OFFICIAL STATEMENT

New Issue

This Official Statement provides information about the Notes. 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.

$600,000,000
STATE OF WISCONSIN
OPERATING NOTES OF 2007

Dated: Date of Delivery **Due: June 16, 2008**

Note Ratings	F1+ Fitch Ratings MIG 1 Moody's Investors Service, Inc. SP-1+ Standard & Poor's Ratings Services
Interest Rate	4.50%
Term	344 days (on a 30/360 basis)
CUSIP Number	97705L PU5
Closing/Settlement	On or about July 2, 2007
Maturity	June 16, 2008
Interest Payment Date	June 16, 2008
Tax Exemption	Interest on the Notes is, for federal income tax purposes, excluded from gross income and not an item of tax preference. Interest on the Notes is not excluded from current State of Wisconsin income and franchise taxes–*See pages 12-13*.
Redemption	Not subject to redemption prior to maturity.
Security	Payable from, and secured solely by, revenues deposited into the Operating Note Redemption Fund, which is irrevocably pledged only for the payment of the Notes. The State of Wisconsin is obligated to use all General Fund revenues, other than those required to pay the State's general obligations, in a sum sufficient to make impoundment payments into the Operating Note Redemption Fund–*See pages 2-3.*
Purpose	General Fund cash-flow needs—*See page 2.*
Denominations	$25,000
Bond Counsel	Foley & Lardner LLP
Trustee/Registrar/Paying Agent	The Bank of New York Trust Company, N.A.
Issuer Contact	Wisconsin Capital Finance Office (608) 266-2305; DOACapitalFinanceOffice@wisconsin.gov
Book-Entry-Only Form	The Depository Trust Company–*See pages 4-5*.
2006 Annual Report	This Official Statement incorporates by reference Parts I and II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 22, 2006.
Sale Information	Sold by competitive sale on June 19, 2007–*See pages 11-12*.

June 19, 2007

This document is the State's official statement about the offering of the Notes; that is, it is the only document the State has authorized for providing information about the Notes. This document is not an offer or solicitation for the Notes, 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 Notes, 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 Notes 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 Notes 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.

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STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF THE NOTES

BUILDING COMMISSION MEMBERS

Voting Members	Term of Office Expires
Governor Jim Doyle, Chairperson	January 2, 2011
Senator Fred A. Risser, Vice-Chairperson	January 4, 2009
Senator Ted Kanavas	January 4, 2009
Senator Jeffrey Plale	January 2, 2011
Representative Dean Kaufert	January 4, 2009
Representative Phil Montgomery	January 4, 2009
Representative Jennifer Shilling	January 4, 2009
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Dave Haley, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert G. Cramer, Administrator Division of State Facilities Department of Administration	At the pleasure of the Building Commission and the Secretary of Administration

OTHER PARTICIPANTS

Mr. J.B. Van Hollen State Attorney General	January 2, 2011
Mr. Michael L. Morgan, Secretary Department of Administration	At the pleasure of the Governor

DEBT MANAGEMENT AND DISCLOSURE

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SUMMARY DESCRIPTION OF THE NOTES

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

Description:	State of Wisconsin Operating Notes of 2007
Principal Amount:	$600,000,000
Denominations:	Multiples of $25,000
Date of Issue:	On or about July 2, 2007
Term:	344 days (on a 30/360 basis)
Maturity:	June 16, 2008
Interest Payment:	June 16, 2008
Redemption:	Not subject to redemption prior to maturity.
Form:	Book-entry-only—*See pages 4-5*
Paying Agent:	All payments of principal and interest on the Notes will be paid by The Bank of New York Trust Company, N.A., as Paying Agent. All payments will be made to The Depository Trust Company, which will distribute payments to DTC Participants as described herein.
Security:	Payable from, and secured solely by, revenues deposited into the Operating Note Redemption Fund, which is irrevocably pledged only for the payment of the Notes. The State of Wisconsin is obligated to use all General Fund revenues, other than those required to pay the State's general obligations, in a sum sufficient to make impoundment payments into the Operating Note Redemption Fund on February 29, March 31, April 30, and May 30, 2008—*See pages 2-3*
Authority for Issuance:	The Notes are issued under Chapters 16 and 18 of the Wisconsin Statutes.
Purpose:	General Fund cash-flow needs.
Additional Notes:	The State may issue additional operating notes.
Legality of Investment:	State law provides that the Notes 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 of Wisconsin and all public officers, municipal corporations, political subdivisions, and public bodies.
Tax Exemption:	Interest on the Notes is, for federal income tax purposes, excluded from gross income and not an item of tax preference—*See page 12-13*
	Interest on the Notes is not excluded from current State of Wisconsin income and franchise taxes—*See page 13*
Legal Opinion:	Validity and tax opinion to be provided by Foley & Lardner LLP—*See page 12*

OFFICIAL STATEMENT

$600,000,000

STATE OF WISCONSIN

OPERATING NOTES OF 2007

INTRODUCTION

This Official Statement provides information about the $600,000,000 Operating Notes of 2007 **(Notes),** which are being issued by the State of Wisconsin **(State)**. This Official Statement includes by reference Parts I and II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 22, 2006 **(2006 Annual Report)**.

The Notes are issued under Chapters 16 and 18 of the Wisconsin Statutes **(Act)** as well as an authorizing resolution that the State of Wisconsin Building Commission **(Commission)** adopted on May 23, 2007 **(Resolution)**. All steps and actions required before adoption of the Resolution were satisfied.

The Commission, an agency of the State, is empowered by law to authorize, issue, and sell all borrowing obligations of the State. The Commission has authorized the State of Wisconsin Department of Administration **(Department)** 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 and its financial condition is included as APPENDIX A, which includes by reference, and makes changes or additions to, Part II of the 2006 Annual Report.

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

Contact:	Capital Finance Office Attn: Capital Finance Director
Phone:	(608) 266-2305
Mail:	101 East Wilson Street, FLR 10 P.O. Box 7864 Madison, WI 53707-7864
E-mail:	DOACapitalFinanceOffice@wisconsin.gov
Web site:	www.doa.wi.gov/capitalfinance

THE NOTES

General

The Notes will be dated their date of delivery (expected to be July 2, 2007) and will bear interest from that date payable on the maturity date of the Notes, which is June 16, 2008.

The Notes will bear interest at a rate of 4.50%, computed on the basis of a 360-day year of twelve 30-day months. Payments of principal of, and interest on, each Note will be paid to the registered owner of the Notes. The Notes are being issued in book-entry-only form, so the registered owner will be a securities depository or its nominee. The Commission has appointed, as the securities depository for the Notes, The Depository Trust Company, New York, New York **(DTC)**. See "THE NOTES; Book-Entry-Only Form".

The Commission has appointed The Bank of New York Trust Company, N.A. as the trustee for the Notes (**Trustee**). The Trustee is also the registrar (**Registrar**) and paying agent (**Paying Agent**) for the Notes.

The Notes are issued as fully registered obligations in principal denominations of $25,000 or multiples of $25,000.

Purpose

The State is issuing the Notes because of an imbalance in the timing of payments disbursed from and receipts collected in the General Fund. The Notes are issued in an aggregate amount estimated to be sufficient, with interfund borrowings, to meet General Fund cash-flow needs for the 2007–08 fiscal year. Developments during the year may require the State to issue additional operating notes. See "THE NOTES; Additional Notes".

The State will deposit the proceeds from the sale of the Notes into the General Fund. The State will expend the Note proceeds in anticipation of revenues to be received later in the fiscal year. Until so used, the proceeds will be invested by the State on a short-term basis. This investment activity is the responsibility of the State of Wisconsin Investment Board. See APPENDIX A.

Any premium paid as part of the purchase price of the Notes will be deposited into the Operating Note Redemption Fund and used to pay interest on the Notes. The costs of issuance of the Notes will be paid by the State from money separately appropriated from the General Fund.

Redemption

The Notes are not subject to redemption prior to maturity.

Security

The Notes are payable from, and secured solely by, revenues deposited into the Operating Note Redemption Fund **(Pledged Revenues)**, which is irrevocably pledged only for the payment of the Notes. The State is obligated to use all General Fund revenues, other than those required to pay the State's general obligations, in a sum sufficient to make impoundment payments into the Operating Note Redemption Fund on February 29, March 31, April 30, and May 30, 2008. The Pledged Revenues are subject to any prior rights of the owners of the State's general obligations.

The Notes mature before the end of the 2007–08 fiscal year. The governor's proposed budget for the 2007-08 fiscal year, which is the first year of the 2007-09 biennium, is balanced on a statutory basis and contains sufficient estimated tax revenues and other revenues to pay the estimated expenses for the fiscal year. Although many factors may affect the State's financial results for the 2007-08 fiscal year, the estimates of General Fund receipts and disbursements included in the governor's proposed 2007-08 budget are believed to be reasonable. See APPENDIX A. The failure of the Legislature to adopt a new budget before the start of a biennium does not result in the lack of spending authority. If the budget for the 2007-08 fiscal year is not enacted before the start of the fiscal year, the prior year's budget (2006-07) serves as the budget until the time a new budget is enacted.

The Operating Note Redemption Fund is a separate and distinct fund established with the Trustee. All money in the Operating Note Redemption Fund may be expended only for the payment of the principal of, and interest on, the Notes.

The Notes are not general obligations of the State, and the Notes do not constitute "public debt" of the State as that term is used in the Constitution and in the Wisconsin Statutes.

Impoundments

The Resolution requires the Secretary of the Department **(Secretary of Administration)** to impound and transfer sums from the General Fund to the Operating Note Redemption Fund by certain dates and in certain amounts:

- 25% of the principal and interest due June 16, 2008 on the Notes must be impounded on February 29, 2008.
- 50% of the principal and interest due June 16, 2008 on the Notes must be impounded on March 31, 2008.
- 75% of the principal and interest due June 16, 2008 on the Notes must be impounded on April 30, 2008.
- 100% of the principal and interest due June 16, 2008 on the Notes must be impounded on May 30, 2008.

If on any of these impoundment dates the balance in the Operating Note Redemption Fund is less than the amount required, then all General Fund revenues (other than those required to be paid with respect to general obligations) **(Unrestricted Revenues)** must be set aside and deposited in the Operating Note Redemption Fund until the balance in the Operating Note Redemption Fund is equal to the amount required by that date.

General Fund Cash-Flow Projections and Determinations

The Resolution requires that the Secretary of Administration each month prepare and file with the Trustee projections of General Fund revenues, expenses, and balances during the 2007-08 fiscal year. These projections must be in sufficient detail to permit the Secretary of Administration to make the following determinations required by the Resolution.

Interfund Borrowings

If at any time the Secretary of Administration determines that Unrestricted Revenues will be insufficient to permit the required impoundment from the General Fund to the Operating Note Redemption Fund, then the Secretary of Administration must, to the extent permitted by law, transfer to the General Fund other funds of the State in a sum sufficient to permit the required impoundment. The Wisconsin Statutes allow the Secretary of Administration to temporarily borrow from certain segregated funds (and any cash in the budget stabilization fund) to the General Fund an amount up to 5% of the total general-purpose revenue appropriations then in effect and an additional 3% for a period of up to 30 days. Using the governor's proposed 2007-08 budget, the 5% amount is approximately $672 million and the 3% amount is approximately $403 million. See APPENDIX A.

Deferral of Expenditures

If at any time the Secretary of Administration determines that the payment of any amount, other than payments for general obligations, will result in the funds available in the General Fund being less than the required impoundment from the General Fund to the Operating Note Redemption Fund, then the Secretary of Administration must defer the payment of enough expenses to permit the required impoundment when due. The Secretary of Administration may set priorities for payments from the General Fund as well as prorate certain payments. The Wisconsin Statutes provide that all payments shall be in accordance with the following order of preference:

(a) All direct and indirect payments of principal and interest on State general obligations have first priority and may not be prorated or reduced.

(b) All direct and indirect payments of principal and interest on operating notes have second priority and may not be prorated or reduced.

(c) All State employe payrolls have third priority and may be prorated or reduced.

(d) All other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced.

Acceleration of Impoundment

If at any time the Secretary of Administration determines that the principal and interest due on the Notes at maturity less any amounts on deposit in the Operating Note Redemption Fund equals or exceeds 85% of the amount of Unrestricted Revenues estimated to be received thereafter and prior to June 16, 2008, then all Unrestricted Revenues thereafter received must be immediately deposited in the Operating Note Redemption Fund until the amount in such fund is equal to 100% of the principal and interest due on the Notes at maturity.

Ratings

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

Rating	Rating Agency
F1+	Fitch Ratings
MIG 1	Moody's Investors Service, Inc.
SP-1+	Standard & Poor's Ratings Services

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 Notes 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 Notes.

Authority for Issuance

The Commission is authorized by the Wisconsin Statutes to issue operating notes when, in the judgment of the Department, a deficiency will occur in the funds of the State which will not permit the State to pay its operating obligations in a timely manner. Operating notes may be issued in an amount not exceeding 10% of budgeted appropriations of general purpose and program revenues for the year in which operating notes are issued. The maximum issuance of operating notes for the 2007-08 fiscal year is $2.3 billion. Since the 2007-08 budget has not been enacted, this amount is calculated based on appropriations from the 2006-07 fiscal year budget.

Book-Entry-Only Form

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

Note certificates are to be issued and registered in the name of a nominee of DTC, which acts as securities depository for the Notes. Ownership of the Notes 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 Notes must be made, directly or indirectly, through DTC Participants.

Payment

The Paying Agent will make all payments of principal of, and interest on, the Notes to DTC. Owners of the Notes will receive payments through the DTC Participants.

Notices and Voting Rights

The State or the Trustee will provide notices and other communications about the Notes to DTC. Owners of the Notes 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.

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. Neither the State nor the Trustee is responsible for any information available on DTC's web site. That information may be subject to change without notice.

Neither the State nor the Trustee is responsible for a failure by DTC or any DTC Participant to transfer payments or notices to the owners of the Notes or to follow the procedures established by DTC for its book-entry system.

Investment of Operating Note Redemption Fund

Money deposited in the Operating Note Redemption Fund may be invested by the Trustee at the direction of the State of Wisconsin Investment Board in any of the following types of investments:

(1) Direct obligations of, or obligations unconditionally guaranteed by, the United States.

(2) Obligations issued by agencies of, or corporations wholly owned by the United States.

(3) Direct obligations of the Federal National Mortgage Association or any corporation chartered by an act of Congress.

(4) Obligations of the International Bank for Reconstruction and Development.

(5) A money market mutual fund that (i) invests solely in obligations described in (1) and (2) above and (ii) that has one of the two highest ratings given by a nationally recognized rating service.

(6) Repurchase agreements with a bank other than the Trustee which is a member of the Federal Deposit Insurance Corporation or a government bond dealer (i) reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, (ii) having capital of at least $250,000,000, and (iii) having one of the two highest ratings given by a nationally recognized rating service, the underlying securities of which a repurchase agreement are obligations described in (1) and (2) above, provided the underlying securities are required to be continuously maintained at a value (consisting of the market value of such securities and the amount of interest accrued on such securities) not less than the amount so invested plus accrued interest and are held by the Trustee or a third party.

All investments in the Operating Note Redemption Fund must mature on or before June 16, 2008. All investments must be valued at their face amount, including any interest to be paid to maturity.

Additional Notes

The Notes are issued in an aggregate amount estimated to be sufficient, together with interfund borrowings, to meet General Fund cash-flow needs for the 2007-08 fiscal year. Any additional operating notes that may be issued must, pursuant to the Resolution, mature on or after June 16, 2008 and will not be entitled to any priority with respect to payment or security over the Notes or any other series of additional operating notes. Any additional operating notes would be payable from the same source, be entitled to the same security as the Notes, and be subject to the same impoundment provisions.

Defaults and Remedies

The Resolution provides that an Event of Default exists if the principal of, or interest on, the Notes is not timely paid or if the State fails to make the required payments into the Operating Note Redemption Fund or otherwise does not observe the requirements set forth in the Resolution.

