<u>NOTICE OF BOND INSURANCE</u>

STATE OF WISCONSIN
GENERAL OBLIGATION BONDS OF 2004, SERIES E
Maturing May 1, 2011-2025

The Underwriters, as defined in the Official Statement, dated October 5, 2004, have provided for the delivery of a municipal bond insurance policy to be issued simultaneously with the delivery of the above captioned bonds by:

FGIC Financial Guaranty Insurance Company

Insuring the payment when due of the principal of and interest on the State of Wisconsin General Obligation Bonds of 2004, Series E maturing on May 1, 2011 through 2025 **(Insured Bonds)**. The State of Wisconsin General Obligation Bonds of 2004, Series E maturing on May 1, 2006 through 2010 are not insured by such policy.

This Notice includes certain information concerning Financial Guaranty Insurance Company (**Financial Guaranty)** and the terms of the Municipal Bond New Issue Insurance Policy (**Policy**) relating to the Insured Bonds. Information with respect to Financial Guaranty and the Policy has been supplied by Financial Guaranty. No representation is made by the Underwriter as to the accuracy or adequacy of such information. The Policy does not constitute a part of the contract between the State of Wisconsin **(State)** and the owners of the Insured Bonds. The Underwriters have the responsibility for paying the premium on and complying with the conditions for the issuance of the Policy, and the State has no responsibility with respect to such insurance in any way, including the maintenance and enforcement of the Policy or collection of a claim submitted under the Policy.

This Notice has been prepared by the Underwriters to provide certain information pertaining to Financial Guaranty. It has not been prepared or reviewed by the State, and the State makes no representations as to the adequacy of the information contained herein. Each purchaser should consult the Official Statement, dated October 5, 2004, for information about the Insured Bonds.

The Underwriters have applied for, and upon issuance of the Policy there will be assigned to the Insured Bonds, the AAA rating from Fitch Ratings, the Aaa rating from Moody's Investors Service, Inc., and the AAA rating from Standard & Poor's Ratings Services.

October 5, 2004

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.

$225,000,000
STATE OF WISCONSIN
GENERAL OBLIGATION BONDS OF 2004, SERIES E

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

Ratings	AA– Fitch Ratings Aa3 Moody's Investors Service, Inc. AA– Standard & Poor's Ratings Services–*See page 3.*
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 7-9.*
Redemption	The Bonds maturing on or after May 1, 2016 are callable at par on May 1, 2015 or any date thereafter–*See page 2.*
Security	General obligations of the State of Wisconsin–*See page 2.*
Purpose	Proceeds from the Bonds are being used for various governmental purposes–*See page 3*.
Interest Payment Dates	May 1 and November 1
First Interest Payment Date	May 1, 2005
Denominations	$5,000 or multiples thereof
Delivery/Settlement	On or about October 21, 2004
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-Only Form	The Depository Trust Company–*See page 4.*
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 Bonds were sold at competitive sale on October 5, 2004. The interest rates payable by the State, which are shown below, resulted from the award of the Bonds.

CUSIP	Year (May 1)	Principal Amount	Interest Rate	First Optional Call Date (May 1)	Call Price
97705L EB9	2006	$ 10,500,000	3.00%	Not Callable	-
97705L EC7	2007	11,050,000	4.50	Not Callable	-
97705L ED5	2008	11,635,000	4.50	Not Callable	-
97705L EE3	2009	12,240,000	4.00	Not Callable	-
97705L EF0	2010	12,885,000	4.00	Not Callable	-
97705L EG8	2011	13,325,000	5.00	Not Callable	-
97705L EH6	2012	14,030,000	4.25	Not Callable	-
97705L EJ2	2013	14,760,000	5.00	Not Callable	-
97705L EK9	2014	15,540,000	5.00	Not Callable	-
97705L EL7	2015	16,355,000	5.00	Not Callable	-
97705L EM5	2016	7,325,000	5.00	2015	100%
97705L EN3	2017	7,710,000	4.00	2015	100
97705L EP8	2018	8,115,000	4.00	2015	100
97705L EQ6	2019	8,540,000	5.00	2015	100
97705L ER4	2020	8,965,000	5.00	2015	100
97705L ES2	2021	9,415,000	5.00	2015	100
97705L ET0	2022	9,885,000	5.00	2015	100
97705L EU7	2023	10,380,000	5.00	2015	100
97705L EV5	2024	10,900,000	5.00	2015	100
97705L EW3	2025	11,445,000	5.00	2015	100

Purchase Price: $238,351,754.37

October 5, 2004

Note: The State has been advised by the Underwriters that they have received a Commitment for Municipal Bond Insurance from Financial Guaranty Insurance Company **(Financial Guaranty)** for the Bonds maturing May 1, 2011 through 2025. Further information on the commitment and the insurance policy may be obtained from the Underwriters and Financial Guaranty.

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. The delivery of this document or any sale of the Bonds does not imply that there has been no change in the matters contained in this document since the date of this document. Material referred to in this document is not part of this document unless expressly included.

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 State Facilities Department of Administration	At the pleasure of the Building Commission and the 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
(608) 266-2305
frank.hoadley@doa.state.wi.us

Mr. Lawrence K. Dallia
Assistant Capital Finance Director
(608) 267-7399
larry.dallia@doa.state.wi.us

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. To make an informed decision regarding the Bonds, a prospective investor should read the entire Official Statement.

