes to be in place by January 1, 2006.

Most of these costs will be supported with federal funds under Title II of HAVA, subject to a 5% state match. It is estimated that Wisconsin will be eligible to receive $15,390,000 FED in Title II funds in 2003-04, requiring a state match totaling $810,000 GPR. Provisions of Act 33 have already reserved $333,000 GPR of this amount. Provisions of 2003 Assembly Bill 601, currently pending in the Senate, would appropriate the remaining match requirement of $477,000 GPR in 2003-04.

Subject to congressional appropriation, the Elections Board estimates that Wisconsin will be eligible for an additional $26 million FED in Title II funds in 2004-05, requiring the Legislature to appropriate an additional state match of $1.3 million GPR in that fiscal year.

Foster Care and Adoption Assistance. Act 33 provides $35.4 million GPR in 2003-04 and $39.5 million GPR in 2004-05 in a sum certain appropriation to fund: (a) adoption assistance payments to families that adopt children with special needs to assist in the cost of care for these children; and (b) payments to families and agencies that provide foster care to children for whom the state serves as guardian. Based on a review of actual payments through December, 2003, it is estimated that an additional $2.2 million GPR in 2003-04 and $2.9 million GPR in 2004-05 will be needed to fully fund state foster care and adoption assistance payments in the 2003-05 biennium. Compared to the Act 33 estimate, the current estimate primarily reflects a decrease in the estimated percentage of total costs that can be supported by federal matching funds available under Title IV-E of the Social Security Act.

Office of the State Public Defender. Act 33 provides $16.5 million GPR in 2003-04 and $19.5 million GPR in 2004-05 to the Office of the State Public Defender (SPD) for its private bar and investigator reimbursement appropriation. This biennial appropriation funds private bar attorneys who accept assignment of defense cases for indigent persons qualifying for SPD representation. Based on actual payments and caseload through December, 2003, and caseload projections through the remainder of the 2003-05 biennium, it is estimated that an additional $9.2 million GPR in 2004-05 will be required to fully fund SPD private bar reimbursement costs.

Medical Assistance. Based on a review of 2002-03 actual expenditures and average costs and a review of caseload information through December, 2003, it is estimated that an additional $90.4 million GPR ($51.3 million in 2003-04 and $39.1 million in 2004-05) will be needed to support services provided under the medical assistance (MA) program in the 2003-05 biennium, above the amounts budgeted in Act 33.

One of the primary differences between the current estimate and the Act 33 estimate is that actual 2002-03 average costs per person were greater than projected in Act 33, resulting in a higher base of expenditures on which future costs are projected. In addition, the average cost of drugs is projected to be higher than estimated in Act 33 and actual caseload increases are not slowing as quickly as anticipated in Act 33. As of the end of December, there were approximately 4,400 more individuals enrolled in MA than had been projected under Act 33.

In addition to the projected increase in benefits costs identified above, it is likely that additional GPR will be needed to support MA benefits costs in the 2003-05 biennium. Act 33 anticipated the receipt of additional federal MA funds under two new initiatives that have yet to be approved by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS).

Under an intergovernmental transfer (IGT) initiative, it was assumed that the state would receive an estimated $213 million in 2003-04 in additional federal revenue for certain services counties provide under MA home- and community-based waiver programs. This additional revenue was to be deposited to the MA trust fund to support a portion of the state's share of MA base costs. In the spring of 2003, DHFS submitted a description of this proposal to CMS. CMS has expressed support for the long-term care reforms proposed by DHFS, but has questioned the creation or expansion of IGT programs as the means for states to increase federal support for their MA programs. DHFS is waiting for final resolution to proposed state plan amendments regarding MA claims for certain services provided by local governments, which are described below, before it prepares and submits a formal long-term care proposal for CMS approval.

Under the proposed state plan amendments, the state expected to receive $119 million ($71.6 million in 2003-04 and $47.4 million in 2004-05) in federal MA matching funds from increased payments to local governments for non-institutional services, including home health, case management, emergency transportation, and school-based services. Some of this revenue would be deposited to the MA trust fund to support a portion of MA base costs, and the remainder would be used to support local government costs previously funded under shared revenue and school aid payments. DHFS is currently negotiating with CMS regarding these amendments. If CMS does not approve the amendments, DHFS would continue to pay local governments federal MA matching funds under the community services deficit reduction benefit (CSDRB) program. This program would be eliminated if the state plan amendments are approved. Consequently, $17 million that is budgeted from the MA trust fund in 2004-05 to replace the CSDRB program would not be expended and would be available to partially offset any shortfall.

