



STATE OF WISCONSIN

Notice of **Material Information** #2005-03
Dated April 26, 2005

This document provides information which may be material to financial evaluation of the State of Wisconsin, however neither the preparation nor submission of this document constitutes a Listed Event pursuant to the State's Master Agreement on Continuing Disclosure.

Issuer: State of Wisconsin General Obligation Bonds

CUSIP Numbers: 977053, 977055, 977056, and 97705L Prefix (All)

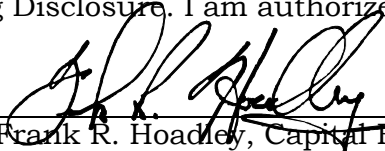
Type of Information: Rating Outlook Change/Other Secondary Market Information

Summary: Moody's Ratings Service has revised the outlook on the State's general obligation bonds from "negative" to "stable". The bond rating is affirmed at Aa3. Attached is a **report issued by Moody's Investors Service**.

Type of Filing: Filed in electronic form with each Nationally Recognized Municipal Securities Information Repository through DisclosureUSA. This notice is also available on the State of Wisconsin Capital Finance web site at:

www.doa.state.wi.us/capitalfinance

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing Annual Reports and Notice of Material Events when notice is required by the State's Master Agreement on Continuing Disclosure. I am authorized to distribute this information publicly.



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Moody's Investors Service

Global Credit Research

New Issue

29 MAR 2005

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New Issue: Wisconsin (State of)

MOODY'S ASSIGNS Aa3 RATING TO \$148.5 MILLION STATE OF WISCONSIN GO BONDS

OUTLOOK CHANGED FROM NEGATIVE TO STABLE AFFECTING APPROXIMATELY \$4.9 BILLION OUTSTANDING GENERAL OBLIGATION BONDS

State
WI

Moody's Rating

ISSUE	RATING
General Obligation Bonds, 2005 Series B	Aa3
Sale Amount \$148,515,000	
Expected Sale Date 03/30/05	
Rating Description General Obligation Bonds	

Opinion

NEW YORK, Mar 29, 2005 -- Moody's Investors Service has assigned a Aa3 rating with a stable outlook to the State of Wisconsin's general obligation bonds. The Aa3 rating reflects the state's significant budgetary imbalance, despite incremental efforts to reduce it, its sizeable negative GAAP balances and narrow liquidity. The revised outlook reflects Wisconsin's stabilizing economy and financial picture, including its marginally improved liquidity position in fiscal 2005.

Credit Strengths:

- Stabilizing economy, despite the above-average exposure to the manufacturing sector.
- Revenues beginning to improve; continued strengthening expected in fiscal 2006 and 2007.
- The state does not expect to issue notes in fiscal 2005, indicating an improved liquidity position.

Credit Challenges:

- Significant structural budgetary imbalance.
- Sizeable negative GAAP balances.
- Unfunded rainy day fund.

WISCONSIN'S ECONOMY, HIT HARD BY MANUFACTURING RECESSION, SHOWS SIGNS OF STRENGTHENING

Wisconsin's economy, which outpaced the national economy during the 1990s, slowed rapidly in 2001 as a result of the national recession. Even though Wisconsin experienced considerable economic diversification over the last few decades, the manufacturing sector remains vital to the state's employment base (18.2% versus 12% nationally).

Wisconsin's employment levels were hit hard during this manufacturing-led recession, posting overall non-farm job losses of -0.7% and -1.1% for 2001 and 2002 respectively. While overall non-farm employment

remained flat in 2003, employment growth increased 1% in 2004, indicating signs of economic strengthening. The recent improvement in the state's job performance is also reflected in Wisconsin's 4.8% January 2005 unemployment rate, lower than the 5.2% national rate.

REVENUES IMPROVING IN 2005; PROPOSED 2005-07 BIENNIUM BUDGET ADDRESSES \$1.6 BILLION SHORTFALL

After three years of revenue weakness resulting from the national recession, General Fund tax collections improved in fiscal 2004, coming in 5.3% above fiscal 2003 collections. Similarly, the most recent January 2005 estimates, even though it decreased prior estimates by \$16 million, maintained a 5.4% projected growth for fiscal 2005, resulting in an expected ending General Fund balance of \$88 million for fiscal 2005. Revenues for fiscal 2006 and 2007 are also projected to continue to grow at 4.3% and 5.1% respectively. Much of this growth comes from the increased income tax revenue, reflecting the overall stabilization of the economy. It should be noted, however, that the projected balance does not factor in a \$206 million estimated medical assistance program shortfall and assumes tribal governments' complete payment for the gaming compacts which remains somewhat uncertain.