Description:	State of Wisconsin General Obligation Bonds of 2004, Series E
Principal Amount:	$225,000,000
Denominations:	$5,000 or multiples thereof
Date of Issue:	Date of delivery (on or about October 21, 2004)
Record Date:	April 15 and October 15
Interest Payment:	May 1 and November 1, commencing May 1, 2005
Maturities:	May 1, 2006-2025—*See front cover*
Redemption:	*Optional* — The Bonds maturing on or after May 1, 2016 are subject to optional redemption at par on May 1, 2015 or any date thereafter—*See page 2*
Form:	Book-entry-only—*See page 4*
Paying Agent:	All payments of principal and interest on the Bonds will be paid by the Secretary of Administration. All payments will be made to The Depository Trust Company, which will distribute payments to the owners of the Bonds as described herein.
Security:	The Bonds are general obligations. As of June 30, 2004, there were $4,718,313,835 of outstanding general obligations of the State.
Bond Insurance:	The State has been advised by the Underwriters that they have received a Commitment for Municipal Bond Insurance from Financial Guaranty for the Bonds maturing May 1, 2011 through 2025. Further information on the commitment and the insurance policy may be obtained from the Underwriters and Financial Guaranty.
Additional General Obligation Debt:	The State may issue additional general obligation debt.
Authority for Issuance:	The Bonds are issued under Article VIII of the Wisconsin Constitution and Chapters 18 and 20 of the Wisconsin Statutes.
Purpose:	Acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes.
Legality of Investment:	State law provides that the Bonds are legal investments for all banks, trust companies, bankers, 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 personal representatives, guardians, trustees, and other fiduciaries; and for the State and all public officers, municipal corporations, political subdivisions, and public bodies.
Tax Exemption:	Interest on the Bonds is not included in gross income and not an item of tax preference for federal income tax purposes—*See pages 7-9* Interest on the Bonds is subject to State of Wisconsin income and franchise taxes—*See page 9*
Legal Opinion:	Validity and tax opinion to be provided by Foley & Lardner LLP—*See page C-1*

OFFICIAL STATEMENT
$225,000,000
STATE OF WISCONSIN
GENERAL OBLIGATION BONDS OF 2004, SERIES E

INTRODUCTION

This Official Statement provides information about the $225,000,000 General Obligation Bonds of 2004, Series E **(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, as well as an authorizing resolution that the State of Wisconsin Building Commission **(Commission)** adopted on September 15, 2004.

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 the following:

- Projected General Fund tax collections for the 2003-05 biennium, as released by the Legislature Fiscal Bureau on February 10, 2004.
- Preliminary General Fund tax collections for the 2003-04 fiscal year, as released by the State of Wisconsin Department of Revenue **(DOR)** on September 3, 2004.
- Projected General Fund cash flows for the 2004-05 fiscal year.

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.state.wi.us/capitalfinance/

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 (on or about October 21, 2004) and will bear interest from that date payable on May 1 and November 1 of each year, beginning on May 1, 2005.

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 in book-entry-only form, so the registered owner will be a securities depository—initially, a nominee of The Depository Trust Company **(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.

Redemption Provisions

Optional Redemption

The Bonds maturing on or after May 1, 2016 may be redeemed on May 1, 2015 or any date thereafter, 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 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 assigned a 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.

Application of Bond Proceeds

The Wisconsin Legislature has established the borrowing purposes and amounts for which public debt may be issued. APPENDIX B includes a summary of these purposes and the amounts both authorized and previously issued for each borrowing purpose. APPENDIX B also identifies the purposes and amounts that the Bonds are being issued for.

Bond proceeds will be deposited in the State's Capital Improvement Fund. Bond proceeds will be spent as the State incurs costs for the various borrowing purposes. Until the money is spent, the State of Wisconsin Investment Board will invest the Bond proceeds.

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 DTC, 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 $2,933,908,610, and the aggregate limit is currently $19,559,390,735. 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 June 30, 2004, there were $4,718,313,835 of outstanding general obligations of the State.

Borrowing Plans for 2004

General Obligations

This is the eleventh series of general obligations to be issued in this calendar year. The State has issued $615 million of general obligation refunding bonds, $307 million of general obligation bonds for general governmental purposes, $22 million of taxable general obligation bonds for the veterans housing loan program, and $100 million of general obligation extendible municipal commercial paper for general governmental purposes. The Commission has also authorized the following general obligations that may be issued in calendar year 2004:

- Up to $28 million of taxable general obligation bonds for the veterans housing loan program. The amount and timing of any issuance of taxable general obligation bonds depend on activity of the veterans housing loan program.
- 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 issuance of 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 issuance of additional general obligation subsidy bonds for this purpose depend on loan disbursements from the Clean Water Fund Program.

Other Obligations

The State has issued $96 million of transportation revenue refunding bonds to refund previously issued transportation revenue bonds. The Commission has authorized up to $154 million of additional transportation revenue refunding bonds to refund previously issued transportation revenue bonds. The amount and timing of any issuance of refunding bonds depend on market conditions. In addition, the State expects the Commission to authorize transportation revenue bonds in the fourth quarter to pay the costs of financing transportation facilities and major highway projects.

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 issuance of 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 refund previously issued petroleum inspection fee revenue bonds. The Commission has authorized $50 million of additional petroleum inspection fee revenue obligations to fund claims; the amount and timing of any issuance of additional petroleum inspection fee revenue obligations depend on funding of the claims. The Commission has also authorized up to $30 million of petroleum inspection fee revenue refunding bonds. The amount and timing of any issuance of additional refunding bonds depend on market conditions.

The Commission has authorized operating notes in an amount not to exceed $800 million; however, no determination has been made at this date whether any amount of operating notes will be issued in calendar year 2004.

Underwriting

The Bonds were purchased through competitive bidding on October 5, 2004 by the following account **(Underwriters)**: J P. Morgan Securities, Inc., book running manager; Bear, Stearns & Co. Inc.; Morgan Stanley; Banc of America Securities LLC; and Fidelity Capital Markets, joint managers; Robert W. Baird & Co., Inc.; M.R. Beal & Company; William Blair & Company, L.L.C.; Kirlin Securities, Inc.; Piper Jaffray; Charles Schwab; Wachovia Bank, National Association; Stifel, Nicolaus & Co. Inc. Hanifen Imhoff Division; Advest, Inc.; The GMS Group L.L.C.; and Harvestons Securities, Inc.

The Underwriters paid $238,351,754.37, and their bid resulted in a true interest cost rate to the State of 4.045997 %.

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. The Underwriters have provided the reoffering yields and prices to allow the computation of yield for federal tax law compliance. For each of the Bonds maturing on or after May 1, 2016, the dollar price at issuance is computed to the lower of the first call date or the nominal maturity date.