If an Event of Default continues for 30 days, then the Trustee is required to publish a notice in *The Bond Buyer*.

If an Event of Default exists, then the Trustee may bring such legal proceedings as are authorized by the Act or by other law to collect amounts that are due from the State and to protect the rights of the owners of the Notes. If the owners of not less than 25% in aggregate principal amount of the Notes then outstanding ask the Trustee to do so and provide the Trustee with reasonable security and indemnity, then the Trustee is required to bring legal proceedings seeking appropriate relief. No owner of the Notes may bring such legal proceedings, unless an Event of Default exists, and the Trustee, having been asked to proceed and given reasonable security and indemnity, fails or refuses to bring such legal proceedings.

If the State fails to pay any Note in accordance with its terms, then an action to compel such payment may be commenced against the State in the Circuit Court for Dane County, Wisconsin. The Act provides that a final judgment against the State in such an action shall be paid together with interest at the annual rate of 10% from the date the payment was judged to have been due until the date of payment of the judgment. State law requires the clerk of courts to file the judgment with the Department, the Department to audit the amount of damage and the costs awarded, and the amount then to be paid from the State Treasury. State law also contains a continuing appropriation in a sum sufficient to meet judgments against the State.

GENERAL FUND INFORMATION

Information regarding the State's General Fund is included as APPENDIX A. The General Fund cash-flow tables on the following pages present the following by major categories of receipts and disbursements:

- Actual monthly cash flow of the General Fund from July 2005 through June 2006.
- Actual monthly cash flow of the General Fund from July 2006 through April 2007 and projected monthly cash flow from May 2007 through June 2007.
- Projected monthly cash flow from July 2007 through June 2008.

The projected General Fund cash-flow tables should be read in conjunction with other information concerning the budget for the 2006-07 fiscal year and the governor's proposed budget for the 2007-08 fiscal year. There can be no assurance that historical data with respect to such revenues and expenditures are necessarily indicative of future receipts and payments.

Since June 2001, the State has posted on the Capital Finance Office web site monthly reports of actual and projected General Fund cash flows. The State intends, but is not obligated, to continue posting these reports for the 2007-08 fiscal year. The reports are located in 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

There have been, and will continue to be, differences in the amounts shown for the presentations on a cash basis (such as the following General Fund cash-flow tables) and on a budgetary basis (such as the budget information in APPENDIX A). For example, the cash-flow basis presentation on the following pages shows tax receipts as revenues and tax refunds as disbursements. The budgetary basis presentation in APPENDIX A shows tax revenues net of tax refunds. In addition, Wisconsin counties have the authority to impose a county sales tax. The State receives all county sales tax collections and then returns to the counties their respective portion. The cash-flow basis presentation on the following pages shows the gross sales tax receipts and the disbursement to the counties, while the county sales tax is not included in the budgetary basis presentation in APPENDIX A. There are other items that are treated differently between the cash-flow basis and budgetary basis that prevent a direct reconciliation of the cash and budgetary presentations.

Monthly cash-flow projections are based upon the respective fiscal year budget and upon historical experience as adjusted to reflect economic conditions, statutory, and administrative changes and anticipated payment dates for debt service, payrolls, and State aid.

Unforeseen events or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month. Additionally, the timing of transactions from month to month may vary from the forecast.

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2005 TO JUNE 30, 2006

(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	4,563
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	(397,541)
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	$ 657,624
Sales & Use	402,599	400,199	384,904	378,257	364,808	356,213	411,358	319,356	309,399	340,820	342,919	375,380
Corporate Income	31,786	24,880	170,441	34,258	31,377	130,776	28,752	19,203	197,151	40,032	27,154	149,264
Public Utility	24	0	196	2,667	125,226	130	356	81	157	1,530	155,348	54
Excise	36,572	30,625	36,942	32,048	32,403	29,800	30,316	26,764	26,799	28,888	28,775	34,874
Insurance	690	1,273	27,858	1,556	1,839	33,661	2,840	22,490	22,319	26,422	1,037	31,382
Inheritance	16,949	6,932	8,463	13,570	11,203	7,341	7,020	7,236	12,159	6,428	7,829	9,601
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	$ 1,258,179
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	$ 460,998
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	314,764
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	$ 775,762
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	$ 2,033,941
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	$ 1,919,099
Income Maintenance	489,129	468,260	454,986	416,256	461,190	448,737	380,248	413,072	467,013	283,779	328,572	260,110
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	352,584
Tax Refunds	60,810	62,584	43,817	51,777	52,037	120,021	112,785	466,205	381,505	316,659	154,121	158,392
Debt Service	0	0	0	156,686	1,562	0	0	2,082	0	295,695	28,097	0
Miscellaneous [d]	299,953	340,304	423,078	294,694	293,134	351,076	405,753	352,247	327,371	289,610	376,232	709,128
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	$ 3,399,313

(a) Projections for this table had assumed that the State would receive approximately $146 million pursuant to the amended gaming compacts with tribal governments. This included $73 million, which was an estimate of all payments due in the 2005-06 fiscal year. The amount of estimated payments due in the 2005-06 fiscal year was subsequently revised downward to $67 million to reflect provisions of the compacts with the tribal governments. The State received payments, totalling $44 million, from all but one tribal government. The State and this tribal government continue arbitration with respect to this tribal government's amended gaming compact. Also included was $74 million, which was an estimate of payments due in previous fiscal years that were expected to be made in the 2005-06 fiscal year by two tribal governments. The State has received the payments from the two tribal governments that equal this amount. 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 ranged from $150 to $300 million during the 2005-06 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds averaged 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 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.

(d) Includes $175 million transferred from the Transportation Fund to the General Fund on February 1, 2006, $100 million transferred from the Transportation Fund to the General Fund on April 18, 2006, $63 million transferred from the Transportation Fund to the General Fund on June 1, 2006, $235 million transferred from the General Fund to the Medical Assistance Trust Fund on June 16, 2006, and $51 million transferred from the General Fund to the Medical Assistance Trust Fund on June 30, 2006 (pursuant to provisions of 2005 Wisconsin Act 211).

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2006 TO APRIL 30, 2007
PROJECTED GENERAL FUND CASH FLOW; MAY 1, 2007 TO JUNE 30, 2007[(a)]

(In Thousands of Dollars)

	July 2006	August 2006	September 2006	October 2006	November 2006	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007
BALANCES[(b)]												
Beginning Balance	$ 4,563	$ (195,929)	$ 108,161	$ 355,567	$ 1,112,712	$ 882,489	$ 172,573	$ 1,025,510	$ 1,028,184	$ (37,253)	$ 594,881	$ 1,131,119
Ending Balance [(c)]	(195,929)	108,161	355,567	1,112,712	882,489	172,573	1,025,510	1,028,184	(37,253)	594,881	1,131,119	102,678
Lowest Daily Balance [(c)]	(451,652)	(488,713)	(100,789)	355,566	628,474	(547,039)	138,110	594,866	(37,254)	(397,049)	451,984	(340,508)
RECEIPTS												
TAX RECEIPTS												
Individual Income	$ 565,897	$ 474,676	$ 605,681	$ 680,238	$ 502,370	$ 508,275	$ 1,035,880	$ 515,293	$ 446,568	$ 1,276,649	$ 555,797	$ 678,189
Sales & Use	402,145	401,109	397,579	396,789	378,295	345,906	430,155	334,817	300,179	357,353	357,775	380,022
Corporate Income	37,496	28,116	185,473	34,815	23,319	173,619	43,211	22,369	237,573	51,427	22,188	164,215
Public Utility	50	11	99	1,468	143,824	250	178	76	244	2,228	133,565	968
Excise	34,911	32,778	34,592	28,986	30,956	29,561	27,603	27,221	25,851	24,537	32,258	31,954
Insurance	316	938	30,876	592	820	33,568	4,405	18,619	21,349	30,011	1,692	29,168
Inheritance	7,193	9,971	8,044	9,665	10,691	15,756	12,666	7,390	11,941	6,716	7,720	6,918
Subtotal Tax Receipts	$ 1,048,008	$ 947,599	$ 1,262,344	$ 1,152,553	$ 1,090,275	$ 1,106,935	$ 1,554,098	$ 925,785	$ 1,043,705	$ 1,748,921	$ 1,110,995	$ 1,291,434
NON-TAX RECEIPTS												
Federal	$ 502,417	$ 581,763	$ 513,024	$ 546,768	$ 477,516	$ 444,362	$ 608,224	$ 518,096	$ 467,030	$ 520,055	$ 538,560	$ 538,435
Other & Transfers [(d)]	370,205	166,183	513,130	431,228	288,729	240,339	408,411	505,994	358,552	259,736	457,100	430,100
Note Proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$ 872,622	$ 747,946	$ 1,026,154	$ 977,996	$ 766,245	$ 684,701	$ 1,016,635	$ 1,024,090	$ 825,582	$ 779,791	$ 995,660	$ 968,535
TOTAL RECEIPTS	$ 1,920,630	$ 1,695,545	$ 2,288,498	$ 2,130,549	$ 1,856,520	$ 1,791,636	$ 2,570,733	$ 1,949,875	$ 1,869,287	$ 2,528,712	$ 2,106,655	$ 2,259,969
DISBURSEMENTS												
Local Aids	$ 896,807	$ 130,871	$ 824,354	$ 131,610	$ 911,622	$ 1,297,119	$ 204,888	$ 236,990	$ 1,311,244	$ 145,745	$ 197,844	$ 1,958,030
Income Maintenance	509,527	436,928	399,100	442,531	442,391	437,168	435,225	503,594	427,964	436,025	423,613	322,256
Payroll and Related	295,693	358,565	411,764	307,885	336,493	350,578	384,840	355,111	508,573	333,782	337,438	409,290
Tax Refunds	64,862	80,941	45,628	52,478	33,584	115,915	102,004	481,641	385,436	357,598	177,300	133,600
Debt Service	58,612	2,473	0	160,015	0	0	0	0	0	320,114	5,001	0
Miscellaneous[(d)]	295,621	381,677	360,246	278,885	362,653	300,772	590,839	369,865	301,507	303,314	429,221	465,234
Note Repayment	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	$ 2,121,122	$ 1,391,455	$ 2,041,092	$ 1,373,404	$ 2,086,743	$ 2,501,552	$ 1,717,796	$ 1,947,201	$ 2,934,724	$ 1,896,578	$ 1,570,417	$ 3,288,410

(a) Projections in this table reflect the biennial budget bill for the 2005-07 biennium (2005 Wisconsin Act 25), all enacted bills from the 2005 legislative session, and the General Fund revenue estimates released by the Department of Revenue (DOR) on November 20, 2006. Projections in this table do not reflect the projected General Fund revenues and expenditures released by the Legislative Fiscal Bureau (LFB) on January 30, 2007. No changes were needed to the projections for the remainder of the 2006-07 fiscal year as a result of 2007 Wisconsin Act 5, which included adjustments to the budget for the 2006-07 fiscal year. Projections assume that the State will receive approximately $112 million pursuant to the amended gaming compacts with tribal governments. Included in this amount is $82 million, which is the estimate of all payments due in the 2006-07 fiscal year, and $30 million, which is an estimate of a payment due in the previous biennium that is expected to be made in the 2006-07 fiscal year by a tribal government. 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 $160 to $300 million during the 2006-07 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $30 million during the 2006-07 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 $661 million for the 2006-07 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 $397 million for the 2006-07 fiscal year) for a period of up to 30 days. 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.

(d) Includes $20 million that were transferred from the Petroleum Inspection Fund to the General Fund on September 1, 2006, $88 million that were transferred from the Transportation Fund to the General Fund on October 12, 2006, and $25 million that are expected to be transferred from the General Fund to the Medical Assistance Trust Fund on June 30, 2007.

PROJECTED GENERAL FUND CASH FLOW; JULY 1, 2007 TO JUNE 30, 2008[a]

(In Thousands of Dollars)

	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007	January 2008	February 2008	March 2008	April 2008	May 2008	June 2008
BALANCES[b]												
Beginning Balance	$ 49,500	$ 396,557	$ 636,909	$ 867,208	$ 1,699,240	$ 1,365,415	$ 757,277	$ 1,579,735	$ 1,385,157	$ 107,971	$ 697,310	$ 929,788
Ending Balance[c]	396,557	636,909	867,208	1,699,240	1,365,415	757,277	1,579,735	1,385,157	107,971	697,310	929,788	113,232
Lowest Daily Balance[c]	49,500	132,680	198,779	690,703	1,084,175	(34,455)	746,518	1,106,846	155,216	(113,776)	588,908	(349,566)
RECEIPTS												
TAX RECEIPTS												
Individual Income	$ 641,362	$ 496,036	$ 632,937	$ 710,849	$ 524,977	$ 531,147	$ 1,082,495	$ 538,481	$ 566,664	$ 1,229,733	$ 530,808	$ 758,708
Sales & Use	398,900	407,700	399,400	396,100	388,000	354,300	426,700	326,900	312,600	358,400	366,000	388,700
Corporate Income	24,100	22,500	171,200	37,900	28,800	195,100	29,700	22,000	242,300	36,300	23,400	173,300
Public Utility	53	12	104	1,542	151,061	263	187	80	256	2,340	140,286	1,017
Excise	36,921	34,665	36,583	30,655	32,738	31,263	29,192	28,788	27,339	25,949	34,115	33,792
Insurance	800	2,000	27,300	500	1,493	37,829	2,091	18,616	27,774	28,571	1,692	29,168
Inheritance	5,959	8,261	6,664	8,007	8,857	13,053	10,493	6,122	9,893	5,564	6,396	5,731
Subtotal Tax Receipts	$ 1,108,095	$ 971,174	$ 1,274,188	$ 1,185,553	$ 1,135,926	$ 1,162,955	$ 1,580,858	$ 940,987	$ 1,186,826	$ 1,686,857	$ 1,102,697	$ 1,390,416
NON-TAX RECEIPTS												
Federal	$ 527,538	$ 610,851	$ 538,675	$ 574,106	$ 501,392	$ 466,580	$ 638,635	$ 544,001	$ 490,382	$ 546,058	$ 565,488	$ 565,356
Other & Transfers	386,494	173,495	535,708	450,202	301,433	250,914	426,381	528,258	374,328	279,980	477,212	421,138
Note Proceeds[d]	594,000	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$ 1,508,032	$ 784,346	$ 1,074,383	$ 1,024,308	$ 802,825	$ 717,494	$ 1,065,016	$ 1,072,259	$ 864,710	$ 826,038	$ 1,042,700	$ 986,494
TOTAL RECEIPTS	$ 2,616,127	$ 1,755,520	$ 2,348,571	$ 2,209,861	$ 1,938,751	$ 1,880,449	$ 2,645,874	$ 2,013,246	$ 2,051,536	$ 2,512,895	$ 2,145,397	$ 2,376,910
DISBURSEMENTS												
Local Aids	$ 1,092,312	$ 138,072	$ 847,298	$ 144,863	$ 944,062	$ 1,330,381	$ 251,155	$ 276,499	$ 1,343,397	$ 138,797	$ 161,255	$ 1,988,158
Income Maintenance	523,442	489,059	390,601	474,039	421,833	409,441	426,194	421,817	407,681	443,510	422,628	312,437
Payroll and Related	297,383	449,589	270,408	426,864	456,384	283,297	467,311	489,317	286,550	435,077	460,002	279,832
Tax Refunds	54,400	47,600	48,200	47,600	66,900	158,681	76,100	485,300	500,300	440,700	184,500	138,500
Debt Service	0	1,537	194,314	0	13,491	0	0	1,537	327,165	0	90,637	0
Miscellaneous	301,533	389,311	367,451	284,463	369,906	306,787	602,656	381,117	307,537	309,380	437,805	474,539
Note Repayment[d]	0	0	0	0	0	0	0	152,237	156,092	156,092	156,092	0
TOTAL DISBURSEMENTS	$ 2,269,070	$ 1,515,168	$ 2,118,272	$ 1,377,829	$ 2,272,576	$ 2,488,587	$ 1,823,416	$ 2,207,824	$ 3,328,722	$ 1,923,556	$ 1,912,919	$ 3,193,466

(a) Projections in this table reflect the governor's proposed budget for the 2007-08 fiscal year and the projected General Fund revenues released by LFB on January 30, 2007. 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 $191 to $324 million during the 2007-08 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $22 million during the 2007-08 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. Based on the governor's proposed budget, this amount is approximately $672 million for the 2007-08 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 $403 million for the 2007-08 fiscal year) for a period of up to 30 days. 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.

