NOTICE OF BOND INSURANCE

# STATE OF WISCONSIN
# GENERAL OBLIGATION BONDS OF 2006, SERIES C
# Subject to Alternative Minimum Tax (AMT)

The Underwriters, as defined in the Official Statement, dated July 11, 2006, have arranged for a financial guaranty insurance policy to be issued simultaneously with the delivery of the above captioned bonds by:

MBIA

This Notice includes certain information concerning MBIA Insurance Corporation **(MBIA)** and the terms of the Financial Guaranty Insurance Policy (**Policy**) relating to the Bonds. Information with respect to MBIA and the Policy has been supplied by MBIA. No representation is made by the Underwriters 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 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 MBIA. 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 July 11, 2006, for information about the Bonds.

The Underwriters have applied for, and upon issuance of the Policy there will be assigned to the 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.

July 11, 2006

# FINANCIAL GUARANTY INSURANCE POLICY

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

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

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

**MBIA Insurance Corporation**

________________________
President

________________________
Assistant Secretary



STD-R-7
01/05

**OFFICIAL STATEMENT**

**New Issue**

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

# $61,685,000
# STATE OF WISCONSIN
## GENERAL OBLIGATION BONDS OF 2006, SERIES C
## Subject to Alternative Minimum Tax (AMT)

**Dated: August 2, 2006** **Due: May 1, as shown below**

| | |
|---|---|
| ***Ratings*** | AA– Fitch Ratings<br>Aa3 Moody's Investors Service, Inc.<br>AA– Standard & Poor's Ratings Services |
| ***Tax Exemption*** | Interest on the Bonds is, for federal income tax purposes, excluded from gross income, but is an item of tax preference for purposes of federal alternative minimum tax. Interest on the Bonds is not excluded from State of Wisconsin income and franchise taxes—*See pages 12-14*. |
| ***Redemption*** | The Bonds maturing on or after May 1, 2017 are subject to optional redemption at par on or after May 1, 2016—*See page 3*.<br>The Bonds maturing on May 1, 2027, 2031, and 2037 are subject to mandatory sinking fund redemption at par—*See pages 3-4*.<br>All Bonds are subject to special redemption at par—*See pages 4-5*. |
| ***Security*** | General obligations of the State of Wisconsin. |
| ***Purpose*** | Proceeds are being used to fund general obligation extendible municipal commercial paper previously issued to fund veterans housing loans—*See page 2*. |
| ***Interest Payment Dates*** | May 1 and November 1 |
| ***First Interest Payment Date*** | May 1, 2007 |
| ***Denominations*** | Multiples of $5,000 |
| ***Closing/Settlement*** | August 2, 2006 |
| ***Bond Counsel*** | Foley & Lardner LLP |
| ***Registrar/Paying Agent*** | Secretary of Administration |
| ***Issuer Contact*** | Wisconsin Capital Finance Office<br>(608) 266-2305; DOACapitalFinanceOffice@wisconsin.gov |
| ***Book-Entry-Only Form*** | The Depository Trust Company—*See pages 6-7*. |
| ***2005 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, 2005. |

The Bonds were sold at competitive sale on July 11, 2006. 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 LA3 | 2008 | $ 950,000 | 4.00% | Not Callable | - |
| 97705L LB1 | 2009 | 790,000 | 4.50 | Not Callable | - |
| 97705L LC9 | 2010 | 845,000 | 4.50 | Not Callable | - |
| 97705L LD7 | 2011 | 890,000 | 4.50 | Not Callable | - |
| 97705L LE5 | 2012 | 960,000 | 4.50 | Not Callable | - |
| 97705L LF2 | 2013 | 1,010,000 | 4.50 | Not Callable | - |
| 97705L LG0 | 2014 | 1,075,000 | 4.50 | Not Callable | - |
| 97705L LH8 | 2015 | 1,145,000 | 4.50 | Not Callable | - |
| 97705L LJ4 | 2016 | 1,220,000 | 4.50 | Not Callable | - |
| 97705L LK1 | 2017 | 1,300,000 | 4.60 | 2016 | 100% |
| 97705L LL9 | 2018 | 1,375,000 | 4.60 | 2016 | 100 |
| 97705L LM7 | 2019 | 1,470,000 | 4.60 | 2016 | 100 |
| 97705L LN5 | 2020 | 1,555,000 | 5.00 | 2016 | 100 |
| 97705L LP0 | 2021 | 1,660,000 | 5.00 | 2016 | 100 |
| 97705L LQ8 | 2022 | 1,770,000 | 5.00 | 2016 | 100 |
| 97705L LR6 | 2023 | 1,880,000 | 5.00 | 2016 | 100 |
| 97705L LS4 | 2024 | 2,000,000 | 5.00 | 2016 | 100 |
| 97705L LT2 | 2025 | 2,120,000 | 5.00 | 2016 | 100 |
| 97705L LU9 | 2027 | 4,670,000 [a] | 4.80 | 2016 | 100 |
| 97705L LV7 | 2031 | 11,260,000 [a] | 5.00 | 2016 | 100 |
| 97705L LW5 | 2037 | 21,740,000 [a] | 5.00 | 2016 | 100 |

**Purchase Price: $60,999,150.05**

[a] This maturity is a term bond. For a schedule of the installment payments, see "THE BONDS; Redemption Provisions; *Mandatory Sinking Fund Redemption*".

July 11, 2006

Note: The State has been advised by the Underwriters that they have applied for and received a Commitment to Issue a Financial Guaranty Insurance Policy from MBIA Insurance Corporation (**MBIA**) for the Bonds. Further information on this Commitment and the Financial Guaranty Insurance Policy may be obtained from the Underwriters and MBIA.

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 5, 2009 |
| Senator Carol Roessler | January 5, 2009 |
| Senator David Zien | January 8, 2007 |
| Representative Jeff Fitzgerald | January 8, 2007 |
| Representative Jennifer Shilling | January 8, 2007 |
| Representative Debi Towns | January 8, 2007 |
| Mr. Terry McGuire, Citizen Member | At the pleasure of the Governor |
| **Nonvoting, Advisory Members** | |
| Mr. Adel Tabrizi, State Chief Engineer<br>Department of Administration | —— |
| Mr. Dave Haley, State Chief Architect<br>Department of Administration | —— |
| **Building Commission Secretary** | |
| Mr. Robert G. Cramer, Administrator<br>Division of State Facilities<br>Department of Administration | At the pleasure of the Building Commission and the Secretary of Administration |

### OTHER PARTICIPANTS

| | |
|---|---|
| Ms. Peggy A. Lautenschlager<br>State Attorney General | January 8, 2007 |
| Mr. Stephen E. Bablitch, Secretary<br>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
DOACapitalFinanceOffice@wisconsin.gov

Mr. Frank R. Hoadley
Capital Finance Director
(608) 266-2305
frank.hoadley@wisconsin.gov

Mr. Lawrence K. Dallia
Assistant Capital Finance Director
(608) 267-7399
larry.dallia@wisconsin.gov

Mr. David R. Erdman
Capital Finance Officer
(608) 267-0374
david.erdman@wisconsin.gov

New e-mail addresses became effective in November 2005.

# SUMMARY DESCRIPTION OF BONDS

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

| | |
|---|---|
| Description: | State of Wisconsin General Obligation Bonds of 2006, Series C Subject to Alternative Minimum Tax (AMT) |
| Principal Amount: | $61,685,000 |
| Denominations: | Multiples of $5,000 |
| Date of Issue: | Date of Delivery |
| Record Date: | April 15 and October 15 |
| Interest Payment: | May 1 and November 1, commencing May 1, 2007 |
| Maturities: | May 1, 2008-2025, 2027, 2031, and 2037—*See front cover* |
| Redemption: | *Optional* — Bonds maturing on May 1, 2017 are subject to optional redemption at par at anytime on or after May 1, 2016—*See page 3*<br>*Sinking Fund* — Bonds maturing on May 1, 2027, 2031, and 2037 are subject to mandatory sinking fund redemption at par—*See pages 3-4*<br>*Special* — All Bonds are subject to special redemption at par—*See pages 4-5* |
| Form: | Book entry only—*See pages 6-7* |
| Paying Agent: | All payments of principal and interest on the Bonds will be paid through the Secretary of Administration, as paying agent. All payments initially will be made to The Depository Trust Company, which will distribute payments to Beneficial Owners as described herein. |
| Security: | The Bonds are general obligations of the State of Wisconsin. As of June 15, 2006, there were $5,377,583,689 of outstanding general obligations of the State. |
| Bond Insurance: | The State has been advised by the Underwriters that they have applied for and received a Commitment to Issue a Financial Guaranty Insurance Policy from MBIA Insurance Corporation (**MBIA**) for the Bonds. Further information on this Commitment and the Financial Guaranty Insurance Policy may be obtained from the Underwriters and MBIA |
| Authority for Issuance: | The Bonds are issued under Article VIII of the Wisconsin Constitution and Chapters 18, 20, and 45 of the Wisconsin Statutes. |
| Purpose: | Bond proceeds are being used to fund outstanding general obligation extendible municipal commercial paper previously issued to fund veterans housing loans. |
| Additional General Obligation Debt: | The State may issue additional general obligation debt. |
| Legality of Investment: | State law provides that the Bonds are legal investments for all banks, trust companies, 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, for federal income tax purposes, excluded from gross income, but is an item of tax preference for purposes of federal alternative minimum tax—*See pages 12-14.*<br>Interest on the Bonds is not excluded from State of Wisconsin income and franchise taxes—*See page 13.* |
| Legal Opinion: | Validity and tax opinion to be provided by Foley & Lardner LLP—*See APPENDIX B.* |

# OFFICIAL STATEMENT

# $61,685,000
# STATE OF WISCONSIN
## GENERAL OBLIGATION BONDS OF 2006, SERIES C
## Subject to Alternative Minimum Tax (AMT)

## INTRODUCTION

This Official Statement provides information about the $61,685,000 General Obligation Bonds of 2006, Series C **(Bonds)**, which are being 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, 2005 **(2005 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 December 21, 2005.

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 Parts II and III of the 2005 Annual Report. APPENDIX A also includes changes or additions to Parts II and III of the 2005 Annual Report.

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

| | |
|---|---|
| *Contact:* | Capital Finance Office<br>Attn: Capital Finance Director |
| *Phone:* | (608) 266-2305 |
| *Mail:* | 101 East Wilson Street, FLR 10<br>P.O. Box 7864<br>Madison, WI 53707-7864 |
| *E-mail:* | DOACapitalFinanceOffice@wisconsin.gov |
| *Web site:* | www.doa.wi.gov/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 and will bear interest from that date payable on May 1 and November 1 of each year, beginning on May 1, 2007.

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

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

**Security**

The Bonds are direct and general obligations of the State. The full faith, credit, and taxing power of the State are irrevocably pledged to make principal and interest payments on the Bonds. There has been irrevocably appropriated, as a first charge upon all revenues of the State, a sum sufficient for the payment of the principal of and interest on the Bonds as the Bonds mature and become due. The Bonds are secured equally with all other outstanding general obligations issued by the State.

**Sources and Uses of Funds**

The proceeds from the sale of the Bonds are to be used to fund general obligation extendible municipal commercial paper previously issued to fund veterans housing loans:

| | |
|---|---|
| Sources | |
| Principal Amount of the Bonds | $ 61,685,000.00 |
| Net Original Issue Discount | (130,684.95) |
| TOTAL SOURCES | $ 61,554,315.05 |
| Uses | |
| Deposit to Bond Security and Redemption Fund | $ 60,999,150.05 |
| Underwriters' Discount | 555,165.00 |
| TOTAL USES | $ 61,554,315.05 |

**Ratings**

At the State's request, several rating agencies have assigned a rating to the Bonds:

| Rating | Rating Agency |
|---|---|
| AA– | Fitch Ratings [1] |
| Aa3 | Moody's Investors Service, Inc. [2] |
| AA– | Standard & Poor's Ratings Services[3] |

(1) On April 13, 2006, Fitch Ratings assigned a rating outlook of "stable" to the State's general obligations.