$225,000,000
State of Wisconsin
General Obligation Bonds of 2004, Series E

Dated Date: Date of Delivery
First Interest Date: May 1, 2005
Delivery/Settlement Date: On or about October 21, 2004

CUSIP	Year (May 1)	Principal Amount	Interest Rate	Yield at Issuance	Price at Issuance	First Optional Call Date (May 1)	Call Price
97705L EB9	2006	$ 10,500,000	3.00%	1.94%	101.587%	Not Callable	-
97705L EC7	2007	11,050,000	4.50	2.19	105.649	Not Callable	-
97705L ED5	2008	11,635,000	4.50	2.47	106.817	Not Callable	-
97705L EE3	2009	12,240,000	4.00	2.82	104.982	Not Callable	-
97705L EF0	2010	12,885,000	4.00	3.09	104.590	Not Callable	-
97705L EG8	2011	13,325,000	5.00	3.28	110.032	Not Callable	-
97705L EH6	2012	14,030,000	4.25	3.41	105.534	Not Callable	-
97705L EJ2	2013	14,760,000	5.00	3.53	110.742	Not Callable	-
97705L EK9	2014	15,540,000	5.00	3.64	110.865	Not Callable	-
97705L EL7	2015	16,355,000	5.00	3.74	110.881	Not Callable	-
97705L EM5	2016	7,325,000	5.00	3.83	110.057 [(a)]	2015	100%
97705L EN3	2017	7,710,000	4.00	4.03	99.706	2015	100
97705L EP8	2018	8,115,000	4.00	4.12	98.763	2015	100
97705L EQ6	2019	8,540,000	5.00	4.10	107.631 [(a)]	2015	100
97705L ER4	2020	8,965,000	5.00	4.18	106.924 [(a)]	2015	100
97705L ES2	2021	9,415,000	5.00	4.27	106.136 [(a)]	2015	100
97705L ET0	2022	9,885,000	5.00	4.36	105.355 [(a)]	2015	100
97705L EU7	2023	10,380,000	5.00	4.45	104.581 [(a)]	2015	100
97705L EV5	2024	10,900,000	5.00	4.53	103.899 [(a)]	2015	100
97705L EW3	2025	11,445,000	5.00	4.61	103.222 [(a)]	2015	100

[(a)] These bonds are priced to the May 1, 2015 call date.

Note: The State has been advised by the Underwriters that they have received a Commitment for Municipal Bond Insurance from Financial Guaranty for the Bonds maturing on May 1, 2011 through 2025. Further information on the commitment and the insurance policy may be obtained from the Underwriters and Financial Guaranty.

Legal Investment

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

- Banks, trust companies, bankers, 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.
- Personal representatives, 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 C. If certificated Bonds are issued, then 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. If certificated Bonds are issued, then 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 interest on the Bonds ceases to be excluded from gross income.

In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of each Bond maturing on May 1, 2017 and 2018 (**Discount Bonds**), to the extent properly allocable to the owner of a Discount Bond, is excluded from gross income for federal income tax purposes to the same extent that any interest payable on such Discount Bond is or would be excluded from gross income for federal income tax purposes. The original issue discount is the excess of the stated redemption price at maturity of a Discount Bond over the initial offering price to the public, excluding underwriters or other intermediaries, at which price a substantial amount of such Discount Bonds were sold (**Issue Price**).

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

- The Issue Price of the Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, *multiplied by*
- The yield to maturity of the Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of each accrual period), *less*
- Any interest payable on the Discount Bond during such accrual period.

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

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

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

Each Bond maturing on May 1, 2006 through 2016 and May 1, 2019 through 2025 (**Premium Bonds**) has an issue price that is greater than the amount payable at the maturity of the Bond.

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. Owners of Premium Bonds should consult their own tax advisors with respect to the state and local 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.
- A portion of the original issue discount, if any, that accrues in each year to an owner of a Discount Bond may result in collateral federal income tax consequences similar to the consequences of receipt of interest on the Bonds and may result in tax liability in the year of accrual, even though the owner of the Discount Bond will not receive a corresponding cash payment until a later year.

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

State of Wisconsin Income and Franchise Taxes

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

CONTINUING DISCLOSURE

The State has made an undertaking, for the benefit of the 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 nationally recognized municipal securities information repository **(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.state.wi.us/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: October 5, 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)**. Parts II and 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 changes or additions to the information presented in Part II and Part III of the 2003 Annual Report.

The additional information includes the following:

- Re-estimates of departmental revenues and expenditures, prepared by the Legislative Fiscal Bureau **(LFB)**.
- 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, also prepared by LFB.
- Preliminary General Fund tax collections for the 2003-04 fiscal year, as released by the State of Wisconsin Department of Revenue **(DOR)**.
- Projected General Fund cash flows for the 2004-05 fiscal year.

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 discusses the security provisions for general obligation debt (including the flow of funds to pay debt service on general obligations) and presents data about 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, some of which may be notices that do not describe 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-17 to A-21 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-5 to A-16 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.

Results of 2003-04 Fiscal Year

On September 3, 2004, DOR released preliminary information pertaining to actual General Fund tax collections for the 2003-04 fiscal year. General Fund tax collections for the 2003-04 fiscal year, on a budgetary basis, were $69 million above the LFB projection from February 2004, and were nearly $540 million, or 5.3%, above collections in the 2002-03 fiscal year. With regard to the major reporting categories, the DOR report shows that individual income tax collections exceeded projections by $57 million, general sales and use tax collections fell short of projections by less than $1 million, and corporate franchise and public utility tax collections both exceeded projections by less than $1 million.

The State's Annual Fiscal Report will include the ending general fund balance for the 2003-04 fiscal year (unaudited, budgetary basis) and will be released by October 15, 2004.

Medical Assistance Benefits

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. 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.

The January 15, 2004 letter estimates 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 insufficient by approximately $90 million in the 2003-05 biennium. This $401 million potential shortfall in current funding for projected medical assistance benefits has been addressed, in part, by the following events that have occurred subsequent to LFB releasing its projections on January 15, 2004 and February 10, 2004. As a result of these events, the potential shortfall in current funding for projected medical assistance benefits has been reduced to approximately $224 million.

- 2003 Wisconsin Act 129 provided for the transfer of approximately $124 million from the General Fund to the Medical Assistance Trust Fund. This act provided for the refunding, for payment in later years, of approximately $175 million of certain general obligation bonds and variable-rate notes maturing during the fiscal year.
- 2003 Wisconsin Act 318 will allow the State to receive approximately $53 million of federal medical assistance funds. This act makes corrections to a prior State intergovernmental transfer proposal that federal authorities would not approve.