(d) Includes $600 million of operating note proceeds that are expected to be issued on July 2, 2007 and impoundment payments expected to be made on February 29, 2008, March 31, 2008, April 30, 2008, and May 30, 2008. The February 29, 2008 impoundment payment reflects the premium that is expected to be received on July 2, 2007 and deposited into the Operating Note Redemption Fund.

OTHER INFORMATION

Borrowing Plans for 2007

General Obligations

The State has issued two series of general obligations in this calendar year: $158 million of general obligation bonds for general governmental purposes and $299 million of general obligation refunding bonds for the refunding of general obligation bonds previously issued for general governmental purposes.

The Commission has also authorized the following general obligations that may be issued in calendar year 2007:

- Up to $150 million of general obligations for general governmental purposes. The State sold $150 million of general obligation bonds on June 6, 2007 and expects to deliver them on June 27, 2007.
- Up to $350 million of general obligation refunding bonds to refund general obligation bonds previously issued for general governmental purposes. The amount and timing of any issuance of general obligation refunding bonds depend on market conditions.

In addition, the Commission is expected to authorize the following general obligations that may also be issued in calendar year 2007:

- General obligations for general governmental purposes that may be issued in the third or fourth quarter in the form of bonds, commercial paper notes, or extendible municipal commercial paper.
- General obligations for the veterans housing loan program. The amount and timing of any issuance of general obligations for this purpose depend on originations of veterans housing loans.
- 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 general obligation subsidy bonds for this purpose depend on loan disbursements from the Clean Water Fund Program.

Other Obligations

The State has issued two series of transportation revenue bonds in this calendar year: $149 million of transportation revenue bonds to fund projects and $207 million of transportation revenue refunding bonds for the refunding of transportation revenue bonds previously issued to fund projects. 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 Commission has 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 State may issue master lease certificates of participation in the third or fourth quarter of this calendar year.

Underwriting

The Notes were purchased at competitive sale on June 19, 2007. Information about the public reoffering of the Notes may be obtained only from the successful bidders **(Underwriters).** The Notes were awarded to the following Underwriters in the amounts shown. The Underwriters paid an aggregate amount of $604,212,750.00, resulting in a net interest cost rate to the State of 3.765218%.

Underwriter	Amount	Purchase Price
Lehman Brothers	$325,000,000.00	$327,282,750.00
Bear, Stearns & Co. Inc.	50,000,000.00	50,352,500.00
Goldman, Sachs & Co.	25,000,000.00	25,175,500.00
Citigroup Global Markets Inc.	200,000,000.00	201,402,000.00

Legal Investment

The Notes are legal investments for all of 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 Counsel

Legal matters relating to the authorization, issuance, and sale of the Notes are subject to the approval of Bond Counsel, which is Foley & Lardner LLP. Bond Counsel will deliver an approving opinion when the notes are delivered, in substantially the form shown in APPENDIX B. If certificated Notes were issued, then the opinion would be printed on the reverse side of each Note.

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 Notes. 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 Notes, and there also is no action, suit, or proceeding, either pending or threatened in writing, known to the Attorney General, in any way contesting or affecting (1) the titles to their respective offices of any of the State officers involved in the issuance of the Notes, (2) the validity of the Notes or any of the proceedings taken with respect to the issuance and sale of the Notes, or (3) the pledge or application of any moneys or security provided for the payment of the Notes.

If certificated Notes were issued, then a certificate of the Attorney General would be printed on the reverse side of each Note.

Tax Exemption

Federal Income Tax

In the opinion of Bond Counsel, under existing law, interest on the Notes is excluded from gross income for federal income tax purposes. Such interest also is not an item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers. For the purpose of computing the alternative minimum tax imposed on certain corporations, however, interest on the Notes is taken into account in determining adjusted current earnings. As to questions of fact material to Bond Counsel's opinion, Bond Counsel has relied upon certified proceedings and certifications of public officials 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 Notes are issued for interest on the Notes 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 Notes to be included in gross income for federal income tax purposes, perhaps even starting from the date the Notes were issued. The proceedings authorizing the Notes do not provide for an increase in interest rates or a redemption of the Notes in the event interest on the Notes ceases to be excluded from gross income.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed, and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel does not express any opinion as to any Note or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Foley & Lardner LLP.

Bond Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law, will not cause the interest on the Notes to be subject, directly or indirectly, to federal taxation, or otherwise prevent the owners of the Notes from realizing the full current benefit of the tax status of the interest on the Notes. Prospective purchasers of the Notes are encouraged to consult their own tax advisors regarding any pending federal legislation, as to which Bond Counsel expresses no view.

The opinion of Bond Counsel is based on legal authorities that are current as of its date, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment regarding the proper treatment of the Notes for federal income tax purposes. It is not binding on the Internal Revenue Service **(IRS)** or the courts, and it is not a guarantee of result. Furthermore, Bond Counsel cannot give, and has not given, any opinion or assurance about the future activities of the State or about the effect of changes to the Code, the applicable regulations, the interpretation thereof, or the enforcement thereof by the IRS.

The IRS has an active tax-exempt bond enforcement program. Bond Counsel is not obligated to defend the State regarding the tax-exempt status of the Notes in the event of an examination by the IRS. Under current IRS procedures, the owners of the Notes and other parties other than the State would have little, if any, right to participate in an IRS examination of the Notes. Moreover, because obtaining judicial review in connection with an IRS examination of tax-exempt obligations 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 Notes for examination, or the course or result of such an examination, or an examination of obligations presenting similar tax issues may affect the market price, or the marketability of the Notes, and may cause the State or the owners of the Notes to incur significant expense.

Bond Counsel expresses no opinion about other federal tax consequences arising regarding the Notes. There may be other federal tax law provisions that could adversely affect the value of an investment in the Notes for particular owners of Notes. Prospective investors should consult their own tax advisors about the tax consequences of owning a Note.

State of Wisconsin Income and Franchise Taxes

Interest on the Notes is not excluded from current 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 Note.

CONTINUING DISCLOSURE

The State has made an undertaking, for the benefit of the beneficial owners of the Notes, to provide notices of the occurrence of certain events specified in the undertaking to each nationally recognized municipal securities information repository **(NRMSIR)** or the Municipal Securities Rulemaking Board **(MSRB)**, and to any state information depository **(SID)** for the State. At this time, there is no SID for the State.

Copies of the 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

Part I of the 2006 Annual Report, which contains information on the undertaking, is included by reference as part of this Official Statement. 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: June 19, 2007

STATE OF WISCONSIN

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

/S/ MICHAEL L. MORGAN
Michael L. Morgan, 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)**, as contained in Part II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 22, 2006 **(2006 Annual Report)**. This Appendix also includes changes or additions to the information presented in Part II of the 2006 Annual Report.

Part II of the 2006 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 2005-06
- 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 2006 Annual Report are the audited general purpose external financial statements for the fiscal year ending June 30, 2006, prepared in conformity with generally accepted accounting principles **(GAAP)** for governments as prescribed by the Government Accounting Standards Board, and the State Auditors' report.

The 2006 Annual Report has been filed with each nationally recognized municipal securities information repository **(NRMSIR)** and is also 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 2006 Annual Report may also be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
DOACapitalFinanceOffice@wisconsin.gov

After publication and filing of the 2006 Annual Report, certain changes or events have occurred that affect items discussed in the 2006 Annual Report. Listed below, by reference to particular sections of Part II of the 2006 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 describe occurrences other than listed material events under the State's Master Agreement on Continuing Disclosure.

State Budget; Budget for 2006-07 Fiscal Year (Part II; Pages 28-32). Add the following:

2007 Wisconsin Act 5 (Budget Adjustments)

On March 16, 2007, Governor Doyle signed into law budget adjustments for the 2006-07 fiscal year (2007 Wisconsin Act 5). This act addressed the shortfalls in four programs that were identified in the memorandum released on January 30, 2007 by the Legislative Fiscal Bureau **(LFB).** The following table shows the estimated General Fund condition statement for the 2006-07 fiscal year that reflects the provisions of this act. This table also includes, for comparison, the estimated General Fund condition statements that were shown in the January 30, 2007 LFB memorandum and report released by the State of Wisconsin Department of Administration **(DOA)** on November 20, 2006.

General Fund Condition Statement
2006-07 Fiscal Year
(in Millions)

	March 16, 2007 2007 Wisconsin Act 5	January 30, 2007 LFB Memorandum	November 20, 2006 DOA Report
Revenues			
Opening Balance	$ 49.2	$ 49.2	$ 49.2
Taxes	12,542.6	12,542.6	12,490.9
Department Revenues			
Tribal Gaming	75.6	75.6	92.7
Other	519.5	497.3	497.8
Total Available	13,186.9	13,164.7	13,130.7
Appropriations			
Gross Appropriations	13,199.0	13,217.6	13,217.6
Compensation Reserves	178.3	178.3	178.3
Transfers to Medical Assistance Trust Fund	25.4	25.4	25.4
Less: Lapses and Sum Sufficient Reestimates	(287.6)	(367.2)	(360.7)
Net Appropriations	13,115.1	13,054.1	13,060.6
Balances			
Gross Balance	71.7	110.7	70.0
Less: Required Statutory Balance	(65.0)	(65.0)	(65.0)
Net Balance, June 30	$ 6.7	$ 45.7	$ 5.0

LFB Projected General Fund Tax Collections and General Fund Balance—January 30, 2007

On January 30, 2007, LFB released a memorandum that contained projections of General Fund tax collections and expenditures for the 2006-07 fiscal year and projected gross ending General Fund balance at the end of the 2006-07 fiscal year. A complete copy of the January 30, 2007 LFB memorandum appears on pages A-7 to A-28 of this Official Statement.

The estimated General Fund tax collections for the 2006-07 fiscal year are approximately $52 million more than the estimates provided by the Department of Revenue **(DOR)** on November 20, 2006. The change results from, among others:

- An increase of approximately $22 million in individual income taxes.
- An increase of approximately $23 million in corporate income and franchise taxes.
- A decrease of approximately $3 million in sales and use taxes. As outlined in the January 30, 2007 LFB memorandum, estimates for the collection of sales and use taxes do not reflect the recent court of appeals decision on sales tax paid on certain customized computer software. See "STATE BUDGET; POTENTIAL EFFECT OF LITIGATION; Sales Tax on Customized Computer Software" in this Appendix.

The projected gross ending General Fund balance of $110 million for the 2006-07 fiscal year is approximately $41 million more than the balance that was shown in the November 20, 2006 DOA report. The projected gross ending General Fund balance continues to assume that a $30 million payment due in a previous biennium from a tribal government pursuant to a previously amended gaming compact will be made in the 2006-07 fiscal year. Negotiations continue between the State and this tribal government with respect to this and other payments and further amendments to the gaming compact.

State Budget; Budget for 2007-09 Biennium (Part II–Page 33). Add the following:

Governor's Proposed Budget for 2007-09 Biennium

Governor Doyle's proposed budget for the 2007-08 and 2008-09 fiscal years was introduced on February 13, 2007. The following estimated General Fund condition statement for the 2007-08 and 2008-09 fiscal years is based on the governor's proposed budget.

Estimated General Fund Condition Statement
2007-08 and 2008-09 Fiscal Years

	Governor's Proposed Budget 2007-08 Fiscal Year	Governor's Proposed Budget 2008-09 Fiscal Year
Revenues		
Opening Balance	$ 80,147,100	$ 131,000,600
Taxes	12,883,300,000	13,309,500,000
Department Revenues		
Tribal Gaming	47,245,600	51,114,600
Other	416,022,700	394,655,100
Total Available	13,426,715,400	13,886,270,300
Appropriations		
Gross Appropriations	13,442,121,400	13,800,410,300
Compensation Reserves	67,784,500	172,546,700
Less: Lapses	(214,191,100)	(218,774,800)
Net Appropriations	13,295,714,800	13,754,182,200
Balances		
Gross Balance	131,000,600	132,008,100
Less: Required Statutory Balance	(130,000,000)	(130,000,000)
Net Balance, June 30	$ 1,000,600	$ 2,088,100

Detailed tables containing information on the governor's proposed budget for the 2007-08 and 2008-09 fiscal years can be found on pages A-4 and A-5. More information about the governor's proposed budget for the 2007-09 biennium may also be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
DOACapitalFinanceOffice@wisconsin.gov

LFB Projected General Fund Tax Collections—January 30, 2007

The projections of General Fund tax collections released by LFB on January 30, 2007 also include revenue estimates for the 2007-09 biennium, namely, $12.941 billion for the 2007-08 fiscal year and $13.398 billion for the 2008-09 fiscal year, or annual increases of 3.2% and 3.5%, respectively. These respective amounts are lower than estimates included in the November 20, 2006 DOA report by less than $1 million for the 2007-08 fiscal year and about $64 million for the 2008-09 fiscal year. A complete copy of the January 30, 2007 LFB memorandum appears on pages A-7 to A-28 of this Official Statement.

Table II-4; State Budget—General Fund (Part II–Page 31). Add the following:

State Budget--General Fund

	Budget 2006-07[(a)]	Governor's Proposed Budget 2007-08	Governor's Proposed Budget 2008-09
RECEIPTS			
Fund Balance from Prior Year	$ 11,174,600 [(b)]	$ 80,147,100	$ 131,000,600
Tax Revenue			
State Taxes Deposited to General Fund			
Individual Income	6,405,000,000	6,765,700,000	7,102,000,000
General Sales and Use	4,358,100,000	4,311,400,000	4,484,100,000
Corporate Franchise and Income	785,000,000	887,700,000	852,300,000
Public Utility	283,400,000	297,200,000	314,400,000
Excise			
Cigarette/Tobacco Products	311,100,000	322,400,000	324,300,000
Liquor and Wine	43,500,000	42,500,000	43,000,000
Malt Beverage	10,000,000	9,400,000	9,400,000
Inheritance, Estate & Gift	130,000,000	95,000,000	25,000,000
Insurance Company	142,400,000	141,000,000	144,000,000
Other	91,500,000	11,000,000 [(d)]	11,000,000 [(d)]
Subtotal	12,560,000,000	12,883,300,000	13,309,500,000
Nontax Revenue			
Departmental Revenue			
Tribal Gaming Revenues	86,349,100 [(c)]	47,245,600	51,114,600
Other	505,626,300	416,022,700	394,655,100
Program Revenue-Federal	5,991,573,300	6,434,556,600	6,671,373,100
Program Revenue-Other	3,716,521,700	4,056,339,100	4,204,529,600
Subtotal	10,300,070,400	10,954,164,000	11,321,672,400
Total Available	$ 22,871,245,000	$ 23,917,611,100	$ 24,762,173,000
DISBURSEMENTS AND RESERVES			
Commerce	281,243,700	299,683,000	302,407,400
Education	10,387,854,300	11,025,395,100	11,261,959,800
Environmental Resources	337,924,200	339,771,400	337,281,900
Human Relations and Resources	8,970,947,600	9,173,442,300	9,606,630,700
General Executive	878,235,600	948,244,200	982,595,700
Judicial	113,448,700	127,186,700	127,277,200
Legislative	65,290,600	70,998,000	71,030,300
General Appropriations	1,890,759,800	1,948,296,400	1,987,130,000
Subtotal	22,925,704,500	23,933,017,100	24,676,313,000
Less: (Lapses)	(268,551,600)	(214,191,100)	(218,774,800)
Compensation Reserves	178,302,800	67,784,500	172,546,700
Required Statutory Balance	65,000,000	130,000,000	130,000,000
Transfer to Medical Assistance Trust Fund	25,383,900	n/a	n/a
Total Disbursements & Reserves	$ 22,925,839,600	$ 23,916,610,500	$ 24,760,084,900
Fund Balance	$ (54,594,600)	$ 1,000,600	$ 2,088,100
Undesignated Balance	$ 10,405,400	$ 131,000,600	$ 132,088,100

(a) The amounts shown incorporate all acts of the 2005 legislative session and the January 16, 2006 LFB revenue estimates. The amounts shown do not reflect 2007 Wisconsin Act 5, which included adjustments to the budget for the 2006-07 fiscal year.