Part of the governor's solution to reduce the state's budget gap for 2003-05 was to negotiate new compacts with the state's Indian tribes (estimated to generate \$207 million for the biennium). The state received payments expected for fiscal 2004 from all but one of the tribes (accounting for \$30 million of the total \$102 million), and expects to receive all the payments in 2005.

Along with these strengthening revenues, however, remains an estimated \$1.6 billion budget shortfall for the upcoming biennium. The governor proposed his 2005-07 biennium budget in February, in which he addressed this imbalance through a variety of spending reductions (approximately \$495), fund transfers (approximately \$500 million) as well as various one-time revenues. In addition, he proposed depositing \$36 million in the Budget Stabilization Fund in 2007. While the proposed deposit is a very small amount relative to the budget, should the state make this deposit and begin adding to it, this change in practice could reflect a new found recognition of the advantage of having some financial cushion in the event of another downturn.

NO OPERATING NOTES FOR FISCAL 2005

While the very flush years of the late 1990s cushioned the state's cash position, Wisconsin has historically operated with fairly narrow cash margins. These narrow margins have for years necessitated short-term cash flow borrowings, making Wisconsin one of only a small number of states that routinely issues operating notes. With the exception of 1999, 2000 and 2002, Wisconsin has issued operating notes every year since 1983 when the state was given authority to make short-term borrowings. In fiscal 2002 and 2003, the cash position tightened not only when seasonal cash discrepancies normally occur, but also in June when operating notes, which must be repaid by the end of the fiscal year, are not an option. Similarly, in fiscal 2004, the state issued \$400 million in cash flow notes for fiscal 2004, but the cash position remained tight, ending the year with a \$21 million cash deficit. While the state does not anticipate issuing notes in fiscal 2005, projected cash flows illustrate the narrow margins under which it continues to operate.

SIZABLE GAAP DEFICIT

Another indication of Wisconsin's relatively weak financial condition is its unreserved GAAP deficit, totaling negative \$2.3 billion in fiscal 2004. Wisconsin has maintained a GAAP deficit since it converted to GAAP accounting in 1990. While the deficit has improved marginally from fiscal 2003, at \$2.6 billion, it remains significant. As a rule, states can operate while allowing negative GAAP deficits to remain. However, if these deficits are allowed to keep trending in the wrong direction, they can begin to affect a state's liquidity, which has clearly been the case in Wisconsin.

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

While many states experienced revenue weakness during the last several years, the situation in Wisconsin is more acute because of the state's traditional policies of maintaining minimal reserves and not fully funding recurring spending commitments. Unlike other states, Wisconsin does not have a funded "Rainy Day" reserve to help weather various fiscal emergencies.

State statute allocates half of any future unanticipated revenues to its Budget Stabilization Fund until the fund reaches 5% of General Fund expenditures. However, no funds are currently appropriated to the fund and, given the current condition of the state's General Fund, are not likely to be triggered by this statute in the

near future.

SIGNIFICANT INCREASE IN DEBT BURDEN AS STATE ISSUES BONDS TO ELIMINATE PENSION/SICK LEAVE LIABILITY

Moody's 2004 State Debt Medians report shows Wisconsin ranked 10th among states, with a tax-supported debt per capita of \$1,325, compared to the state median of \$701. Its debt as a percent of personal income stood at 4.5%, ranking Wisconsin 11th, relative to a median of 2.4%. Debt per capita for the state increased by more than 38% over the prior year due in large part to the issuance of approximately \$1.8 billion in appropriation-backed bonds to address the state's unfunded pension/sick leave liability.

Outlook

The outlook for the State of Wisconsin's general obligation bonds is stable. While the state's sizable structural budget imbalance, its weak fund balance position and narrow liquidity continue to pose a challenge to the state's finances, its moderately improving economic and revenue picture should position the state to better address these challenges over the next couple of years.

What would it take for rating to move up?

- Elimination of negative GAAP fund balances and establishment of structural budget balance.
- Funding the Budget Stabilization Fund to a significant level in order to provide a financial cushion.
- Sustained job growth and improvement of the economy.

What would it take for rating to move down?

- Weakening of economy leading to a recurrence of job loss
- Further deterioration of the state's financial position.
- Increased use of non-recurring solutions to balance budget.
- Further borrowing to address budget shortfalls
- Weakening of the state's available cash position.

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