(2) On March 29, 2005, Moody's Investors Service, Inc. changed the rating outlook on the State's general obligations from "negative" to "stable".

(3) On November 9, 2005, Standard & Poor's Ratings Services changed the rating outlook on the State's general obligations from "stable" to "positive".

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.

**Redemption Provisions**

*Optional Redemption*

The Bonds maturing on or after May 1, 2017 are subject to optional redemption on May 1, 2016 or any date thereafter, in whole or in part in multiples of $5,000, at a redemption price equal to par (100% of the principal amount to be redeemed) plus accrued interest to the redemption date. The Commission may decide whether to redeem Bonds, and it may direct the amounts and maturities of the Bonds to be redeemed.

*Mandatory Sinking Fund Redemption*

The Bonds due on May 1, 2027 **(2027 Term Bonds)** are subject to redemption before their maturity date at a redemption price equal to par (100% of the principal amount to be redeemed), plus accrued interest to the date of redemption, from mandatory sinking fund installments that are required to be made in amounts sufficient to redeem on May 1 of each year the respective amount of the 2027 Term Bonds specified below:

| **Redemption Date (May 1)** | **Principal Amount** |
|---|---|
| 2026 | $2,260,000 |
| 2027[a] | 2,410,000 |

[a] Stated maturity.

The Bonds due on May 1, 2031 **(2031 Term Bonds)** are subject to redemption before their maturity date at a redemption price equal to par (100% of the principal amount to be redeemed), plus accrued interest to the date of redemption, from mandatory sinking fund installments that are required to be made in amounts sufficient to redeem on May 1 of each year the respective amount of the 2031 Term Bonds specified below:

| **Redemption Date (May 1)** | **Principal Amount** |
|---|---|
| 2028 | $2,560,000 |
| 2029 | 2,725,000 |
| 2030 | 2,890,000 |
| 2031[a] | 3,085,000 |

[a] Stated maturity.

The Bonds due on May 1, 2037 **(2037 Term Bonds)** are subject to redemption before their maturity date at a redemption price equal to par (100% of the principal amount to be redeemed), plus accrued interest to the date of redemption, from mandatory sinking fund installments that are required to be made in amounts sufficient to redeem on May 1 of each year the respective amount of the 2037 Term Bonds specified below:

| **Redemption Date (May 1)** | **Principal Amount** |
|---|---|
| 2032 | $3,275,000 |
| 2033 | 3,490,000 |
| 2034 | 3,710,000 |
| 2035 | 3,945,000 |

| Redemption Date (May 1) | Principal Amount |
|---|---|
| 2036 | 4,190,000 |
| 2037[(a)] | 3,130,000 |

[(a)] Stated maturity.

Optional or special redemption (or the purchase in lieu thereof) of the 2027 Term Bonds, 2031 Term Bonds, or 2037 Term Bonds, for which sinking fund installments have been established, shall be applied to reduce the sinking fund installments established for the respective Term Bonds so redeemed or purchased in such manner as the Commission shall direct.

*Special Redemption*

All Bonds are subject to special redemption prior to maturity (even if not subject to optional redemption as provided above) at the option of the Commission, on July 1, 2008 or any date thereafter, in whole or in part, at a redemption price equal to par (100% of the principal amount to be redeemed), plus accrued interest to the date of redemption, from unexpended proceeds of the general obligation extendible municipal commercial paper being funded by the Bonds.

In addition, all Bonds are subject to special redemption prior to maturity (even if not subject to optional redemption as provided above) at the option of the Commission, on any date, in whole or in part, at a redemption price equal to par (100% of the principal amount to be redeemed), plus accrued interest to the date of redemption, from the following sources (this redemption provision is commonly referred to as a "cross-call"):

- Prepayments of veterans housing loans funded from or attributed to *any* series of tax-exempt general obligation bonds issued to fund loans to veterans under the veterans housing loan program who are "qualified veterans" under federal tax law **(Tax–Exempt Veterans Mortgage Bonds)**.

- Payments on veterans housing loans, or interest or income on investments in certain accounts, including money available from the Insurance Reserve Account, in excess of amounts required to meet scheduled debt service on all Tax–Exempt Veterans Mortgage Bonds and other costs associated with the veterans housing loan program.

In the event of a partial redemption, the Commission shall direct the maturities of the Bonds and the amounts thereof so to be redeemed.

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

The State had outstanding, as of June 15, 2006, approximately $177 million of Tax–Exempt Veterans Mortgage Bonds and all the outstanding Tax–Exempt Veterans Mortgage Bonds are subject to the "cross-call" special redemption outlined above.  The following table presents information, as of June 15, 2006, on these outstanding Tax–Exempt Veterans Mortgage Bonds.

**Summary of Outstanding Tax–Exempt Veterans Mortgage Bonds**
**Subject to Special Redemption**
**June 15, 2006**

| Series | Dated Date | Original Principal Amount Subject to Special Redemption | Outstanding Principal Amount Subject to Special Redemption | Range of Interest Rates on Outstanding Bonds |
|---|---|---|---|---|
| 1993 Series 6 | 10/15/93 | $ 20,000,000 | $12,585,000 | 4.85–5.30% |
| 1993 Series 5 | 12/01/93 | 135,255,000 | 21,705,000 | 5.20–5.40 |
| 1994 Series 2 | 03/01/94 | 58,525,000 | 10,705,000 | 5.70–6.20 |
| 1994 Series 3 | 09/15/94 | 10,400,000 | 630,000 | 5.70–5.80 |
| 1994 Series C | 09/15/94 | 45,000,000 | 3,415,000 | 6.40–6.65 |
| 1995 Series 1 | 02/15/95 | 15,735,000 | 895,000 | 6.00 |
| 1995 Series B | 02/15/95 | 29,265,000 | 670,000 | 6.50 |
| 1995 Series 2 | 10/15/95 | 42,850,000 | 5,995,000 | 5.75 |
| 1996 Series B | 05/15/96 | 45,000,000 | 2,725,000 | 6.20 |
| 1996 Series D | 10/15/96 | 30,000,000 | 2,715,000 | 6.00 |
| 1997 Series A | 03/15/97 | 21,360,000 | 1,745,000 | 6.00 |
| 1997 Series 1 | 03/15/97 | 23,640,000 | 2,030,000 | 5.75 |
| 1997 Series C | 09/15/97 | 45,000,000 | 7,855,000 | 5.30-5.50 |
| 1998 Series B | 05/15/98 | 30,565,000 | 12,130,000 | 5.30-5.35 |
| 1998 Series E | 10/15/98 | 6,155,000 | 5,270,000 | 4.60-4.80 |
| 1999 Series 1 | 05/01/99 | 15,790,000 | 8,945,000 | 4.70-5.30 |
| 2003 Series 2 | 04/01/03 | 13,740,000 | 13,740,000 | 2.45-5.00 |
| 2003 Series 3 | 10/30/03 | 67,890,000 | 63,220,000 | 2.85-5.00 |
| | | | $ 176,975,000 | |

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

APPENDIX A incorporates by reference Part III to the 2005 Annual Report, which contains information concerning general obligations issued by the State including additional information on Tax–Exempt Veterans Mortgage Bonds and prepayments on veterans housing loans. APPENDIX A also includes a summary of Tax–Exempt Veterans Mortgage Bonds that were called on March 1, 2006 pursuant to special redemption from prepayments of veterans housing loans funded with Tax–Exempt Veterans Mortgage Bonds.

Prior to calendar year 2002, it had been the working policy of the Department of Administration, on behalf of the Commission, to call Tax–Exempt Veterans Mortgage Bonds for special redemption based on the highest estimated market price, while taking into consideration the Legislature's mandate that the veterans housing loan program be self-amortizing. Starting in calendar year 2002, this working policy has been under review by the Department of Administration to determine the impact special redemption cross-calls have on both the cash flow that supports all Tax–Exempt Veterans Mortgage Bonds and Taxable Veterans Mortgage Bonds (collectively, **Veterans Mortgage Bonds)** and the applicable federal tax law restrictions. This working policy continues to be modified from time to time and is subject to change at any time.

*Selection of Bonds*

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

*Notice of Redemption*

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

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

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

**Registration and Payment of Bonds**

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

If the Bonds are in book-entry-only form, then 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, then 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 **Record Date**—which is the 15th day (whether or not a business day) of the calendar month before the interest payment date.

**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 will 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.

# VETERANS HOUSING LOAN PROGRAM

## General

The veterans housing loan program, operated by the State of Wisconsin Department of Veterans Affairs **(DVA)**, is the largest revenue-supported general obligation bonding program of the State and is currently funded by Veterans Mortgage Bonds. Although the Veterans Mortgage Bonds are supported by the State's full faith, credit, and taxing power, the repayment of veterans housing loans funded with proceeds of the Veterans Mortgage Bonds are estimated to be at least sufficient to pay or reimburse the General Fund for the amount paid for debt service related to the Veterans Mortgage Bonds. Lending activities under the veterans housing loan program began in 1974.

*Veterans Housing Loan Program Requirements*

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

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

In addition to veterans housing loans that are considered primary mortgage housing loans, as described above, DVA also makes HILP loans that are funded solely with proceeds of Taxable Veterans Mortgage Bonds. This program has a maximum loan amount of 90% of the equity in the home and is processed through county veterans service officers rather than lending institutions. HILP loans have terms of 5, 7, 10, or 15 years and have different loan interest rates for differing terms and differing loan-to-value ratios. HILP loans in excess of $3,000 are secured by either a first or second mortgage on the improved property and require a minimum equity position of 10% after considering the HILP loan. HILP loans under $3,000 may be guaranteed by a guarantor or secured by a first or second mortgage. HILP loans use the same basic underwriting standards as the primary mortgage housing loans but do not include loan-servicing charges.

*Mortgage Interest Rates*

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

In setting the interest rate, DVA has previously chosen to provide a subsidy for primary mortgage housing loans, and some HILP loans, funded with Taxable Veterans Mortgage Bonds. The result is that the lending rate has been lower than the true interest cost rate on the Taxable Veterans Mortgage Bonds issued to fund those loans.

With respect to primary mortgage housing loans, DVA has not determined whether any subsidy or similar arrangement will be available to such loans funded with future issues of Taxable Veterans Mortgage Bonds. With respect to HILP loans, DVA has a policy that requires interest rates established for HILP loans include a minimum mark-up over the cost of money to make such loan, which would include a mark-up over the true interest cost rate on any future Taxable Veterans Mortgage Bonds issued to fund HILP loans. This policy includes provisions that DVA must complete in advance if it desires to deviate from this policy.

*Default Risks and Other Information*

Veterans Mortgage Bonds issued prior to 1985 assumed a certain level of prepayments in estimating program cash flow. No prepayments have been assumed in scheduling principal payments for Veterans Mortgage Bonds issued since 1985. Based on asset and liability balances as of July 1, 2005 and existing DVA assumptions, the cash flow of the mortgages on July 5, 2006 was sufficient to meet future debt service payments. A loan under the veterans housing loan program may be assumed only by another qualifying veteran.

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

Program loans financed with Veterans Mortgage Bonds are not required to be insured or guaranteed (casualty insurance coverage is, however, required). Instead, the default risk with respect to such loans is borne by the program. The ability of DVA to dispose of defaulted properties and realize the amount of the outstanding principal balances of the related loans has varied in recent years depending upon the location of such properties within the State and their physical condition upon foreclosure. Although DVA expects that it will continue to experience liquidation losses, it expects that such losses will not require recourse to the State's General Fund but rather will be covered by the Insurance Reserve Account within the Fund. As of April 30, 2006, of the 4,093 outstanding primary mortgage housing loans financed by the veterans housing loan program, there were 30 loans in an aggregate principal amount of approximately $1.6 million for which payments were 60 days or longer past due. The insurance reserve requirement (4% of the principal amount of outstanding loans) is currently satisfied.

# 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 $3,209,501,715, and the aggregate limit is currently $21,396,678,100. 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 15, 2006, general obligations of the State were outstanding in the amount of $5,377,583,689.