Supreme Court Decision 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 similar 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 or 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 all gaming compacts, including payments from the Forest County Potawatomi.

	Fiscal Year Ending June 30, 2004	Fiscal Year Ending June 30, 2005
Total Payments	$101,965,600	$104,516,300

In light of the Supreme Court's decision, it was uncertain whether or to what extent the tribal governments would make the payments due under the amended gaming compacts. Subsequent to the Supreme Court's decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments; the amount that was not received is $30 million. It remains uncertain whether or to what extent the tribal governments will make the payments due on or after June 30, 2005, and discussions continue with tribal governments regarding the outstanding payment and the payments due on or after June 30, 2005.

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.

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

Legislative Fiscal Bureau

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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.)

<u>2003-04 Opening Balance</u>. 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.

<u>Departmental Revenues</u>. 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).

<u>Sum Sufficient Appropriations</u>. 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.

<u>Lapses</u>. 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 August 31, 2004 and reflects the information released by LFB on January 15, 2004 and February 10, 2004. The following information does not reflect the Supreme Court's decision concerning amendments to gaming compacts. In light of the Supreme Court's decision, it was uncertain whether or to what extent the tribal governments would make the payments due under the amended gaming compacts. Subsequent to the Supreme Court's decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments; the amount that was not received is $30 million. It remains uncertain whether or to what extent the tribal governments will make the payments due on or after June 30, 2005, and discussions continue with tribal governments regarding the outstanding payment and the payments due on or after June 30, 2005.

The following also does not assume the issuance of any operating notes for the 2004-05 fiscal year. The Commission has authorized operating notes in an amount not to exceed $800 million; however, no determination has been made at this date whether any amount of operating notes will be issued in the 2004-05 fiscal year.

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 JUNE 30, 2004

(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[a]												
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	$758,574
Ending Balance [b]	($622,418)	($400,502)	$418,507	$907,811	$863,882	$1,013,762	$1,191,403	$1,038,826	($14,243)	$552,517	$758,574	($21,216)
Lowest Daily Balance [b]	($762,702)	($757,258)	($654,756)	$289,720	$648,269	($200,315)	$1,013,762	$1,013,762	($78,170)	($14,243)	$412,085	($322,282)
RECEIPTS												
TAX RECEIPTS												
Individual Income [c]	$535,668	$361,664	$632,800	$495,028	$390,357	$431,441	$815,263	$457,296	$530,620	$851,947	$385,478	$633,196
Sales & Use	368,518	363,614	375,775	374,113	350,192	321,577	394,456	295,514	293,589	339,858	343,335	364,588
Corporate Income	15,220	19,228	126,009	28,093	26,301	160,444	20,170	21,229	176,514	28,379	17,663	136,053
Public Utility	296	0	325	4,994	129,422	337	69	20	158	5,071	136,052	201
Excise	38,152	34,660	28,651	32,261	28,631	28,784	32,244	26,592	22,978	32,116	29,565	32,506
Insurance	828	1,375	25,541	293	1,334	28,444	2,696	17,785	25,650	27,842	767	28,153
Inheritance	5,660	11,035	7,017	6,607	6,089	9,493	4,990	5,314	4,948	8,163	8,739	10,219
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	$921,599	$1,204,916
NON-TAX RECEIPTS												
Federal	$420,678	$479,004	$507,840	$618,086	$454,026	$534,209	$543,037	$491,036	$567,534	$534,657	$487,096	$617,201
Other & Transfers [c]	291,431	190,445	519,577	270,496	197,625	912,951	329,290	353,425	307,728	277,273	216,301	464,782
Note Proceeds [d]	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	$703,397	$1,081,983
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	$1,624,996	$2,286,899
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	$235,068	$1,846,208
Income Maintenance[f]	439,565	373,987	352,115	385,040	293,337	363,184	189,065	503,149	397,567	148,118	329,091	366,219
Payroll and Related	317,741	312,301	225,424	462,397	252,453	305,623	439,081	247,685	304,277	491,789	251,034	307,410
Tax Refunds	68,585	50,293	54,656	50,624	58,967	122,179	69,625	415,005	407,083	335,879	138,614	104,930
Debt Service	0	984	118,305	441	441	0	0	934	105,066	0	10,985	0
Miscellaneous [e]	280,982	328,966	312,212	332,635	241,377	308,676	1,055,793	318,657	463,264	307,447	352,527	441,922
Note Repayment [d]	0	0	0	0	0	0	0	98,080	101,459	101,547	101,620	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	$1,418,939	$3,066,689

(a) 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 were 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 were expected to average approximately $50 million during the 2003-04 fiscal year.

(b) 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 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.

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

(d) 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.

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

(f) 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-7; State Budget-General Fund (Part II–Page 41). Add the following table:

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2004 TO AUGUST 31, 2004
PROJECTED GENERAL FUND CASH FLOW; SEPTEMBER 1, 2004 TO JUNE 30, 2005[a]

(In Thousands of Dollars)