(b) The actual Fund Balance was $49 million.

(c) Assumes receipt of certain tribal gaming payments that were due in previous fiscal years.

(d) The governor's proposed budget moves the proceeds of the Real Estate Transfer Fee into a segregated fund. The amount of the Real Estate Transfer Fee collected in the 2005-06 fiscal year was $81 million.

Sources: Legislative Fiscal Bureau and Department of Administration.

Table II-5; State Budget—All Funds (Part II–Page 32). Add the following:

State Budget -- All Funds[(a)]

	Budget 2006-07[(b)]	Governor's Proposed Budget 2007-08	Governor's Proposed Budget 2008-09
RECEIPTS			
Fund Balance from Prior Year	$ 11,174,600 [(c)]	$ 80,147,100	$ 131,000,600
Tax Revenue			
Individual Income	6,405,000,000	6,765,700,000	7,102,000,000
General Sales and Use	4,358,100,000	4,311,400,000	4,484,100,000
Corporate Franchise and Income	785,000,000	887,700,000	852,300,000
Public Utility	283,400,000	297,200,000	314,400,000
Excise			
Cigarette/Tobacco Products	311,100,000	322,400,000	324,300,000
Liquor and Wine	43,500,000	42,500,000	43,000,000
Malt Beverage	10,000,000	9,400,000	9,400,000
Inheritance, Estate & Gift	130,000,000	95,000,000	25,000,000
Insurance Company	142,400,000	141,000,000	144,000,000
Other	91,500,000 [(d)]	11,000,000 [(d)]	11,000,000 [(d)]
Subtotal	12,560,000,000	12,883,300,000	13,309,500,000
Nontax Revenue			
Departmental Revenue			
Tribal Gaming Revenues	86,349,100 [(e)]	47,245,600	51,114,600
Other	505,626,300	416,022,700	394,655,100
Total Federal Aids	6,780,141,400	7,255,959,900	7,499,021,600
Total Program Revenue	3,716,521,700	4,056,339,100	4,204,529,600
Total Segregated Funds	2,675,805,100	3,665,184,900	3,803,200,200
Bond Authority	622,735,000	552,275,000	585,740,000
Employee Benefit Contributions [(f)]	7,718,157,000	8,952,664,000	9,173,493,000
Subtotal	22,105,335,600	24,945,691,200	25,711,754,100
Total Available	$ 34,676,510,200	$ 37,909,138,300	$ 39,152,254,700
DISBURSEMENTS AND RESERVES			
Commerce	$ 454,135,700	482,960,700	487,014,200
Education	10,451,017,700	11,127,021,600	11,370,286,900
Environmental Resources	3,035,595,200	3,261,637,200	3,363,945,200
Human Relations and Resources	9,174,582,400	9,993,497,700	10,450,406,200
General Executive	1,036,765,700	1,104,659,000	1,135,654,500
Judicial	114,177,100	137,045,500	138,045,500
Legislative	65,290,600	70,998,000	71,030,300
General Appropriations	2,058,513,300	2,241,785,600	2,290,778,900
General Obligation Bond Program	622,735,000	552,275,000	585,740,000
Employee Benefit Payments [(f)]	5,324,309,000	5,476,343,000	5,977,452,000
Reserve for Employee Benefit Payments [(f)]	2,393,848,000	3,476,321,000	3,196,041,000
Subtotal	34,730,969,700	37,924,544,300	39,066,394,700
Less: (Lapses)	(268,551,600)	(214,191,100)	(218,774,800)
Compensation Reserves	178,302,800	67,784,500	172,546,700
Required Statutory Balance	65,000,000	130,000,000	130,000,000
Transfer to Medical Assistance Trust Fund	25,383,900	n/a	n/a
Total Disbursements & Reserves	$ 34,731,104,800	$ 37,908,137,700	$ 39,150,166,600
Fund Balance	$ (54,594,600)	$ 1,000,600	$ 2,088,100
Undesignated Balance	$ 10,405,400	$ 131,000,600	$ 132,088,100

(a) The all-funds budget assumes that certain categories of revenues are expended in like amounts. This includes federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

(b) The amounts shown incorporate all acts of the 2005 legislative session and the January 16, 2006 LFB revenue estimates. The amounts shown do not reflect 2007 Wisconsin Act 5, which included adjustments to the budget for the 2006-07 fiscal year.

(c) The actual Fund Balance was $49 million.

(d) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected $974 million of motor fuel taxes in the 2005-06 fiscal year. The governor's proposed budget moves the proceeds of the Real Estate Transfer Fee into a segregated fund. The amount of the Real Estate Transfer Fee collected in the 2005-06 fiscal year was $81 million.

(e) Assumes receipt of certain tribal gaming payments that were due in previous fiscal years.

(f) State law separates the accounting of employee benefits from the budget. They are included for purposes of comparability to the figures presented in this table and Tables II-1 and II-2 of the 2006 Annual Report.

Sources: Legislative Fiscal Bureau and Department of Administration.

State Budget; Potential Effect of Litigation (Part II; Pages 33-34). Add the following:

Sales Tax on Customized Computer Software

On January 25, 2007, a Wisconsin court of appeals reversed the circuit court decision and affirmed the decision of the State Tax Appeals Commission to grant a refund for sales tax paid on sales of certain customized computer software.

Based on estimates prepared by the State and included in the January 30, 2007 LFB memorandum, this decision could result in the State (i) losing approximately $28 million in annual sales tax revenues, starting in the 2007-08 fiscal year, and (ii) paying approximately $221 million in refunds for taxes collected on sales of similar customized computer software in the 2006-07 and prior fiscal years.

At the time of the January 30, 2007 LFB memorandum, the State had not decided whether to appeal this decision. As a result, the sales tax estimates included in the January 30, 2007 LFB memorandum and in this APPENDIX A do not incorporate the potential effect of this decision.

On May 22, 2007, the State Supreme Court accepted the State's petition to review the court of appeals' decision.

General Fund Information; General Fund Cash Flow (Part II; Pages 39-47).

The tables starting on page A-29 of this Official Statement provide updates and additions to various tables containing General Fund information for the 2006-07 and 2007-08 fiscal years, which are presented on either a cash basis or agency recorded basis. The projections in the following tables for the 2006-07 fiscal year reflect the biennial budget bill for the 2005-07 biennium, all enacted bills from the 2005 legislative session, and the General Fund revenue estimates released on November 20, 2006 by DOR. The projections do not reflect the General Fund projections of General Fund tax collections and expenditures as included in the January 30, 2007 LFB memorandum. No changes were needed to reflect 2007 Wisconsin Act 5, which included adjustments to the budget for the 2006-07 fiscal year. The projections in the following tables for the 2007-08 fiscal year reflect the governor's proposed budget for the 2007-09 biennium. The tables, unless noted, contain information through April 30, 2007.

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 2005-06 and 2006-07 fiscal years but have been sold for the 2007-08 fiscal year. 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 30, 2007

Senator Russell Decker, Senate Chair
Representative Kitty Rhoades, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Decker and Representative Rhoades:

Annually, this office prepares general fund revenue and expenditure projections for the Legislature prior to commencement of the legislative deliberations on the state's budget.

In the odd-numbered years, our report includes estimated revenues and expenditures for the current fiscal year and tax collection projections for each year of the next biennium. This report presents the conclusions of our analysis.

Comparison With the Administration's November 20, 2006, Report

General Fund Tax Collection Projections

On November 20, 2006, the Departments of Administration and Revenue submitted a report to the Governor and Legislature that identified revenue projections for the 2006-07 fiscal year and the 2007-09 biennium. That report, required by statute, is provided to inform the Governor and Legislature of the magnitude of state agency biennial budget requests and present a projection of general fund tax collections.

Although there are differences in the projections of individual taxes, the aggregate tax estimates of the administration's November 20 document and those of this report are very similar. In total, our estimates are $12.8 million below the administration's figures over the three-year period. For 2006-07, our analysis estimates tax collections to be $51.7 million above those of the November 20 report. For 2007-08 and 2008-09, the estimates of this report are below those of the November 20 document by $0.4 million and $64.1 million, respectively.

2006-07 General Fund Condition Statement

The administration's November 20 report also includes a general fund balance for the 2006-07 fiscal year. That statement shows a gross ending balance (June 30, 2007) of $70.0 million and a net balance (after consideration of the $65.0 million required statutory balance) of $5.0 million.

Our analysis indicates a general fund gross balance of $110.7 million and a net balance of $45.7 million. This is $40.7 million more than that shown in the November 20 report. The 2006-07 general fund condition statement is shown in Table 1.

TABLE 1

Estimated 2006-07 General Fund Condition Statement

	2006-07
Revenues	
Opening Balance, July 1	$49,217,000
Taxes	12,542,600,000
Departmental Revenues	
Tribal Gaming	75,569,500
Other	497,345,800
Total Available	$13,164,732,300
Appropriations	
Gross Appropriations	$13,217,609,500
Compensation Reserves	178,302,800
Transfer to Medical Assistance Trust Fund	25,383,900
Less Sum Sufficient Reestimates and Lapses	-367,244,300
Net Appropriations	$13,054,051,900
Balances	
Gross Balance	$110,680,400
Less Required Statutory Balance	-65,000,000
Net Balance, June 30	$45,680,400

The principal factors that cause the $40.7 million difference between the two reports follow.

First, our tax collection estimates for 2006-07 are $51.7 million above those of the November 20 report.

Second, the administration's report estimates total departmental revenues for 2006-07 to be $590.5 million. This is $17.6 million above the $572.9 million reflected in Table 1. This difference is primarily due to an estimate of the timing of the receipt of funds under the tribal gaming compacts. It should be noted that the tribal gaming revenue shown in Table 1 assumes that payments relating to the Ho-Chunk Nation's $30 million lump-sum payment originally due in 2004-05 and the Nation's 2005-06 percent of net win will be made in 2006-07. The exact amount of these payments could be affected by a resolution of the arbitration process in which the Ho-Chunk and state are currently engaged.

Third, the net general fund appropriations of this report are $6.6 million below those of the November 20 report. This is the net result of a variety of reestimates of sum sufficient appropriations and lapses to the general fund.

It should be noted that both the November 20 report and this analysis project a significant lapse to the general fund from the medical assistance appropriation. Table 1 assumes this lapse amount to be $55.8 million. The estimate reflects lower caseloads, lower costs of payments made to the federal government to support the new medicare drug benefit, and lower capitation payments to managed care organizations than had been projected in the 2005-07 state budget. In addition, the SeniorCare program is expected to lapse $13.0 million at the close of the current biennium.

The segregated MA trust fund is projected to be approximately in balance by the end of the 2006-07 fiscal year. However, it is assumed that the state will receive approximately $90 million in federal matching funds under a new "certified public expenditure program," which would permit the Department of Health and Family Services (DHFS) to claim federal MA matching funds based on unreimbursed expenses of county nursing homes. To date, Wisconsin's request to claim these funds has not been approved. However, because a proposal for another state based on a similar methodology has been approved, DHFS staff is confident that the state's application will be approved.

Wisconsin Department of Revenue v. Menasha Corporation Court Case

The tax revenue estimates described above do not include the effect of a decision issued by the Court of Appeals on January 25, 2007, in the case Wisconsin Department of Revenue v. Menasha Corporation, with respect to the taxability of computer software. Under state law, while pre-written computer software is subject to the state sales tax on tangible personal property, sales of custom computer software are exempt. In 1998, Menasha Corporation filed a refund claim with the Department of Revenue (DOR) for sales taxes paid on certain computer software that the company believed was custom software. DOR denied the refund claim, and Menasha Corporation appealed to the Tax Appeals Commission, which decided in favor of Menasha Corporation on December 1, 2003. The decision broadened the DOR interpretation of what computer software is to be considered 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. Menasha Corporation appealed the Circuit Court's decision to the Court of Appeals, which decided in favor of Menasha Corporation.

Subsequent to the decision of the Appeals Court, DOR reestimated the fiscal effect of the decision as a reduction in state sales tax revenues of $28.3 million annually, starting in 2007-08. In addition, the Department estimates related refund requests associated with years prior to 2007-08 of up to $221.0 million.

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, longer periods may apply under certain conditions, such as audits or protective claims for refunds. The Department's estimate of the cost of refund requests associated with Menasha Corporation is based on the assumption that refund claims will be filed for 50% of potential claims for 1999 through 2002 and 80% of potential claims for 2003 through June, 2007. Actual refund requests could be higher or lower than the Department's estimate. The Department expects that, absent a further appeal of the case, most refunds would be paid in 2007-08.

DOR has not yet determined whether to appeal the Appeals Court decision. Given this uncertainty, the sales tax estimates shown above for the current fiscal year and for the 2007-09 biennium do not incorporate the potential effect of the decision. However, should the Appeals Court decision represent the final determination of the case, it is projected that general fund revenues would be reduced by $277.6 million prior to the end of the 2007-09 biennium ($221.0 million for refunds and $28.3 million annually associated with computer software sales during each fiscal year.) While both the precise magnitude and timing of the fiscal effect are uncertain, the $277.6 million total represents DOR's current expectation regarding the combined effect of refunds and annual costs through the end of the biennium.

2006-07 Appropriation Shortfalls

There are four programs that are facing shortfalls in the 2006-07 fiscal year. They are identified below.

Office of the Public Defender. At the December 14, 2006, meeting of the Joint Committee on Finance under s. 13.10 of the statutes, a shortfall of $12.7 million was identified in the private bar appropriation in the office of the State Public Defender. The Committee transferred $3.0 million from other appropriations to offset a portion of this shortfall. Thus, the private bar line is still in need of $9.7 million.

BadgerCare. It is estimated that the BadgerCare program will need additional state funding of $5.6 million to fully support the program in 2006-07.

Corrections. The Department of Corrections indicates it will need approximately $38 million in 2006-07 to address increased expenditures associated with: (a) salary and fringe benefits and overtime amounts in the Division of Adult Institutions; (b) contract bed funding; and (c) inmate health services costs for the Bureau of Health Services. The increases in expenditures are generally associated with: (a) increased prison populations and population reduction initiatives not impacting these populations as significantly as anticipated under the 2005-07 biennial budget; (b) higher hourly salary rates under approved employment contracts that affect overtime costs; and (c) increased health care costs.

Wisconsin Works (W-2), Child Care, and Related Programs. According to the Department of Workforce Development (DWD), it is estimated that an additional $46 million will be needed to fund W-2 and related programs through June 30, 2007. Due to higher than anticipated enrollment and cost per child, DWD indicates that expenditures for child care subsidies will exceed the budgeted amount by $31 million in 2006-07. In addition, approximately $6 million GPR and $4 million in child support funds were transferred from the amounts budgeted for W-2 and related programs in 2006-07 to fund expenditures in 2005-06. Finally, due to the implementation of a new W-2 service delivery model in Milwaukee County, $5 million less was expended for the W-2 agency contracts in 2005-06 than what was budgeted. According to DWD, this $5 million was used to fund child care expenditures in 2005-06, but is still needed to fund the W-2 agency contracts in 2006-07.

General Fund Tax Revenues

The following sections present information related to general fund tax revenues for 2006-07 and the 2007-09 biennium. The information provided includes a review of the economy in 2006, a summary of the national economic forecast for 2007 through 2009, and detailed general fund revenue projections for the current fiscal year and next biennium.

Review of the National Economy in 2006

Last January, this office prepared general fund revenue estimates for the 2005-07 biennium based on the January, 2006, forecast of the national economy prepared by Global Insight, Inc. The forecast projected continued expansion of the economy in the wake of the Gulf hurricanes. National economic growth was slowed considerably in the fourth quarter of 2005, due to the economic effects of hurricanes and relatively high energy prices. In addition, automobile sales fell as third-quarter price incentives expired. Real (inflation-adjusted) growth in gross domestic product (GDP) dropped from 4.2 % in the third quarter of 2005 to 1.8% in the fourth. Real personal consumption expenditures increased a mere 0.8% in the fourth quarter, after growing at a 3.9% rate in the third quarter. Real durable goods sales declined 12.3% in the last quarter of 2005, showing the effects of the decrease in auto sales.

The January, 2006, Global Insight forecast projected a rebound in aggregate national economic growth in the first quarter of 2006 due to reconstruction activity in the Gulf states and a recovery in energy production. Increased employment and wages, business investment in both equipment and structures, and exports were also projected to contribute to national economic growth during the year. However, decreased housing-related economic activity, such as construction and equity-financed consumption, along with continued high energy prices, were expected to moderate growth beginning in the second quarter of 2006. Inflation, as measured by the overall consumer price index (CPI) and the core CPI (excluding food and energy), was forecast to moderate. Energy prices, while remaining relatively high, were projected to gradually decline as economic growth slowed.

Nominal (current-dollar) GDP was forecast to increase 6.9% in the first quarter, and 6.0% for all of 2006. Similarly, real GDP growth was projected to be 3.8% in the first quarter and 3.4% for the year. The unemployment rate was projected to be 4.8%, personal income was estimated to increase by 6.0%, and real personal consumption expenditures were projected to increase by 3.1% during 2006. Real nonresidential fixed investment was anticipated to increase by 10.1%, and real exports were expected to increase by 7.2%. Housing starts were projected to decline by 8.8%.

The story of the national economy in 2006 includes: (a) an initial surge in overall economic growth followed by deceleration; (b) a continued slowdown in the housing industry; (c) an oil price spike; (d) a reappearance of inflation concerns; (e) strong business investment and production; (f) wage and employment gains; (g) the end to Federal Reserve interest rate increases; and (h) a record current account deficit, declining dollar, and increased exports.

Real GDP growth was 5.6% in the first quarter of 2006, assisted by an unusually warm winter and supported by increased consumer purchases, business investment, and exports. Nominal GDP increased 9.0%. However, a 20% jump in gas prices between the first and second quarters, along with decreasing economic activity in the housing industry, started a transition to slower growth. The war between Israel and Hezbollah in Lebanon, and the West's confrontation with Iran over nuclear proliferation, contributed to the higher oil prices (peaking at $77 a barrel in July) and suppressed real consumer spending. The Consumer Sentiment Index dropped from almost 90 in the first quarter of 2006 to 84 in the next two quarters. Primarily as a result of reduced auto sales, real durable goods purchases decreased 0.1% in the second quarter. As oil prices began decreasing, the potential impact of additional purchasing power for consumers was offset by the continued decline in activity in the residential housing industry. Substantial declines in residential construction subtracted about one percentage point from the third-quarter growth rate. Real GDP grew 2.6% and 2.0%, respectively, in the second and third quarters of 2006. Nominal GDP increased 5.9% and 3.9%, respectively. It is believed that real GDP grew by 2.4% in the fourth quarter, reflecting continued weakness in the housing industry and slowing business investment. Nominal fourth-quarter GDP growth is estimated at 3.8%. For all of 2006, real GDP growth is estimated at 3.3%, while nominal growth is estimated at 6.3%.

Economic activity continued to decline in the housing sector in 2006, causing housing-related industries to shed thousands of jobs and builders to scale back construction. Housing starts and home sales followed an overall downward trend that began in 2005. Through November, housing starts had declined 25.5% from year-earlier levels. Sales of new homes decreased 15.3%, while existing home sales were down 10.7% from November, 2005. The slowdown in the housing industry was reflected in private residential construction expenditures, which declined from April though November. The housing industry did show some signs of stabilizing in the fall, with sales of existing homes increasing in October and November, and housing starts and new home sales rebounding in November. In addition, the inventory of unsold new homes fell 3.2% from August through November. However, housing permits declined for the 10th straight month, which points to further declines in starts. Also, there was still a 6.3 month supply of unsold new homes in inventory. Through November, 2006, expenditures for new single-family homes fell 20.4% from November, 2005. As a result, residential construction is expected to continue to decline throughout 2007. It is believed that the weakness in residential construction took about 1.2 percentage points off GDP growth in the fourth quarter of 2006.

After declining in the fourth quarter of 2005, oil prices began a rapid climb to record levels that peaked in late July and early August of 2006. For the last quarter of 2005, the average price per barrel of West Texas Intermediate (WTI) oil was $60.06. However, in January, 2006, oil prices began climbing until the price per barrel peaked at over $77, and the nationwide average price of a gallon of gas reached $3.06. The rapid increase was caused by geopolitical factors, market factors, and commodity investors. The run-up in oil prices is partially attributed to the diplomatic confrontation with Iran and the Western powers that began in January, and violence in Nigeria, where attacks by militants depressed production. Later in the summer, the war in Lebanon put added pressure on oil prices. Increasing demand for oil products caused by the industrialization of China and India, and the onset of the summer driving season also contributed to the rapid price increases. In addition, the 2005 federal energy bill required refiners to phase out a current gasoline additive and replace it with ethanol. In the spring of 2006, many refineries shut down to perform maintenance deferred from the previous fall, install new required equipment, and complete the shift to ethanol additives. A final factor in the price run-up was investor inflows into commodity markets. In April, institutional money managers held between $100 billion and $120 billion in commodities investments, at least double the amount from three years before. The flow of money into oil commodities reflected investor belief that demand for oil from developing countries would continue to push prices higher as supply tightened due to potential disruptions from hurricanes.

However, after peaking during the summer, oil prices began to drop sharply. By October, gas prices had dropped to just above $2.30 a gallon. Easing of the international tensions, the end of the summer driving season, completion of refinery activities, and slower overall economic growth alleviated most supply interruptions and increased oil inventories. Also, when commodity investors concluded that the slower growth would moderate demand and that the hurricane season would be mild, they liquidated their gasoline contracts. After exceeding $70 per barrel in the second and third quarters, average oil prices were just over $60 in the fourth quarter of 2006.

The growth in employment that began in the second half of 2003 continued through 2006, with an important difference. Beginning in August, the annual (from the same month in the prior year) increase in average hourly wages started to outpace inflation. Inflation-adjusted hourly wages were essentially flat from 2002 through the first half of 2006. Growth in monthly payroll employment was at least 100,000 through July, 2006, and then jumped above 200,000 for the next two months before falling to 86,000 in October. The lower level of growth in payrolls led to concerns about weakening labor markets and a slowing economy as a result of declining activity in the housing sector. However, monthly payroll employment rebounded to increase by more than 150,000 in both November and December. In December, 2006, year-over-year average hourly wages rose 4.2%, which was the fastest full-year growth rate since 2000, and was well above the November year-over-year rate of inflation of 3.4%. Reflecting the increases in hourly wages, personal income is believed to have grown by 6.4% in 2006, compared to annual growth of 5.2% in 2005. Economists generally agree that monthly employment increases of 150,000 are necessary to prevent the unemployment rate from rising and, for 2006, the average monthly payroll employment increase exceeded this level. Due to the relatively strong employment growth, the unemployment rate gradually decreased from 4.9% in the fourth quarter of 2005 to 4.5% in the fourth quarter of 2006. The unemployment rate for all of 2006 is estimated at 4.6%, compared to 5.1% for 2005. As a result, 2006 ended with a strong job market characterized by low unemployment and solid wage gains.

The relative strength in the national job market in 2006 and related income growth helped counteract the effects on consumers of declining economic activity in the housing sector and the spike in oil prices. In addition, household wealth, measured as the value of assets minus liabilities, contributed to consumer spending. Economists have estimated that about 4 cents of every dollar of wealth is spent. During the significant rise in housing prices prior to 2006, many homeowners converted some of their home value into spending money through refinancing and home equity loans. Even though the home-related wealth of consumers has diminished as home values have stagnated or declined recently, the value of financial assets has continued to increase. The record high values achieved in the stock markets during 2006 increased the wealth of certain consumers. Spending in 2006 started strong with an assist from a warmer than usual January, relatively low interest rates, and strong job markets. Real personal consumption expenditures increased 4.8% in the first quarter of 2006, compared with 0.8% in the last quarter of 2005. Sharp increases in gas prices and continued reductions in housing-related transactions led to essentially flat spending in August and September. Consumer spending rebounded in October and November, and is believed to have grown by an inflation-adjusted 4.1% in the fourth quarter of 2006. It is estimated that personal consumption expenditures increased 3.2% in 2006, somewhat below the 3.5% rate of growth for 2005.

During the first few years of the current national economic recovery, businesses generally satisfied demand for products and services with existing facilities and employees. This was partially reflected in the annual increases in nonfarm business productivity, which were 3.0% or greater for 2002 through 2004. However, in 2005, a number of factors converged to stimulate business investment. Due to a cautious approach to capital investment during the first few years of the economic expansion, many businesses lacked the production capacity to meet demand. For example, capital spending of nonfinancial corporations as a share of GDP was 13.9% in the third quarter of 2005, compared to the long-run average of 15.7%, and far below the shares reached in both the 1980s and 1990s. Plant operating rates increased to levels close to those seen in 1999 and 2000, reaching 80.3% prior to hurricane Katrina. Industrial output began growing faster than the rate at which companies were adding to production capacity. Through November, 2005, annual output had increased 2.8%, while capacity was up 1.6%. In addition, the ratio of business inventories to sales, a measure of current stock levels, was well below typical post-recession levels. At the same time, national corporate profits and cash-flow were strong. After-tax corporate profits increased 32.7% in 2005. In addition, nationally, businesses had low debt and faced relatively easy borrowing conditions. Borrowing rates for Standard & Poor's-rated Baa securities were below 6.0% for the first three quarters of 2005.

Real nonresidential fixed investment grew by an estimated 7.5% in 2006, with spending on equipment increasing 6.8% and spending on structures, such as factories and offices, growing 8.9%. Industrial production grew by an estimated 4.1%. Factories operated at 80.5% of capacity. The gradual expansion of manufacturing businesses continued through the year, with the Institute of Supply Management (ISM) index of manufacturing exceeding 50% for 2006. The index includes measures of new orders, production, and employment in the manufacturing sector. A reading above 50% indicates that the manufacturing sector is expanding, while a reading below 50% indicates a contraction phase. Although the annual figures are positive, investment and production began showing some weakness in the later portion of the year. Industrial production declined in September and stalled in October, and the manufacturing index dropped below 50% in November. In addition, business investment in equipment and structures is believed to have been flat in the fourth quarter. In part, the decrease in output and investment reflected production cuts in the motor vehicle industry to align supply with demand and the decreasing economic activity in the housing sector. However, industrial production, the manufacturing index, and investment in business structures stabilized before the end of the year. In addition, the overall aggregate data masks the industry-specific impacts of the reduced housing- and auto-related economic activity. For example, industries such as wood products, furniture and related products, and motor vehicle production showed poor performances, while electrical and non-electrical equipment, and high-technology equipment showed good performances. Part of the reason for flat investment in equipment in the fourth quarter of 2006 is due to the end-of-year release of Microsoft's Vista, and the January, 2007, release of Office 2007, which is expected to shift investment spending into the first quarter of 2007. Global Insight completed the January, 2007, forecast of the U. S. economy before the U. S. Census Bureau published November, 2006, nonresidential construction data, which revised September and October data up and showed a solid increase in November. As a result, the authors indicate that they believe real construction spending increased between 4% and 6% in the fourth quarter of 2006, rather than being flat as estimated in the January forecast.

One of the three major contributors to national economic growth in 2006 was exports. Since 2003, the share of total production goods being shipped to foreign countries increased from 13.7% to 17.6%, as of the third quarter of 2006. From a peak of $68.5 billion in August, in part due to high oil prices and an uptick in imported goods from China, the monthly trade deficit (the excess of imports over exports) dropped for three straight months through November. Overall, imports continued to exceed exports. However, taken alone, exports have made a significant contribution to increasing GDP. Because real imports have exceeded real exports by 50% for the past decade, exports must increase at a rate that is greater than the rate of growth in imports to reduce the trade deficit. For 2006, real exports increased by an estimated 8.7%, compared to an annual increase of 5.9% for real imports.

The primary factors influencing the increase in exports are the declining value of the dollar and increased foreign demand due to improving national economies. Foreign purchases of U.S. assets such as treasury bonds to finance the U. S. trade and budget deficits have diminished demand for adding dollar balances, and renewed economic growth and central bank interest rate increases have made investing in other countries more attractive. The decline in the value of the dollar makes

U.S. goods and services cheaper to foreign consumers and the improved foreign economies stimulate consumer demand for imports. Since its recent peak in early 2002, the dollar's value has dropped 35% against the euro, 28% against a trade-weighted index of major trading partners, such as Europe and Japan, and 18% against all U.S. trading partners. The dollar did stage a surprising rally in 2005 due, in part, to higher interest rates caused by Federal Reserve actions, and purchases of dollar-denominated assets by the Chinese and other governments to protect domestic export industries. However, in 2006 the dollar reverted to the longer-term trend of declining value. The inflation-adjusted exchange rate index for major trading partners dropped from .824 in 2005, to .802 in 2006, while the index for other important trading partners, including Asian and Latin American countries, declined from .919 in 2005, to .868 in 2006. At the same time, the economies of many trading partners are experiencing solid growth. Growth in real GDP for major trading partners is estimated at 2.7% in 2006 following an annual increase of 2.3% in 2005. Similarly, real GDP growth is estimated at 5.6% in 2006 for other major trading partners after growing 5.1% in 2005.

Ben Bernanke replaced Alan Greenspan as Chairman of the Board of Governors of the Federal Reserve after the January 31, 2006, meeting of Federal Open Market Committee (FOMC). The first major policy issue he faced was the "inflation scare" of 2006. National economic growth surged in the first quarter of the year and then began to moderate. National labor markets showed signs of tightening and business production increased. Through the second quarter of 2006, productivity increased 2.5% while hourly compensation grew 7.7%. The unemployment rate dropped to 4.6% at the end of the quarter. Business production increased and the factory operating rate climbed above 80%. Meanwhile, energy prices were increasing rapidly. The rising labor and energy costs led to concerns that inflation would accelerate. The concerns seemed justified when consumer prices jumped in the second quarter of 2006. The CPI increased by 0.4% or more in four of the five months between March and July. The core CPI, excluding food and energy costs, climbed 0.3% from March through June, which was the longest such period since January to April, 1995. The core price index for personal consumption, the Federal Reserve's preferred measure of inflation, increased 2.7% in the second quarter. When Bernanke was a Federal Reserve governor, he had described a range of 1% to 2% core inflation as a comfort zone.

During the first half of 2006, the Federal Reserve Board raised the federal funds rate in 0.25% increments from 4.25% to 5.25%, at four meetings in January, March, May, and June. This ended a period during which the Federal Reserve had increased interest rates at 17 consecutive meetings. National economic growth began to slow in the second quarter as activity in the housing and automobile industries declined. Between July and October, oil prices declined rapidly. The slowing economy and relatively lower energy costs have caused prices to moderate. The CPI declined 0.5% in September and October, and was unchanged in November. The core CPI was also unchanged in November after increasing 0.1% in September and 0.2% in October. For the year, it is believed that the CPI increased by 3.2% and that the core CPI rose by 2.5%, compared to 3.4% and 2.2%, respectively, for 2005.