## Borrowing Plans for 2006

*General Obligations*

This is the fifth series of general obligations issued in this calendar year. The State has previously issued in calendar year 2006:

- $331 million of general obligation bonds for general governmental purposes.
- $162 million of general obligation extendible municipal commercial paper for general governmental purposes.
- $97 million of general obligation bonds to refund general obligations previously issued for general governmental purposes.
- $2 million of taxable general obligation bonds for the veterans housing loan program.

In addition, the Commission has also authorized the following general obligations that may be issued in calendar year 2006:

- Up to $302 million of general obligation bonds for general governmental purposes. These additional general obligations are expected to be issued in the third or fourth quarter of this calendar year in the form of bonds, commercial paper notes, or extendible municipal commercial paper.
- Up to $440 million of general obligation bonds to refund general obligation bonds previously issued for general governmental purposes. The amount and timing of any

issuance of general obligation refunding bonds for this purpose depend on market conditions.

- Up to $8 million of taxable general obligation bonds and up to $8 million of tax-exempt general obligations for the veterans housing loan program. The amount and timing of any additional issuance of any general obligations depend on originations of veterans housing loans.
- Up to $20 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 Commission has authorized up to $240 million of transportation revenue obligations to fund projects in the transportation revenue obligation program. These transportation revenue obligations are expected to be issued in the third or fourth quarter of this calendar year in the form of bonds or commercial paper notes. The Commission has also authorized up to $250 million of transportation revenue refunding bonds to refund previously issued transportation revenue bonds. The amount and timing of any issuance of transportation revenue refunding bonds depend on market conditions.

The State has issued $80 million of clean water revenue bonds to fund loans in the Clean Water Fund Program. The Commission has authorized up to $100 million of clean water revenue bonds to fund additional loans in the Clean Water Fund Program. The amount and timing of these additional revenue bonds depend on loan activity in the Clean Water Fund Program. The Commission has also authorized up to $125 million of clean water revenue refunding bonds to refund previously issued clean water revenue bonds. The amount and timing of any issuance of clean water revenue refunding bonds depend on market conditions.

The Commission has authorized up to $27 million of petroleum inspection fee revenue refunding bonds. The amount and timing of any issuance of petroleum inspection fee revenue refunding bonds depend on market conditions.

The State may issue master lease certificates of participation in the third quarter of this calendar year.

**Underwriting**

The Bonds were purchased through competitive bidding on July 11, 2006 by the following account **(Underwriters)**: UBS Securities LLC (book running manager); Citigroup Global Markets Inc., and First Albany Capital Inc., joint managers; William Blair & Company, L.L.C., Cronin & Co., Inc., Hutchinson, Shockey, Erley & Co., and Isaak Bond Investments, Inc.; in association with Harris, N.A., manager, Davenport & Co. L.L.C., A.G. Edwards & Sons, Inc., Loop Capital, and Siebert Brandford Shank & Co.

The Underwriters paid $60,999,150.05, and their bid resulted in a true interest cost rate to the State of 5.056023%.

## Reference Information About the Bonds

The following table—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, 2017, the dollar price at issuance is computed to the lower of the first optional call date or the nominal maturity date.

**$61,685,000**
**State of Wisconsin**
**General Obligation Bonds of 2006, Series C**
**Subject to Alternative Minimum Tax (AMT)**

**Dated Date: Date of Delivery**
**First Interest Date: May 1, 2007**
**Delivery/Settlement Date: On or about August 2, 2006**
**Special Redemption:** All Bonds are subject to special redemption at par. See "THE BONDS; Redemption Provisions; *Special Redemption*".

| CUSIP | Year (May 1) | Principal Amount | Interest Rate | Yield at Issuance | Price at Issuance | First Optional Call Date (May 1) | Call Price |
|---|---|---|---|---|---|---|---|
| 97705L LA3 | 2008 | $ 950,000 | 4.00% | 4.050% | 99.911% | Not Callable | - |
| 97705L LB1 | 2009 | 790,000 | 4.50 | 4.120 | 100.971 | Not Callable | - |
| 97705L LC9 | 2010 | 845,000 | 4.50 | 4.220 | 100.955 | Not Callable | - |
| 97705L LD7 | 2011 | 890,000 | 4.50 | 4.260 | 101.015 | Not Callable | - |
| 97705L LE5 | 2012 | 960,000 | 4.50 | 4.300 | 101.002 | Not Callable | - |
| 97705L LF2 | 2013 | 1,010,000 | 4.50 | 4.350 | 100.862 | Not Callable | - |
| 97705L LG0 | 2014 | 1,075,000 | 4.50 | 4.380 | 100.775 | Not Callable | - |
| 97705L LH8 | 2015 | 1,145,000 | 4.50 | 4.450 | 100.352 | Not Callable | - |
| 97705L LJ4 | 2016 | 1,220,000 | 4.50 | 4.500 | 100.000 | Not Callable | - |
| 97705L LK1 | 2017 | 1,300,000 | 4.60 | 4.630 | 99.741 | 2016 | 100% |
| 97705L LL9 | 2018 | 1,375,000 | 4.60 | 4.700 | 99.098 | 2016 | 100 |
| 97705L LM7 | 2019 | 1,470,000 | 4.60 | 4.750 | 98.571 | 2016 | 100 |
| 97705L LN5 | 2020 | 1,555,000 | 5.00 | 4.760 | 101.847 [b] | 2016 | 100 |
| 97705L LP0 | 2021 | 1,660,000 | 5.00 | 4.790 | 101.612 [b] | 2016 | 100 |
| 97705L LQ8 | 2022 | 1,770,000 | 5.00 | 4.820 | 101.379 [b] | 2016 | 100 |
| 97705L LR6 | 2023 | 1,880,000 | 5.00 | 4.850 | 101.146 [b] | 2016 | 100 |
| 97705L LS4 | 2024 | 2,000,000 | 5.00 | 4.860 | 101.069 [b] | 2016 | 100 |
| 97705L LT2 | 2025 | 2,120,000 | 5.00 | 4.900 | 100.760 [b] | 2016 | 100 |
| 97705L LU9 | 2027 | 4,670,000 [a] | 4.80 | 4.916 | 98.500 | 2016 | 100 |
| 97705L LV7 | 2031 | 11,260,000 [a] | 5.00 | 5.000 | 100.000 | 2016 | 100 |
| 97705L LW5 | 2037 | 21,740,000 [a] | 5.00 | 5.064 | 99.000 | 2016 | 100 |

[a] These maturities are term bonds. For a schedule of the mandatory sinking fund redemption payments, see "THE BONDS; Redemption Provisions; *Mandatory Sinking Fund Redemption*".

[b] These bonds are priced to the May 1, 2016 first optional call date.

Note: The State has been advised by the Underwriters that they have received a Commitment to Issue a Financial Guaranty Insurance Policy from MBIA for the Bonds. Further information on this Commitment and the Financial Guaranty Insurance Policy may be obtained from the Underwriters and MBIA.

## Quantitative Analyst

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

## 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 **Bond Counsel**, which is Foley & Lardner LLP. Bond Counsel will deliver an approving opinion when the Bonds are delivered, in substantially the form shown in APPENDIX B. If certificated Bonds are issued, 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. The Attorney General's opinion will also state that there is no action, suit, or proceeding, either pending or threatened in writing, known to the Attorney General, restraining or enjoining the issuance, sale, execution, or delivery of the Bonds, or in any way contesting or affecting the titles to their respective offices of any of the State officers involved in the issuance of the Bonds or the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale of the Bonds.

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, the interest on the Bonds is excluded from gross income for federal income tax purposes and is an item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers

As to questions of fact material to Bond Counsel's opinion, Bond Counsel has relied upon certified proceedings and certifications of public officials and others without independently undertaking to verify them. 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. 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.

Bond Counsel expresses no opinion about other federal tax consequences arising regarding 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 not excluded from 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.

*Discount Bonds*

In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of each Bond maturing in the years 2008, 2017 through 2019, 2027, and 2037 (**Discount Bond**), 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 tax-exempt obligations 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.

*Premium Bonds*

Each Bond maturing in the years 2009 through 2015 and 2020 through 2025 (**Premium Bond**) 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 tax consequences of owning Premium Bonds.

*IRS Tax-Exempt Bond Enforcement Program*

The Internal Revenue Service (**IRS**) has an active tax-exempt bond enforcement program. Under current IRS procedures, the owners of the Bonds and other parties other than the State would have little, if any, right to participate in an IRS examination of the Bonds. Moreover, because obtaining judicial review in connection with an IRS examination of tax-exempt bonds is difficult, obtaining independent review of IRS positions with which the State legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for examination, or the course or result of such an examination, or an examination of bonds presenting similar tax issuers may affect the market price, or the marketability, of the Bonds, and may cause the State or the owners of the Bonds to incur significant expense.

*Information Reporting*

Recent legislation amended section 6049 of the Code to require information reporting for payments of tax-exempt interest, applicable to interest paid after December 31, 2005. The IRS has not issued any guidance implementing this new requirement, including, for example, whether "back up withholding" of interest payments will be required under certain circumstances.

## CONTINUING DISCLOSURE

The State has made an undertaking, for the benefit of the beneficial owners of the Bonds, to provide an annual report presenting certain financial information and operating data about the State **(Annual Reports)**. By December 27 of each year, the State will send the report to each nationally recognized municipal securities information repository **(NRMSIR)** and to any 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 SID for the State. Part I of the 2005 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
DOACapitalFinanceOffice@wisconsin.gov
www.doa.wi.gov/capitalfinance

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

Dated: July 11, 2006

**STATE OF WISCONSIN**

/s/ JIM DOYLE
Governor Jim Doyle, Chairperson
State of Wisconsin Building Commission

/s/ STEPHEN E. BABLITCH
Stephen E. Bablitch, 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 by reference information concerning the State of Wisconsin **(State)** and general obligations issued by the State, as contained in Parts II and III of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2005 **(2005 Annual Report)**. This appendix also includes any changes or additions to the information presented in Parts II and III of the 2005 Annual Report.

Part II of the 2005 Annual Report contains general information about the State. More specifically, that part presents information about 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 2004-05
- State budget
- Potential effects of litigation
- 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 2005 Annual Report are the audited general purpose external financial statements for the fiscal year ending June 30, 2005, 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 of the 2005 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 2005 Annual Report has been filed with each nationally recognized municipal securities information repository **(NRMSIR)**. As of the date of this Official Statement, Parts II and III of the 2005 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.wi.gov/capitalfinance

Copies of the 2005 Annual Report 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
DOACapitalFinanceOffice@wisconsin.gov
www.doa.wi.gov/capitalfinance

After publication and filing of the 2005 Annual Report, certain changes or events have occurred that affect items discussed in the 2005 Annual Report. Listed below, by reference to particular sections of Parts II and III of the 2005 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 2005-07 (Part II–Pages 29-31).** Add the following:

*Condition of General Fund Budget for 2005-07*

On June 6, 2006, the Legislative Fiscal Bureau **(LFB)** released a memorandum that contained information on the condition of the General Fund budget for the 2005-07 biennium. This memorandum reflected the Governor's action on all enrolled bills that were passed by the Legislature in the past legislative session.

The June 6, 2006 LFB memorandum projected that the ending gross General Fund balance for the 2005-07 biennium would be approximately $11 million. That amount is $96 million less than the projected gross ending balance included in a prior memorandum provided by LFB on January 19, 2006. The discussion below in "State Budget; Budget for 2005-07; *LFB Projected General Fund Tax Collections*" contains more information on, and certain events that occurred subsequent to, this January 19, 2006 LFB memorandum.

The following table reflects the estimated General Fund condition statement for the 2005-06 and 2006-07 fiscal years, as included in the June 6, 2006 LFB memorandum. The following table also includes, for comparison, the estimated General Fund condition statements that were included in a prior memorandum provided by LFB on October 18, 2005, which at that time addressed modifications to the budget for the 2005-07 biennium resulting from the Annual Fiscal Report (budgetary basis) for the 2004-05 fiscal year.