	July 2004	August 2004	September 2004	October 2004	November 2004	December 2004	January 2005	February 2005	March 2005	April 2005	May 2005	June 2005
BALANCES[b]												
Beginning Balance	($21,216)	($431,440)	$209,127	$353,951	$785,776	$429,160	($185,789)	$846,577	$1,057,969	$89,726	$444,787	$679,679
Ending Balance [c]	($431,440)	$209,127	$353,951	$785,776	$429,160	($185,789)	$846,577	$1,057,969	$89,726	$444,787	$679,679	($97,810)
Lowest Daily Balance [c]	($431,440)	($436,769)	$21,893	$242,301	$188,659	($791,095)	($185,789)	$503,475	$4,683	($188,192)	$183,086	($351,622)
RECEIPTS												
TAX RECEIPTS												
Individual Income	$533,817	$540,819	$622,700	$533,000	$291,700	$621,300	$902,700	$471,600	$412,800	$932,000	$404,600	$619,000
Sales & Use	380,702	389,894	377,000	385,600	381,200	318,800	427,300	333,700	301,300	339,700	361,100	370,700
Corporate Income	30,839	16,739	140,400	31,600	15,800	159,800	26,900	14,000	186,600	29,200	19,100	133,300
Public Utility	0	38	200	3,900	140,000	4,300	0	3,800	200	5,200	119,300	1,700
Excise	29,945	32,206	31,400	29,200	36,200	28,900	28,100	29,800	25,000	27,500	30,700	30,400
Insurance	295	2,305	24,300	1,600	1,400	25,200	2,000	13,700	21,800	27,600	4,400	26,500
Inheritance	8,654	7,954	13,000	5,500	6,500	5,100	8,700	5,900	6,600	10,900	6,700	6,000
Subtotal Tax Receipts	$984,252	$989,955	$1,209,000	$990,400	$872,800	$1,163,400	$1,395,700	$872,500	$954,300	$1,372,100	$945,900	$1,187,600
NON-TAX RECEIPTS												
Federal	$344,173	$535,363	$459,600	$643,600	$446,600	$470,800	$618,900	$540,700	$491,600	$548,200	$534,900	$566,400
Other & Transfers[d]	196,901	339,783	363,350	221,950	231,250	212,950	386,250	388,050	318,750	320,750	300,150	473,850
Note Proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$541,074	$875,146	$822,950	$865,550	$677,850	$683,750	$1,005,150	$928,750	$810,350	$868,950	$835,050	$1,040,250
TOTAL RECEIPTS	$1,525,326	$1,865,101	$2,031,950	$1,855,950	$1,550,650	$1,847,150	$2,400,850	$1,801,250	$1,764,650	$2,241,050	$1,780,950	$2,227,850
DISBURSEMENTS												
Local Aids[e][f]	$835,926	$170,248	$704,176	$123,700	$786,447	$1,171,442	$227,374	$232,359	$1,193,196	$122,127	$248,992	$1,817,211
Income Maintenance	383,180	416,654	497,747	405,358	431,609	555,913	344,776	414,316	471,345	434,538	408,025	388,860
Payroll and Related	390,998	244,728	322,372	394,388	327,523	327,706	359,826	325,251	369,525	470,929	255,539	313,235
Tax Refunds	49,162	55,304	48,791	64,194	76,501	76,405	61,510	347,302	349,093	311,909	233,409	207,201
Debt Service	0	687	0	139,636	3,621	0	0	3,621	0	266,649	39,575	0
Miscellaneous	276,284	336,913	314,040	296,849	281,565	330,633	374,998	267,009	349,734	279,837	360,518	278,832
Note Repayment	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	$1,935,550	$1,224,534	$1,887,126	$1,424,125	$1,907,266	$2,462,099	$1,368,484	$1,589,858	$2,732,893	$1,885,989	$1,546,058	$3,005,339

(a) Projections reflect the re-estimates 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 concerning amendments to gaming compacts. Subsequent to the Supreme Court's decision, the State has received payments expected to be received by June 30, 2004 from all but one of the tribal governments. Discussions continue with the tribal governments regarding the outstanding payment and all payments due on or after June 30, 2005. 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 2004-05 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 2004-05 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 $589 million for the 2004-05 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 $354 million for the 2004-05 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) Includes $75 million to be transferred from the Transportation Fund to the General Fund in June 2005.

(e) $190 million of the November 2004 shared revenue payments are to be made from Segregated Funds and are not included in these Local Aid disbursement totals.

(f) $60 million of the September 2004 equalization payments are to be made from the Transportation Fund and are not included in these Local Aid disbursement totals.

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:

2004-05 FISCAL YEAR
GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[(a)]
(Cash Basis)
As of August 31, 2004
(Amounts in Thousands)

	FY04 through August 2003	FY05 through August 2004				
	Actual	Actual	Estimate[(b)]	Variance	Adjusted Variance[(c)]	Difference FY04 Actual to FY05 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 840,125	$ 1,074,636	$ 998,200	$ 76,436	$ 76,436	$ 234,511
Sales	732,132	770,596	780,400	(9,804)	(9,804)	38,464
Corporate Income	34,448	47,578	37,100	10,478	10,478	13,130
Public Utility	296	38	200	(162)	(162)	(258)
Excise	72,812	62,151	62,300	(149)	(149)	(10,661)
Insurance	2,203	2,600	3,900	(1,300)	(1,300)	397
Inheritance	16,695	16,608	17,200	(592)	(592)	(87)
Total Tax Receipts	$ 1,698,711	$ 1,974,207	$ 1,899,300	$ 74,907	$ 74,907	$ 275,496
Non-Tax Receipts						
Federal	$ 899,682	$ 879,536	$ 910,400	$ (30,864)	$ (30,864)	$ (20,146)
Other and Transfers	539,083	536,684	549,700	(13,016)	(13,016)	(2,399)
Note Proceeds	-	-	-	-	-	-
Total Non-Tax Receipts	$ 1,438,765	$ 1,416,220	$ 1,460,100	$ (43,880)	$ (43,880)	$ (22,545)
TOTAL RECEIPTS	$ 3,137,476	$ 3,390,427	$ 3,359,400	$ 31,027	$ 31,027	$ 252,951
DISBURSEMENTS						
Local Aids	$ 1,063,454	$ 1,006,174	$ 979,639	$ (26,535)	$ (26,535)	$ (57,280)
Income Maintenance	813,552	799,834	811,343	11,509	11,509	(13,718)
Payroll & Related	630,042	635,726	639,498	3,772	3,772	5,684
Tax Refunds	118,878	104,466	114,103	9,637	9,637	(14,412)
Debt Service	984	687	3,621	2,934	2,934	(297)
Miscellaneous	609,948	613,197	552,759	(60,438)	(60,438)	3,249
Note Repayment	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 3,236,858	$ 3,160,084	$ 3,100,963	$ (59,121)	$ (59,121)	$ (76,774)
VARIANCE FY05 YEAR-TO-DATE				$ (28,094)	$ (28,094)	

(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 concerning amendments to gaming compacts. Subsequent to the Supreme Court's decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments. Discussions continue with the tribal governments regarding the outstanding payment and all payments due on or after June 30, 2005.