Several adjustments have been made to projected revenues to the MA trust fund, including reestimates of the amount of enhanced federal funding provided to the state under P.L. 108-27 that is available to support MA benefits in 2003-04 and interest earnings on the fund's cash balance.

The net effect of these adjustments is to increase the projected 2003-05 ending balance of the MA trust fund by approximately $2.4 million. Finally, if CMS does not approve these initiatives, approximately $2 million budgeted for administrative costs associated with them would not be expended for this purpose and would be available to partially offset any shortfall.

In summary, if the state is unable to secure any additional federal MA matching funds under these initiatives, approximately $310.6 million GPR would be needed ($213.0 + $119.0 - $17.0 - $2.4 - $2.0 = $310.6), in addition to the $90.4 million GPR identified above, to fully support projected MA benefits in the 2003-05 biennium. Any additional federal MA funds the state receives under these or other initiatives would reduce the necessity to provide GPR funding by a corresponding amount.

Once Global Insight, Inc. has completed its economic forecast for January, 2004, we will prepare our tax collection report and distribute it to you and your colleagues in the Legislature. The report will also include a general fund condition statement for 2003-05 that will incorporate our tax collection projections and the departmental revenue, sum sufficient, and lapse reestimates contained in this letter. Depending upon the timing of the Global Insight, Inc. forecast, we hope to complete our report by the end of January or early February.

Sincerely,

Bob

Robert Wm. Lang
Director

RWL/sas

cc: Members, Wisconsin Legislature

General Fund Information; General Fund Cash Flow (Part II–Pages 38-46).

The following provide updates to various tables containing General Fund information that is presented on either a cash basis or agency recorded basis. Unless noted, the following information is through April 30, 2004 and reflects the information released by LFB on January 15, 2004 and February 10, 2004, but do not reflect the Supreme Court decision in *Panzer v. Doyle* (concerning amendments to gaming compacts) since it is uncertain at this time whether and to what extent the tribal governments will make the payments due under the amendments.

The following tables may show negative balances on a cash basis. 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, then the Secretary of Administration is authorized to prorate and defer certain payments.

The State is not prohibited from having a negative cash balance at the end of a fiscal year. This is different than budgetary requirements, in which the Wisconsin Constitution requires the Legislature to enact a balanced biennial budget.

Table II-7; State Budget-General Fund (Part II–Page 41). Replace the table with the following:

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2003 TO APRIL 30, 2004
PROJECTED GENERAL FUND CASH FLOW; MAY 1, 2004 TO JUNE 30, 2004[a]

(In Thousands of Dollars)