**General Fund Condition Statement**
**2005-06 and 2006-07 Fiscal Years**
**(in Millions)**

| | June 6, 2006 LFB Memorandum | | October 18, 2005 LFB Memorandum | |
|---|---|---|---|---|
| | 2005-06 | 2006-07 | 2005-06 | 2006-07 |
| Revenues | | | | |
| Opening Balance | $ 4.0 | $ 11.0 | $ 4.1 | $ 8.5 |
| Taxes | 11,950.0 | 12,560.0 | 11,957.1 | 12,506.8 |
| Department Revenues | | | | |
| Tribal Gaming | 118.0 | 86.0 | 118.6 | 86.3 |
| Other | 686.0 | 506.0 | 674.8 | 513.6 |
| Total Available | 12,758.0 | 13,163.0 | 12,754.6 | 13,115.3 |
| Appropriations | | | | |
| Gross Appropriations | 12,634.0 | 13,218.0 | 12,681.2 | 13,176.2 |
| Compensation Reserves | 90.0 | 178.0 | 90.1 | 178.3 |
| Transfers to Medical Assistance Trust Fund | 342.0 | 25.0 | 290.5 | |
| Less: Lapses | (319.0) | (269.0) | (315.6) | (252.9) |
| Net Appropriations | 12,747.0 | 13,1520.0 | 12,746.1 | 13,101.6 |
| Balances | | | | |
| Gross Balance | 11.0 | 11.0 | 8.5 | 13.7 |
| Less: Required Statutory Balance | (65.0) | (65.0) | (65.0) | (65.0) |
| Net Balance, June 30 | $ (54.0) | $ (54.0) | $ (56.5) | $ (51.3) |

*LFB Projected General Fund Tax Collections*

On January 19, 2006, LFB released a memorandum that contained projections of General Fund tax collections for the 2005-07 biennium, re-estimates of departmental revenues and expenditures for the 2005-07 biennium, and projected gross ending General Fund balance at the end of the 2005-07 biennium.

A complete copy of the January 19, 2006 LFB memorandum appears on pages A-4 to A-16 of this Official Statement.

The January 19, 2006 LFB memorandum projected that the ending gross General Fund balance for the 2005-07 biennium would be $107 million. That amount exceeds the projected gross ending balance included in the October 18, 2005 LFB memorandum by $93 million. The January 19, 2006 LFB memorandum also projected the estimated tax collections would be $46 million, and estimated department revenues would be $3 million, greater than the projections used in the enacted budget for the 2005-07 biennium.

The January 19, 2006 LFB memorandum identified two items regarding the General Fund projections and re-estimates. Subsequently, certain actions occurred that addressed these items.

- The projected ending General Fund balance continues to assume that, during the 2005-07 biennium, the State will receive $104 million of tribal gaming payments that were due from two tribal governments in the 2003-05 biennium. On February 1, 2006, the State received payment of nearly $44 million from one tribal government. This payment, due in the 2003-05 biennium, resulted from an agreement announced in October 2005 regarding that tribal government's gaming compact. On May 11, 2006, the State received payment of $30 million from another tribal government. This payment, also due in the 2003-05 biennium, resulted from an agreement announced on May 10, 2006 regarding the negotiation between the State and that tribal government's gaming compact.
- Second, the Medical Assistance Trust Fund was projected to experience a shortfall of $77 million during the 2005-07 biennium. On March 27, 2006, the Governor signed into law 2005 Wisconsin Act 211, which among other provisions, transfers an aggregate of $77 million from the General Fund to the Medical Assistance Trust Fund during the 2005-06 and 2006-07 fiscal years.

**General Fund Information; General Fund Cash Flow (Part II–Pages 40-48).** Update with the following:

The tables starting on page A-17 of this Official Statement provide updates to various tables containing General Fund information for the 2005-06 fiscal year, which are presented on either a cash basis or agency recorded basis. No changes were needed to the projections in these tables as the result of the revised General Fund revenue estimates from the January 19, 2006 LFB memorandum. The tables, unless noted, contain information through May 31, 2006.

The comparison of monthly General Fund information that is presented on a cash basis has many inherent problems. Unforeseen events or variations from underlying assumptions may cause a decrease or increase in receipts and disbursements from those projected for any specific month.

Operating notes were not issued for the 2004-05 and 2005-06 fiscal years. The following tables may show negative balances on a cash basis. The 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 can have a negative cash balance at the end of a fiscal year. By contrast, the Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, and if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take actions to balance the budget in the succeeding fiscal year.

**Legislative Fiscal Bureau**
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January 19, 2006

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

Dear Senator Fitzgerald and Representative Kaufert:

In January of each year, this office conducts a review of the status of the state's general fund and presents its findings to the Legislature. In even-numbered years, the analysis includes an examination of economic forecasts and tax collection and expenditure data for the first six months of the current fiscal year, and projections for each fiscal year of the current biennium. 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 $106.7 million. This is $93.0 million above the $13.7 million balance that was indicated in my October 18, 2005, memorandum to the Joint Committee on Finance following release of the 2004-05 Annual Fiscal Report.

The $93.0 million is the net result of an increase in estimated tax collections of $45.7 million, an increase in departmental revenues of $3.2 million, an increase of $31.5 million in sum sufficient appropriation expenditures (primarily in the homestead tax credit program and tax reciprocity agreements with Minnesota and Illinois), and an increase in estimated lapses to the general fund of $75.6 million. The increase in the lapse estimate is due mainly to projected GPR underspending in the medical assistance (MA) program.

Although the gross balance is shown as $106.7 million, it should be noted that the required statutory balance is $65 million. Thus, the net balance at the end of the biennium (June 30, 2007) is projected to be $41.7 million.

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

**TABLE 1**

**2005-07 General Fund Condition Statement**

| | 2005-06 | 2006-07 |
|---|---|---|
| **Revenues** | | |
| Opening Balance, July 1 | $4,111,000 | $408,700 |
| Taxes | 11,949,600,000 | 12,560,000,000 |
| Departmental Revenues | | |
| Tribal Gaming | 118,628,600 | 86,349,100 |
| Other | 685,850,200 | 505,645,700 |
| Total Available | $12,758,189,800 | $13,152,403,500 |
| **Appropriations, Transfers, and Reserves** | | |
| Gross Appropriations | $12,696,202,600 | $13,192,596,600 |
| Compensation Reserves | 90,054,100 | 178,302,800 |
| Transfers to Medical Assistance Trust Fund | 290,449,000 | 0 |
| Less Lapses | -318,924,600 | -325,212,100 |
| Net Appropriations | $12,757,781,100 | $13,045,687,300 |
| **Balances** | | |
| Gross Balance | $408,700 | $106,716,200 |
| Less Required Statutory Balance | - 65,000,000 | -65,000,000 |
| Net Balance, June 30 | -$64,591,300 | $41,716,200 |

As Table 1 indicates, the gross balance at the end of the biennium is projected to be $106.7 million. There are, however, two items (tribal gaming revenues and medical assistance) that should be noted regarding the condition statement.

*Tribal Gaming Revenues.* Under 2005 Act 25 (the 2005-07 budget act), the tribal gaming revenue projections include $60.0 million ($30.0 million annually) in payments by the Ho-Chunk Nation that were due in the 2003-05 biennium. These payments have not yet been made to the state. However, Table 1 assumes the payments will be received as $30.0 million annual payments in 2005-06 and in 2006-07. The state payments by the Ho-Chunk are currently in dispute and an arbitrator has been appointed to settle the matter under binding arbitration provisions contained in the 2003 compact amendments.

In addition, the tribal gaming revenue projections of Table 1 include $43.6 million in 2005-06 to reflect that a scheduled 2004-05 payment in this amount by the Forest County

Potawatomi was not made by June 30, 2005, and is expected to be remitted to the state in 2005-06.

*Medical Assistance*. It is estimated that the amount of GPR funding that is currently budgeted to support MA benefits will exceed projected costs of the program by $63.6 million in 2005-07. Because of the biennial nature of the MA benefits appropriation, the $63.6 million is included in the estimated lapses of Table 1 in 2006-07. The projected lapse is primarily due to lower spending for managed care capitation payments and lower caseload than had been estimated in the 2005-07 budget.

On the other hand, it is now estimated that the segregated MA trust fund will experience a shortfall of $76.7 million in the biennium. The projected shortfall in the MA trust fund reflects: (a) the Governor's partial vetoes in Act 25, which reduced revenue to the trust fund compared to the bill passed by the Legislature (-$60.2 million); (b) reestimates of revenue the state will receive by billing MA for treatment services residential care centers provide to certain children (-$16.7 million); and (c) other revenue reestimates ($0.2 million).

If funds are transferred from the general fund to offset the MA trust fund deficit, the balance shown in Table 1 would need to be reduced by a corresponding amount. For example, if the entire deficit in the MA trust fund were to be eliminated by transfer from the general fund, the $106.7 million gross balance of Table 1 would be reduced to $30.0 million and the net balance would be -$35.0 million.

## General Fund Taxes

The following section provides information on general fund tax revenues for the 2005-07 biennium, including a discussion of the national economic forecast for 2006 and 2007 and general fund tax revenue projections for fiscal years 2005-06 and 2006-07.

**National Economic Forecast.** This office first prepared revenue estimates for the 2005-07 biennium in January, 2005, based on the January, 2005, forecast of the U.S. economy by Global Insight, Inc. At that time, positive economic growth was expected to continue in 2005, 2006, and 2007, although at a slower pace than that of 2004. The primary risk to the forecast was that the economy's excess production capacity was less than estimated, which would lead to an acceleration in inflation and interest rates and a lower level of economic growth.

In May, 2005, this office revised its 2005-07 revenue estimates upward by approximately 1%. The revision was based on 2004-05 tax collections through April, 2005, and on more recent economic forecasts. The May forecast by Global Insight, Inc. projected higher levels of inflation and nominal (current-dollar) personal income, consumption, and corporate profits than the January forecast. Due to the increased inflation, the level of nominal gross domestic product (GDP) was also estimated to be higher than in January. However, the estimate of real (inflation-adjusted) GDP was reduced from the January projections. In May, growth in nominal GDP for 2004 was reported at 6.6% and growth was projected to be 6.1% in 2005, 5.1% in 2006, and 5.0% in 2007. As in the January, 2005, forecast, the primary risk was that the economy's spare capacity was less than estimated.

Despite unusually severe hurricanes and high energy prices, the economy continued to expand throughout 2005. The third quarter was especially strong, with nominal GDP growth of 7.6% and real growth of 4.1%, but it is believed that growth slowed in the fourth quarter following the hurricanes and the spike in gas prices. Auto sales also decreased considerably in the fourth quarter following solid sales during the summer. Fourth quarter growth in nominal GDP is estimated at 5.4% and real growth is estimated at 3.1%. For the entire year, nominal GDP growth is estimated at 6.4% and real growth is estimated at 3.6%. Both of these growth rates are slightly higher than projected last May. Growth in personal consumption was also higher than forecast, while growth in personal income and corporate profits was slightly lower than projected. With the high energy prices, the consumer price index (CPI) was 0.5% higher than anticipated last May. Last year was the fourth consecutive year of economic growth following the recession of 2001.

In the near-term, the current (January, 2006) economic forecast by Global Insight, Inc. anticipates stronger overall growth than at the end of 2005 due to reconstruction activity in the Gulf states and a recovery in energy production that was hindered by the hurricanes. The forecast anticipates that federal government spending in response to the storms will total $110 billion over the next several years. The forecast also assumes an additional 150,000 housing starts to replace homes destroyed by the hurricanes. In the first quarter of 2006, nominal GDP growth is projected to be 6.9% and real growth is projected to be 3.8%.

Growth is expected to moderate beginning in the second quarter as the housing market cools and consumers continue to face high energy prices. However, these negative impacts are expected to be cushioned by increased business spending. Nominal GDP growth is estimated at 5.6% for the second quarter of 2006, and approximately 5.0% for the last six months of the year. Nominal growth is expected to fluctuate between 4.4% and 5.0% throughout 2007. On an annualized basis, nominal GDP is expected to increase by 6.0% in 2006 and 4.8% in 2007. Real GDP is expected to show a similar pattern, with growth of 3.8% in the first quarter, approximately 3.0% over the remainder of 2006, and slightly lower in 2007. Annual growth is estimated at 3.4% for all of 2006 and 2.7% for 2007. The 2006 growth rates are higher than forecast last May, and the 2007 growth rates are slightly lower.