(c) Changes are sometimes made after the beginning of the fiscal year to the projected revenues and disbursements. Depending on when these changes occur, there are situations in which prior estimates can not be changed and the result are some large variances. This column includes adjustments to the variances to more accurately reflect the variance between the estimated and actual amounts.

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

GENERAL FUND MONTHLY CASH POSITION[(a)]
July 1, 2002 through August 31, 2004 — Actual
September 1, 2004 through June 30, 2005 — Estimated[(b)]
(Amounts in Thousands)

	Starting Date	Starting Balance		Receipts[(c)]	Disbursements[(c)]
2002	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		1,624,996	1,418,939
	June...................	758,574	(d)	2,286,899	3,066,689
	July..................	(21,216)	(d)	1,525,326	1,935,550
	August................	(431,440)	(d)	1,865,101	1,224,534
	September..........	209,127		2,031,950	1,887,126
	October..............	353,951		1,855,950	1,424,125
	November...........	785,776		1,550,650	1,907,266
	December...........	429,160	(d)	1,847,150	2,462,099
2005	January..............	(185,789)	(d)	2,400,850	1,368,484
	February............	846,577		1,801,250	1,589,858
	March................	1,057,969		1,764,650	2,732,893
	April..................	89,726	(d)	2,241,050	1,885,989
	May...................	444,787		1,780,950	1,546,058
	June...................	679,679	(d)	2,227,850	3,005,339

(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 September 1, 2004 through June 30, 2005 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 concerning amendments to gaming compacts. Subsequent to the Supreme Court's decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments. Discussions continue with the tribal governments regarding the outstanding payment and all payments due on or after June 30, 2005.

(c) The amounts shown in September 2003 include receipts from the issuance of operating notes, and amounts shown in 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, and no operating notes are assumed for the 2004-05 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 is approximately $589 million for the 2004-05 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 $354 million for the 2004-05 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, 2002 to August 31, 2004 — Actual
September 30, 2004 to June 30, 2005— Estimated[(b)]
(Amounts in Millions)

The following two tables show, on a monthly basis, the cash balances available for interfund borrowing. The first table does not include balances in the Local Government Investment Pool (LGIP). While the LGIP is available for interfund borrowing, funds in the LGIP are deposited and withdrawn by local units of government, and thus are outside the control of the State.

(Does Not Include Balances in the Local Government Investment Pool)

Month (Last Day)	2002	2003	2004	2005
January		$ 1,100	$ 1,027	$ 1,018
February		1,138	1,126	1,105
March		1,203	1,179	1,107
April		1,133	1,157	997
May		1,187	1,163	1,061
June		1,279	1,054	1,117
July	$ 1,033	1,140	908	
August	1,049	1,242	1,003	
September	1,055	1,226	997[(b)]	
October	1,032	1,187	935	
November	1,105	1,078	940	
December	1,131	1,130	1,042	

The second table includes the balances in the LGIP. The average monthly daily balances in the LGIP for the past five years have ranged from a low of $2.216 billion during November 2002 to a high of $4.521 billion during March 2002.

(Includes Balances in the Local Government Investment Pool)

Month (Last Day)	2002	2003	2004	2005
January		$ 5,025	$ 4,673	$ 5,360
February		5,235	4,852	5,463
March		5,438	5,197	5,628
April		5,113	4,707	5,135
May		4,674	4,417	4,158
June		4,835	4,274	4,329
July	$ 5,401	5,135	4,268	
August	4,785	4,580	3,904	
September	4,898	4,378	4,8-98[(b)]	
October	4,328	3,922	4,328	
November	4,242	3,797	4,242	
December	4,737	4,090	4,737	

[(a)] The following funds are available for interfund borrowing. The amounts shown reflect a reduction in the aggregate cash balances available to the extent any fund listed below has a negative balance and is subject to interfund borrowing.

Transportation	Common School	Conservation (Partial)
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
Environmental Improvement Fund	Uninsured Employers	Environmental
Local Government Property Insurance	University Trust Principal	Patients Compensation
Veterans Mortgage Loan Repayment	Mediation	State Building Trust

Medical Assistance	Agricultural College
Normal School	Wisconsin Health Education Loan Repayment
University	Waste Management
Groundwater	Work Injury Supplemental Benefit
Health Insurance Risk Sharing Plan	Recycling
Petroleum Storage Environmental Cleanup	Unemployment Compensation Interest Repayment

[(b)] The balances for September 30, 2004 and subsequent months are estimates.

Table II-11; General Fund Recorded Revenues (Page 45). Update the table with the following:

General Fund Recorded Revenues
(Agency Recorded Basis)
July 1, 2004 to August 31, 2004 compared with previous year [(a)]

	Annual Fiscal Report Revenues 2003-04 FY	Projected Revenues 2004-05 FY[(b)]	Recorded Revenues July 1, 2003 to August 31, 2003 [(c)]	Recorded Revenues July 1, 2004 to August 31, 2004 [(d)]
Individual Income Tax	Not Available; Final revenues for FY04 will not be available until publication of the Annual Fiscal Report, which will be no later than October 15, 2004.	$ 5,560,000,000	$ 392,217,318	$ 524,679,454
General Sales and Use Tax		4,095,000,000	330,885,993	335,478,556
Corporate Franchise and Income Tax		630,000,000	20,900,229	35,253,951
Public Utility Taxes		271,000,000	28,809	4,393
Excise Taxes		351,800,000	34,204,079	31,936,951
Inheritance Taxes		90,000,000	16,614,506	15,039,550
Insurance Company Taxes		120,000,000	652,607	97,449
Miscellaneous Taxes		78,000,000	15,935,250	10,310,182
SUBTOTAL		$ 11,195,800,000	811,438,791	952,800,487
Federal and Other Inter-Governmental Revenues[(e)]		$ 5,435,423,200	902,433,243	905,503,829
Dedicated and Other Revenues[(f)]		3,937,774,100	405,746,615	551,786,847
TOTAL		$ 20,568,997,300	$ 2,119,618,650	$ 2,410,091,163

(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) 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 concerning amendments to gaming compacts. Subsequent to the Supreme Court's decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments. Discussions continue with the tribal governments regarding the outstanding payment and all payments due on or after June 30, 2005. Other 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).

