<u>NOTICE OF BOND INSURANCE</u>

STATE OF WISCONSIN
TRANSPORTATION REVENUE BONDS, 2007 SERIES A
Maturing July 1, 2018, 2022, and 2025 through 2027

The Underwriter, as defined in the Official Statement, dated February 13, 2007, has provided for the delivery of a municipal bond insurance policy to be issued simultaneously with the delivery of the State of Wisconsin Transportation Revenue Bonds, 2007 Series A maturing on July 1, 2018, 2022, and 2025 through 2027 **(Insured 2007 Series A Bonds)**, by Financial Guaranty Insurance Company (**Financial Guaranty**).

FGIC

This Notice includes certain information concerning Financial Guaranty and the terms of the Municipal Bond New Issue Insurance Policy (**Policy**) relating to the Insured 2007 Series A Bonds. Information with respect to Financial Guaranty and the Policy has been supplied by Financial Guaranty. No representation is made by the Underwriter as to the accuracy or adequacy of such information. The Policy does not constitute a part of the contract between the State of Wisconsin **(State)** and the owners of the Insured 2007 Series A Bonds. The Underwriter has the responsibility for paying the premium on and complying with the conditions for the issuance of the Policy, and the State has no responsibility with respect to such insurance in any way, including the maintenance and enforcement of the Policy or collection of a claim submitted under the Policy.

This Notice has been prepared by the Underwriter to provide certain information pertaining to Financial Guaranty. It has not been prepared or reviewed by the State, and the State makes no representations as to the adequacy of the information contained herein. Each purchaser should consult the Official Statement, dated February 13, 2007, for information about the Insured 2007 Series A Bonds.

The Underwriter has applied for, and upon issuance of the Policy there will be assigned to the Insured 2007 Series A Bonds, the AAA rating from Fitch Ratings, the Aaa rating from Moody's Investors Service, Inc., and the AAA rating from Standard & Poor's Ratings Services.

February 13, 2007

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OFFICIAL STATEMENT

New Issue

This Official Statement provides information on the 2007 Series A Bonds. Some of the information appears on this cover page for ready reference. To make an informed investment decision, a prospective investor should read the entire Official Statement.

$148,710,000
STATE OF WISCONSIN
TRANSPORTATION REVENUE BONDS, 2007 SERIES A

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

Ratings	AA Fitch Ratings Aa3 Moody's Investors Service, Inc. AA+ Standard & Poor's Ratings Services
Tax Exemption	Interest on the 2007 Series A Bonds is, for federal income tax purposes, excludable from gross income and not an item of tax preference. Interest on the 2007 Series A Bonds is not excluded from State of Wisconsin income and franchise taxes—*Pages 10-11*.
Redemption	The 2007 Series A Bonds are subject to optional redemption at par (100%) on any date on or after July 1, 2015—*Page 2*.
Security/Priority	The 2007 Series A Bonds have a first claim on vehicle registration fees (which are a substantial portion of pledged Program Income) and other vehicle registration-related fees including, but not limited to, vehicle title transaction fees, registration and title counter service fees, and personalized license plate issuance and renewal fees. A Reserve Fund exists in an amount that currently meets the aggregate Debt Service Reserve Requirement of $60,351,600. The 2007 Series A Bonds are issued on a parity with the Prior Bonds and any additional parity Bonds issued by the State pursuant to the General Resolution. The 2007 Series A Bonds are not general obligations of the State—*Pages 4-7.*
Purpose	Proceeds are being used to finance certain State transportation facilities and highway projects and to pay costs of issuance—*Page 3*.
Interest Payment Dates	January 1 and July 1
First Interest Payment Date	July 1, 2007
Closing/Settlement	On or about March 8, 2007
Denominations	Multiples of $5,000
Book-Entry-Only Form	The Depository Trust Company—*Pages 3-4.*
Trustee/Registrar/Paying Agent	The Bank of New York Trust Company, N.A.
Bond Counsel	Quarles & Brady LLP
Issuer Contact	Wisconsin Capital Finance Office; (608) 266-2305; DOACapitalFinanceOffice@wisconsin.gov
2006 Annual Report	This Official Statement incorporates by reference Parts I, II, and V of the State of Wisconsin Continuing Disclosure Annual Report, dated December 22, 2006.

The 2007 Series A Bonds were sold at competitive sale on February 13, 2007. The interest rates shown below resulted from the award of the 2007 Series A Bonds.

CUSIP	Year (July 1)	Principal Amount	Interest Rate	First Optional Call Date (July 1)	Call Price
977123 VR6	2018	$ 11,825,000	5.00%	2015	100%
977123 VS4	2019	12,415,000	4.25	2015	100
977123 VT2	2020	13,035,000	4.30	2015	100
977123 VU9	2021	13,685,000	4.35	2015	100
977123 VV7	2022	14,370,000	4.50	2015	100
977123 VW5	2023	15,090,000	4.40	2015	100
977123 VX3	2024	15,845,000	4.45	2015	100
977123 VY1	2025	16,635,000	4.50	2015	100
977123 VZ8	2026	17,470,000	4.50	2015	100
977123 WA2	2027	18,340,000	4.25	2015	100

Purchase Price: $148,988,674.30

February 13, 2007

Note: The State has been advised by the Underwriter that it has received from Financial Guaranty Insurance Company **(Financial Guaranty)** a Commitment for Municipal Bond Insurance for the 2007 Series A Bonds maturing on July 1, 2018, 2022, and 2025 through 2027. Further information about the commitment and the Municipal Bond New Issue Insurance Policy may be obtained from the Underwriter and Financial Guaranty.

This document is the State's *official* statement about the offering of the 2007 Series A Bonds; that is, it is the only document the State has authorized for providing information about the 2007 Series A Bonds. This document is not an offer or solicitation for the 2007 Series A Bonds, and no unlawful offer, solicitation, or sale may occur through the use of this document or otherwise. This document is not a contract, and it provides no investment advice. Prospective investors should consult their advisors and legal counsel with questions about this document, the 2007 Series A Bonds, and anything else related to the offering.

The purpose of this document is to provide prospective investors with information that may be important in making an investment decision. It may not be used for any other purpose without the State's permission. The State is the author of this document and is responsible for its accuracy and completeness. The Underwriter is not the author of this document. In accordance with its responsibilities under federal securities laws, the Underwriter is required to review the information in this document and must have a reasonable basis for its 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 2007 Series A Bonds other than what is in this document. The information and expressions of opinion in this document may change without notice. Neither the delivery of this document nor any sale of the 2007 Series A Bonds implies that there has been no change in the other matters contained in this document since its date. 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 2007 SERIES A BONDS

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
Mr. Frank J. Busalacchi, Secretary Department of Transportation	At the pleasure of the Governor

DEBT MANAGEMENT AND DISCLOSURE

Department of Administration
Capital Finance Office
P.O. Box 7864
101 E. Wilson Street, 10th Floor
Madison, WI 53707-7864
Telefax (608) 266-7645
DOACapitalFinanceOffice@wisconsin.gov

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

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

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

SUMMARY DESCRIPTION OF THE 2007 SERIES A BONDS

Selected information is presented on this page for the convenience of the reader. To make an informed decision regarding the 2007 Series A Bonds, a prospective investor should read the entire Official Statement.