Gasoline prices increased steadily during the first half of 2005 and then spiked in September following the Gulf hurricanes. National average prices fell in the fourth quarter (from $2.63 per gallon to $2.51 per gallon) and are expected to decrease again in the first quarter of 2006 (to $2.29 per gallon). Prices are forecast to stay within the range of $2.20 to $2.30 per gallon for the remainder of 2006 and 2007. Natural gas prices are expected to remain high during the first quarter of 2006 (nearly double last year's prices) and then decline significantly beginning in the second quarter. However, even with these anticipated price decreases, gasoline and natural gas will be significantly more expensive than in 2004 and earlier years.

The high energy prices resulted in a higher level of overall inflation in 2005 than was forecast last May. The CPI increased by 3.4% in 2005, which was 0.5% higher than the May forecast. The CPI is expected to increase by 2.6% in 2006 and 1.8% in 2007. These figures are higher than the May estimates by 0.6% in 2006 and lower by 0.1% in 2007. The larger inflation estimate for 2006 reflects the continued high energy prices; however, as energy prices fall and overall economic growth slows somewhat, lower levels of inflation are forecast for 2007. Core inflation (excluding food and energy) is expected to show the opposite pattern--slightly lower growth in 2005 followed by slightly higher levels in 2006 and 2007-- as producers pass their increased energy costs forward to consumers.

Last December, the Federal Reserve increased the federal funds rate by 25 basis-points (from 4.0% to 4.25%). This was the thirteenth such increase since the Federal Reserve began raising rates in June, 2004. The forecast assumes that two more quarter-point increases will occur by the end of March, 2006, followed by an extended pause. In its statement accompanying the December increase, the Federal Reserve no longer described monetary policy as "accommodative" and no longer stated that rates would be raised at a "measured pace." In addition, Federal Reserve officials noted that robust competition, including from foreign producers, was helping contain cost and price pressures. The forecast assumes that the Federal Reserve now believes interest rates are in a "neutral" area and that future increases will be more intermittent.

Also regarding interest rates, the yield curve inverted at the end of 2005 as the yield on 10-year Treasury notes fell slightly below the yield on two-year notes. Normally, the yield on long-term bonds exceeds that of short-term bonds because investors expect to be compensated for committing their money for a longer period of time. This results in an upward-sloping yield curve. An inverted (downward-sloping) yield curve indicates that investors believe interest rates will fall in future years, and is often followed by a recession. Global Insight, Inc. believes that the yield curve is a cause for concern, but notes that the inversion was very modest and brief (the slope became positive again in early January). Also, in previous instances when an inverted yield curve was followed by a recession, real short-term rates were at least 4%, reflecting very tight monetary policy. This is not the case today, as real short-term rates are just above 2%. With current monetary policy more in the accommodative or neutral range, Global Insight, Inc. does not believe the inverted yield curve was signaling the beginning of a recession.

As noted, after several years of very strong growth, the housing market is expected to cool in 2006 and 2007. Housing continued to be a positive factor in the economy during 2005, with stable mortgage interest rates and significant price increases throughout most of the year. Housing starts reached 2.1 million units in 2005, which was one of the best years on record. However, mortgage rates rose by about 0.5% in the fourth quarter of 2005 and are expected to continue increasing throughout 2006 and 2007. With the higher interest rates and a larger inventory of unsold homes, it is expected that the big price increases of recent years will slow significantly. Prices are not expected to fall, but increases are anticipated to be below the overall rate of inflation for the next several years. Even with rebuilding in the areas affected by the hurricanes, housing starts are estimated to decrease by 8.8% in 2006 and 4.5% in 2007. The reduced housing activity is expected to lead to lower expenditures for furniture and appliances, and the slower pace of appreciation in home values will make it more difficult for families to use housing gains as a means of financing consumption.

Personal income growth is estimated at 5.4% in 2005, which was slightly below last May's forecast of 5.6%. Wage and salary disbursements were somewhat higher than estimated last May, but proprietors' income and rental income were significantly lower than anticipated. Personal income growth is projected to be 6.0% in 2006 and 5.8% in 2007. These estimates are higher than the May projections by 0.3% and 0.5%, respectively. The increased personal income estimates reflect slightly higher levels of employment and wages compared to the May figures. In addition, the growth in non-wage income from business activities and investments is forecast to be stronger than anticipated last May. Employment growth is estimated at 1.6% in 2005, the same growth rate forecast last May. Total employment is projected to grow by 1.5% in 2006 and 1.4% in 2007. These figures are higher than the May estimates by 0.1% in 2006 and 0.5% in 2007. Areas of strength include mining, professional and business services, and health care. Manufacturing employment is expected to weaken slightly, with declines of 0.3% in 2006 and 1.0% in 2007. With the higher overall job levels, the unemployment rate is expected to be slightly below 5% in 2006 and 2007, a decrease of 0.3% in each year compared to the May forecast.

Personal consumption expenditures grew by an estimated 6.4% in 2005, which was 0.6% more than forecast last May. However, the sectors showing the strongest growth were energy-related and generally exempt from the state sales tax. For example, purchases of natural gas and gasoline and oil grew by nearly 25%, and purchases of fuel oil and coal grew by almost 20%. Sales of other generally nontaxable items also showed strong growth, with purchases of food for home consumption increasing by 7.7% and purchases of services increasing by 6.1%. Purchases that generally are taxable (durable goods and other types of nondurable goods) grew more slowly at 4.9%. Expenditures for cars, light trucks, and other vehicles showed no growth from 2004, which was also a weak year.

It is anticipated that overall consumption growth will slow in 2006 and 2007 due to higher interest rates and a slower housing market, which will put downward pressure on sales of durable goods. Total personal consumption expenditures are estimated to increase by 5.5% in 2006 and 5.0% in 2007. Although these amounts are lower than the growth experienced in 2005, they are somewhat higher than last May's estimates. Spending for natural gas is expected to again increase by almost 25% in 2006, due to much higher prices this winter, but then decline by 13% in 2007 as production recovers and prices fall. Gasoline expenditures are anticipated to increase by about 1% in each year, and outlays for fuel oil and coal are expected to fall by 3.6% in 2006 and 10.4% in 2007. Services expenditures are again expected to increase more rapidly than overall consumption, with growth of 6.5% in 2006 and 5.7% in 2007. Sales of durable goods and non-durable goods, excluding food and energy, are expected to grow by 4.0% in 2006 and 4.8% in 2007. The higher growth rate in 2007 reflects improved motor vehicle sales following several weak years dating back to 2003.

Business investment was an area of strength in the economy in 2005, and is expected to continue to show robust growth in 2006 and 2007. Corporations have large cash reserves after several years of exceptionally strong profits, and businesses are continuing to realize high returns on investments in information technology. It is estimated that business fixed investment increased by 11.0% in 2005, and it is projected that investment growth will be 12.3% in 2006 and 6.1% in 2007. The largest gains are anticipated in manufacturing plants and, in 2006, mining and petroleum, as facilities damaged by Hurricane Katrina are restored. Continued high levels of investment in information processing are also expected. As consumers scale back somewhat, the share of GDP represented by business investment is forecast to increase from approximately 10% in recent years to 11.3% in 2006 and 11.4% in 2007.

As noted, corporate profits have been quite strong, with double-digit growth in each year since 2002. In 2005, profits increased by an estimated 16.1%. An important factor in the recent profit growth has been productivity gains. Since 2002, manufacturing output per hour has increased by an average of 6% per year. Strong profit growth is also projected for 2006 (15.6%) followed by a decline in 2007 (-0.7%). The decrease in 2007 reflects a slowing economy and anticipated increases in wages and other business costs as additional capacity is utilized and productivity gains diminish. The reduced rate of growth in consumer purchases and the slower housing market are expected to negatively impact demand and industrial production. However, it is anticipated that these factors will be offset by growth in business investment and government expenditures. Public expenditures are expected to increase because of hurricane-related rebuilding projects, the federal highway bill, and improved state and local revenue collections nationwide.

The U.S. trade deficit (exports minus imports) has been increasing steadily for several years, and reached $804 billion in the fourth quarter of 2005. Exports grew by approximately 11% in 2005, while imports rose by 13%. A significant factor in the growth of imports was the high price of oil. In addition, the dollar rose throughout 2005 relative to currencies of the nation's major trading partners, which contributed to the increased trade deficit. It is anticipated that the dollar will weaken considerably throughout 2006 and 2007, as the Federal Reserve discontinues regular interest rate increases and foreign central banks act to tighten monetary policy. A weaker dollar hurts consumers in this country but makes U.S. products more affordable in foreign markets. It is expected that the lower dollar will lead to some improvement in the trade deficit, but continued high oil prices will prevent more significant reductions.

Global Insight, Inc. has also prepared two alternative forecasts, one more optimistic and the other more pessimistic than the baseline forecast. In the optimistic scenario, which is assigned a probability of 20%, productivity growth and foreign economic growth are stronger and energy prices are lower than under the baseline forecast. These factors lead to lower levels of inflation and interest rates and to increased domestic production, investment, and housing starts. The federal budget deficit is also lower than under the baseline forecast due to increased tax revenues and lower expenditures for transfer payments and interest. Under this alternative forecast, real GDP growth is higher by 0 8% in 2006 and 1.0% in 2007.

Under the pessimistic alternative (25% probability), there is less excess capacity in the global economy than estimated under the baseline forecast and the dollar falls more rapidly relative to foreign currencies. As a result, productivity gains are lower and inflation is significantly higher. The acceleration in inflation leads the Federal Reserve to adopt additional interest rate increases, which contribute to significant declines in home values and a reduction in overall economic activity. The federal budget deficit is also higher than under the baseline forecast. The economy does not go into a recession under this scenario, but real GDP growth is lower than the baseline by 0.6% in 2006 and 1.2% in 2007.

Table 2 shows a summary of national economic indicators drawn from the January, 2006, forecast by Global Insight, Inc.

**TABLE 2**

**Summary of National Economic Indicators**
**Global Insight, Inc., January, 2006**
**($ in Billions)**

| | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Nominal Gross Domestic Product | $11,734.3 | $12,488.7 | $13,242.4 | $13,876.9 |
| Percent Change | 7.0% | 6.4% | 6.0% | 4.8% |
| Real Gross Domestic Product | 10,755.7 | 11,144.9 | 11,526.6 | 11,839.7 |
| Percent Change | 4.2% | 3.6% | 3.4% | 2.7% |
| Consumer Price Index | 2.7% | 3.4% | 2.6% | 1.8% |
| Personal Income | 9,713.3 | 10,234.7 | 10,849.6 | 11,480.3 |
| Percent Change | 5.9% | 5.4% | 6.0% | 5.8% |
| Personal Consumption Expenditures | 8,214.3 | 8,741.2 | 9,222.0 | 9,684.6 |
| Percent Change | 6.5% | 6.4% | 5.5% | 5.0% |
| Economic Profits | 1,161.5 | 1,348.4 | 1,558.7 | 1,548.4 |
| Percent Change | 12.6% | 16.1% | 15.6% | -0.7% |
| Unemployment Rate | 5.5% | 5.1% | 4.8% | 4.9% |

**General Fund Tax Projections.** Table 3 shows our revised estimates of general fund tax revenues for the 2005-07 biennium, which are based on tax collections to date and the January, 2006, forecast of the U.S. economy by Global Insight, Inc. The estimates reflect all of the tax law changes adopted in Act 25 and other enacted legislation.