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

(d) The amounts shown are fiscal year 2004-05 revenues as recorded by state agencies.

(e) 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.

(f) 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, 2004 to August 31, 2004 compared with previous year [(a)]

	Annual Fiscal Report Expenditures 2003–04 FY	Appropriations 2004–05 FY[(b)]	Recorded Expenditures July 1, 2003 to August 31, 2003[(c)]	Recorded Expenditures July 1, 2004 to August 31, 2004[(d)]
Commerce	Not Available; Final expenditures for FY04 will not be available until publication of the Annual Fiscal Report, which will be no later than October 15, 2004.	$ 270,736,800	$ 45,977,500	$ 35,155,897
Education		9,369,734,400	782,004,426	849,013,610
Environmental Resources		251,677,800	10,302,174	10,266,627
Human Relations & Resources		8,355,526,200	1,309,228,000	1,452,992,706
General Executive		627,647,400	96,933,883	95,030,808
Judicial		110,988,200	25,800,051	25,905,196
Legislative		52,479,800	6,244,410	6,429,947
General Appropriations		1,690,239,300	678,906,683	666,153,407
TOTAL		$ 20,729,029,900	2,955,397,126	3,140,948,198

(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) 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.

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

(d) The amounts shown are fiscal year 2004-05 expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

APPENDIX B

State of Wisconsin
General Obligation Issuance Status Report
September 15, 2004

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	G.O. Bonds of 2004, Series E	Total Authorized Unissued Debt
University of Wisconsin; academic facilities..........................	$ 1,107,898,000	$ 938,992,229	$ 12,046,136	$ 20,000,000	$ 136,859,635
University of Wisconsin; self-amortizing facilities................	992,385,200	579,822,621	1,643,606	49,210,000	361,708,973
Natural resources; Warren Knowles - Gaylord Nelson stewardship 2000 program............................	572,000,000	168,433,000	13,392	14,000,000	389,553,608
Natural resources; municipal clean drinking water grants...................................	9,800,000	9,518,744	141,818		139,438
Clean water fund program.................	637,743,200	442,334,053			195,409,147
Safe drinking water loan program……………………….	26,210,000	25,506,520			703,480
Natural resources; nonpoint source grants..................	85,310,400	64,130,658	132,570		21,047,172
Natural resources; nonpoint source compliance……….	2,000,000	2,000,000			
Natural resources; environmental repair......................	48,000,000	38,346,900	161,017		9,492,083
Natural resources; urban nonpoint source cost-sharing…………………………	22,400,000	10,565,000		33,850	11,801,150
Natural resources; environmental segregated fund supported administrative facilities…………….	6,770,400	2,191,100		676,650	3,902,650
Natural resources; segregated revenue supported dam safety projects…………………	6,600,000	5,993,000			607,000
Natural resources; pollution abatement and sewage collection facilities, ORAP funding...............	145,060,325	145,010,325	50,000		
Natural resources; pollution abatement and sewage collection facilities.............	893,493,400	874,674,068	18,513,076		306,256
Natural resources; pollution abatement and sewage collection facilities; combined sewer overflow..............	200,600,000	194,312,599	6,287,401		
Natural resources; recreation projects.........................	56,055,000	56,053,994	1,006		
Natural resources: local parks land acquisition and development...........................	2,490,000	2,447,741	42,259		
Natural resources; recreation development.................	23,061,500	22,871,110	141,227		49,163
Natural resources; land acquisition.............................	45,608,600	45,116,930	491,671		

GENERAL OBLIGATION ISSUANCE STATUS REPORT–CONTINUED
September 15, 2004

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[(a)]	G.O. Bonds of 2004, Series E	Total Authorized Unissued Debt
Natural resources; Wisconsin natural areas heritage program	2,500,000	2,445,793	17,174		37,032
Natural resources; segregated revenue supported facilities	45,296,900	21,397,802	45,287	2,250,000	21,603,811
Natural resources; general fund supported administrative facilities	10,882,400	10,418,127	21,432	52,000	390,841
Natural resources; ice age trail	750,000	750,000			
Natural resources; dam safety projects	5,500,000	5,400,148	49,701		50,151
Natural resources; segregated revenue supported land acquisition	2,500,000	2,500,000			
Natural resources; Warren Knowles - Gaylord Nelson stewardship program	231,000,000	224,675,820	1,293,404		5,030,776
Transportation; administrative facilities	8,890,400	8,759,479	33,943		96,978
Transportation; accelerated bridge improvements	46,849,800	46,849,800			
Transportation; rail passenger route development	50,000,000	1,410,000		22,921	48,567,079
Transportation; accelerated highway improvements	185,000,000	185,000,000			
Transportation; connecting highway improvements	15,000,000	15,000,000			
Transportation; federally aided highway facilities	10,000,000	10,000,000			
Transportation; highway projects	41,000,000	41,000,000			
Transportation; major highway and rehabilitation projects	565,480,400	391,537,720		63,300,000	110,642,680
Transportation; harbor improvements	28,000,000	19,738,000	232,605	10,190	8,019,205
Transportation; rail acquisitions and improvements	32,500,000	25,902,000	16	862,625	5,735,359
Transportation; local roads for job preservation, state funds	2,000,000	1,958,000		357	41,643
Corrections; correctional facilities	793,787,700	756,702,362	11,467,003	10,000,000	15,618,336
Corrections; self-amortizing facilities and equipment	7,337,000	2,115,000	99	438	5,221,463
Corrections; juvenile correctional facilities	27,726,500	25,448,556	102,026		2,175,918
Health and family services; mental health and secure treatment facilities	129,057,200	120,605,268	895,124	400,000	7,156,808