Description:	State of Wisconsin Transportation Revenue Bonds, 2007 Series A
Principal Amount:	$148,710,000
Denominations:	Multiples of $5,000
Date of Issue:	Date of Delivery (expected to be March 8, 2007)
Interest Payment:	January 1 and July 1, commencing July 1, 2007
Maturities:	July 1, 2018-2027—*Cover*
Record Date:	December 15 or June 15
Redemption:	*Optional*—The 2007 Series A Bonds are subject to optional redemption at par (100%) on any date on or after July 1, 2015—*Page 2*
Form:	Book-entry-only—*Pages 3-4*
Paying Agent:	All payments of principal and interest on the 2007 Series A Bonds will be made by The Bank of New York Trust Company, N.A., as successor to J. P. Morgan Trust Company, National Association, or its successor. All payments will be made to The Depository Trust Company, which will distribute payments as described herein.
Authority for Issuance:	The 2007 Series A Bonds are issued under Chapter 18 and Section 84.59 of the Wisconsin Statutes.
Purpose:	The 2007 Series A Bond proceeds will be used to finance certain State transportation facilities and highway projects and to pay costs of issuance.
Security and Priority:	The 2007 Series A Bonds are revenue obligations having a first claim on vehicle registration fees (which are a substantial portion of pledged Program Income) and other vehicle registration-related fees including, but not limited to, vehicle title transaction fees, registration and title counter service fees, and personalized license plate issuance and renewal fees. The 2007 Series A Bonds are issued on a parity with the Prior Bonds and any additional parity Bonds issued by the State pursuant to the General Resolution. A Reserve Fund exists in an amount that currently meets the aggregate Debt Service Reserve Requirement of $60,351,600. The 2007 Series A Bonds are not general obligations of the State—*Pages 4-7*
Bond Insurance:	The State has been advised by the Underwriter that it has received from Financial Guaranty a Commitment for Municipal Bond Insurance for the 2007 Series A Bonds maturing on July 1, 2018, 2022, and 2025 through 2027. Further information about the commitment and the Municipal Bond New Issue Insurance Policy may be obtained from the Underwriter and Financial Guaranty.
Prior Bonds and Notes:	As of January 15, 2007, $1,338,635,000 of Prior Bonds were Outstanding and $198,758,000 of Notes subordinate to the Prior Bonds were Outstanding—*Pages 6-7*
Additional Bonds:	The State may issue additional transportation revenue obligations, and if certain conditions are met, they may be issued on parity with the Prior Bonds and the 2007 Series A Bonds—*Page 5*
Legality of Investment:	State law provides that the 2007 Series A Bonds are legal investments for all banks and bankers, trust companies, savings banks and institutions, savings and loan associations, credit unions, investment companies, insurance companies, insurance associations, and other persons carrying on a banking or insurance business; for all personal representatives, guardians, trustees, and other fiduciaries; and for the State and all public officers, municipal corporations, political subdivisions, and public bodies.
Tax Exemption:	Interest on the 2007 Series A Bonds is, for federal income tax purposes, excludable from gross income and not an item of tax preference—*Pages 10-11* Interest on the 2007 Series A Bonds is not excluded from State of Wisconsin income and franchise taxes—*Page 11*
Legal Opinion:	Validity and tax opinion to be provided by Quarles & Brady LLP—*Page C-1*

OFFICIAL STATEMENT

$148,710,000

STATE OF WISCONSIN

TRANSPORTATION REVENUE BONDS, 2007 SERIES A

INTRODUCTION

This Official Statement sets forth information concerning the $148,710,000 State of Wisconsin Transportation Revenue Bonds, 2007 Series A (**2007 Series A Bonds**), issued by the State of Wisconsin (**State**). This Official Statement includes by reference Parts I, II, and V of the State of Wisconsin Continuing Disclosure Annual Report, dated December 22, 2006 **(2006 Annual Report)**.

The 2007 Series A Bonds are revenue obligations issued pursuant to Subchapter II of Chapter 18 of the Wisconsin Statutes, as amended (**Revenue Obligations Act**), Section 84.59 of the Wisconsin Statutes (**Act**), a General Resolution adopted by the State of Wisconsin Building Commission (**Commission**) on June 26, 1986, as amended and supplemented on March 19, 1998, August 9, 2000, and October 15, 2003 (**General Resolution**), and a Series Resolution adopted by the Commission on June 28, 2006 (collectively, with the General Resolution, **Resolutions**).

The Commission, an agency of the State, is empowered by law to authorize, issue, and sell transportation revenue obligations of the State. The Commission is assisted and staffed by the State of Wisconsin Department of Administration.

In connection with the issuance and sale of the 2007 Series A Bonds, the Commission has authorized the preparation of this Official Statement. This Official Statement describes the terms of and security for the 2007 Series A Bonds. Copies of the Resolutions, the Revenue Obligations Act and the Act are available from the Commission. All capitalized terms used in this Official Statement and not otherwise defined shall have the meanings assigned in the Resolutions.

THE DEPARTMENT OF TRANSPORTATION

The State of Wisconsin Department of Transportation (**Department** or **WisDOT**) is the State agency that is involved with all forms of transportation in the State, including the construction and reconstruction of State highways and related transportation facilities and the registration of all motor vehicles. The Department is also the State agency responsible for the collection of vehicle registration fees and other vehicle registration-related fees, which are pledged as security for the revenue obligations issued by the State pursuant to the General Resolution.

Information concerning the Department is included as APPENDIX A to this Official Statement, which includes by reference Part V of the 2006 Annual Report. APPENDIX A also includes updates to Part V of the 2006 Annual Report.

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 B, which includes by reference Part II of the 2006 Annual Report. APPENDIX B also includes updates 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 2007 SERIES A BONDS

General

The 2007 Series A Bonds are issued under the General Resolution. The front cover of this Official Statement sets forth the maturity dates, principal amounts, and interest rates for the 2007 Series A Bonds. The Legislature has authorized the issuance of $2.324 billion of revenue obligations to finance the costs of State transportation facilities and highway projects **(Projects),** excluding revenue bonds issued to refund Outstanding Bonds. To date, and including the 2007 Series A Bonds, $2.307 billion of such obligations have been issued.

The 2007 Series A Bonds will be dated their date of delivery (expected to be March 8, 2007) and will bear interest from that date payable on January 1 and July 1 of each year, beginning on July 1, 2007.

Interest on the 2007 Series A Bonds will be computed on the basis of a 30-day month and a 360-day year. Principal of and interest on the 2007 Series A Bonds will be payable to the person or entity who is, as of the fifteenth day of the month preceding each Interest Payment Date, the registered owner of record, which initially will be The Depository Trust Company, New York, New York (**DTC**) or its nominee.

The 2007 Series A Bonds are issued as fully-registered bonds without coupons in the principal denominations of $5,000 or any multiples thereof.

The Bank of New York Trust Company, N.A., as successor to J.P. Morgan Trust Company, National Association, or its successor, is the trustee for the Bonds (**Trustee**). In addition, the Trustee is the registrar (**Registrar**) and paying agent (**Paying Agent**) for the 2007 Series A Bonds.

Optional Redemption

The 2007 Series A Bonds are subject to optional redemption, at the option of the Commission, on July 1, 2015 or any date after that date, in whole or in part in integral multiples of $5,000, at a redemption price equal to par (100% of the principal amount to be redeemed), plus accrued interest to the date of redemption. In the event of partial redemption, the Commission shall direct the amounts and maturity or maturities of the 2007 Series A Bonds to be redeemed.

Selection of 2007 Series A Bonds

The 2007 Series A Bonds shall be called for redemption in multiples of $5,000 and bonds of denominations of more than $5,000 shall be treated as representing the number of bonds obtained by dividing the denomination of the bond by $5,000, and such bonds may be selected for redemption in part. If the 2007 Series A Bonds are in book-entry form and less than all of a particular maturity are to be redeemed, selection of the ownership interests of the 2007 Series A Bonds affected thereby shall be made solely by DTC and the DTC Participants in accordance with their then prevailing rules. If the 2007 Series A Bonds are in certificated form and less than all of a particular maturity are to be redeemed, selection shall be by lot.

Notice of Redemption

So long as the 2007 Series A Bonds are in book-entry form, a notice of the redemption of any 2007 Series A Bonds shall be sent to the securities depository not less than 30 days or more than 60 days prior to the date of redemption.

In the event that the 2007 Series A Bonds are outstanding in certificated form, a notice of the redemption of any 2007 Series A Bonds shall be mailed not less than 30 days prior to the date of redemption to the registered owners of any 2007 Series A Bonds to be redeemed.

Interest on any 2007 Series A Bond so called for prior redemption shall cease to accrue on the redemption date provided payment thereof has been duly made or provided for.

Ratings

At the State's request, several rating agencies have assigned a rating to the 2007 Series A Bonds:

Rating	Rating Agency
AA	Fitch Ratings
Aa3	Moody's Investors Service, Inc.
AA+	Standard and 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 2007 Series A Bonds and the Outstanding Bonds will be maintained for any period of time; a rating agency may lower or withdraw the rating it gives if in its judgment circumstances so warrant. Any downgrade or withdrawal of a rating may adversely affect the market price of the 2007 Series A Bonds and the Outstanding Bonds.

Sources and Applications

It is expected that the proceeds of the 2007 Series A Bonds will be applied as follows. Investment earnings on unspent 2007 Series A Bond proceeds deposited into the Program Account are not included with the amounts below but will be applied to cost of Projects.

Sources	
Principal Amount of the 2007 Series A Bonds	$148,710,000.00
Net Original Issue Premium	828,919.15
Total Sources	$149,538,919.15
Applications	
Deposit to the Program Account to Pay	
Costs of Projects	$148,858,674.30
Costs of Issuance	130,000.00
Underwriters' Discount	550,244.85
Total Applications	$149,538,919.15

Book-Entry-Only Form

The 2007 Series A Bonds will initially be issued in book-entry-only form. Purchasers of the 2007 Series A Bonds will not receive bond certificates but instead will have their ownership in the 2007 Series A Bonds recorded in the book-entry system.

2007 Series A Bond certificates are to be issued and registered in the name of a nominee of DTC, which acts as securities depository for the 2007 Series A Bonds. Ownership of the 2007 Series A Bonds by the purchasers is shown in the records of brokers and other organizations participating in the DTC book-entry system **(DTC Participants)**. All transfers of ownership in the 2007 Series A Bonds must be made, directly or indirectly, through DTC Participants.

Payment

The Trustee will make all payments of principal of, interest on, and any redemption premium on the 2007 Series A Bonds to DTC. Owners of the 2007 Series A Bonds will receive payments through the DTC Participants.

Notices and Voting Rights

The State and Trustee will provide notices and other communications about the 2007 Series A Bonds to DTC. Owners of the 2007 Series A Bonds will receive any notices or communications through the DTC Participants. In any situation involving voting rights, DTC will not vote but rather will give a proxy through the DTC Participants.

Redemption

If less than all of the 2007 Series A Bonds of a given maturity are being redeemed, DTC's practice is to determine by lottery the amount of the 2007 Series A Bonds to be redeemed from each DTC Participant.

Discontinued Service

In the event that participation in DTC's book-entry system were to be discontinued and a successor securities depository were not obtained, 2007 Series A Bond certificates would be executed and delivered to DTC Participants.

Further Information

Further information concerning DTC and DTC's book-entry system is available at www.dtcc.com. The State and Trustee are not responsible for any information available on DTC's web site. That information may be subject to change without notice.

The State and Trustee are not responsible for a failure by DTC or any DTC Participant to transfer payments or notices to the owners of the 2007 Series A Bonds or to follow the procedures established by DTC for its book-entry system.

Transfer of Bonds

If the 2007 Series A Bonds are no longer held in book-entry-only form, any 2007 Series A Bond may be transferred by the person in whose name it is registered, in person or by his duly authorized legal representative, upon surrender of the 2007 Series A Bond to the Registrar for cancellation, together with a duly executed written instrument of transfer in a form approved by the Registrar. Whenever any 2007 Series A Bond is surrendered for transfer, the Registrar shall deliver 2007 Series A Bonds, in like aggregate principal amount, interest rate, and maturity. The Registrar may require the Bondholder requesting the transfer to pay any tax or other governmental charge required to be paid with respect to the transfer and may charge a sum sufficient to pay the cost of preparing such 2007 Series A Bond. The Registrar shall not be obliged to make any transfer or exchange of 2007 Series A Bonds:

(1) after the 15th day of the month preceding an Interest Payment Date for the 2007 Series A Bond,

(2) during the 15 days preceding the date of the mailing of a notice of redemption of 2007 Series A Bonds selected for redemption, or

(3) after such 2007 Series A Bond has been called for redemption.

SECURITY FOR THE 2007 SERIES A BONDS

General

Information concerning the State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations Program (**Program**), security for the Bonds, sources of payment, vehicles subject to registration, past and projected vehicle registration fees, past and projected other vehicle registration-related fees, registration fee collection procedures, Reserve Fund, additional Bonds, and the Department is included as APPENDIX A, which includes by reference Part V of the 2006 Annual Report. APPENDIX A also includes updates to Part V of the 2006 Annual Report.

Prior Bonds

The State has previously issued many series of Transportation Revenue Bonds, of which the following are currently Outstanding Bonds within the meaning of the General Resolution:

Bond Issue	Dated Date
Transportation Revenue Bonds, 1993 Series A (**1993 Bonds**)	September 1, 1993
Transportation Revenue Bonds, 1998 Series A (**1998 Series A Bonds**)	August 15, 1998
Transportation Revenue Bonds, 1998 Series B (**1998 Series B Bonds**)	October 1, 1998
Transportation Revenue Bonds, 2001 Series A (**2001 Bonds**)	November 15, 2001
Transportation Revenue Refunding Bonds, 2002 Series 1 **(2002 Series 1 Bonds)**	April 15, 2002
Transportation Revenue Refunding Bonds, 2002 Series 2 **(2002 Series 2 Bonds)**	April 15, 2002
Transportation Revenue Bonds, 2002 Series A **(2002 Series A Bonds)**	October 15, 2002
Transportation Revenue Bonds, 2003 Series A **(2003 Bonds)**	November 1, 2003
Transportation Revenue Refunding Bonds, 2004 Series 1 **(2004 Bonds)**	September 30, 2004
Transportation Revenue Bonds, 2005 Series A **(2005 Series A Bonds)**	March 10, 2005
Transportation Revenue Bonds, 2005 Series B **(2005 Series B Bonds)**	September 29, 2005

These Outstanding Bonds (collectively, **Prior Bonds**) and the 2007 Series A Bonds, together with any additional Bonds issued by the State pursuant to the General Resolution, are referred to collectively as the **Bonds**. As of January 15, 2007, the amount of outstanding Prior Bonds was $1,338,635,000.

The 2007 Series A Bonds are issued on a parity with the Prior Bonds and any additional parity Bonds issued by the State pursuant to the General Resolution. This includes the $206,900,000 State of Wisconsin Transportation Revenue Refunding Bonds, 2007 Series 1 that the Commission sold on February 13, 2007 with delivery expected on March 8, 2007 **(2007 Series 1 Bonds)**.

The State has also issued Transportation Revenue Commercial Paper Notes of 1997, Series A and Transportation Revenue Commercial Paper Notes of 2006, Series A (collectively, **Notes**). As of January 15, 2007, the amount of outstanding Notes was $198,758,000. The Notes were issued pursuant to the General Resolution and pursuant to Series Resolutions that provide that the Notes are junior and subordinate to the Bonds. The Commission has authorized the issuance of additional Bonds to pay for the funding of the Notes. If and when issued, the funding Bonds will be on a parity with the Prior Bonds, the 2007 Series A Bonds, and any additional parity Bonds issued by the State pursuant to the provisions and conditions of the General Resolution.

Security

The 2007 Series A Bonds are revenue obligations of the State payable solely from the Redemption Fund created by the General Resolution. The 2007 Series A Bonds, the Prior Bonds, and any additional parity Bonds issued by the State pursuant to the General Resolution, are secured by a first lien pledge of Program Income (as defined herein), and the funds created by the General Resolution pledged to the payment of interest, principal, and Redemption Price on the Bonds.

Prior to 2003, Program Income included only vehicle registration fees authorized under Section 341.25, Wisconsin Statutes **(Registration Fees)**. A statutory change that was part of 2003 Wisconsin Act 33 provided that many additional vehicle registration-related fees can also be pledged as Program Income **(Other Registration-Related Fees)**. A supplement to the General Resolution approved by the Commission on October 15, 2003 amended the definition of **Program Income** to include both Registration Fees and the Other Registration-Related Fees.

While all Other Registration-Related Fees (which include many types of fees that are enumerated in the Wisconsin Statutes) are Program Income, many of the Other Registration-Related Fees result in insignificant or sporadic annual revenues. As a result, the State has requested ratings based on, and is currently providing continuing disclosure on some, but not all, Other Registration-Related Fees. These specific Other Registration-Related Fees include vehicle title transaction fees, registration and title counter service fees, and personalized license plate issuance and renewal fees. SEE APPENDIX A.

The Notes, and any other obligation to be issued on parity with the Notes, are also revenue obligations of the State payable from Program Income deposited into the Subordinated Debt Service Fund authorized by the General Resolution and created pursuant to the Series Resolutions for the Notes. The pledge of Program Income to the Subordinated Debt Service Fund is subordinate to the pledge of Program Income to the Redemption Fund.

The 2007 Series A Bonds shall be revenue obligations of the State payable solely out of the Redemption Fund. The State is not generally liable on the 2007 Series A Bonds, and the 2007 Series A Bonds shall not be a debt of the State for any purpose whatsoever.

Flow of Funds; Other

All Program Income shall be collected by the Trustee, or the Department as agent of the Trustee, and deposited outside the State Treasury in an account with the Trustee defined as the **Redemption Fund**. Program Income is defined to include all the interest earned or gain realized from the investment of the Redemption Fund.