**TABLE 3**

**Projected General Fund Tax Collections**
**($ in Millions)**

| Source | 2004-05 Actual | Budget Estimates (Act 25) 2005-06 | Budget Estimates (Act 25) 2006-07 | Revised Estimates January, 2006 2005-06 | Revised Estimates January, 2006 2006-07 |
|---|---|---|---|---|---|
| Individual Income | $5,650.1 | $6,144.5 | $6,502.8 | $6,025.0 | $6,405.0 |
| General Sales and Use | 4,038.7 | 4,181.6 | 4,358.1 | 4,181.6 | 4,358.1 |
| Corporate Income & Franchise | 764.1 | 683.3 | 670.2 | 770.0 | 785.0 |
| Public Utility | 254.4 | 267.5 | 281.1 | 257.9 | 283.4 |
| Excise | | | | | |
| Cigarette | 294.3 | 287.8 | 286.8 | 296.5 | 294.7 |
| Liquor and Wine | 39.5 | 40.8 | 41.6 | 42.4 | 43.5 |
| Tobacco Products | 15.8 | 16.5 | 17.4 | 16.1 | 16.4 |
| Beer | 9.8 | 9.6 | 9.6 | 9.9 | 10.0 |
| Insurance Company | 129.8 | 131.0 | 137.7 | 135.0 | 142.4 |
| Estate | 112.4 | 105.0 | 110.0 | 124.0 | 130.0 |
| Miscellaneous Taxes | 87.7 | 89.5 | 91.5 | 91.2 | 91.5 |
| TOTAL | $11,396.6 | $11,957.1 | $12,506.8 | $11,949.6 | $12,560.0 |
| Change from Prior Year | | | | | |
| Amount | | $560.5 | $549.7 | $553.0 | $610.4 |
| Percent | | 4.9% | 4.6% | 4.9% | 5.1% |

As shown in Table 3, general fund tax revenues are estimated to total $11,949.6 million in 2005-06 and $12,560.0 million in 2006-07. These amounts are lower than the Act 25 estimates by $7.5 million in the first year and higher by $53.2 million in the second year, for a net increase of $45.7 million. The estimates for the corporate income and franchise tax, cigarette tax, and estate tax have been revised upward significantly, while the projections for the individual income tax have been reduced. The general sales and use tax estimates were not changed from the May figures, and small increases are estimated for most of the other tax sources.

**Individual Income Tax.** Individual income tax revenues are currently estimated at $6,025.0 million in 2005-06 and $6,405.0 million in 2006-07. The current estimates are lower than the Act 25 estimates by $119.5 million in the first year and $97.8 million in the second year.

The revised estimates reflect growth of 6.6% in 2005-06 and 6.3% in 2006-07. It should be noted, however, that the growth rate for 2005-06 is affected by a change in the state's accounting mechanism regarding accrued tax revenues in 2004-05 that led to a one-time reduction in income tax revenues of approximately $50 million in 2004-05. The projected growth in income tax revenues for 2005-06 would reflect a 5.7% increase over 2004-05 in the absence of this accounting change.

The decrease in the current estimates, compared to Act 25, is primarily related to changes in projected growth in the taxable components of personal income. Taxable personal income excludes nontaxable government transfer payments, fringe benefits, and certain other types of nontaxable income. Based on the May, 2005, Global Insight, Inc. forecast, while national personal income growth was estimated at 5.6% in 2005 and 5.7% in 2006, the taxable portion was estimated at 5.3% and 5.6% for the two years, respectively. The current estimates for national personal income growth, which are 5.4% in 2005 and 6.0% in 2006, include growth in taxable income of 4.8% in 2005 and 5.9% in 2006. These projected growth rates for taxable personal income are 0.5% lower in 2005 and 0.3% higher in 2006 than the May estimates. While the growth rate in the second year is currently projected to be higher than was the case last May, the net result of the reduced first-year growth is a reduction in estimated individual income tax revenues in each of the two fiscal years.

The current projection of 5.7% growth in individual income tax revenues in 2005-06 (after taking into account the effect of the change in the accrual process, mentioned above), is consistent with withholding tax collections to date for the fiscal year. As of early January, which includes collections made at the end of December but not processed until the start of January, growth in withholding collections over the same period in the prior fiscal year was 5.7%.

**General Sales and Use Tax.** In 2004-05, state sales and use tax collections were $4,038.7 million, which was a 3.6% increase over the prior year. Under Act 25, state sales and use tax revenues were estimated at $4,181.6 million in 2005-06 and $4,358.1 million in 2006-07, representing growth of 3.5% and 4.2% for the two years, respectively. Based on current projections of taxable personal consumption expenditures and on year-to-date tax collections, no change has been made to the Act 25 sales and use tax estimates.

It should be noted that state sales tax revenues could be affected by a case pending before the Court of Appeals with respect to the taxability of computer software. While pre-written computer software is subject to the state sales tax on tangible personal property, sales of custom computer software are exempt. In the case Menasha Corporation v. Wisconsin Department of Revenue (DOR), a decision by the Tax Appeals Commission on December 1, 2003, broadened the interpretation of what computer software is considered to be nontaxable custom software. The case was appealed to the Circuit Court, which reversed the Tax Appeals Commission decision on October 26, 2004, and ruled that DOR was correct in collecting sales tax on the computer software in question. On December 13, 2004, Menasha Corporation filed an appeal of the Circuit Court decision, and the case is now pending before the Court of Appeals.

It is expected that a decision in favor of Menasha Corporation would affect the interpretation of taxable computer software generally. Based on past estimates by DOR, it is expected that, were a higher court to reverse the Circuit Court decision, state sales tax revenues would be reduced by approximately $50 million associated with each year of the current biennium. In addition, the state could be required to pay approximately $250 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 case, for example, taxpayers were permitted to enter into agreements with the Department under which the time to file a claim, for the years specified in the agreement, was extended to six months after a final determination has been made.

Based on these projections, the effect of a final court decision reversing the Circuit Court ruling would be a reduction in the general fund of an estimated $350 million for the period ending on June 30, 2007. The timing of the effect of such a decision on the general fund would depend on the timing of the Appeals Court decision, whether any subsequent appeals were filed, and the timing of the receipt by the Department of associated refund requests. Ongoing revenue losses in subsequent years would also occur.

**Corporate Income and Franchise Tax.** Corporate income and franchise tax collections were $764.1 million in 2004-05, which was about $14 million more than estimated in May, 2005. The increase reflected continued consumer spending and productivity gains, and related growth in corporate profits. Collections are projected to be $770.0 million in 2005-06 and $785.0 million in 2006-07. These amounts represent an annual increase of 0.8% in 2005-06 and 1.9% in 2006-07, and are higher than the May, 2005, estimates by $86.7 million in 2005-06 and $114.8 million in 2006-07.

The new estimates reflect better than anticipated corporate earnings in 2005, and continued growth in profits through 2006. Consumer demand and increases in productivity, combined with somewhat improved pricing power, have greatly improved corporate balance sheets. Businesses have been able to control labor costs by scaling back benefits, primarily health care, and continuing productivity gains through investment in computers and equipment. As a result, corporate net worth has increased while debt has become more manageable. Internally generated funds from profits and depreciation allowances increased over 24% in 2005, the largest increase in 25 years. The additional funds are expected to be used for increased business investment in plant and equipment, and continued hiring. The increased investment is projected to contribute to employee productivity and demand for business products, which will somewhat offset the decline in consumer spending as the housing market cools.

It should be noted that these estimates have been adjusted to reflect the effect on collections of the phase-in of the single sales factor apportionment formula, repeal of the manufacturer's sales tax credit, implementation and expansion of the dairy investment tax credit, and updating state tax references to the federal Internal Revenue Code.

**Public Utility Taxes.** Public utility tax revenues were $254.4 million in 2004-05, and are currently projected at $257.9 million in 2005-06 and $283.4 million in 2006-07. These figures are lower than the Act 25 estimates by $9.6 million in 2005-06 and higher than the Act 25 estimates by $2.3 million in 2006-07. The revisions reflect the effects of anticipated decreases in tax receipts from telecommunications companies (Telcos) and expected increases in tax receipts from light, heat, and power companies.

The utility tax on Telcos is an ad valorem tax, one that is based on property values. The reduced tax estimates for Telcos are a result of a significant decrease in total telecommunications property value in 2005. According to the Department of Revenue, the reduced property value follows multiple mergers and consolidations of Telcos that involved writing off assets, the use of newer equipment that is more efficient and less expensive than equipment used previously, and certain changes in the depreciation schedules and the tax assessment process. It is believed that the effect of these factors has now been incorporated into the Telco property base and that property values will again increase, starting with tax year 2006. Therefore, there is a larger reduction in the reestimates of Telco taxes in 2005-06 than in 2006-07.

The utility tax on light, heat, and power companies is based on the gross revenues of such companies. The estimated increases in tax revenues from light, heat, and power companies are a result of higher energy costs of such companies and associated higher sales receipts.

The net effect of the anticipated changes in tax revenues described above is that total utility taxes are currently expected to increase by 1.4% in 2005-06 and by 9.9% in 2006-07, rather than by 5.1% per year, as had been estimated under Act 25.

**Excise Taxes.** General fund excise taxes are imposed on cigarettes, liquor (including wine and hard cider), tobacco products, and beer. Excise tax collections were $359.4 million in 2004-05. Under Act 25, total excise tax revenues were estimated at $354.7 million in 2005-06 and $355.4 million in 2006-07. Excise tax revenues are currently estimated at $364.9 million in 2005-06 and $364.6 million in 2006-07. The revised estimates are $10.2 million higher in 2005-06 and $9.2 million higher in 2006-07 than the Act 25 estimates, primarily as a result of higher than anticipated cigarette tax collections to date in 2005-06.

**Insurance Premiums Taxes.** Insurance premiums taxes increased from $123.6 million in 2003-04 to $129.8 million in 2004-05, reflecting strong premium growth in the insurance industry in 2004 and 2005. Premiums taxes are projected to increase to $135.0 million in 2005-06 and to $142.4 million in 2006-07. The projected increase in 2005-06 collections is primarily based on year-to-date monthly premiums tax collections through December, which are significantly higher than collections for 2004-05, for the same period. The projected increase in

2006-07 reflects expected continued growth in insurance premiums, and one-time additional revenues generated by audits conducted by the Office of the Commissioner of Insurance.

**Estate Tax.** In 2004-05, state estate tax revenues were $112.4 million. Under Act 25, estate taxes were estimated at $105.0 million in 2005-06 and $110.0 million in 2006-07. However, based on collections to date in 2005-06, estate taxes are reestimated at $124.0 million in 2005-06 and $130.0 million in 2006-07. The revised estimates are $19.0 million higher in 2005-06 and $20.0 million higher in 2006-07 than the Act 25 estimates. It should be noted, however, that estate tax collections are significantly affected by the settlement, or lack thereof, of a small number of large estates. Collections may, therefore, vary considerably from year to year.

**Miscellaneous Taxes.** Miscellaneous tax revenues were $87.7 million in 2004-05, and are estimated at $91.2 million in 2005-06 and $91.5 million in 2006-07. The first-year estimate is $1.7 million higher than the Act 25 estimate, and the second-year estimate is unchanged from Act 25. The revised estimate reflects year-to-date collections from the real estate transfer fee. Other miscellaneous taxes include municipal and circuit court related fees and the occupational tax on coal.

We will continue to monitor economic forecasts and data regarding tax collections and expenditures and inform you if any further revisions are necessary.