	July 2003	August 2003	September 2003	October 2003	November 2003	December 2003	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004
BALANCES[b]												
Beginning Balance	($301,120)	($622,418)	($400,502)	$418,507	$907,811	$863,882	$1,013,762	$1,191,403	$1,038,826	($14,243)	$552,517	$658,886
Ending Balance [c]	($622,418)	($400,502)	$418,507	$907,811	$863,882	$1,013,762	$1,191,403	$1,038,826	($14,243)	$552,517	$658,886	($67,627)
Lowest Daily Balance [c]	($762,702)	($757,258)	($654,756)	$289,720	$648,269	($200,315)	$1,013,762	$1,013,762	($78,170)	($14,243)	$358,932	($287,348)
RECEIPTS												
TAX RECEIPTS												
Individual Income [d]	$535,668	$361,664	$632,800	$495,028	$390,357	$431,441	$815,263	$457,296	$530,620	$851,947	$331,900	$645,200
Sales & Use	368,518	363,614	375,775	374,113	350,192	321,577	394,456	295,514	293,589	339,858	343,900	353,100
Corporate Income	15,220	19,228	126,009	28,093	26,301	160,444	20,170	21,229	176,514	28,379	19,700	137,500
Public Utility	296	0	325	4,994	129,422	337	69	20	158	5,071	114,900	1,600
Excise	38,152	34,660	28,651	32,261	28,631	28,784	32,244	26,592	22,978	32,116	30,900	30,500
Insurance	828	1,375	25,541	293	1,334	28,444	2,696	17,785	25,650	27,842	4,600	27,600
Inheritance	5,660	11,035	7,017	6,607	6,089	9,493	4,990	5,314	4,948	8,163	6,300	5,600
Subtotal Tax Receipts	$964,342	$791,576	$1,196,118	$941,389	$932,326	$980,520	$1,269,888	$823,750	$1,054,457	$1,293,376	$852,200	$1,201,100
NON-TAX RECEIPTS												
Federal	$420,678	$479,004	$507,840	$618,086	$454,026	$534,209	$543,037	$491,036	$567,534	$534,657	$518,900	$553,400
Other & Transfers [d]	291,431	190,445	519,577	270,496	197,625	912,951	329,290	353,425	307,728	277,273	312,500	411,300
Note Proceeds [e]	0	0	400,000	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$712,109	$669,449	$1,427,417	$888,582	$651,651	$1,447,160	$872,327	$844,461	$875,262	$811,930	$831,400	$964,700
TOTAL RECEIPTS	$1,676,451	$1,461,025	$2,623,535	$1,829,971	$1,583,977	$2,427,680	$2,142,215	$1,668,211	$1,929,719	$2,105,306	$1,683,600	$2,165,800
DISBURSEMENTS												
Local Aids	$890,876	$172,578	$741,814	$109,530	$781,331	$1,178,138	$211,010	$237,278	$1,204,072	$153,766	$247,081	$1,774,181
Income Maintenance[g]	439,565	373,987	352,115	385,040	293,337	363,184	189,065	503,149	397,567	148,118	340,741	310,329
Payroll and Related	317,741	312,301	225,424	462,397	252,453	305,623	439,081	247,685	304,277	491,789	255,458	302,883
Tax Refunds	68,585	50,293	54,656	50,624	58,967	122,179	69,625	415,005	407,083	335,879	221,000	196,100
Debt Service	0	984	118,305	441	441	0	0	934	105,066	0	24,086	0
Miscellaneous [f]	280,982	328,966	312,212	332,635	241,377	308,676	1,055,793	318,657	463,264	307,447	387,197	308,820
Note Repayment [e]	0	0	0	0	0	0	0	98,080	101,459	101,547	101,668	0
TOTAL DISBURSEMENTS	$1,997,749	$1,239,109	$1,804,526	$1,340,667	$1,627,906	$2,277,800	$1,964,574	$1,820,788	$2,982,788	$1,538,546	$1,577,231	$2,892,313

(a) Projections reflect the reestimates of departmental revenues and expenditures provided by the Legislative Fiscal Bureau on January 15, 2004 and the general fund tax collection estimates provided by the Legislative Fiscal Bureau on February 10, 2004. Projections do not reflect the recent Supreme Court decision in Panzer v. Doyle (concerning amendments to gaming compacts) since it is uncertain at this time whether and to what extent the tribal governments will make the payments due under the amended gaming compacts. While the projections are based on budgetary assumptions, they are presented on a cash basis and not a budgetary basis. Projections do not include interfund borrowings.

(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. Ther designated funds are expected to range from $150 to $300 million during the 2003-04 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 2003-04 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 $542 million for the 2003-04 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 $325 million for the 2003-04 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.

(d) The July Individual Income Tax Receipts and Non-Tax Receipts for Other & Transfers were restated in September, 2003 due to a reporting reclassification by the Department of Revenue.

(e) Includes $400 million in operating note proceeds received in September, 2003 and impoundment payments due on February 27, March 31, April 30, and May 28, 2004. The February 27, 2004 impoundment payment excludes the premium deposited on September 18, 2003 into the operating note redemption fund.

(f) Includes $750 million of bond receipts that were received into the General Fund in December and disbursed on January 30, 2004.

(g) Includes $124 million of transfers from the General Fund (disbursements) to the Medical Assistance Trust Fund in March 2004, pursuant to 2003 Wisconsin Act 129.

Table II-8; General Fund Cash Receipts and Disbursements Year To Date; Compared to Estimates and Previous Fiscal Year. (Page 42). Update the table with the following:

2003-04 FISCAL YEAR
GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE
COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[(a)]
(Cash Basis)
As of April 30, 2004
(Amounts in Thousands)

	FY03 through April 2003	FY04 through April 2004				
	Actual	Actual	Estimate[(b)]	Variance	Adjusted Variance[(c)]	Difference FY03 Actual to FY04 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 5,291,937	$ 5,502,084	$ 5,595,200	$ (93,116)	$ (30,516)	$ 210,147
Sales	3,336,607	3,477,206	3,480,000	(2,794)	(2,794)	140,599
Corporate Income	525,918	621,587	594,600	26,987	26,987	95,669
Public Utility	159,693	140,692	155,600	(14,908)	(14,908)	(19,001)
Excise	297,061	305,069	301,800	3,269	3,269	8,008
Insurance	118,382	131,788	116,800	14,988	14,988	13,406
Inheritance	57,156	69,316	71,800	(2,484)	(2,484)	12,160
Total Tax Receipts	$ 9,786,754	$ 10,247,742	$ 10,315,800	$ (68,058)	$ (5,458)	$ 460,988
Non-Tax Receipts						
Federal	$ 4,945,831	$ 5,150,107	$ 4,975,100	$ 175,007	$ 175,007	$ 204,276
Other and Transfers	3,006,923	3,650,241	3,115,700	534,541	(170,593)	643,318
Note Proceeds	-	400,000	400,000	-	-	400,000 [(d)]
Total Non-Tax Receipts	$ 7,952,754	$ 9,200,348	$ 8,490,800	$ 709,548	$ 4,414	$ 1,247,594
TOTAL RECEIPTS	$ 17,739,508	$ 19,448,090	$ 18,806,600	$ 641,490	$ (1,044)	$ 1,708,582
DISBURSEMENTS						
Local Aids	$ 5,261,998	$ 5,680,393	$ 5,679,311	$ (1,082)	$ (1,082)	$ 418,395
Income Maintenance	3,543,180	3,445,127	3,270,263	(174,864)	(2,250)	(98,053)
Payroll & Related	3,074,726	3,358,771	3,308,691	(50,080)	(50,080)	284,045
Tax Refunds	1,554,324	1,632,896	1,444,547	(188,349)	(188,349)	78,572
Debt Service	386,337	226,171	238,318	12,147	12,147	(160,166)
Miscellaneous	2,899,274	3,950,009	3,970,177	20,168	20,168	1,050,735
Note Repayment	-	301,086	301,740	654	654	301,086
TOTAL DISBURSEMENTS	$ 16,719,839	$ 18,594,453	$ 18,213,047	$ (381,406)	$ (208,792)	$ 1,874,614
VARIANCE FY04 YEAR-TO-DATE				$ 260,084	$ (209,836)	

(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 the re-estimates of departmental revenues and expenditures provided by LFB on January 15, 2004 and the General Fund tax collection projections provided by LFB on February 10, 2004. While the information from the Legislative Fiscal Bureau is presented on a budgetary basis, the estimates are presented on a cash basis and not a budgetary basis. Estimates do not reflect the recent Supreme Court decision in *Panzer v. Doyle* (concerning amendments to gaming compacts) since it is uncertain at this time whether and to what extent the tribal governments will make the payments due under the amended gaming compacts.

(c) Changes were made, after the beginning of the fiscal year, to the estimates of receipts starting in September 2003. These changes were made to better reflect the timing of end-of-month electronic fund transfers. Because the changes were made starting in September 2003, the July and August 2003 estimates could not be changed. Since the timing of end-of-month electronic fund transfers impacted August and September 2003, the changes to the estimates of receipts include an increase in September 2003 but could not include any decrease in August 2003. As a result, the variance has been adjusted by $63 million to show the result if the August 2003 estimate were changed. In addition, the variance reflects $705 million of pension obligation bond proceeds that were received into the General Fund in December 2003 that were subsequently disbursed in January 2004, and $173 million resulting from a timing change related to Medicaid disbursements that could be not reversed in previous estimates.

(d) Operating Notes were issued in the 2003-04 fiscal year but were not issued in the 2002-03 fiscal year.