Program Income received by the Trustee in the Redemption Fund is to be used:

(1) to pay interest on all Outstanding Bonds,

(2) to pay the principal or Redemption Price of all Outstanding Bonds,

(3) to maintain the Debt Service Reserve Requirement in the Reserve Fund,

(4) to pay, from the Program Expense Fund, direct administrative expenses (**Program Expenses**) of the State's program of financing Projects, and

(5) to pay, from the Subordinated Debt Service Fund, principal of and interest on the Notes and any other obligations issued on a parity with the Notes.

Program Income in excess of the amount needed for such purposes is to be transferred to the Transportation Fund held by the Department free of the lien of the pledge of the General Resolution and will be used by the Department for any of its authorized purposes.

The State pledges and agrees with the Bondholders that the State will not limit or alter its powers to fulfill the terms of any agreements (made in the General Resolution or in the Bonds) with the Bondholders, or in any way impair the rights and remedies of the Bondholders until the Bonds, together with interest, including interest on any unpaid installments of interest thereon, and Redemption Price thereof, and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully met and discharged.

Reserve Fund

The General Resolution creates a Reserve Fund and provides that it shall be used in the event there is a deficiency in the Redemption Fund for the payment of principal of and interest on all of the then Outstanding Bonds. Each Series Resolution sets forth the Debt Service Reserve Requirement, if any, for that Series, and no representation is made as to the Debt Service Reserve Requirement that may be established upon the issuance of additional Series of Bonds. The separate Debt Service Reserve Requirements for all of the Outstanding Bonds are combined to determine the aggregate Debt Service

Reserve Requirement for the Reserve Fund. If all of the Bonds of a Series cease to be Outstanding, then the aggregate Debt Service Reserve Requirement is reduced by the Debt Service Reserve Requirement attributable to that Series of Bonds. It has been the State's policy not to reduce the funds in the Reserve Fund in conjunction with a reduction in the Debt Service Reserve Requirement. However, there is no assurance that the Reserve Fund will be maintained at any amount in excess of the Debt Service Reserve Requirement.

The aggregate Debt Service Reserve Requirement is currently $60,351,600 and the current balance in the Reserve Fund is $60,860,781; the difference represents interest earned on certain investments in the Reserve Fund. With the issuance of the 2007 Series A Bonds, the State will continue its practice, implemented in 2005, of not increasing the aggregate amount of the Debt Service Reserve Requirement in connection with the issuance of additional Bonds. As a result, the Debt Service Reserve Requirement for the 2007 Series A Bonds is $0.00 and the aggregate amount of the Debt Service Reserve Requirement will remain at its current level. The State will make future decisions about the Debt Service Reserve Requirement and any change in the amount of Reserve Fund in connection with the issuance of additional Bonds on a case-by-case basis. Prior to 2005, the State generally funded the Reserve Fund at an amount equal to the maximum annual interest due on the-then Outstanding Bonds (on a fiscal year basis); however, as described in this paragraph, the State has currently discontinued this practice.

If there is a deficiency in the Reserve Fund, the Trustee shall, after setting aside in the Principal and Interest Account the applicable amount required to be deposited therein, deposit Program Income into the Reserve Fund in an amount sufficient to remedy such deficiency.

The General Resolution provides that, in lieu of a deposit to the Reserve Fund of an amount equal to the Debt Service Reserve Requirement, the State may provide for a letter of credit, municipal bond insurance policy, surety bond, or other type of agreement or arrangement with an entity having, at the time of entering into such agreement or arrangement, a credit rating equal to or greater than the rating on the Bonds which provides for the availability, at the times required pursuant to the provisions of any Series Resolution, of an amount at least equal to such Debt Service Reserve Requirement and such method of funding shall be deemed to satisfy all provisions of the Series Resolution with respect to the Debt Service Reserve Requirement and the amount required to be on deposit in the Reserve Fund with respect to such Series of Bonds.

Since 1993, the State has funded the Reserve Fund, in part, with an irrevocable surety bond (**Surety Bond)** issued by Ambac Assurance Corporation. The Surety Bond is currently in the amount of $51,258,600 and is noncancelable by the provider until it expires on the earlier of July 1, 2023, or when all Bonds are paid in full. The Surety Bond is an asset of the Reserve Fund and represents about 85% of the aggregate amount of the Debt Service Reserve Requirement; the remainder ($9,093,000) was funded with proceeds of the 2003 Bonds and is currently invested in Investment Obligations.

Additional Bonds

The General Resolution authorizes the issuance of additional Bonds for the purpose of paying the costs of Projects, funding reserves, paying costs of issuance, and refunding Outstanding Bonds. Except in the case of additional Bonds issued to refund Outstanding Bonds, additional Bonds may be issued only if Program Income for any 12 consecutive calendar months of the preceding 18 calendar months was at least equal to 2.25 times the maximum aggregate Principal and Interest Requirement in any Bond Year for all Outstanding Bonds, including the Bonds to be issued. The General Resolution defines **Outstanding Bonds**, as of any particular date, as all Bonds previously delivered and expected to be delivered, except (1) any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Registrar, (2) any Bond deemed to have been defeased pursuant to the General Resolution, and (3) any Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to the requirements of the General Resolution or any Series Resolution.

SUMMARY OF THE GENERAL RESOLUTION

A summary of the General Resolution is included as APPENDIX A, which includes by reference Part V of the 2006 Annual Report.

BORROWING PROGRAM

The sale of the 2007 Series A Bonds is the first issuance of transportation revenue bonds in calendar year 2007 to fund Projects.

The Commission previously authorized up to $250 million of transportation revenue refunding bonds. The Commission sold the 2007 Series 1 Bonds on February 13, 2007 with delivery expected on March 8, 2007. The amount and timing of any additional issuance of transportation revenue refunding bonds depend on market conditions. The 2007 Series 1 Bonds and the additional transportation revenue refunding bonds, if and when issued, will be on parity with the Prior Bonds, the 2007 Series A Bonds, and any additional parity Bonds issued by the State pursuant to the provisions and conditions of the General Resolution.

The Commission has previously authorized the issuance of additional Bonds for the funding of the outstanding Notes. If and when issued, the funding Bonds will be on parity with the Prior Bonds, the 2007 Series A Bonds, and any additional parity Bonds issued by the State pursuant to the provisions and conditions of the General Resolution.

UNDERWRITING

The 2007 Series A Bonds were purchased at competitive bidding on February 13, 2007 by Merrill Lynch & Co. (**Underwriter**). The Underwriter paid $148,988,674.30, resulting in a true interest cost rate to the State of 4.417619%.

CUSIP NUMBERS, REOFFERING YIELDS, AND PRICES

The tables appearing on the following page and on the cover include information about the 2007 Series A Bonds and are provided for reference. The CUSIP number for each maturity has been obtained from sources believed to be reliable, but the State is not responsible for the correctness of the CUSIP numbers. The reoffering yields and prices have been provided by the Underwriter to allow the computation of yield for federal tax law compliance. For each of the 2007 Series A Bonds subject to optional redemption, the dollar price at issuance is computed to the lower of the first optional call date or the nominal maturity date.

LEGALITY FOR INVESTMENT

State law provides that the 2007 Series A Bonds are legal investments for the following:

- Banks and bankers, trust companies, savings banks and institutions, savings and loan associations, credit unions, investment companies, insurance companies, insurance associations, and other persons carrying on a banking or insurance business.
- Personal representatives, guardians, trustees, and other fiduciaries.
- The State and all public officers, municipal corporations, political subdivisions, and public bodies.

$148,710,000
State of Wisconsin
Transportation Revenue Bonds, 2007 Series A

Dated Date: Date of Delivery
First Interest Date: July 1, 2007
Delivery/Settlement Date: March 8, 2007

CUSIP	Year (July 1)	Principal Amount	Interest Rate	Yield at Issuance	Price at Issuance		First Optional Call Date (July 1)	Call Price
977123 VR6	2018	$ 11,825,000	5.00%	3.95%	107.373%	(a)	2015	100%
977123 VS4	2019	12,415,000	4.25	4.27	99.804		2015	100
977123 VT2	2020	13,035,000	4.30	4.31	99.894		2015	100
977123 VU9	2021	13,685,000	4.35	4.36	99.888		2015	100
977123 VV7	2022	14,370,000	4.50	4.23	101.870	(a)	2015	100
977123 VW5	2023	15,090,000	4.40	4.44	99.533		2015	100
977123 VX3	2024	15,845,000	4.45	4.46	99.874		2015	100
977123 VY1	2025	16,635,000	4.50	4.45	100.338	(a)	2015	100
977123 VZ8	2026	17,470,000	4.50	4.48	100.131	(a)	2015	100
977123 WA2	2027	18,340,000	4.25	4.35	98.654		2015	100

(a) These 2007 Series A Bonds are priced to the July 1, 2015 first optional call date.