Sincerely,

Bob

Robert Wm. Lang
Director

RWL/sas
cc: Members, Wisconsin Legislature

**Table II-7; Actual and Projected General Fund Cash Flow (Part II–Page 43).** Update the table with the following:

## ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2005 TO MAY 31, 2006
## PROJECTED GENERAL FUND CASH FLOW; JUNE 1, 2006 TO JUNE 30, 2006[(a)]

(In Thousands of Dollars)

| | July 2005 | August 2005 | September 2005 | October 2005 | November 2005 | December 2005 | January 2006 | February 2006 | March 2006 | April 2006 | May 2006 | June 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCES**[(b)] | | | | | | | | | | | | |
| **Beginning Balance** | ($193,683) | ($417,079) | $136,628 | $309,053 | $818,545 | $586,768 | ($118,926) | $882,782 | $1,145,630 | $115,031 | $831,334 | $1,369,935 |
| **Ending Balance** [(c)] | (417,079) | 136,628 | 309,053 | 818,545 | 586,768 | (118,926) | 882,782 | 1,145,630 | 115,031 | 831,334 | 1,369,935 | 24,961 |
| **Lowest Daily Balance** [(c)] | (522,613) | (589,150) | (264,889) | 158,797 | 418,125 | (864,503) | (173,681) | 686,665 | 100,921 | (225,788) | 611,737 | (344,263) |
| **RECEIPTS** | | | | | | | | | | | | |
| **TAX RECEIPTS** | | | | | | | | | | | | |
| Individual Income | $457,176 | $546,087 | $625,591 | $566,601 | $461,234 | $484,890 | $966,768 | $489,178 | $522,941 | $979,881 | $555,643 | $663,136 |
| Sales & Use | 402,599 | 400,199 | 384,904 | 378,257 | 364,808 | 356,213 | 411,358 | 319,356 | 309,399 | 340,820 | 342,919 | 385,424 |
| Corporate Income | 31,786 | 24,880 | 170,441 | 34,258 | 31,377 | 130,776 | 28,752 | 19,203 | 197,151 | 40,032 | 27,154 | 137,180 |
| Public Utility | 24 | 0 | 196 | 2,667 | 125,226 | 130 | 356 | 81 | 157 | 1,530 | 155,348 | 1,632 |
| Excise | 36,572 | 30,625 | 36,942 | 32,048 | 32,403 | 29,800 | 30,316 | 26,764 | 26,799 | 28,888 | 28,775 | 31,000 |
| Insurance | 690 | 1,273 | 27,858 | 1,556 | 1,839 | 33,661 | 2,840 | 22,490 | 22,319 | 26,422 | 1,037 | 29,784 |
| Inheritance | 16,949 | 6,932 | 8,463 | 13,570 | 11,203 | 7,341 | 7,020 | 7,236 | 12,159 | 6,428 | 7,829 | 7,400 |
| **Subtotal Tax Receipts** | $945,796 | $1,009,996 | $1,254,395 | $1,028,957 | $1,028,090 | $1,042,811 | $1,447,410 | $884,308 | $1,090,925 | $1,424,001 | $1,118,705 | $1,255,556 |
| **NON-TAX RECEIPTS** | | | | | | | | | | | | |
| Federal | $524,946 | $554,359 | $554,537 | $487,805 | $539,678 | $499,963 | $567,423 | $508,860 | $536,237 | $470,205 | $541,885 | $541,764 |
| Other & Transfers [(d)] | 355,748 | 298,506 | 470,126 | 316,093 | 283,115 | 286,968 | 438,937 | 689,774 | 322,126 | 422,228 | 374,934 | 343,139 |
| Note Proceeds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Subtotal Non-Tax Receipts** | $880,694 | $852,865 | $1,024,663 | $803,898 | $822,793 | $786,931 | $1,006,360 | $1,198,634 | $858,363 | $892,433 | $916,819 | $884,903 |
| **TOTAL RECEIPTS** | $1,826,490 | $1,862,861 | $2,279,058 | $1,832,855 | $1,850,883 | $1,829,742 | $2,453,770 | $2,082,942 | $1,949,288 | $2,316,434 | $2,035,524 | $2,140,459 |
| **DISBURSEMENTS** | | | | | | | | | | | | |
| Local Aids | $884,042 | $142,784 | $757,441 | $100,945 | $958,939 | $1,280,054 | $190,703 | $251,483 | $1,316,971 | $109,499 | $288,235 | $1,938,341 |
| Income Maintenance | 489,129 | 468,260 | 454,986 | 416,256 | 461,190 | 448,737 | 380,248 | 413,072 | 467,013 | 283,779 | 328,572 | 332,964 |
| Payroll and Related | 315,952 | 295,222 | 427,311 | 303,005 | 315,798 | 335,548 | 362,573 | 335,005 | 487,027 | 304,889 | 321,666 | 339,664 |
| Tax Refunds | 60,810 | 62,584 | 43,817 | 51,777 | 52,037 | 120,021 | 112,785 | 466,205 | 381,505 | 316,659 | 154,121 | 172,089 |
| Debt Service | 0 | 0 | 0 | 156,686 | 1,562 | 0 | 0 | 2,082 | 0 | 295,695 | 28,097 | 0 |
| Miscellaneous | 299,953 | 340,304 | 423,078 | 294,694 | 293,134 | 351,076 | 405,753 | 352,247 | 327,371 | 289,610 | 376,232 | 702,375 |
| Note Repayment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **TOTAL DISBURSEMENTS** | $2,049,886 | $1,309,154 | $2,106,633 | $1,323,363 | $2,082,660 | $2,535,436 | $1,452,062 | $1,820,094 | $2,979,887 | $1,600,131 | $1,496,923 | $3,485,433 |

(a) This table reflects the biennial budget bill for the 2005-07 biennium (2005 Wisconsin Act 25) and the General Fund revenue estimates released by the Legislative Fiscal Bureau on May 16, 2005, which were incorporated into 2005 Wisconsin Act 25. No changes were needed to the projections as a result of the revised revenue estimates released by the Legislative Fiscal Bureau on January 19, 2006. Projections assume that the State will receive approximately $146 million pursuant to the amended gaming compacts with tribal governments. Included in this amount is $73 million, which is the estimate of all payments due in the 2005-06 fiscal year. Also included in this amount is $74 million, which is an estimate of payments due in previous fiscal years that are expected to be made in the 2005-06 fiscal year by two tribal governments. At this time, the State has received the payments from the two tribal governments that equal this amount due in previous fiscal years. This table does 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. The designated funds are expected to range from $150 to $300 million during the 2005-06 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 2005-06 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 $634 million for the 2005-06 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 $380 million for the 2005-06 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 $175 million transferred from the Transportation Fund to the General Fund on February 1, 2006 and $100 million transferred from the Transportation Fund to the General Fund on April 18, 2006. Assumes that $63 million will be transferred from the Transportation Fund to the General Fund on June 1, 2006, $235 million will be transferred from the General Fund to the Medical Assistance Trust Fund on June 16, 2006, and $51 million will be transferred from the General Fund to the Medical Assistance Trust Fund on June 30, 2006 (pursuant to provisions of 2005 Wisconsin Act 211).

**Table II-8; General Fund Cash Receipts and Disbursements Year To Date; Compared to Estimates and Previous Fiscal Year. (Part II–Page 44).** Update the table with the following:

## 2005-06 FISCAL YEAR
## GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE
## COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[(a)]
## (Cash Basis)
## As of May 31, 2006
## (Amounts in Thousands)

| | FY05 through May 2005 | FY06 through May 2006 | | | | |
|---|---|---|---|---|---|---|
| | Actual | Actual | Estimate[(b)] | Variance | Adjusted Variance[(c)] | Difference FY05 Actual to FY06 Actual |
| RECEIPTS | | | | | | |
| Tax Receipts | | | | | | |
| Individual Income [(d)] | $ 6,427,066 | $ 6,655,990 | $ 6,804,652 | $ (148,662) | $ (148,662) | $ 228,924 |
| Sales | 3,958,680 | 4,010,832 | 4,104,748 | (93,916) | (93,916) | 52,152 |
| Corporate Income | 718,522 | 735,810 | 682,085 | 53,725 | 53,725 | 17,288 |
| Public Utility | 269,080 | 285,715 | 274,460 | 11,255 | 11,255 | 16,635 |
| Excise | 324,466 | 339,932 | 324,464 | 15,468 | 15,468 | 15,466 |
| Insurance | 164,046 | 141,985 | 167,327 | (25,342) | (25,342) | (22,061) |
| Inheritance | 100,403 | 105,130 | 100,403 | 4,727 | 4,727 | 4,727 |
| Total Tax Receipts | $ 11,962,263 | $ 12,275,394 | $ 12,458,139 | $ (182,745) | $ (182,745) | $ 313,131 |
| Non-Tax Receipts | | | | | | |
| Federal | $ 5,555,612 | $ 5,785,898 | $ 5,718,168 | $ 67,730 | $ 67,730 | $ 230,286 |
| Other and Transfers [(d)] | 3,287,476 | 4,258,555 | 3,680,480 | 578,075 | 578,075 | 971,079 |
| Note Proceeds [(e)] | - | - | - | - | - | - |
| Total Non-Tax Receipts | $ 8,843,088 | $ 10,044,453 | $ 9,398,648 | $ 645,805 | $ 645,805 | $ 1,201,365 |
| TOTAL RECEIPTS | $ 20,805,351 | $ 22,319,847 | $ 21,856,787 | $ 463,060 | $ 463,060 | $ 1,514,496 |
| DISBURSEMENTS | | | | | | |
| Local Aids | $ 5,678,459 | $ 6,281,096 | $ 6,142,627 | $ (138,469) | $ (138,469) | $ 602,637 |
| Income Maintenance | 4,639,126 | 4,611,242 | 4,652,159 | 40,917 | 40,917 | (27,884) |
| Payroll & Related | 3,753,540 | 3,803,996 | 3,945,756 | 141,760 | 141,760 | 50,456 |
| Tax Refunds | 1,718,890 | 1,822,321 | 1,821,987 | (334) | (334) | 103,431 |
| Debt Service | 374,090 | 484,122 | 520,255 | 36,133 | 36,133 | 110,032 |
| Miscellaneous | 3,616,980 | 3,753,452 | 3,725,495 | (27,957) | (27,957) | 136,472 |
| Note Repayment [(e)] | - | - | - | - | - | - |
| TOTAL DISBURSEMENTS | $ 19,781,085 | $ 20,756,229 | $ 20,808,279 | $ 52,050 | $ 52,050 | $ 975,144 |
| VARIANCE FY06 YEAR-TO-DATE | | | | $ 515,110 | $ 515,110 | |

(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) This table reflects the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25) and the General Fund revenue estimates released by the Legislative Fiscal Bureau on May 16, 2005, which were incorporated into 2005 Wisconsin Act 25. No changes were needed to the projections as a result of the revised General Fund revenue estimates released by the Legislative Fiscal Bureau on January 19, 2006. Projections assume that the State will receive approximately $146 million in the 2005-06 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($73 million), and (ii) payments due in previous fiscal years from two tribal governments that are expected to be made in the 2005-06 fiscal year ($74 million). On February 1, 2006, the State received payment of nearly $44 million from one tribal government and on May 11, 2006, the State received another payment of $30 million from another tribal government. These payments, due in the 2003-05 biennium, resulted from agreements announced in October 2005 and May 2006, respectively, regarding the tribal governments' gaming compacts.

(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 cannot be changed and results in large variances. This column includes adjustments to the variances to more accurately reflect the variance between the estimated and actual amounts. An example is the re-categorization of receipts from FY05, which is further discussed in the following footnote.

(d) The "FY05 Through May 2005" column has been adjusted to reflect a re-categorization of $98 million in receipts between the "Individual Income" and "Other and Transfers" categories. An error made in July 2004 on preliminary deposit reports resulted in the "Individual Income" category to be overstated by $98 million. This same error resulted in the "Other and Transfers" category to be understated by the same amount. The total amount of FY05 receipts is not impacted by the error or this adjustment

(e) Operating notes were not issued for the 2004-05 and 2005-06 fiscal years.

**Table II-9; General Fund Monthly Position (Part II–Page 45).** Update the table with the following:

**GENERAL FUND MONTHLY CASH POSITION[a]**
**July 1, 2003 through May 31, 2006 — Actual**
**June 1, 2006 through June 30, 2006 — Estimated[b]**
**(Amounts in Thousands)**

| | Starting Date | Starting Balance | | Receipts[c] | Disbursements[c] |
|---|---|---|---|---|---|
| 2003 | 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 | | 2,123,484 | 1,796,300 |
| | October | 536,311 | | 1,717,213 | 1,377,813 |
| | November | 875,711 | | 1,893,722 | 1,856,738 |
| | December | 912,695 | (d) | 1,633,039 | 2,340,555 |
| 2005 | January | 205,179 | | 2,417,010 | 1,448,909 |
| | February | 1,173,280 | | 1,833,051 | 1,789,367 |
| | March | 1,216,964 | | 1,859,956 | 2,704,980 |
| | April | 371,940 | | 2,042,253 | 1,831,196 |
| | May | 582,997 | | 1,895,196 | 1,475,143 |
| | June | 1,003,050 | (d) | 2,075,730 | 3,272,463 |
| | July | (193,683) | (d) | 1,826,490 | 2,049,886 |
| | August | (417,079) | (d) | 1,862,861 | 1,309,154 |
| | September | 136,628 | (d) | 2,279,058 | 2,106,633 |
| | October | 309,053 | | 1,832,855 | 1,323,363 |
| | November | 818,545 | | 1,850,883 | 2,082,660 |
| | December | 586,768 | (d) | 1,829,742 | 2,535,436 |
| 2006 | January | (118,926) | (d) | 2,453,770 | 1,452,062 |
| | February | 882,782 | | 2,082,942 | 1,820,094 |
| | March | 1,145,630 | | 1,949,288 | 2,979,887 |
| | April | 115,031 | (d) | 2,316,434 | 1,600,131 |
| | May | 831,334 | | 2,035,524 | 1,496,923 |
| | June | 1,369,935 | (d) | 2,140,459 | 3,485,433 |

**Source: Wisconsin Department of Administration.**

[a] The General Fund balances presented in this table are not based on generally accepted accounting principles (GAAP).

[b] This table reflects the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25) and the General Fund revenue estimates released by the Legislative Fiscal Bureau on May 16, 2005, which were incorporated into 2005 Wisconsin Act 25. No changes were needed to the projections as a result of the revised General Fund revenue estimates released by the Legislative Fiscal Bureau on January 19, 2006. Projections assume that the State will receive approximately $146 million in the 2005-06 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($72 million), and (ii) payments due in previous fiscal years from two tribal governments that are expected to be made in the 2005-06 fiscal year ($74 million). On February 1, 2006, the State received payment of nearly $44 million from one tribal government and on May 11, 2006, the State received another payment of $30 million from another tribal government. These payments, due in the 2003-05 biennium, resulted from agreements announced in October 2005 and May 2006, respectively, regarding the tribal governments' gaming compacts.

[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. Operating notes were not issued for the 2004-05 and 2005-06 fiscal years.

[d] The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was approximately $634 million for the 2005-06 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 $380 million for the 2005-06 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 (Part II–Page 46).** Update the table with the following:

**BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[(a)]**
**July 31, 2003 to May 31, 2006 — Actual**
**June 30, 2006— Estimated**
**(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) | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| January | | $ 1,027 | $ 830 | $ 1,118 |
| February | | 1,126 | 960 | 1,041 |
| March | | 1,179 | 1,043 | 1,188 |
| April | | 1,157 | 964 | 957 |
| May | | 1,163 | 1,045 | 912 |
| June | | 1,054 | 1,182 | 1,117 |
| July | $ 1,140 | 908 | 1,048 | |
| August | 1,242 | 1,003 | 1,100 | |
| September | 1,226 | 997 | 1,176 | |
| October | 1,187 | 954 | 1,115 | |
| November | 1,078 | 827 | 1,167 | |
| December | 1,130 | 892 | 1,135 | |

The second table includes the balances in the LGIP. The average 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) | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| January | | $ 4,673 | $ 3,818 | $ 4,232 |
| February | | 4,852 | 3,984 | 4,237 |
| March | | 5,197 | 4,101 | 4,476 |
| April | | 4,707 | 3,749 | 3,981 |
| May | | 4,417 | 3,627 | 3,708 |
| June | | 4,274 | 3,905 | 4,329 |
| July | $ 5,135 | 4,268 | 4,193 | |
| August | 4,580 | 3,904 | 3,823 | |
| September | 4,378 | 3,726 | 3,746 | |
| October | 3,922 | 3,233 | 3,361 | |
| November | 3,797 | 3,059 | 3,370 | |
| December | 4,090 | 3,392 | 3,692 | |

[(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 |

**Table II-11; General Fund Recorded Revenues (Part II–Page 47)**. Update the table with the following:

## General Fund Recorded Revenues[(a)]
## (Agency Recorded Basis)
## July 1, 2005 to May 31, 2006 compared with previous year

| | Annual Fiscal Report Revenues 2004-05 FY[(b)] | Projected Revenues 2005-06 FY[(c)] | Recorded Revenues July 1, 2004 to May 31, 2005 [(d)] | Recorded Revenues July 1, 2005 to May 31, 2006 [(e)] |
|---|---|---|---|---|
| Individual Income Tax | $ 5,650,109,000 | $ 6,144,500,000 | $ 4,812,204,016 | $ 5,217,364,518 |
| General Sales and Use Tax | 4,038,715,000 | 4,181,600,000 | 3,275,464,425 | 3,399,908,299 |
| Corporate Franchise and Income Tax | 764,053,000 | 683,320,000 | 619,851,196 | 641,433,513 |
| Public Utility Taxes | 254,443,000 | 267,465,000 | 250,680,160 | 274,766,104 |
| Excise Taxes | 359,444,000 | 354,720,000 | 292,296,893 | 300,474,305 |
| Inheritance Taxes | 112,346,000 | 105,000,000 | 98,939,587 | 101,916,481 |
| Insurance Company Taxes | 129,839,000 | 131,000,000 | 100,725,857 | 102,837,802 |
| Miscellaneous Taxes | 87,701,000 | 89,500,000 | 102,493,450 | 110,170,393 |
| SUBTOTAL | $ 11,396,650,000 | $ 11,957,105,000 | 9,552,655,584 | 10,148,871,416 |
| Federal and Other Inter-Governmental Revenues[(f)] | $ 6,190,669,000 | $ 5,881,969,000 | 5,553,496,045 | 5,784,801,640 |
| Dedicated and Other Revenues[(g)] | 3,584,486,000 | 4,445,764,600 | 3,485,841,236 | 4,017,782,015 |
| TOTAL | $ 21,171,805,000 | $ 22,284,838,600 | $ 18,591,992,865 | $ 19,951,455,070 |

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

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2004-05 fiscal year, dated October 15, 2005.

(c) Projections reflect the General Fund revenue estimates released by the Legislative Fiscal Bureau on May 16, 2005, which were used in the enacted budget bill for the 2005-06 and 2006-07 fiscal years (2005 Wisconsin Act 25). No changes were needed to the projections as a result of the revised General Fund revenue estimates released by the Legislative Fiscal Bureau on January 19, 2006. Projections assume that the State will receive approximately $146 million in the 2005-06 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($72 million), and (ii) payments due in previous fiscal years from two tribal governments that are expected to be made in the 2005-06 fiscal year ($74 million). On February 1, 2006, the State received payment of nearly $44 million from one tribal government and on May 11, 2006, the State received another payment of $30 million from another tribal government. These payments, due in the 2003-05 biennium, resulted from agreements announced in October 2005 and May 2006, respectively, regarding the tribal governments’ gaming compacts.

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

(e) The amounts shown are fiscal year 2005-06 revenues as recorded by state agencies.

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

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

**Source: Wisconsin Department of Administration.**

**Table II-12; General Fund Recorded Expenditures By Function (Part II–Page 48).** Update the table with the following:

**General Fund Recorded Expenditures By Function[(a)]**
**(Agency Recorded Basis)**
**July 1, 2005 to May 31, 2006 compared with previous year**

| | Annual Fiscal Report Expenditures 2004–05 FY[(b)] | Appropriations 2005–06 FY[(c)] | Recorded Expenditures July 1, 2004 to May 31, 2005[(d)] | Recorded Expenditures July 1, 2005 to May 31, 2006[(e)] |
|---|---|---|---|---|
| Commerce | $ 253,520,000 | $ 288,639,300 | $ 214,813,601 | $ 217,017,139 |
| Education | 9,614,612,000 | 10,151,858,300 | 7,586,436,222 | 8,016,439,310 |
| Environmental Resources | 233,160,000 | 296,476,000 | 210,748,431 | 275,242,745 |
| Human Relations & Resources | 8,933,512,000 | 8,496,069,700 | 8,154,693,299 | 7,998,370,763 |
| General Executive | 626,194,000 | 890,108,400 | 595,986,074 | 670,050,501 |
| Judicial | 114,247,000 | 113,245,800 | 104,182,209 | 102,585,294 |
| Legislative | 58,234,000 | 63,707,200 | 49,639,616 | 51,824,102 |
| General Appropriations | 1,654,699,000 | 1,915,407,600 | 1,633,379,093 | 1,818,090,384 |
| TOTAL | $ 21,488,178,000 | $ 22,215,512,300 | $ 18,549,878,545 | $ 19,149,620,239 |

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

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the fiscal year 2004-05, dated October 15, 2005.

(c) Estimated appropriations based on the 2005-07 biennial budget bill (2005 Wisconsin Act 25). This table does not reflect any information or projections contained in the memorandum released by the Legislative Fiscal Bureau on January 19, 2006.

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

(e) The amounts shown are fiscal year 2005-06 expenditures as recorded by state agencies.

**Source: Wisconsin Department of Administration.**

**Special Redemption-Tax Exempt Veterans Mortgage Bonds (Part III–Pages 104-106).** Add the following:

The most recent special redemption of Tax-Exempt Veterans Mortgage Bonds occurred on March 1, 2006. This special redemption is summarized in the following table:

**March 1, 2006 Special Redemption**
**Tax–Exempt Veterans Mortgage Bonds**

| Bond Issue | Maturity Date | Coupon | Redemption Amount |
|---|---|---|---|
| 1995 Series 1 | 2013 | 6.00% | $ 340,000 |
| 1995 Series 2 | 2015 | 5.75 | 1,465,000 |
| 1995 Series B | 2025 | 6.50 | 405,000 |
| 1996 Series B | 2026 | 6.20 | 1,055,000 |
| 1996 Series D | 2027 | 6.00 | 920,000 |
| 1997 Series 1 | 2017 | 5.75 | 775,000 |
| 1997 Series A | 2028 | 6.00 | 525,000 |
| 1997 Series C | 2023 | 5.50 | 2,035,000 |

# Appendix B

# 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)
**$61,685,000**
**STATE OF WISCONSIN**
**GENERAL OBLIGATION BONDS OF 2006, SERIES C**

We have served as bond counsel in connection with the issuance by the State of Wisconsin (**State**) of its $61,685,000 General Obligation Bonds of 2006, Series C, dated the date hereof (**Bonds**). The Bonds are being issued pursuant to Chapters 18 and 20, Wisconsin Statutes, and a resolution adopted by the State of Wisconsin Building Commission (**Commission**) on December 21, 2005 (**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 should be noted, however, that such interest is an item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers. 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

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

### The MBIA Insurance Corporation Insurance Policy

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

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

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

#### MBIA

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company **(Company)**. The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom, and in the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

### Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits classes and concentrations of investments that are made by MBIA, and requires the approval of policy rates and forms that are employed by MBIA. New York Insurance Law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA, and transactions among MBIA and its affiliates.

MBIA's policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

**Financial Strength Ratings of MBIA**

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

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

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

**MBIA Financial Information**

As of December 31, 2005, MBIA had admitted assets of $11.0 billion (unaudited and restated), total liabilities of $7.2 billion (unaudited and restated), and total capital and surplus of $3.8 billion (unaudited and restated) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2006, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.5 billion (unaudited), and total capital and surplus of $3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K/A of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2006 and for the three month period ended March 31, 2006 and March 31, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2006, which are incorporated into this Notice by reference.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site and at no cost, upon request to MBIA at its principal executive offices.

**Certain Documents**

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

- The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and
- The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K/A, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Notice and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Notice, shall be deemed to be modified or superseded for purposes of this Notice to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Notice.

The Company files annual, quarterly, and special reports, information statements, and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 are available (i) over the Internet at the SEC's web site; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site; and (iv) at no cost, upon request to MBIA at its principal executive offices.