National Economic Forecast

The revenue estimates included in this report are based on the January, 2007, forecast of the economy by Global Insight.

In 2006, the national economy shifted from growth rates that exceeded the long-run average trend of 3% to a much slower rate of growth, but not into a recession. The forecast projects real GDP increases averaging just 2.1% from mid-2006 to mid-2007, compared to annual rates of 3.2% and 3.3% for 2005 and 2006, respectively. The declining economic activity in the housing sector that began in 2005, production reductions to adjust for overcapacity in the automobile industry, and high oil prices all contribute to the deceleration in growth. To an extent, these factors will be offset by rising business investment (particularly in structures), increased exports, and employment and real wage gains that supported consumer spending. Some economists have characterized the national economy as two-tiered, with the housing- and automobile-related sectors in recession, and the other sectors, particularly services, continuing to grow.

In its forecast, Global Insight framed the economic outlook in terms of the potential for the housing sector slowdown to spill over into other parts of the economy and possibly cause recession, versus the potential for rising wages and lower productivity to ignite wage inflation. In recent pronouncements, Federal Reserve officials have strongly suggested that inflation, rather than a severe economic downturn, is the major threat to the economy. The minutes of the December FOMC meeting recognized more downside risks to growth, but inflation risks remained the dominant concern. According to the FOMC, the biggest potential factor for inflation appears to be tightness in the labor markets. From the Federal Reserve's perspective, the housing sector may be in recession, but the spillover effects on other parts of the economy have, thus far, been quite limited. Wages have been rising more quickly, reflecting tightness in labor markets. Oil price increases are also possible. Even while the national economy has been growing more slowly, the amount of slack in the economy is limited. For example, factory operating capacity remains close to a six-year high. Most important, while core inflation has been falling, it is still above the Federal Reserve's informal target of 1% to 2%.

However, there are concerns that much slower growth, or a recession, is potentially more likely than a substantial increase in inflation. These are reflected in the recent performance of the bond market where the 10-year bond yield has fallen from 5.24% in June to 4.78% in mid-January. The spread between 10-year Treasury bonds and Treasury inflation-protected securities fell from 2.73% in May to 2.29% at the end of December. Since the summer, the yields on long- and short-term notes and bonds have been narrowing. Typically, yields diverge because investors want greater compensation for committing funds for longer periods of time, and inflation diminishes the real value of future interest payments. The lower long-term interest rates and spreads indicate that actors in the bond market are much less worried about inflation and more concerned about potential recession than the Federal Reserve. This is based on a number of factors. First, the downturn in the housing market is more pronounced than most analysts originally expected. Second, problems with overcapacity in automobile production are weakening the manufacturing sector. Third, many companies are scaling back capital spending plans.

The Global Insight forecast indicates that the concerns are a matter of degree. Not if, but how much, will economic growth slow, and not whether, but to what extent, will inflation ease? According to the forecast, the most recent data suggest that fears of inflation and recession are not warranted. The primary risk to growth would be a continued decline in the housing sector that would last into late 2007. However, mortgage applications have been rising since September, and housing starts and sales of new and existing homes appear to have stabilized. On the other hand, housing permits have continued to decline and will remain depressed as builders seek to reduce inventories. The forecast projects the housing sector to be a negative factor in national economic growth into 2007, and then begin a gradual expansion throughout the remainder of the forecast period. Growth in employment and wages will slow in 2007, and then show relatively strong increases in 2008 and 2009, with real disposable income increasing at a faster rate than real GDP. Labor market performance will be reflected in consumer spending with a slowdown in 2007, then an increase for the remainder of the forecast period. Business capital spending, particularly on structures, is expected to be a significant factor in growth in 2007. For 2008 and 2009, spending on structures will be flat, but spending on equipment will increase. Exports are projected to be strong throughout the forecast period, with growth rates exceeding that of imports. Global Insight forecasts real GDP growth of 2.3% for 2007, the lowest growth rate since 2002. Growth will gradually improve throughout the year as the housing sector stabilizes. The slower growth is expected to bring core inflation back down to 2% by the end of the year, and lead the Federal Reserve to reduce interest rates. Real GDP growth is projected to be above long-term average trend rates at 3.2% in 2008 and 3.4% in 2009. Nominal GDP is estimated to increase by 4.4% in 2007, 5.2% in 2008, and 5.5% in 2009.

It should be noted that final retail sales for December were not reported when the January forecast was prepared by Global Insight. Retail and food service sales increased 0.9% in December, bringing the year-on-year gain to 5.4%. As a result, it is now believed that real consumer spending increased at a 4.4% annual rate in the fourth quarter. This is slightly better than the estimate of 4.1% included in the January forecast. Global Insight indicates that steady job growth, rising wage rates, and moderating inflation are boosting real disposable income and spending. Combined with higher estimates of foreign trade and construction, Global Insight increased the estimated growth of GDP in the fourth quarter of 2006, from 2.4% included in the January forecast to 3.0%.

The forecast notes that single-family housing permits is the key statistic to track in the housing sector because it is a more accurate measure of actual activity than starts or sales, and is less influenced by unusual weather. Although housing starts and new and existing home sales all increased in November, 2006, the forecast projects the housing sector to continue to be a negative factor in GDP growth. The more reliable measure of single-unit permits dropped 3.1% in November, the 10th consecutive monthly decrease. Global Insight estimates that housing starts fell by 12.7% in 2006 and projects a decrease of 16.8% in 2007, with single units accounting for almost the entire decline. Starts are expected to bottom out in the second half 2007, and then begin rising as inventories of homes are reduced. The forecast is projecting decreasing prices for new and existing homes in 2007, the first nominal decline in existing home sales prices since 1969. The slowing economic activity in the housing sector is reflected in the forecast for residential construction spending, which declined by an estimated 19.3% in the fourth quarter of 2006 and is expected to decrease by 20% in the first quarter of 2007. This slowdown is expected to subtract 1.2 percentage points off GDP growth in each of those two quarters, and 0.9 percentage point off GDP growth in 2007. The forecast expects inventories of new homes to begin a gradual descent throughout the forecast period from a third-quarter 2006 peak. With housing prices slowly adjusting to weak demand, new and existing home sales are forecast decline throughout 2007 and 2008. Beginning in 2009, the housing sector is expected to have slow and steady growth.

Consumers took advantage of unusually mild weather, lower energy bills, and retail discounts during the holiday season, with real consumer spending for the fourth quarter of 2006 estimated to increase 4.1%. Spending on durables, such as game consoles, televisions, computers, and fitness equipment, grew 7.4%. The National Retail Federation estimates that gift card sales rose 34% to nearly $25 billion this holiday season. Since about one-half of gift cards are redeemed in January, consumer spending in the first quarter of 2007 should receive a boost. The December employment report showed a monthly payroll employment increase of 167,000, with average hourly earnings growing 0.5%. Despite the effects from the housing and automobile sectors, the national economy was generating employment and wage gains sufficient to support consumer spending. Moreover, wage gains are exceeding inflation. Thus, entering 2007, consumer spending is supported by real disposable income growth. Growth in real disposable income is projected to increase from 2.7% in 2006, to 3.1% in 2007, 3.5% in 2008, and 4.0% in 2009. Personal income is estimated to increase 6.4% in 2006, 5.1% in 2007, 5.5% in 2008, and 6.2% in 2009. Although it projects solid income gains, the forecast indicates that declining home prices and rising unemployment will cause consumers to exercise caution. Also, after a four-year surge, real household net worth is forecast to stall, as a drop in housing wealth offsets increases in financial asset values. Declining home sales in 2007 are expected to result in fewer purchases of furniture, appliances, and decorating services. As the housing sector stabilizes and, then gradually recovers, consumer spending will gradually increase throughout the forecast period. Consequently, real consumer spending growth is projected to decline from 3.2% in 2006 to 2.8% in both 2007 and 2008, before rebounding back to 3.2% in 2009.

The December employment report showing the gain of 167,000 in payroll employment was above expectations. October and November payroll employment gains were revised up by a net 29,000 jobs. Food services, finance, health, professional and business services, and state and local government showed relatively strong employment increases, while manufacturing lost 12,000 jobs. Retailing also lost jobs, but the industry showed above-average job gains in November. The unemployment rate held steady at 4.5%. The household survey continued to show stronger employment gains than the payroll survey. For 2006, the employment increase measured by the survey of households was 3.27 million, compared with increased employment of 1.84 million jobs measured by the survey of payrolls, a difference of 77%. Even after adjustments to make the surveys more comparable and for an anticipated upward revision to the payroll survey in February, the household survey still was about 800,000 jobs, or 40%, higher than the payroll survey. The year-to-year employment increase in the fourth quarter of 2006 was 1.85 million, slightly lower than the 1.92 million increase for 2005 (about 6,000 fewer jobs per month). The forecast estimates that a slowing economy will cause a more noticeable deceleration in job gains in 2007, with 1.21

million new jobs. The economic slowdown, primarily caused by the decline in activity in the housing sector, is expected to increase the unemployment rate over the next year. The unemployment rate was 4.5% at the end of 2006, and is forecast to end 2007 at 5.0%. The rebound in economic growth in 2008 is projected to generate a year-over-year payroll employment gain above 2.0 million in the fourth quarter of 2008. The unemployment rate is projected to decline to 4.8% in the fourth quarter of 2008, and average 4.6% in 2009.

Nonresidential construction expenditures increased 1.4% in November, and expenditures for September and October were revised upward. However, orders and shipments of core capital goods decreased in the fourth quarter. This reflected the housing slump, and shifting capital spending plans in anticipation of Microsoft's year-end release of Vista and January, 2007, release of Office 2007. For example, orders for construction equipment fell 12% in October, and 20% in November. The January forecast estimates that real nonresidential fixed investment expenditures were flat in the fourth quarter of 2006, but projects an increase in the first half of 2007. Nonresidential construction spending is projected to increase by double-digit growth rates through the first part of the year. In the forecast, nonresidential construction spending adds 0.25 percentage points to GDP growth in 2006 and 2007. However, growth is expected to be essentially flat for the rest of the forecast period, due to the weak housing industry and an economic slowdown in the mining and petroleum equipment industries. Nonresidential construction is projected to add little to GDP after 2007. Equipment and software spending is forecast to grow in the first quarter of 2007, and then weaken somewhat for the remainder of the year. Beginning in 2008, expenditures for equipment and software are projected to show solid growth, but aggregate nonresidential fixed investment spending will be constrained by the decline in construction spending. Growth in real nonresidential fixed investment is estimated to be 5.6% in 2007, 4.2% in 2008, and 5.6% in 2009.

The U.S. Census Bureau released nonresidential construction figures after the January forecast was prepared. Based on those numbers, Global Insight adjusted projected real construction spending in the fourth quarter of 2006 from being flat to an increase of between 4% and 6%.

The December purchasing managers' index (PMI) of manufacturing activity from the Institute of Supply Management bounced back from a 49.5% reading in November to 51.4% in December. As noted, a reading below 50% indicates a contraction of manufacturing activity in the national economy. The December index number provides support to the view that the manufacturing sector is moving into a growth slowdown, rather than a recession in 2007. In addition, durable goods orders through November were 7.6% above year-earlier levels. Order backlogs in many durable manufacturing industries have spilled over into 2007, and are expected to contribute to manufactured goods production though most of the year. The forecast indicates that the current investment cycle should support manufacturing output. Although investment growth in industrial equipment is projected to slow from 6.3% in 2006 to 2.6% in 2007, growth in information processing equipment spending will only decline from 9.0% to 7.1%. Corporate profits, which are projected to grow at a slower rate than the past few years reflecting a slowing economy, are expected to be sufficient to support continued capital spending. Furthermore, global competition and the potential for energy price hikes places pressure on domestic manufacturers to improve productivity and efficiency by investing in state-of-the art machinery and equipment.

However, investment in equipment has grown for four consecutive years and the forecast projects that these expenditures will begin to slow in 2007 and 2008. Lower consumer spending for durable goods and declining construction of residential structures are projected to suppress manufacturing activity in construction-related industries, such as lumber and building materials, and in home-related consumer goods industries, such as appliances and furniture. Declining home prices will limit use of home equity loans to finance consumer purchases. Declining demand will affect output. Production of traditional manufactured goods, and total manufacturing output, are forecast to slow from 2006 into 2007. After 2007, increased consumer spending and exports are expected to stimulate manufacturing production growth. The forecast projects national industrial production to increase 1.8% in 2007, 2.1% in 2008, and 2.7% in 2009. Profits are projected to increase 4.6% in 2007, 6.3% in 2008, and 1.6% in 2009.

West Texas Intermediate crude oil spot prices averaged $62.03 per barrel in December, which was 4.5% above the $59.37 per barrel November average. WTI spot prices on December 29, 2006, the final business day of the year, were $61.06 per barrel, which was two cents above the price at the end of 2005. On December 14, OPEC announced a half-million-barrel reduction in oil production that would begin on February 1, 2007. This reduction will be in addition to a 1.2-million-barrel reduction announced in early November. Gasoline margins for refining and distributing have stabilized, as inventories have shrunk from excessive to lean in recent months. Warmer than normal temperatures caused natural gas prices to decline in December, a month in which they normally increase by 25%. Henry Hub spot prices fell 8.8% to average $6.75 per million Btu (mmBtu) in December, ending the month at $5.48, after starting $8.28 mmBtu. In 2006, the winter heating season began warm due to El Niño, and with record inventories. Natural gas in storage was 12.8% above the five-year average on the first day of the 2006-2007 winter. Global Insight projects weaker overall energy demand growth, weaker domestic oil and gas production, and lower imports of oil and gas for the forecast period. OPEC's initial production cuts are expected to cause crude oil prices to gradually move upward. The average WTI price of oil is estimated at $66.15 a barrel for 2006, $64.44 in 2007, $64.75 in 2008, and $63.88 in 2009. Henry Hub natural gas prices are estimated at $6.82 mmBtu for 2006, $8.18 mmBtu in 2007, $8.65 mmBtu in 2008, and $8.29 mmBtu in 2009.

Since the January forecast was completed, oil prices have continued to drop from over $60 a barrel to around $51 a barrel in mid-January 2007. As noted, the forecast projects the WTI oil price at $64.44 per barrel for 2007 and $64.75 for 2008. Global Insight notes that a $10 reduction in the WTI price of oil to about $55 a barrel for the next two years would significantly alter the forecast. The price declines would lower forecast CPI increases by 0.6% in 2007 and 0.7% in 2008, and core CPI prices by 0.1% and 0.2%, respectively. The lower energy prices would increase real disposable income by 0.5% in 2007 and 0.7% in 2008, which would increase real consumer spending 0.3% in 2007 and 0.6% in 2008. The longer the prices would remain low, the more consumers would adjust spending. Employment would increase, as would vehicle sales. Higher levels of consumption spending, in turn, would increase real GDP by 0.2% in 2007 and 0.5% in 2008.

The CPI was unchanged in November after two months of 0.5% declines, while the core CPI was flat and continued a steady deceleration that began in July. For October through December, 2006, the CPI was increasing at a year-on-year rate of 1.6% and core CPI prices were increasing at a year-on-year rate of 2.6%. Core personal consumption expenditures, the Federal Reserve's preferred measure of inflation, were increasing at a yearly rate of 2.2%, which is above the preferred range of 1% to 2%. As noted, an energy price surge in the first half of 2006 helped spark an inflation scare that had been largely absent from the economy for a few years. The forecast notes that, even though energy is an important input to production and affects prices paid by consumers, such energy shocks are never the proximate cause of long-term inflation. Usually, an energy price shock has short-term impacts, and can only ignite an inflationary period if the Federal Reserve mismanages the situation, or if the price shock increases the public's long-term inflation expectations. Although the price spread between 10-year Treasury bonds and inflation-protected bonds increased from 2.0% to 2.6% during the summer, it dropped back to 2.3% as oil prices fell, and remained there during the last three months of 2006. As a result, Global Insight believes that the inflation scare is over. The slowdown in economic growth and recovering labor productivity are expected to create favorable inflation conditions. Both unit labor costs and core personal consumption expenditure prices growth are projected to decline from 2006 through 2007, before edging up in 2008. Growth in core personal consumption prices is estimated at 2.1% in the fourth quarter of 2006, with a decrease to 1.8% by the end of 2007. Core personal consumption prices are forecast to gradually move up above 2% for the remainder of the forecast period. Annual increases in the CPI are estimated at 3.2% for 2006, 1.8% in 2007, 2.1% in 2008, and 1.9% in 2009. The core CPI is estimated to increase 2.5% in 2006, 2.2% in 2007, and 2.1% in 2008 and 2009.