Note: The State has been advised by the Underwriter that it has received a Commitment for Municipal Bond Insurance from Financial Guaranty for the 2007 Series A Bonds maturing on July 1, 2018, 2022, and 2025 through 2027. Further information on the commitment and the Municipal Bond New Issue Insurance Policy may be obtained from the Underwriter and Financial Guaranty.

PENDING LITIGATION

The State and its officers and employees are defendants in numerous lawsuits. It is not expected that the pending litigation will be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially affect the payment of interest on, principal of, or Redemption Price of the 2007 Series A Bonds.

As required by law, the office of the Attorney General will examine a certified copy of all proceedings leading to issuance of the 2007 Series A Bonds. The Attorney General will deliver an opinion on the regularity and validity of the proceedings. The Attorney General's opinion will also state that there is no action, suit, or proceeding, either pending or threatened in writing, known to the Attorney General, restraining or enjoining the issuance, sale, execution, or delivery of the 2007 Series A Bonds, 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 2007 Series A Bonds, (2) the validity of the 2007 Series A Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or (3) the pledge or application of any moneys or security provided for the payment of the 2007 Series A Bonds, or the existence of the Department or its power to charge and collect Registration Fees and Other Registration-Related Fees and pledge them for the payment of the 2007 Series A Bonds.

In the event certificated 2007 Series A Bonds are issued, the certificate of the Attorney General will be printed on the reverse side of each 2007 Series A Bond.

LEGALITY

All legal matters incident to the authorization, issuance, and delivery of the 2007 Series A Bonds are subject to the opinion of Quarles & Brady LLP (**Bond Counsel**).

TAX EXEMPTION

Bond Counsel will deliver a legal opinion with respect to the federal income tax exemption applicable to the interest on the 2007 Series A Bonds under existing law substantially in the form set forth in APPENDIX C. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the 2007 Series A Bonds.

The State has covenanted to comply with all requirements referenced in the legal opinion to the extent it may lawfully do so. However, the proceedings authorizing the 2007 Series A Bonds do not provide for an increase in interest rates in the event of taxability or in the event of the inclusion of interest as an item of tax preference in computing the alternative minimum tax.

In the opinion of Bond Counsel, the 2007 Series A Bonds are not "private activity bonds" under Section 141(a) of the Internal Revenue Code, as amended **(Code)**.

The initial public offering prices of certain of the 2007 Series A Bonds (**Discounted Bonds**) are less than the principal amount payable at maturity. As a result, the Discounted Bonds will be considered to be issued with original issue discount. The original issue discount is the excess of the stated redemption price at maturity of a Discounted Bond over the initial offering price to the public, excluding underwriters or other intermediaries, at which price a substantial amount of such Discounted Bonds were sold (**issue price**). With respect to a taxpayer who purchases a Discounted Bond in the initial public offering at the issue price and who holds such Discounted Bond to maturity, the full amount of original issue discount will constitute interest which is not includible in the gross income of the owner of such Discounted Bond for federal income tax purposes and such owner will not, under present federal income tax law, realize taxable capital gain upon payment of such Discounted Bond upon maturity.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound interest basis. The amount of original issue discount that accrues to an owner of a Discounted Bond during any accrual period generally equals (1) the issue price of such Discounted Bonds plus the amount of original issue discount accrued in all prior accrual periods multiplied by (2) the yield to maturity of such Discounted Bond (determined on the basis of compounding at the close of each accrual period, and properly adjusted for the length of each accrual period), less (3) any interest payable on such Discounted Bond during such accrual period.

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

A portion of the original issue discount that accrues in each year to an owner of a Discounted Bond may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the original issue discount will be included in the calculation of the corporation's alternative minimum tax liability. Corporate owners of any Discounted Bonds should be aware that the accrual of the original issue discount in each year may result in an alternative minimum tax liability although the owners of such Discounted Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discounted Bonds in the initial public offering but at a price different than the initial offering price at which a substantial amount of that maturity of the Discounted Bonds was sold to the public should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of obligations such as the Discounted Bonds. Owners who do not purchase

Discounted Bonds in the initial public offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Bonds.

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

The initial public offering prices of certain of the 2007 Series A Bonds (**Premium Bonds**) are more than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to have "bond premium" equal to the difference between the issue price and the stated redemption price at maturity.

Any Premium Bond purchased in the initial offering at the issue price will have "amortizable bond premium" within the meaning of Section 171 of the Code. The amortizable bond premium of each Premium Bond is calculated on a daily basis from the issue date of such Premium Bond until its stated maturity date (or call date, if any) on the basis of a constant interest rate compounded at each accrual period (with straight line interpolation between the compounding dates). An owner of a Premium Bond that has amortizable bond premium is not allowed any deduction for the amortizable bond premium; rather the amortizable bond premium attributable to a taxable year is applied against (and operates to reduce) the amount of tax-exempt interest payments on the Premium Bonds. During each taxable year, such an owner must reduce his or her tax basis in such Premium Bond by the amount of the amortizable bond premium that is allocable to the portion of such taxable year during which the holder held such Premium Bond. The adjusted tax basis in a Premium Bond will be used to determine taxable gain or loss upon a disposition (for example, upon a sale, exchange, redemption, or payment at maturity) of such Premium Bond.

Owners of Premium Bonds who do not purchase such Premium Bonds in the initial offering at the issue price should consult their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

Owners of Premium Bonds should consult their own tax advisors with respect to the state and local tax consequences of the Premium Bonds.

Prospective purchasers of the 2007 Series A Bonds should be aware that ownership of the 2007 Series A Bonds may result in collateral federal income tax consequences to certain taxpayers. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the 2007 Series A Bonds should consult their tax advisors as to collateral federal income tax consequences.

From time to time, legislation is proposed which, if enacted, could alter one or more of the federal tax matters referred to above or could adversely affect the market value of the 2007 Series A Bonds. It cannot be predicted whether or in what form any of such proposals may be enacted and whether, if enacted, such proposals will apply to the 2007 Series A Bonds.

State Taxes

The interest on the 2007 Series A Bonds is not excluded from present Wisconsin income or franchise taxes. Investors should consult their own tax advisors with respect to the state and local tax consequences of owning a 2007 Series A Bond.

CONTINUING DISCLOSURE

The State has made an undertaking, for the benefit of the beneficial owners of the 2007 Series A Bonds, to provide an annual report presenting certain financial information and operating data about the State

(Annual Report). By December 27 of each year, the State will send the report to each nationally recognized municipal securities information repository **(NRMSIR)** and to any appropriate state information depository **(SID)** for the State**.** The State will also provide notices of the occurrence of certain events specified in the undertaking to each NRMSIR, or the Municipal Securities Rulemaking Board **(MSRB)**, and to any SID. At this time, there is no appropriate SID for the State. Part I of the 2006 Annual Report, which contains information on the undertaking, is included by reference as part of this Official Statement.

Copies of the Annual Reports and notices may be obtained from:

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

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

Dated: February 13, 2007

STATE OF WISCONSIN

By: /S/ JIM DOYLE
Governor Jim Doyle, Chairperson
State of Wisconsin Building Commission

By: /S/ ROBERT G. CRAMER
Robert G. Cramer, Secretary
State of Wisconsin Building Commission

By: /S/ FRANK J. BUSALACCHI
Frank J. Busalacchi, Secretary
State of Wisconsin Department of Transportation

APPENDIX A

INFORMATION ABOUT THE TRANSPORTATION REVENUE BOND PROGRAM

This appendix includes by reference information concerning the State of Wisconsin Transportation Revenue Bond Program, as contained in Part V 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 V of the 2006 Annual Report.

Part V of the 2006 Annual Report contains information concerning the Transportation Revenue Bond Program, security for the Bonds, sources of payment, vehicle registration fees, other vehicle registration-related fees, registration fee collection procedures, the Reserve Fund, additional Bonds, the Wisconsin Department of Transportation, and a summary of the General Resolution.

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 V of the 2006 Annual Report, are changes or additions to the discussion contained in those particular sections. 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.

Table V-2; Debt Service of Outstanding Transportation Revenue Bonds and Estimated Revenue Coverage (Pages 154-155). Replace with the following updated table:

The following table shows the forecasted coverage of annual debt service on the Outstanding Bonds following the issuance of the 2007 Series A Bonds, based on the Department's estimated Program Income for 2007-2016. There can be no assurance that the estimated vehicle registration **(Registration Fees)** and other vehicle registration-related fees **(Other Registration Related Fees)** will be realized in the amounts shown.