GENERAL OBLIGATION ISSUANCE STATUS REPORT–CONTINUED
September 15, 2004

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	G.O. Bonds of 2004, Series E	Total Authorized Unissued Debt
Agriculture; soil and water……………………..	20,575,000	10,538,000	1,248	270,000	9,765,752
Agriculture; conservation reserve enhancement…	40,000,000	7,330,000		823,000	31,847,000
Administration; Black Point Estate…………………	1,600,000				1,600,000
Building commission; previous lease rental authority.............................…	143,071,600	143,068,654			2,946
Building commission; refunding corporation self-amortizing debt......................…	870,000				870,000
Building commission; refunding tax-supported general obligation debt..................…	2,102,086,430	2,102,086,530 [b]			
Building commission; refunding self-amortizing general obligation debt..................…	272,863,033	272,863,033 [b]			
Building commission; refunding tax-supported and self-amortizing general obligation debt incurred before June 30, 2005…	250,000,000	250,000,000			
Building commission; refunding tax-supported and self-amortizing general obligation debt…………………………………	440,000,000	440,000,000			
Building commission; housing state departments and agencies..................................…	480,088,500	400,454,121	2,329,712	2,000,000	75,304,667
Building commission; 1 West Wilson street parking ramp................................…	15,100,000	14,805,521	294,479		
Building commission; project contingencies....................…	47,961,200	35,290,000	62,251	2,000,000	10,608,949
Building commission; capital equipment acquisition......…	117,042,900	99,254,191	729,518	3,500,000	13,559,191
Building commission; discount sale of debt.....................…	90,000,000	66,758,598			23,241,402
Building commission; discount sale of debt (higher education bonds)..............…	100,000,000	99,988,833 [b]			11,167
Building commission; other public purposes..................…	1,495,901,000	1,089,738,317	6,188,961	50,245,927	349,727,795
Medical College of Wisconsin, Inc.; basic science education and health information technology facilities….	10,000,000	10,000,000			
HR Academy, Inc.…………………..	1,500,000	1,000,000		292,042	207,958
Medical College of Wisconsin, Inc.; biomedical research and technology incubator………………..	25,000,000				25,000,000
Marquette University; dental clinic and education facility…	15,000,000	14,999,182	818		
Swiss cultural center…………………	1,000,000				1,000,000
Racine County; Discovery Place museum………….	1,000,000				1,000,000
Milwaukee Police Athletic League; youth activities center………………	1,000,000	1,000,000			

GENERAL OBLIGATION ISSUANCE STATUS REPORT–CONTINUED
September 15, 2004

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	G.O. Bonds of 2004, Series E	Total Authorized Unissued Debt
Administration; school educational technology infrastructure financial assistance…………………	90,200,000	64,985,000	431,066	3,300,000	21,483,934
Administration; public library educational technology infrastructure financial assistance……….……….	300,000	268,918	41		31,041
Educational communications board; educational communications facilities……………………………..	22,858,100	16,689,539	37,069	120,000	6,011,492
Historical society; self-amortizing facilities...............…	3,173,600	1,029,156	3,896		2,140,547
Historical society; historic records..............................…	400,000				400,000
Historical society; historic sites..................................…	1,839,000	1,825,756			13,244
Historical society; museum facility.............................…	4,384,400	4,362,469			21,931
Historical society; Wisconsin history center…………..	30,000,000				30,000,000
Public instruction; state school, state center and library facilities………………..	7,367,700	7,330,612	32,508		4,579
Military affairs; armories and military facilities....…	24,393,800	20,162,527	192,632	500,000	3,538,642
Veterans affairs; veterans facilities...........………….	10,090,100	9,405,565	50,593		633,941
Veterans affairs; self-amortizing mortgage loans....…	2,120,840,000	2,045,652,395	2,133,000		73,054,605
Veterans affairs; refunding bonds.............................…	840,000,000	721,169,245			118,830,755
Veterans affairs; self-amortizing facilities…………..	34,412,600	4,277,500	501		30,134,599
State fair park board; board facilities..........................……	13,587,100	12,757,010		130,000	700,090
State fair park board; housing facilities............................…	11,000,000	10,999,990	13		
State fair park board; self-amortizing facilities...........…..	56,787,100	50,991,800	22,328	1,000,000	4,772,972
Total...…	$16,067,837,488	$13,579,016,927	$66,333,629	$225,000,000	$2,197,487,036

[a] Interest earnings reduce issuance authority by the same amount.

[b] 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 statutory authority to issued debt.

Source: Wisconsin Department of Administration.

Appendix C

EXPECTED FORM OF BOND COUNSEL 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)
$225,000,000
STATE OF WISCONSIN
GENERAL OBLIGATION BONDS OF 2004, SERIES E

We have served as bond counsel in connection with the issuance by the State of Wisconsin **(State)** of its $225,000,000 General Obligation Bonds of 2004, Series E, dated October 21, 2004 **(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 September 15, 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

Bond Insurance

Financial Guaranty has supplied the following information for inclusion in this Notice. No representation is made by the State or the Underwriters as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the State of Wisconsin General Obligation Bonds of 2004, Series E maturing on May 1, 2011 through 2025 **(Insured Bonds)**, Financial Guaranty Insurance Company **(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 issuer of the Insured Bonds **(Issuer)**. 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 Issuer. 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. In the event that payment of the Insured Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled 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 Issuer, 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 Insured 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 Notice, 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, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

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. FGIC Corporation paid GE Capital approximately $284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and 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 six months ended June 30, 2004, and the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly, or assumed through reinsurance, guaranties of approximately $27.1 billion, $42.4 billion, and $47.9 billion par value of securities, respectively (of which approximately 60%, 79%, and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately $162.9 million, $260.3 million, and $232.6 million, respectively. For the six months ended June 30, 2004, Financial Guaranty had reinsured, through facultative arrangements, approximately 0.1% of the risks it had written.

As of June 30, 2004, Financial Guaranty had net admitted assets of approximately $2.935 billion, total liabilities of approximately $1.793 billion, and total capital and policyholders' surplus of approximately $1.142 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of June 30, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003 and December 31, 2002, which have been filed with the Nationally Recognized Municipal Securities Information Repositories **(NRMSIRs)**, are hereby included by specific reference in this Notice. Any statement contained in this notice 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 Notice. All financial statements of Financial Guaranty (if any) included in documents filed by the Issuer with the NRMSIRs subsequent to the date of this Notice and prior to the termination of the offering of the Insured Bonds shall be deemed to be included by specific reference into this Notice 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 Insured 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 in this Notice. In addition, Financial Guaranty makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds.