



STATE OF WISCONSIN

Notice of **Material Information** #2005-10
Dated November 10, 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 Fund Annual Appropriation Bonds

CUSIP Numbers: 977100 Prefix (All)

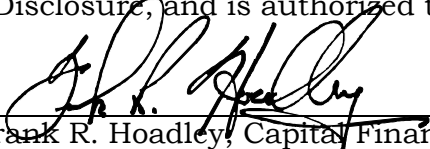
Type of Information: Rating Outlook Change/Other Secondary Market Information

Summary: Standard & Poor's Ratings Services has revised the outlook on the State's general fund annual appropriation bonds from "stable" to "positive". The bond rating is affirmed at A+. Attached is a **report issued by Standard & Poor's Ratings Services.**

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, and is authorized to distribute this information publicly.



Frank R. Hoadley, Capital Finance Director
State of Wisconsin Capital Finance Office
Wisconsin Department of Administration
101 East Wilson Street
Madison, WI 53702
Phone: (608) 266-2305
Fax: (608) 266-7645



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Research:

Summary: Wisconsin; Appropriation, Appropriations; Tax Secured, CP; Tax Secured, General Obligation

Publication date: 09-Nov-2005
Primary Credit Analyst: Peter Block, Chicago (1) 312-233-7040;
peter_block@standardandpoors.com
Secondary Credit Analyst: Robin Prunty, New York (1) 212-438-2081;
robin_prunty@standardandpoors.com

Credit Profile

US\$50.31 mil GO bnds ser 2005E due 05/01/2011 AA-
 Sale date: 15-NOV-2005

AFFIRMED

\$4.300 bil. Wisconsin	AA-
\$412.480 mil. Wisconsin GO (FGIC)	AAA/AA-(SPUR)
\$89.010 mil. Wisconsin GO (FSA)	AAA/AA-(SPUR)
\$433.945 mil. Wisconsin GO (MBIA)	AAA/AA-(SPUR)
\$181.210 mil. Wisconsin GO bnds ser 2001F dtd 10/01/2001 due 05/01/2005-2022	AAA/AA-(SPUR)
\$143.545 mil. Wisconsin GO bnds ser 2002C dtd 06/01/2002 due 05/01/2003-2022	AAA/AA-(SPUR)
\$190.550 mil. Wisconsin GO bnds ser 2002G dtd 10/15/2002 due 05/01/2004-2023	AAA/AA-(SPUR)
\$173.900 mil. Wisconsin GO bnds ser 2003A dtd 05/01/2003 due 05/01/2004-2023	AAA/AA-(SPUR)
\$80.000 mil. Wisconsin GO commercial nts	A-1+
\$75.000 mil. Wisconsin GO rfdg bnds of 2002 ser 1 dtd 03/01/2002 due 05/01/2004-2020	AAA/AA-(SPUR)
\$671.740 mil. Wisconsin GO rfdg bnds ser 2001-1 dtd 10/01/2001 due 05/01/2005-2015	AAA/AA-(SPUR)
\$78.293 mil. Wisconsin extd mun comm pap ser 2000C	A-1+
\$850.000 mil. Wisconsin gen fd annl approp bnds taxable ser 2003A dtd 12/18/2003 due 05/01/2013 2018 2026	AAA/A+(SPUR)
\$944.850 mil. Wisconsin gen fd annual approp bnds ser 2003B (taxable ARC) dtd 12/01/2003 due 05/01/2032	AAA/A+(SPUR)
\$13.740 mil. Wisconsin go bnds ser 2003-2 dtd 04/01/2003 due 05/01/2007-2021 2024	AAA/AA-(SPUR)
\$115.140 mil. Wisconsin master lse cert of part	A+
\$45.035 mil. Wisconsin master lse certs of part ser 2002A dtd 01/23/2002 due 09/02/2002 03/01 & 09/01/2003-2007	AAA/A+(SPUR)
\$29.425 mil. Wisconsin master lse certs of part ser 2002D due 03/01 & 09/01/2003-2007	AAA/A+(SPUR)

OUTLOOK: POSITIVE

AFFIRMED

\$186.615 mil. Wisconsin GO bnds ser 2001F dtd 10/01/2001 due 05/01/2003-2022 AAA/AA-(SPUR)

OUTLOOK:

POSITIVE

AFFIRMED

\$52.170 mil. Wisconsin GO extd muni comm pap nts ser 2000 A	A-1+
\$69.495 mil. Wisconsin GO extd muni comm pap nts ser 2000 B	A-1+
\$39.995 mil. Wisconsin GO extendible mun cml pap ser 2002A	A-1+
\$100.000 mil. Wisconsin GO extendible mun cml pap ser 2004A due 03/01/2014	A-1+

Rationale

The rating outlook on Wisconsin's GO debt outstanding has been revised to positive from stable. The 'AA-' rating on the state's GO bonds reflects the state's:

- Improvement toward restoring fiscal balance to the general fund and maintenance of good liquidity;
- Resilient economy, with a large and diverse manufacturing sector and unemployment rates below the national average; and
- Moderate debt burden.