Debt Service on the 2007 Series A Bonds
and Estimated Revenue Coverage for Outstanding Bonds

2007 Series A Debt Service

Maturity (July 1)	Principal	Coupon	Interest	Debt Service on 2007 Series A Bonds	Total Debt Service[(a)(b)(c)]	Estimated Registration Fees (Millions) [(d)]	Estimated Certain Other Registration-Related Fees (Millions) [(d)]	Estimated Total Program Income (Millions) [(d)]	Estimated Coverage Ratio[(e)]
2007			2,073,103	2,073,103	$152,139,166	$384.98	$64.01	$448.99	2.95
2008			6,604,578	6,604,578	173,931,756	401.30	64.01	465.31	2.68
2009			6,604,578	6,604,578	169,041,681	405.49	64.01	469.50	2.78
2010			6,604,578	6,604,578	157,519,946	423.30	64.01	487.31	3.09
2011			6,604,578	6,604,578	157,598,798	428.79	64.01	492.80	3.13
2012			6,604,578	6,604,578	155,190,379	447.75	64.01	511.76	3.30
2013			6,604,578	6,604,578	155,412,871	454.38	64.01	518.39	3.34
2014			6,604,578	6,604,578	155,303,031	474.63	64.01	538.64	3.47
2015			6,604,578	6,604,578	147,390,894	482.56	64.01	546.57	3.71
2016			6,604,578	6,604,578	139,088,350	504.06	64.01	568.07	4.08
2017			6,604,578	6,604,578	129,799,713				
2018	$11,825,000	5.000%	6,604,578	18,429,578	126,389,938				
2019	12,415,000	4.250%	6,013,328	18,428,328	117,400,423				
2020	13,035,000	4.300%	5,485,690	18,520,690	109,416,545				
2021	13,685,000	4.350%	4,925,185	18,610,185	109,622,740				
2022	14,370,000	4.500%	4,329,888	18,699,888	93,528,145				
2023	15,090,000	4.400%	3,683,238	18,773,238	72,588,920				
2024	15,845,000	4.450%	3,019,278	18,864,278	56,686,473				
2025	16,635,000	4.500%	2,314,175	18,949,175	36,725,720				
2026	17,470,000	4.500%	1,565,600	19,035,600	19,035,600				
2027	18,340,000	4.250%	779,450	19,119,450	19,119,450				
	$148,710,000		$106,839,286	$255,549,286	$2,452,930,537				

(a) Debt service amounts are reduced to reflect accrued interest and purchase premium that may be, pursuant to the General Resolution, irrevocably deposited into the Interest Account and used to make interest payments due on the Bonds.
(b) Reflects the $206,900,000 State of Wisconsin Transportation Revenue Refunding Bonds, 2007 Series 1, sold on February 13, 2007 with delivery expected on March 8, 2007. Also reflects the advance refunding of certain Bonds that, upon the delivery of this refunding bond issue and making the required deposit into an escrow fund, will no longer be considered Outstanding pursuant to the General Resolution.
(c) Includes estimated debt service for assumed aggregate $199 million in Bonds that could be issued to fund the current two issues of Notes. These assumed bond issues are amortized with level debt service payments until 2018 and 2017, respectively, using an assumed interest rate of 5.00% per annum.
(d) Excludes interest earnings.
(e) Assumes that no additional bonds will be issued and continuation of current Registration Fees and Other Registration-Related Fees. Estimates of Program Income and coverage beyond 2016 are not available.

APPENDIX B

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:

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

On January 30, 2007, the Legislative Fiscal Bureau **(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 B-4 to B-25 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 included in the November 20, 2006 Department of Administration **(DOA)** report. The difference results from:

- An overall increase of approximately $34 million in estimated General Fund revenues. This includes the above increase of approximately $52 million in estimated tax collections and a decrease of approximately $18 million in departmental revenues.
- A decrease of approximately $7 million in estimated appropriations from the General Fund.

The projected gross ending General Fund balance included in the January 30, 2007 LFB memorandum 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 its gaming compact.

The following table includes the estimated General Fund condition statement for the 2006-07 fiscal year, as included in the January 30, 2007 LFB memorandum. The following table also includes, for comparison, the estimated General Fund condition statement that was included in the November 20, 2006 DOA report.

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

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

The January 30, 2007 LFB memorandum identifies four programs that are facing shortfalls in the 2006-07 fiscal year. The programs include (1) the Office of Public Defender, (2) BadgerCare, (3) the Department of Corrections, and (4) Wisconsin Works, Child Care, and related programs. The aggregate amount of the estimated shortfall is approximately $99 million. The Legislature has not made any appropriations to address the shortfalls, and therefore the projected shortfalls are not incorporated into the estimated General Fund condition statement.

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

LFB Revenue Estimates – 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 $64 million for the 2008-09 fiscal year. A complete copy of the January 30, 2007 LFB memorandum appears on pages B-4 to B-25 of this Official Statement.

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 this time, the State has not determined if it will appeal this decision to the State Supreme Court. The State expects that, absent a further appeal of the case, most refunds would be paid in the 2007-08 fiscal year. Since the decision regarding appeal of this decision has not been made, the sales tax estimates included in this APPENDIX A do not incorporate the potential effect of this decision. A complete copy of the January 30, 2007 LFB memorandum appears on pages B-4 to B-25 of this Official Statement.

General Fund Information; General Fund Cash Flow (Part II–Pages 39-47). Replace with the following updated information:

The tables starting on page B-26 of this Official Statement provide updates and additions to various tables containing General Fund information for the 2006-07 fiscal year, 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 in the following tables do not reflect the General Fund projections of General Fund tax collections and expenditures as included in the January 30, 2007 LFB memorandum. The tables, unless noted, contain information through December 31, 2006.

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

Operating notes were not issued for the 2005-06 fiscal year and are not currently planned for the 2006-07 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 10^{th} 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 43). Add the following table:

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2006 TO DECEMBER 31, 2006
PROJECTED GENERAL FUND CASH FLOW; JANUARY 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	$1,315,725	$1,372,116	$293,863	$762,908	$1,299,146
Ending Balance [c]	($195,929)	$108,161	$355,567	$1,112,712	$882,489	$172,573	$1,315,725	$1,372,116	$293,863	$762,908	$1,299,146	$270,705
Lowest Daily Balance [c]	($451,652)	($488,713)	($100,789)	$355,566	$628,474	($547,039)	$154,563	$970,475	$275,356	($120,659)	$620,011	($172,469)
RECEIPTS												
TAX RECEIPTS												
Individual Income	565,897	474,676	605,681	680,238	502,370	508,275	1,158,498	531,440	503,458	1,077,372	555,797	678,189
Sales & Use	402,145	401,109	397,579	396,789	378,295	345,906	417,163	319,667	305,642	350,425	357,775	380,022
Corporate Income	37,496	28,116	185,473	34,815	23,319	173,619	28,191	20,795	229,708	34,408	22,188	164,215
Public Utility	50	11	99	1,468	143,824	250	0	1,258	97	3,194	133,565	968
Excise	34,911	32,778	34,592	28,986	30,956	29,561	29,620	31,243	26,273	29,012	32,258	31,954
Insurance	316	938	30,876	592	820	33,568	2,091	18,616	27,774	28,571	1,692	29,168
Inheritance	7,193	9,971	8,044	9,665	10,691	15,756	9,977	6,773	7,574	12,599	7,720	6,918
Subtotal Tax Receipts	$1,048,008	$947,599	$1,262,344	$1,152,553	$1,090,275	$1,106,935	$1,645,540	$929,792	$1,100,526	$1,535,581	$1,110,995	$1,291,434
NON-TAX RECEIPTS												
Federal	$502,417	$581,763	$513,024	$546,768	$477,516	$444,362	$590,120	$529,214	$557,686	$489,013	$563,560	$563,435
Other & Transfers [d]	370,205	166,183	513,130	431,228	288,729	240,339	502,700	504,700	355,432	379,900	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	$1,092,820	$1,033,914	$913,118	$868,913	$1,020,660	$993,535
TOTAL RECEIPTS	$1,920,630	$1,695,545	$2,288,498	$2,130,549	$1,856,520	$1,791,636	$2,738,360	$1,963,706	$2,013,644	$2,404,494	$2,131,655	$2,284,969
DISBURSEMENTS												
Local Aids	$896,807	$130,871	$824,354	$131,610	$911,622	$1,297,119	$244,452	$249,671	$1,306,572	$134,143	$197,844	$1,958,030
Income Maintenance	509,527	436,928	399,100	442,531	442,391	437,168	449,715	424,823	446,385	372,613	423,613	322,256
Payroll and Related	295,693	358,565	411,764	307,885	336,493	350,578	385,111	350,009	501,427	313,274	337,438	409,290
Tax Refunds	64,862	80,941	45,628	52,478	33,584	115,915	73,200	465,900	480,600	422,800	177,300	133,600
Debt Service	58,612	2,473	0	160,015	0	0	0	5,001	0	330,700	5,001	0
Miscellaneous[d]	295,621	381,677	360,246	278,885	362,653	300,772	442,730	411,911	356,914	361,919	454,221	490,234
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	$1,595,208	$1,907,315	$3,091,898	$1,935,449	$1,595,417	$3,313,410

(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. 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 is the depository 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, the Secretary of Administration is authorized to prorate and defer certain payments.