The fourth quarter of 2006 could mark the point at which the U.S. trade balance began to improve. The U.S. trade deficit shrunk 10% from the third to fourth quarters. Part of the improvement reflects the reduction in oil imports of $64 billion in the quarter. However, the improving trade balance is caused by more than declining oil imports. In general, three factors are important: (a) lower real import growth; (b) higher real export growth; and (c) slower price increases for imported goods. The forecast projects the nominal trade deficit to decrease from $768.6 billion in 2006 ($51.9 billion larger than in 2005) to $633 billion in 2009. Lower oil prices are expected to account for 25% of the improvement in 2007 (a deficit of $705.4 billion). Slowing inventory accumulation and consumption are expected to require fewer imported non-oil goods. Real exports are projected to increase 8.6% in 2007, 9.3% in 2008, and 8.6% in 2009, while real imports increase 3.0%, 4.0%, and 5.7%, respectively.

Under the forecast, the current account balance is not expected to perform as well as the goods and services account. The current account deficit is projected to decline sharply from its annualized high of $902 billion in the third quarter of 2006, to $785 billion by mid-2008, but is forecast to deteriorate again, widening to over $825 billion by the end of 2009. The main contributors are net transfers to foreigners and net foreign investment income. Net foreign investment income is expected to increase as trade shortfalls put more U. S.-based assets in foreign hands.

Global Insight's forecast includes an anticipated increase in the federal minimum wage from $5.15 to $7.25 in three installments from 2007 to 2009. The forecast also expects defense spending to rise due to the administration's increase in short-term troop commitments in Iraq and congressional actions to improve the readiness of the U. S. military. However, non-defense outlays are expected to show much slower growth than in recent years due to the 2007 continuing resolution, which has the effect of limiting discretionary spending. The federal budget deficit fell significantly during the past two years due to strong revenue growth (14.6% in 2005 and 11.8% in 2006). In 2007, it is anticipated that revenue growth will slow to 5.2%. Federal expenditures are expected to increase by 5.7%, which will push the deficit up from $248.2 billion in 2006 to $275.8 billion in 2007. Beginning in 2008, revenues are expected to grow more rapidly than expenditures, and the deficit is expected to decrease to $258.6 billion by 2009.

The forecast projects a slow average monthly rate of employment growth in the first half of 2007. It is expected that this will ease pressures in labor markets and lead to less concern about inflation among members of the FOMC. In addition, it is believed that moderate core inflation in the last quarter of 2006 will continue into 2007. These circumstances are expected to lead the Federal Reserve to reduce the federal funds interest rate beginning with the May, 2007, FOMC meeting. The forecast assumes three Federal Reserve interest rate reductions during 2007. The federal funds rate is expected to fall from 5.25% to 4.50%.

Global Insight prepared two alternative economic scenarios to the baseline forecast, one optimistic and one pessimistic. Each alternative forecast is assigned a 20% probability. Under the optimistic alternative, the economic slowdown would be brief, and growth would be greater due to seven factors: (a) rapid productivity growth; (b) stronger foreign economic growth; (c) a stronger dollar; (d) increased business investment; (e) lower federal budget deficits; (f) more housing starts; and (g) lower energy prices. Under this alternative, annual real GDP increases would be higher by 0.6% in 2007, 0.8% in 2008, and 0.6% in 2009. The pessimistic alternative assumes that there is less spare capacity in the global economy due to obsolescence and that foreign investors diversify from the dollar in response to the huge trade deficit. The limited production capacity and falling dollar causes inflation to accelerate and the Federal Reserve raises interest rates. The housing sector declines more rapidly and consumers limit spending. Finally, with unemployment high, the Federal Reserve begins interest rate reductions in 2008. Under this alternative, the economy will not contract, but real GDP growth would be lower by 1.3% in 2007, 1.6% in 2008, and 0.4% in 2009.

Table 2 shows projected values for several economic indicators that underlie the general fund revenue estimates for 2006-07 and the 2007-09 biennium.

TABLE 2

Summary of National Economic Indicators
Global Insight, Inc., January, 2007
($ in Billions)

	2006	2007	2008	2009
Nominal Gross Domestic Product	$13,243.8	$13,823.6	$14,537.8	$15,332.6
Percent Change	6.3%	4.4%	5.2%	5.5%
Real Gross Domestic Product	11,414.7	11,673.7	12,045.5	12,457.9
Percent Change	3.3%	2.3%	3.2%	3.4%
Consumer Price Index	3.2%	1.8%	2.1%	1.9%
Personal Income	10,897.9	11,456.5	12,085.3	12,833.0
Percent Change	6.4%	5.1%	5.5%	6.2%
Personal Consumption Expenditures	9,269.1	9,705.8	10,179.1	10,711.7
Percent Change	6.0%	4.7%	4.9%	5.2%
Economic Profits	1,607.4	1,681.2	1,787.7	1,816.0
Percent Change	20.8%	4.6%	6.3%	1.6%
Unemployment Rate	4.6%	4.9%	4.9%	4.6%

General Fund Tax Collections

Table 3 shows revenue estimates for all general fund tax sources for the 2006-07 fiscal year and each year of the 2007-09 biennium. Over the three-year period, these estimates are $12.8 million lower than the Department of Revenue's November 20 projections ($51.7 million higher in 2006-07, $0.4 million lower in 2007-08, and $64.1 million lower in 2008-09). Estimated revenues from the individual income tax are higher than the Department's figures by $22.1 million in 2006-07 and lower by $64.4 million in 2007-08 and $124.2 million in 2008-09. Revenues from the corporate income and franchise tax are estimated to be higher than the Department's figures in all three years: by $23.4 million in 2006-07, $110.4 million in 2007-08, and $82.5 million in 2008-09. Over the three-year period, estimated sales tax collections are lower than the Department's projections by $32.0 million, and miscellaneous tax collections are estimated to be $47.9 million lower, primarily due to weakness in the real estate transfer fee. There are smaller differences in the estimates for the other taxes.

TABLE 3

Projected General Fund Tax Collections
($ Millions)

	2005-07 Biennium		2007-09 Biennium	
	2005-06 Actual	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated
Individual Income	$6,144.3	$6,480.0	$6,770.0	$7,125.0
Sales and Use	4,127.6	4,210.0	4,310.0	4,480.0
Corporate Income & Franchise	780.3	880.0	880.0	860.0
Public Utility	275.1	282.7	297.2	314.4
Excise				
Cigarettes	301.4	303.0	304.0	305.0
Liquor and Wine	41.0	42.0	42.5	43.0
Tobacco Products	16.4	17.5	18.4	19.3
Beer	9.8	9.4	9.4	9.4
Insurance Company	134.7	138.0	141.0	144.0
Estate	108.6	100.0	95.0	25.0
Miscellaneous Taxes	90.8	80.0	73.0	73.0
Total	$12,030.0	$12,542.6	$12,940.5	$13,398.1
Change from Prior Year		$512.6	$397.9	$457.6
Percent Change		4.3%	3.2%	3.5%

Individual Income Tax. Individual income tax revenues are estimated to total $6,480.0 million in 2006-07, which represents a 5.5% increase over income tax collections in 2005-06 of $6,144.3 million. The current estimate exceeds the estimate made by this office in January, 2006,of $6,408.0 million by $75.0 million, and is based on current estimates of taxable income in 2006 as well as tax collections data through December, 2006.

Individual income tax revenues are estimated at $6,770.0 million in 2007-08 and $7,125.0 million in 2008-09. These figures, which represent growth of 4.5% in the first year and 5.2% in the second year, are based on the economic forecast and assumptions about taxable personal income growth, as well as the effect of law changes.

The January, 2007, Global Insight forecast projects national personal income growth of 6.4% in 2006, 5.1% in 2007, and 5.5% in 2008. Wisconsin personal income has typically grown at a slower rate than national personal income in recent years, and it is anticipated that this trend will continue over the forecast period.

Law changes are expected to reduce growth in individual income tax revenues by approximately one percentage point in each of the two fiscal years of the 2007-09 biennium. The most significant law change is the 100% exemption from taxation for social security benefits. This exemption, which was enacted under 2005 Act 25 (the 2005-07 biennial budget) and takes effect with tax year 2008, is expected to result in reductions in estimated tax payments during fiscal year 2007-08. The full annualized effect of the exemption will first occur in 2008-09.

In addition to the recent law changes, anticipated growth in individual income tax revenues has been influenced by the effect of the annual indexing adjustments made to the sliding scale standard deduction and the tax brackets. The indexing adjustments for a given tax year are based on the annual percentage change in the Consumer Price Index as of the month of August of the prior year. The CPI parameters as of August of 2005 and 2006 were significantly higher then they had been in prior years. As a result, the indexing adjustments for tax years 2006 and 2007 are also higher than they have been in recent years, leading to slower growth in tax collections.

Sales and Use Tax. State sales and use tax revenues totaled $4,127.6 million in 2005-06 and are estimated at $4,210.0 million in 2006-07. The estimate for 2006-07 represents growth of 2.0% over the prior year. Sales tax revenues in the next biennium are estimated at $4,310.0 million and $4,480.0 million in 2007-08 and 2008-09, respectively. These estimates reflect growth of 2.4% in the first year and 3.9% in 2008-09. These estimates do not include the impact of the recent Court of Appeals decision in the Menasha Corporation case, which is described previously.

Sales tax collections through December, 2006, are 1.3% higher than for the same period in 2005-06 (after adjusting for certain one-time receipts in 2005-06), which is lower than the estimated annualized growth rate of 2.0% for the entire fiscal year. However, as was previously noted, the National Retail Federation has estimated that gift card sales rose 34% during the recent holiday season. It is projected that the redemption of such cards will boost consumer spending during he first quarter of 2007 and contribute to increased growth in sales tax revenues. The projections for the 2007-09 biennium reflect forecasts for growth in taxable personal consumption expenditures, modified to account for law changes that provided new or expanded sales tax exemptions (including a new exemption for certain Internet equipment used in the broadband market and expanded exemptions for tangible personal property used in the business of farming).

Corporate Income and Franchise Tax. Corporate income and franchise tax revenues are projected to increase from $780.3 million in 2005-06 to $880.0 million in 2006-07 and 2007-08, and then decline to $860.0 million in 2008-09. These amounts represent an annual increase of 12.8% in 2006-07, and then an annual decrease of 2.3% in 2008-09.

The estimate for 2006-07 primarily reflects significantly higher year-to-date corporate income and franchise tax collections. Through December, 2006, corporate declaration payments are over 10% higher than for the same period of 2005-06, and total collections are almost 25% higher.

However, annual corporate profit growth is forecast to drop sharply, beginning in 2007. Declining economic activity in the housing and auto sectors of the economy are expected to reduce demand for related products and services in 2007. Stagnating and declining home values will limit homeowner's ability to finance consumption expenditures through equity loans. Rising wages and slowing productivity are projected to reduce profit margins. Total compensation is forecast to increase at annual rates above 3.0% for 2007 through 2009, while the annual increase in the CPI is projected to be around 2.0% for that period. Although the annual rate of growth in corporate earnings is projected to decrease from 2005-06, earnings will continue to grow at a more moderate rate. For example, after increasing by 20.8% in 2006, economic profits are forecast to grow by 4.6% in 2007, 6.3% in 2008, and 1.6% in 2009. Increased exports and the rebound in economic growth in 2008 and 2009 are forecast to provide positive contributions to corporate earnings.

The corporate income and franchise tax estimates have been adjusted to reflect the effect of a number of tax law changes on collections, including the phase-in of single sales factor apportionment, repeal of the manufacturer's sales tax credit, enactment of certain tax credits, such as the dairy investment, Internet equipment, and Health Insurance Risk-Sharing Plan assessments credits, and for the airport development zones and enterprise zones programs. These law changes are estimated to offset the effect of increasing profits on corporate income and franchise tax collections. In addition, collections include approximately $9.3 million in back taxes that have been collected from banks in 2006-07.

Public Utility Taxes. Public utility taxes are estimated to be $282.7 million in 2006-07, $297.2 million in 2007-08, and $314.4 million in 2008-09. These estimates represent year-to-year increases of 2.7% in 2006-07, 5.1% in 2007-08, and 5.8% in 2008-09. The gross revenues tax group comprises over 70% of estimated collections over the three-year period and accounts for 89% of the estimated increase over 2005-06 actual collections. The largest increases are forecast for taxes from private light, heat, and power companies and electric cooperatives, and are due to higher revenues resulting from the construction of new electric generating facilities and the cost of fuel used to generate electricity. The ad valorem tax group is forecast to provide modest revenue increases due to higher taxable values resulting from investment in property, plant, and equipment and to stable tax rates, which ends a 14-year trend in tax rate decreases.

Excise Taxes. General fund excise taxes are imposed on cigarettes, liquor (including wine and hard cider), tobacco products, and beer. In 2005-06, excise tax collections totaled $368.6 million. Of this amount, $301.4 million (approximately 82%) was from the excise tax on cigarettes. Modest growth in excise tax revenues is projected for the current fiscal year and the two years in the 2007-09 biennium; excise tax revenues are estimated at $371.9 million in 2006-07, $374.3 million in 2007-08, and $376.7 million in 2008-09. These estimates represent growth of 0.9%, 0.6%, and 0.6% in 2006-07, 2007-08, and 2008-09, respectively.

Insurance Premiums Taxes. Insurance premiums taxes are projected to increase from $134.7 million in 2005-06 to $138.0 million in 2006-07, $141.0 million in 2007-08, and $144.0 million in 2008-09. The annual rate of growth is estimated at 2.5% in 2006-07, 2.2% in 2007-08, and 2.1% in 2008-09. The estimate for 2006-07 is based on year-to-date premiums tax collections through December, 2006, which are about 3% higher than for the same period of 2005-06. Estimates for 2007-08 and 2008-09 reflect forecasts of declining growth rates for premiums for major lines of insurance. Industry analysts projected sluggish growth in national property and casualty insurance premiums. Health insurance premiums declined for the third year in a row in

2006, while state life insurance premiums increased at less than 1% in 2004 and 2005. These trends are expected to continue.

Estate Tax. State tax revenues from the estate tax totaled $108.6 million in 2005-06. For the current fiscal year, estate tax revenues are down 6.6%, compared to the same time period in 2005-06. Based on the general trend in monthly collections to-date, estate tax revenues for 2006-07 are currently estimated at $100.0 million (a 7.9% decrease compared to 2005-06). For the 2007-09 biennium, estate tax revenues are estimated at $95.0 million in the first year and $25.0 million the second year. The significant reduction in estimated revenues in 2008-09 is the result of provisions under current law that eliminate the state estate tax for deaths on or after January 1, 2008. [The elimination of the state estate tax for deaths on or after January 1, 2008, is based on conforming with federal estate tax law, which includes certain provisions that are scheduled to sunset on December 31, 2010. Based on current federal and state laws, Wisconsin's estate tax will again apply with respect to estates of decedents dying after December 31, 2010.]