Mitigating credit factors include:

- Lack of significant general fund reserves;
- Continued reliance on significant onetime revenues and fund transfers for budgetary balance;
- Continued negative GAAP general fund balances; and
- Increased funding commitment to K-12 education, which significantly decreases discretionary spending capabilities.

Wisconsin overcame a \$3.2 billion projected deficit in the 2003-2005 biennium, and ended fiscal 2005 (June 30) with a \$4.1 million budgetary general fund balance following fiscal 2004's \$105 million budgetary fund balance. The biennium's positive balances reflect several years of solid tax revenue growth and expenditure reductions originally contemplated in the 2003-2005 biennial budget. Largely due to accrued payables for school and local government aid and tax credits, however, at June 30, 2004, the general fund had a negative ending GAAP balance of \$1.93 billion (negative 10% of expenditures and net transfers out), a 14% improvement over fiscal 2003's ending GAAP balance of negative \$2.24 billion. Fiscal 2005 GAAP results for the general fund are not available at this time, although the state expects to post a balance similar to fiscal 2005's balance of negative \$2 billion.

Going into the 2005-2007 biennium, the state faces a still significant \$1.63 billion projected budget deficit with a \$1.3 billion structural deficit projected in the 2007-2009 biennium that the state will need to address in the next budget cycle (2007-2009). While state economic growth has been impressive in the past several years, complete erasure of structural deficits is unlikely to occur based on growth alone, given the state's ongoing and very public commitment to fund two-thirds of K-12 education costs, maintain aid to local governments, freeze income, sales, and property tax rates, and maintain balance in the state's Medicaid trust fund.

Gov. Jim Doyle's 2005-2007 final biennial budget, in which he vetoed 139 items from the legislature's budget bill, achieves these goals and is balanced, but continues to rely on deep cuts in state government operations, significant use onetime revenues and fund transfers, and continuing the capture of additional tribal gaming and federal revenues. Most state agencies will face a reduction in operating appropriations by more than \$273 million and almost 1,900 state jobs will be eliminated. These job cuts are on top of the \$1.5 billion of agency cutbacks and elimination of 2,300 state jobs during the 2003-2005 biennium. The 2005-2007 budget's revenue assumptions show sales and income taxes growing by a conservative average of 4.7% annually for an additional \$1.6 billion of revenues.

These revenue assumptions follow an actual 5.3% increase in all taxes in fiscal 2004 and increase of 6.1% in fiscal 2005. The 2005-2007 budget's nonrecurring revenues total \$1.377 billion, including \$427 million of transfers from the transportation fund and \$106 million of transfers from other funds. The budget also authorizes an insignificant, although symbolic, deposit, funded from asset sales, into a "rainy day" reserve in fiscal 2007, the first time that any funds will be dedicated to permanent reserves. The state's interfund borrowing capacity remains solid at more than \$1 billion, enhancing liquidity. Due to this liquidity and expected general fund receipts, cash flow projections for the general fund do not indicate issuance of cash flow notes over the next biennium.

At Dec. 1, 2004, Wisconsin had \$4.88 billion of GO bonds and CP outstanding, which is a low \$850 per capita. The state also had \$1.88 billion of general fund annual appropriation debt composed of pension and sick leave bonds and master lease certificates, and \$1.73 billion of transportation and petroleum inspection fee revenue bonds. Total GO, appropriation, and fee-backed revenue debt adds up to a moderate \$1,482 per capita. The state has \$1.2 billion of multiyear authorized but unissued GO bonding authority for general purpose revenue-supported programs.

■ Outlook

The rating outlook on the Wisconsin's GO debt has been revised to positive. The state has made substantial progress in reducing its structural budget deficit over the past two years due to strong economic and revenue trends as well as expenditure restraint. Continued progress in restoring structural budget balance and reducing the state's GAAP based deficit as well as a track record of maintaining budgetary reserves could lead to an upgrade. The state's diverse and growing economy and full funding of both pension and sick leave/retiree health care liabilities while maintaining a moderate debt burden also point to a higher rating. A rating higher than 'AA' is unlikely given the state's significant GAAP deficit.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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