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

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 December 31, 2006
(Amounts in Thousands)

	FY06 through December 2005	FY07 through December 2006			
	Actual	Actual	Estimate[(b)]	Variance	Adjusted Variance[(c)]
RECEIPTS					
Tax Receipts					
Individual Income	$ 3,141,579	$ 3,337,137	$ 3,248,413	$ 88,724	$ 88,724
Sales	2,286,980	2,321,823	2,345,106	(23,283)	(23,283)
Corporate Income	423,518	482,837	438,228	44,609	44,609
Public Utility	128,243	145,702	146,885	(1,183)	(1,183)
Excise	198,390	191,784	195,873	(4,089)	(4,089)
Insurance	66,877	67,110	69,922	(2,812)	(2,812)
Inheritance	64,458	61,320	70,073	(8,753)	(8,753)
Total Tax Receipts	$ 6,310,045	$ 6,607,713	$ 6,514,500	$ 93,213	$ 93,213
Non-Tax Receipts					
Federal	$ 3,161,288	$ 3,065,850	$ 3,287,739	$ (221,889)	$ (221,889)
Other and Transfers	2,010,556	2,012,817	2,046,100	(33,283)	(33,283)
Note Proceeds [(d)]	-	-	-	-	-
Total Non-Tax Receipts	$ 5,171,844	$ 5,078,667	$ 5,333,839	$ (255,172)	$ (255,172)
TOTAL RECEIPTS	$ 11,481,889	$ 11,686,380	$ 11,848,339	$ (161,959)	$ (161,959)
DISBURSEMENTS					
Local Aids	$ 4,124,205	$ 4,192,381	$ 4,283,776	$ 91,395	$ 91,395
Income Maintenance	2,738,558	2,667,643	2,758,343	90,700	90,700
Payroll & Related	1,992,836	2,060,978	2,060,356	(622)	(622)
Tax Refunds	391,046	393,408	406,262	12,854	12,854
Debt Service	158,248	221,100	238,571	17,471	17,471
Miscellaneous	2,002,239	1,979,856	2,219,195	239,339	239,339
Note Repayment [(d)]	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 11,407,132	$ 11,515,366	$ 11,966,503	$ 451,137	$ 451,137
VARIANCE FY07 YEAR-TO-DATE				$ 289,178	$ 289,178

(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. 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 fiscal year and are not currently expected to be issued for the 2006-07 fiscal year.

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, 2004 through December 31, 2006 — Actual
January 1, 2007 through June 30, 2007 — Estimated[(b)]
(Amounts in Thousands)

	Starting Date	Starting Balance		Receipts[(c)]	Disbursements[(c)]
2004	July	$ (21,216)	(d)	$ 1,525,326	$ 1,935,550
	August	(431,440)	(d)	1,865,101	1,224,534
	September	209,127		2,123,484	1,796,300
	October	536,311		1,717,213	1,377,813
	November	875,711		1,893,722	1,856,738
	December	912,695	(d)	1,633,039	2,340,555
2005	January	205,179		2,417,010	1,448,909
	February	1,173,280		1,833,051	1,789,367
	March	1,216,964		1,859,956	2,704,980
	April	371,940		2,042,253	1,831,196
	May	582,997		1,895,196	1,475,143
	June	1,003,050	(d)	2,075,730	3,272,463
	July	(193,683)	(d)	1,826,490	2,049,886
	August	(417,079)	(d)	1,862,861	1,309,154
	September	136,628	(d)	2,279,058	2,106,633
	October	309,053		1,832,855	1,323,363
	November	818,545		1,850,883	2,082,660
	December	586,768	(d)	1,829,742	2,535,436
2006	January	(118,926)	(d)	2,453,770	1,452,062
	February	882,782		2,082,942	1,820,094
	March	1,145,630		1,949,288	2,979,887
	April	115,031	(d)	2,316,434	1,600,131
	May	831,334		2,035,524	1,496,923
	June	1,369,935	(d)	2,033,941	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		2,738,360	1,595,208
	February	1,315,725		1,963,706	1,907,315
	March	1,372,116		2,013,644	3,091,898
	April	293,863	(d)	2,404,494	1,935,449
	May	762,908		2,131,655	1,595,417
	June	1,299,146	(d)	2,284,969	3,313,410

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

(b) 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 tax revenue estimates released by DOR on November 20, 2006. Projections in this table do not reflect the projected General Fund revenues and expenditures released by LFB on January 30, 2007. 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) Operating notes were not issued for the 2004-05 and 2005-06 fiscal years and are not currently expected to be issued for the 2006-07 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, 2004 to December 31, 2006 — Actual
January 31, 2007 to June 30, 2007— 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)	2004	2005	2006	2007
January		$ 830	$ 1,118	$ 1,118
February		960	1,041	1,041
March		1,043	1,188	1,188
April		964	957	957
May		1,045	912	912
June		1,182	1,074	1,074
July	$ 908	1,048	932	
August	1,003	1,100	1,052	
September	997	1,176	1,067	
October	954	1,115	925	
November	827	1,167	966	
December	892	1,135	1,019	

The second table includes the balances in the LGIP. The average daily balances in the LGIP for the past five years have ranged from a low of $2.211 billion during November 2005 to a high of $4.402 billion during February 2002.

(Includes Balances in the Local Government Investment Pool)

Month (Last Day)	2004	2005	2006	2007
January		$ 3,818	$ 4,232	$ 4,232
February		3,984	4,237	4,237
March		4,101	4,476	4,476
April		3,749	3,981	3,981
May		3,627	3,708	3,708
June		3,905	3,940	3,941
July	$ 4,268	4,193	4,218	
August	3,904	3,823	3,978	
September	3,726	3,746	3,845	
October	3,233	3,361	3,361	
November	3,059	3,370	3,477	
December	3,392	3,692	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 December 31, 2006 compared with previous year

	Annual Fiscal Report Revenues 2005-06 FY[(b)]	Projected Revenues 2006-07 FY[(c)]	Recorded Revenues July 1, 2005 to December 31, 2005 [(d)]	Recorded Revenues July 1, 2006 to December 31, 2006 [(e)]
Individual Income Tax	$ 6,144,299,000	$ 6,457,900,000	$ 2,746,431,995	$ 2,891,589,210
General Sales and Use Tax	4,127,585,000	4,212,900,000	1,758,886,543	1,771,561,263
Corporate Franchise		-		
and Income Tax	780,320,000	856,600,000	354,516,377	434,173,873
Public Utility Taxes	275,147,000	269,400,000	121,846,372	140,861,719
Excise Taxes	368,693,000	369,900,000	159,544,473	160,883,683
Inheritance Taxes	108,571,000	93,600,000	63,480,472	58,995,660
Insurance Company Taxes	134,665,000	141,300,000	31,734,487	32,502,663
Miscellaneous Taxes	90,806,000	89,300,000	44,860,260	39,784,476
SUBTOTAL............................	$ 12,030,086,000	$ 12,490,900,000	5,281,300,979	5,530,352,546
Federal and Other Inter-				
Governmental Revenues[(f)]	$ 6,320,576,000	$ 5,976,875,800	3,141,455,461	3,079,881,138
Dedicated and				
Other Revenues[(g)]	3,971,208,000	4,323,194,600	1,971,745,300	2,172,913,074
TOTAL.................................	$ 22,321,870,000	$ 22,790,970,400	$ 10,394,501,740	$ 10,783,146,758

(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. 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-11; 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 December 31, 2006 compared with previous year

	Annual Fiscal Report Expenditures 2005–06 FY[(b)]	Appropriations 2006–07 FY[(c)]	Recorded Expenditures July 1, 2005 to December 31, 2005[(d)]	Recorded Expenditures July 1, 2006 to December 31, 2006[(e)]
Commerce	$ 266,877,000	$ 281,243,700	$ 112,456,243	$ 122,722,743
Education	10,146,322,000	10,387,854,300	4,478,212,218	4,609,757,608
Environmental Resources	291,548,000	337,924,200	112,061,126	116,402,355
Human Relations & Resources	8,712,564,000	8,970,947,600	4,408,862,782	4,542,532,360
General Executive	694,145,000	878,235,600	365,952,129	418,500,666
Judicial	115,262,000	113,448,700	65,870,496	69,366,676
Legislative	61,343,000	65,290,600	26,543,353	26,279,175
General Appropriations	1,859,988,000	1,890,759,800	1,538,206,971	1,553,088,629
TOTAL	$ 22,148,049,000	$ 22,925,704,500	$ 11,108,165,320	$ 11,458,650,212

(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.