Table II-9; General Fund Monthly Position (Page 43). Update the table with the following:

GENERAL FUND MONTHLY CASH POSITION[a]
July 1, 2001 through April 30, 2004 — Actual
May 1, 2004 through June 30, 2004 — Estimated[b]
(Amounts in Thousands)

	Starting Date	Starting Balance		Receipts[c]	Disbursements[c]
2001	July	$ 281,565	(d)	$ 1,575,450	$ 1,853,617
	August	3,398	(d)	1,497,565	1,103,304
	September	397,659	(d)	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	(d)	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	(d)	1,530,532	2,730,873
	April	(231,221)	(d)	2,070,342	1,573,434
	May	265,687	(d)	2,155,171	1,844,456
	June	576,402	(d)	1,753,300	2,751,617
	July	(421,915)	(d)	1,700,476	1,895,272
	August	(616,711)	(d)	1,637,001	1,171,887
	September	(151,597)	(d)	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	(d)	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		1,652,274	2,383,386
	April	209,055	(d)	2,101,401	1,712,702
	May	597,754		1,485,340	1,566,243
	June	516,851	(d)	2,030,380	2,848,351
	July	(301,120)	(d)	1,676,451	1,997,749
	August	(622,418)	(d)	1,461,025	1,239,109
	September	(400,502)	(d)	2,623,535	1,804,526
	October	418,507		1,829,971	1,340,667
	November	907,811		1,583,977	1,627,906
	December	863,882	(d)	2,427,680	2,277,800
2004	January	1,013,762		2,142,215	1,964,574
	February	1,191,403		1,668,211	1,820,788
	March	1,038,826	(d)	1,929,719	2,982,788
	April	(14,243)	(d)	2,105,306	1,538,546
	May	552,517		1,683,600	1,577,231
	June	658,886	(d)	2,165,800	2,892,313

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

(b) The monthly receipt and disbursement projections for May 1, 2004 through June 30, 2004 are based on the re-estimates of departmental revenues and expenditures provided by LFB on January 15, 2004 and the General Fund tax collection projections provided by LFB on February 10, 2004. Projections do not reflect the recent Supreme Court decision in *Panzer v. Doyle* (concerning amendments to gaming compacts) since it is uncertain at this time whether and to what extent the tribal governments will make the payments due under the amended gaming compacts.

(c) The amounts shown in October 2001 and September 2003 include receipts from the issuance of operating notes, and amounts shown in February through May 2002 and February through May 2004 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued for the 2002-03 fiscal year.

(d) 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 was $556 million for the 2002-03 fiscal year and is approximately $542 million for the 2003-04 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 ($334 million for the 2002-03 fiscal year and approximately $325 million for the 2003-04 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 44). Update the table with the following:

BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[(a)]
July 31, 2001 to April 30, 2004 — Actual
May 31, 2004 to June 30, 2004— Estimated[(b)]
(Amounts in Millions)

Month (Last Day)	2001	2002	2003	2004
January		$ 5,360	$ 5,025	$ 4,673
February		5,463	5,235	4,852
March		5,628	5,438	5,197
April		5,135	5,113	4,707
May		4,819	4,674	1,724[(b)]
June		5,001	4,835	1,819
July	$ 5,275	5,401	5,135	
August	4,785	4,785	4,580	
September	4,897	4,898	4,378	
October	4,328	4,328	3,922	
November	4,242	4,242	3,797	
December	4,737	4,737	4,090	

[(a)] 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

[(b)] Estimated balances for May 31, 2004 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, 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 was $556 million for the 2002-03 fiscal year and is approximately $542 million for the 2003-04 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 ($334 million for the 2002-03 fiscal year and approximately $325 million for the 2003-04 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-11; General Fund Recorded Revenues (Page 45). Update the table with the following:

General Fund Recorded Revenues
(Agency Recorded Basis)
July 1, 2003 to April 30, 2004 compared with previous year [(a)]