An additional issue that could affect state estate tax revenues in the forecast period relates to a case pending before the Court of Appeals with respect to the taxability of gifts made in contemplation of death [Wisconsin Department of Revenue v. the Estate of Ott E. Schweitzer]. The appeal has been brought by the Department of Revenue, following a decision by the Circuit Court that there is no legal basis for a state estate tax on gifts made in contemplation of death. If the decision were to be upheld, there is the potential that estate tax revenues would be reduced significantly compared to the estimates provided.

Miscellaneous Taxes. Miscellaneous taxes include the real estate transfer fee, municipal and circuit court-related fees, and a small amount from the occupational tax on coal. Generally, approximately 85% of miscellaneous tax revenues are from the real estate transfer fee. Miscellaneous tax revenues were $90.8 million in 2005-06. Based on the slowdown in the housing sector described under the "National Economic Forecast," and a 13.4% decrease in real estate transfer fee collections through December, 2006, miscellaneous tax revenues are estimated to decrease to $80.0 million in 2006-07 (which represents a decrease of 11.9% from 2005-06). Miscellaneous taxes are projected to decrease to $73.0 million in 2007-08 (which is an 8.8% decline from the estimate for 2006-07), before stabilizing in 2008-09 (for which the estimate is also $73.0 million).

We will continue to monitor economic forecasts, tax collections, other revenues, and expenditures and keep you informed of any modifications that may be 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 42). Replace with the tables that appear on pages 9 and 10 of this Official Statement. The replacement tables include actual and projected General Fund cash flow for both the 2006-07 and 2007-08 fiscal years.

Table II-8; General Fund Cash Receipts and Disbursements Year To Date; Compared to Estimates and Previous Fiscal Year. (Part II–Page 43). Replace with the following updated table.

GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[(a)]

(Cash Basis)

As of April 30, 2007

(Amounts in Thousands)

	FY06 through April 2006	FY07 through April 2007				
	Actual	Actual	Estimate[(b)]	Variance	Adjusted Variance[(c)]	Difference FY06 Actual to FY07 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 6,100,347	$ 6,611,527	$ 6,519,181	$ 92,346	$ 92,346	$ 511,180
Sales	3,667,913	3,744,327	3,738,003	6,324	6,324	76,414
Corporate Income	708,656	837,417	751,330	86,087	86,087	128,761
Public Utility	130,367	148,428	151,434	(3,006)	(3,006)	18,061
Excise	311,147	296,996	312,021	(15,025)	(15,025)	(14,151)
Insurance	140,948	141,494	146,974	(5,480)	(5,480)	546
Inheritance	97,301	100,033	106,996	(6,963)	(6,963)	2,732
Total Tax Receipts	$ 11,156,679	$ 11,880,222	$ 11,725,939	$ 154,283	$ 154,283	$ 723,543
Non-Tax Receipts						
Federal	$ 5,244,013	$ 5,179,255	$ 5,353,772	$ (174,517)	$ (174,517)	$ (64,758)
Other and Transfers	3,883,621	3,545,510	3,788,832	(243,322)	(243,322)	(338,111)
Note Proceeds[(d)]	-	-	-	-	-	-
Total Non-Tax Receipts	$ 9,127,634	$ 8,724,765	$ 9,142,604	$ (417,839)	$ (417,839)	$ (402,869)
TOTAL RECEIPTS	$ 20,284,313	$ 20,604,987	$ 20,868,543	$ (263,556)	$ (263,556)	$ 320,674
DISBURSEMENTS						
Local Aids	$ 5,992,861	$ 6,091,248	$ 6,218,614	$ 127,366	$ 127,366	$ 98,387
Income Maintenance	4,282,670	4,470,451	4,451,879	(18,572)	(18,572)	187,781
Payroll & Related	3,482,330	3,643,284	3,610,177	(33,107)	(33,107)	160,954
Tax Refunds	1,668,200	1,756,913	1,848,762	91,849	91,849	88,713
Debt Service	456,025	541,214	574,272	33,058	33,058	85,189
Miscellaneous	3,377,220	3,508,555	3,692,669	184,114	184,114	131,335
Note Repayment[(d)]	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 19,259,306	$ 20,011,665	$ 20,396,373	$ 384,708	$ 384,708	$ 752,359
VARIANCE FY07 YEAR-TO-DATE				$ 121,152	$ 121,152	

(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), all enacted bills from the 2005 legislative session, and the General Fund revenue estimates released by DOR on November 20, 2006. This table does not reflect the projected General Fund revenues and expenditures released by LFB on January 30, 2007. No changes were needed to the projected General Fund cash flow for the remainder of the 2006-07 fiscal year as a result of 2007 Wisconsin Act 5, which included adjustments to the budget for the 2006-07 fiscal year. Projections assume that the State will receive approximately $112 million in the 2006-07 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($82 million) and (ii) a payment due in the previous biennium from a tribal government that is expected to be made in the 2006-07 fiscal year ($30 million).

(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.

(d) Operating notes were not issued for the 2005-06 and 2006-07 fiscal years.

Table II-9; General Fund Monthly Position (Part II–Page 44). Replace with the following updated table:

GENERAL FUND MONTHLY CASH POSITION[a]
July 1, 2005 through April 30, 2007 — Actual
May 1, 2007 through June 30, 2008 — Estimated[b]
(Amounts in Thousands)

	Starting Date	Starting Balance	Receipts[c]	Disbursements[c]
2005	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]	2,033,941	3,399,313
	July	4,563 [d]	1,920,630	2,121,122
	August	(195,929) [d]	1,695,545	1,391,455
	September	108,161 [d]	2,288,498	2,041,092
	October	355,567	2,130,549	1,373,404
	November	1,112,712	1,856,520	2,086,743
	December	882,489 [d]	1,791,636	2,501,552
2007	January	172,573	2,570,733	1,717,796
	February	1,025,510	1,949,875	1,947,201
	March	1,028,184	1,869,287	2,934,724
	April	(37,253) [d]	2,528,712	1,896,578
	May	594,881	2,106,655	1,570,417
	June	1,131,119 [d]	2,259,969	3,288,410
	July	102,678	2,616,127	2,269,070
	August	449,735	1,755,520	1,515,168
	September	690,087	2,348,571	2,118,272
	October	920,386	2,209,861	1,377,829
	November	1,752,418	1,938,751	2,272,576
	December	1,418,593 [d]	1,880,449	2,488,587
2008	January	810,455	2,645,874	1,823,416
	February	1,632,913	2,013,246	2,207,824
	March	1,438,335	2,051,536	3,328,722
	April	161,149 [d]	2,512,895	1,923,556
	May	750,488	2,145,397	1,912,919
	June	982,966 [d]	2,376,910	3,193,466

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

[b] Projections in this table for the 2006-07 fiscal year reflect the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25), all enacted bills from the 2005 legislative session, and the General Fund tax revenue estimates released by DOR on November 20, 2006. No changes were needed to the projected General Fund cash flow for the remainder of the 2006-07 fiscal year as a result of 2007 Wisconsin Act 5, which included adjustments to the budget for the 2006-07 fiscal year. Projections for the 2006-07 fiscal year also assume that the State will receive approximately $112 million in the 2006-07 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($82 million) and (ii) a payment due in the previous biennium from a tribal government that is expected to be made in the 2006-07 fiscal year ($30 million). Projections in this table for the 2007-08 fiscal year reflect the governor's proposed budget for the 2007-08 fiscal year and the projected General Fund revenues released by LFB on January 30, 2007. Projections in this table for the 2007-08 fiscal year reflect the governor’s proposed budget for 2007-08 fiscal year and projected General Fund revenues released by LFB on January 30, 2007.

[c] Operating notes were not issued for the 2005-06 and 2006-07 fiscal years but have been sold for the 2007-08 fiscal year.

[d] The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $661 million for the 2006-07 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 $397 million for the 2006-07 fiscal year) for a period of up to 30 days. 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.

Table II-10; Balances in Funds Available for Interfund Borrowing (Part II–Page 45). Replace with the following updated table:

BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[(a)]
July 31, 2005 to April 30, 2007 — Actual
May 31, 2007 to June 30, 2008 — 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)**. Though 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)	2005	2006	2007	2008
January		$ 1,118	$ 1,048	$ 1,048
February		1,041	1,131	1,131
March		1,188	1,154	1,154
April		957	1,114	1,114
May		912	912	912
June		1,074	1,074	1,074
July	$ 1,048	932	933	
August	1,100	1,052	1,053	
September	1,176	1,067	1,067	
October	1,115	925	925	
November	1,167	966	967	
December	1,135	1,019	1,019	

The second table includes the balances in the LGIP. The monthly average daily balances in the LGIP for the past five years have ranged from a low of $2.2 billion during November 2005 to a high of $4.4 billion during April 2002.

(Includes Balances in the Local Government Investment Pool)

Month (Last Day)	2005	2006	2007	2008
January		$ 4,232	$ 4,509	$ 4,509
February		4,237	4,773	4,773
March		4,476	4,860	4,860
April		3,981	4,593	4,593
May		3,708	3,708	3,708
June		3,940	3,941	3,941
July	$ 4,193	4,218	4,218	
August	3,823	3,978	3,978	
September	3,746	3,845	3,845	
October	3,361	3,361	3,361	
November	3,370	3,477	3,477	
December	3,692	3,764	3,764	

[(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
University	Waste Management	Groundwater
Wisconsin Health Education Loan Repayment	Work Injury Supplemental Benefit	
Health Insurance Risk Sharing Plan	Petroleum Storage Environmental Cleanup	
Unemployment Comp.	Recycling	

Table II-11; General Fund Recorded Revenues (Part II–Page 46). Replace with the following updated table:

GENERAL FUND RECORDED REVENUES[(a)]
(Agency Recorded Basis)
July 1, 2006 to April 30, 2007 compared with previous year

	Annual Fiscal Report Revenues 2005-06 FY[(b)]	Projected Revenues 2006-07 FY[(c)]	Recorded Revenues July 1, 2005 to April 30, 2006 [(d)]	Recorded Revenues July 1, 2006 to April 30, 2007 [(e)]
Individual Income Tax	$ 6,144,299,000	$ 6,457,900,000	$ 4,774,034,294	$ 5,177,238,939
General Sales and Use Tax	4,127,585,000	4,212,900,000	3,071,838,714	3,091,594,945
Corporate Franchise		-		
and Income Tax	780,320,000	856,600,000	609,981,175	728,396,540
Public Utility Taxes	275,147,000	269,400,000	121,948,564	141,636,488
Excise Taxes	368,693,000	369,900,000	271,881,130	270,019,919
Inheritance Taxes	108,571,000	93,600,000	94,450,268	96,609,123
Insurance Company Taxes	134,665,000	141,300,000	93,823,250	93,685,522
Miscellaneous Taxes	90,806,000	89,300,000	89,757,652	80,627,377
SUBTOTAL........	$ 12,030,086,000	$ 12,490,900,000	9,127,715,048	9,679,808,852
Federal and Other Inter-				
Governmental Revenues[(f)]	$ 6,320,576,000	$ 5,976,875,800	5,245,860,057	5,210,875,680
Dedicated and				
Other Revenues[(g)]	3,971,208,000	4,323,194,600	3,784,576,053	3,732,493,832
TOTAL........	$ 22,321,870,000	$ 22,790,970,400	$ 18,158,151,158	$ 18,623,178,364

(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 2005-06 fiscal year, dated October 15, 2006.

(c) Projections in this table reflect the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25), all enacted bills from the 2005 legislative session, and the General Fund revenue estimates released by DOR on November 20, 2006. Projections in this table do not reflect the projected General Fund revenues released by LFB on January 30, 2007. No changes were needed to the projected General Fund cash flow for the remainder of the 2006-07 fiscal year as a result of 2007 Wisconsin Act 5, which included adjustments to the budget for the 2006-07 fiscal year. Projections assume that the State will receive approximately $112 million in the 2006-07 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($82 million) and (ii) a payment due in the previous biennium from a tribal government that is expected to be made in the 2006-07 fiscal year ($30 million).

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

(e) The amounts shown are fiscal year 2006-07 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 47). Replace with the following updated table:

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[(a)]
(Agency Recorded Basis)
July 1, 2006 to April 30, 2007 compared with previous year

	Annual Fiscal Report Expenditures 2005–06 FY[(b)]	Appropriations 2006–07 FY[(c)]	Recorded Expenditures July 1, 2005 to April 30, 2006[(d)]	Recorded Expenditures July 1, 2006 to April 30, 2007[(e)]
Commerce	$ 266,877,000	$ 281,243,700	$ 201,806,675	$ 211,191,087
Education	10,146,322,000	10,387,854,300	7,608,895,938	7,965,189,397
Environmental Resources	291,548,000	337,924,200	267,250,738	311,923,902
Human Relations & Resources	8,712,564,000	8,970,947,600	7,319,322,900	7,832,207,479
General Executive	694,145,000	878,235,600	600,565,935	682,611,287
Judicial	115,262,000	113,448,700	96,337,877	103,724,887
Legislative	61,343,000	65,290,600	46,815,847	48,744,124
General Appropriations	1,859,988,000	1,890,759,800	1,747,482,113	1,759,139,813
TOTAL	$ 22,148,049,000	$ 22,925,704,500	$ 17,888,478,024	$ 18,914,731,976

(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 2005-06 fiscal year, dated October 15, 2006.

(c) Estimated appropriations are based on the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25) and all enacted bills from the 2005 legislative session but do not include the projected General Fund expenditures released by LFB on January 30, 2007 and do not reflect 2007 Wisconsin Act 5, which included adjustments to the budget for the 2006-07 fiscal year.

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

(e) The amounts shown are fiscal year 2006-07 expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

Appendix B

EXPECTED FORM OF OPINION OF BOND COUNSEL

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

[Letterhead of Foley & Lardner LLP]

$600,000,000

STATE OF WISCONSIN

OPERATING NOTES OF 2007

We have served as bond counsel in connection with the issuance by the State of Wisconsin (**State**) of its $600,000,000 Operating Notes of 2007, dated the date hereof (**Notes**). The Notes are being issued pursuant to Chapters 16 and 18, Wisconsin Statutes **(Act)** and a resolution adopted by the State of Wisconsin Building Commission **(Commission)** on May 23, 2007 **(Resolution).**

We examined the law, a certified copy of the proceedings relating to the issuance of the Notes, 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 Notes are valid and binding limited obligations of the State, payable only from, and secured solely by, revenues pledged by the Commission and deposited into the Operating Note Redemption Fund established with The Bank of New York Trust Company, N.A., as trustee. The Notes and the interest on the Notes are not a general obligation of the State and do not constitute "public debt" of the State as that term is used in the Constitution and the statutes 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 Notes are secured equally with all other notes (if any) issued under the Resolution, subordinate only to the owners of the State's general obligations.

4. There has been appropriated from the General Fund of the State an amount for the payment of the principal and interest coming due on the Notes and for the payment of certain funds required to be impounded, from time to time, in the Operating Note Redemption Fund. There has been irrevocably appropriated from the Operating Note Redemption Fund an amount sufficient to pay the principal and interest coming due on the Notes.

5. Interest on the Notes is excluded from gross income for federal income tax purposes. It also is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. For the purpose of computing the alternative minimum tax imposed on certain corporations, however, interest on the Notes is taken into account in determining adjusted current earnings. The State must comply with all requirements of the Internal Revenue Code that must be satisfied after the Notes are issued for interest on the Notes 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 Notes to be included in gross income for federal income tax purposes, in some cases retroactive to the date the Notes were issued. This letter expresses no opinion about other federal tax law consequences relating to the Notes.

6. The Notes are exempt from registration under the Securities Act of 1933, and the Resolution is exempt from qualification under the Trust Indenture Act of 1939. We have not passed upon matters pertaining to compliance with the Blue Sky laws of any state in connection with the offering and sale of the Notes.

The rights of the owners of the Notes and the enforceability of the Notes 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 Notes (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 Notes, 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 update this letter to reflect any facts or circumstances that later come to our attention or any subsequent changes in law.

Very truly yours,

FOLEY & LARDNER LLP