	Annual Fiscal Report Revenues 2002-03 FY[(b)]	Projected Revenues 2003-04 FY[(c)]	Recorded Revenues July 1, 2002 to April 30, 2003[(d)]	Recorded Revenues July 1, 2003 to April 30, 2004[(e)]
Individual Income Tax	$ 5,052,500,000	$ 5,220,000,000	$ 3,872,497,736	$ 3,988,148,870
General Sales and Use Tax	3,738,000,000	3,900,000,000	2,744,532,063	2,862,341,891
Corporate Franchise and Income Tax	526,500,000	650,000,000	410,139,783	512,038,938
Public Utility Taxes	276,800,000	261,000,000	149,092,466	130,131,913
Excise Taxes	354,800,000	354,300,000	259,953,458	264,409,445
Inheritance Taxes	68,700,000	85,000,000	55,779,791	67,911,311
Insurance Company Taxes	114,900,000	125,000,000	77,945,399	85,320,058
Miscellaneous Taxes	67,500,000	75,100,000	78,213,702	75,137,554
SUBTOTAL............	$ 10,199,700,000	$ 10,670,400,000	7,648,154,398	7,985,439,982
Federal and Other Inter-Governmental Revenues[(f)]	$ 6,668,346,000	$ 5,707,551,000	5,527,281,262	5,183,800,436
Dedicated and Other Revenues[(g)]	3,815,875,000	1,931,197,500	3,412,991,038	4,571,445,037
TOTAL............	$ 20,683,921,000	$ 18,309,148,500	$ 16,588,426,698	$ 17,740,685,456

(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 2002-03 fiscal year, dated October 10, 2003.

(c) Projected revenues are based on the 2003-05 budget signed into law, with some partial vetoes, on July 24, 2003 by Governor Doyle (2003 Wisconsin Act 33). The projected revenues also reflect the re-estimates of departmental revenues that LFB released on January 15, 2004 and the General Fund tax collection projections provided by LFB on February 10, 2004. Projections do not reflect the recent Supreme Court decision in *Panzer v. Doyle* (concerning amendments to gaming compacts) since it is uncertain at this time whether and to what extent the tribal governments will make the payments due under the amended gaming compacts.

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

(e) The amounts shown are fiscal year 2003-04 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 46). Update the table with the following:

General Fund Recorded Expenditures By Function
(Agency Recorded Basis)
July 1, 2003 to April 30, 2004 compared with previous year [(a)]

	Annual Fiscal Report Expenditures 2002–03 FY[(b)]	Appropriations 2003–04 FY[(c)]	Recorded Expenditures July 1, 2002 to April 30, 2003[(d)]	Recorded Expenditures July 1, 2003 to April 30, 2004[(e)]
Commerce	$ 222,143,000	$ 267,951,200	$ 177,440,652	$ 222,418,027
Education	9,087,026,000	7,372,173,100	6,779,021,266	6,950,043,090
Environmental Resources	264,282,000	252,915,200	234,362,596	159,122,130
Human Relations & Resources	8,630,020,000	7,704,344,000	7,109,266,880	6,502,682,140
General Executive	646,171,000	622,251,300	536,647,028	2,022,984,718
Judicial	109,697,000	110,945,700	90,814,885	93,863,694
Legislative	61,219,000	62,468,300	46,712,279	45,607,405
General Appropriations	1,935,927,000	1,687,946,100	1,797,355,713	1,556,034,716
TOTAL	$ 20,956,485,000	$ 18,080,994,900	$ 16,771,621,299	$ 17,552,755,920

(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 2002-03 fiscal year, dated October 10, 2003.

(c) Estimated appropriations based on the 2003-05 budget signed into law, with some partial vetoes, on July 24, 2003 by Governor Doyle (2003 Wisconsin Act 33). The estimated appropriations do not reflect the re-estimates of expenditures that LFB released on January 15, 2004.

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

(e) The amounts shown are fiscal year 2003-04 expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

Introduction; Part III (Page 76). Update the table with the following:

On March 2, 2004, Fitch Ratings downgraded its rating on the State's general obligations from AA to AA– . At this time, Fitch Ratings also removed its outlook of Rating Watch Negative from the State's general obligations.

Appendix B

EXPECTED FORM OF LEGAL OPINION

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

(Letterhead of Foley & Lardner LLP)
$175,000,000
STATE OF WISCONSIN
GENERAL OBLIGATION REFUNDING BONDS OF 2004, SERIES 3

We have served as bond counsel in connection with the issuance by the State of Wisconsin (**State**) of its $175,000,000 General Obligation Refunding Bonds of 2004, Series 3, dated the date hereof (**Bonds**). The Bonds are being issued pursuant to Chapter 18, Wisconsin Statutes (**Act**) and a resolution adopted by the State of Wisconsin Building Commission (**Commission**) on March 4, 2004 (**Resolution**).

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 Resolution has been duly adopted by the Commission and is a valid and binding obligation of the State enforceable upon the State as provided in the Resolution.

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 all taxpayers. 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 LLP