(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 C

FORM OF BOND COUNSEL OPINION

Upon delivery of the 2007 Series A Bonds, Quarles & Brady LLP expects to deliver to the State a legal opinion in substantially the following form:

[Letterhead of Quarles & Brady LLP]

State of Wisconsin Building Commission
101 East Wilson Street, 7th Floor
Madison, WI 53702

RE: $148,710,000 State of Wisconsin **(State)**
Transportation Revenue Bonds, 2007 Series A
dated March 8, 2007 **(Bonds)**

We have acted as bond counsel to the State in connection with the issuance of the Bonds. In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion, including a certified copy of the transcript of proceedings of record of the State of Wisconsin Building Commission **(Commission)** preliminary to and in connection with the issuance of the Bonds.

The Bonds have been authorized and issued pursuant to Subchapter II of Chapter 18 **(Revenue Obligations Act)** and Section 84.59 **(Act)** of the Wisconsin Statutes as now in force; the resolution of the Commission adopted June 26, 1986, entitled "1986 State of Wisconsin Building Commission Resolution 9, State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations General Resolution" **(General Resolution)**, as amended and supplemented by certain resolutions of the Commission adopted March 19, 1998, August 9, 2000, and October 15, 2003 (collectively, **Amending Resolutions)**; and the resolution of the Commission adopted June 28, 2006 **(Series Resolution)** (hereafter, the General Resolution, as amended by the Amending Resolutions, shall be referred to as the **General Resolution** and the General Resolution and the Series Resolution shall be referred to collectively as the **Resolutions**).

The Bonds are issued on a parity with certain outstanding transportation revenue bonds **(Prior Bonds)**, and are issued on a basis senior to certain outstanding transportation revenue commercial paper notes. The Bonds are issued to pay the costs of financing transportation facilities and major highway projects.

The Bonds are numbered R-1 and upwards; are in the denomination of $5,000 or any integral multiple thereof; are in fully registered form; are dated March 8, 2007; bear interest at the rates set forth below; and mature on July 1 of each year, in the years and principal amounts as follows:

Year	Principal Amount	Interest Rate
2018	$ 11,825,000	5.00%
2019	12,415,000	4.25
2020	13,035,000	4.30
2021	13,685,000	4.35
2022	14,370,000	4.50
2023	15,090,000	4.40
2024	15,845,000	4.45
2025	16,635,000	4.50
2026	17,470,000	4.50
2027	18,340,000	4.25

Interest on the Bonds is payable semi-annually on January 1 and July 1 of each year commencing on July 1, 2007.

At the option of the State, the Bonds are subject to redemption prior to maturity as set forth in the Official Statement.

Pursuant to the Revenue Obligations Act, the Act and the General Resolution, the State, acting through the Commission, is authorized to issue transportation revenue bonds in addition to, but on a parity with the Prior Bonds and the Bonds.

As to questions of fact material to our opinion, we have relied on the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

We have examined a sample of the Bonds and find the same to be in proper form.

Based upon our examination, it is our opinion under existing law:

(1) The State has valid right and lawful authority to finance transportation facilities and major highway projects by the adoption of the Resolutions, to perform its obligations under the terms and conditions of the Resolutions, and to issue the Bonds.

(2) The Resolutions have been duly and lawfully adopted by the Commission, are in full force and effect, and constitute valid and binding obligations of the State enforceable upon the State in accordance with their terms.

(3) The Bonds are valid and binding revenue bonds of the State secured by a pledge in the manner and to the extent set forth in the General Resolution and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution on a parity with the Prior Bonds. The General Resolution creates the valid pledge which it purports to create of the Program Income (as defined in the General Resolution) and of monies and securities on deposit in any of the Funds (as defined in the General Resolution) established under the General Resolution, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by the General Resolution.

(4) The Bonds have been lawfully authorized and issued in accordance with the Constitution and statutes of the State, including the Revenue Obligations Act and the Act and in accordance with the Resolutions.

(5) The Bonds do not constitute a debt or grant or loan of credit of the State, and the State shall not be generally liable thereon, nor shall the Bonds be payable out of any funds other than those provided therefor pursuant to the Resolutions and the Act. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal or the interest on the Bonds.

(6) The interest on the Bonds (including any original issue discount properly allocable to the owners thereof) is excludable for federal income tax purposes from the gross income of the owners of the Bonds. The interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Internal Revenue Code of 1986, as amended **(Code)** on corporations (as that term is defined for federal income tax purposes) and individuals. However, for purposes of computing the alternative minimum tax imposed on corporations, the interest on the Bonds is included in adjusted current earnings. The Code contains requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be or continue to be excludable from gross income for federal income tax purposes. Failure to comply with certain of those requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The State has agreed to comply with all of those requirements. The opinion set forth in the first sentence of this paragraph is subject to the condition that the State comply with those requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement or other offering material relating to the Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolutions may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditor's rights and may be also subject to the exercise of judicial discretion in accordance with general principles of equity, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

QUARLES & BRADY LLP

Bond Insurance

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

Payments Under the Policy

Concurrently with the issuance of the State of Wisconsin Transportation Revenue Bonds, 2007 Series A maturing on July 1, 2018, 2022, and 2025 through 2027 **(Insured 2007 Series A Bonds)**, Financial Guaranty Insurance Company **(Financial Guaranty)** will issue its Municipal Bond New Issue Insurance Policy for the Insured 2007 Series A Bonds (**Policy**). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of, and interest on, the Insured 2007 Series A Bonds which has become due for payment but shall be unpaid by reason of nonpayment by the issuer of the Insured 2007 Series A Bonds (**Issuer**). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (**Fiscal Agent**), on the later of the date on which such principal, accreted value, or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Insured 2007 Series A Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value, or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value, or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of an Insured 2007 Series A Bond includes any payment of principal, accreted value, or interest (as applicable) made to an owner of an Insured 2007 Series A Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Insured 2007 Series A Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Insured 2007 Series A Bonds may have been otherwise called for redemption, accelerated, or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Insured 2007 Series A Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon, or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment, or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the Insured 2007 Series A Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Insured 2007 Series A Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Notice, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico, the U.S. Virgin Islands, and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At December 31, 2006, the principal owners of FGIC Corporation and the approximately percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc.— 42%; affiliates of the Blackstone Group L.P.—23%; and affiliates of the Cypress Group L.L.C.—23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss, and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At December 31, 2006, Financial Guaranty had net admitted assets of approximately $3.894 billion, total liabilities of approximately $2.763 billion, and total capital and policyholders' surplus of approximately $1.131 billion, determined in accordance with statutory accounting practices **(SAP)** prescribed or permitted by insurance regulatory authorities.

The audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles **(GAAP)**, as of December 31, 2006 and December 31, 2005, which have been filed with the Nationally Recognized Municipal Securities Information Repositories **(NRMSIRs)**, are hereby included by specific reference in this Notice. Any statement contained in this Notice under the heading "Bond Insurance" or any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Notice. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Notice and prior to the termination of the offering of the Insured 2007 Series A Bonds shall be deemed to be included by specific reference into this Notice and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Recent Developments

On November 15, 2006, Financial Guaranty received a subpoena from the Antitrust Division of the U.S. Department of Justice. Based upon press reports, Financial Guaranty believes that the subpoena relates to an ongoing criminal investigation of alleged bid rigging of awards of municipal guaranteed investment contracts **(Municipal GICs)** and that several other companies (including other financial guarantors) have received similar subpoenas. Until December 18, 2003, when Financial Guaranty was acquired from General Electric Capital Corporation **(GE Capital)** by its current owners, Financial Guaranty was affiliated with certain companies **(Former Affiliates)** that provided Municipal GICs. The Former Affiliates remained a part of GE Capital after the acquisition of Financial Guaranty, and the outstanding Municipal GICs remained with the Former Affiliates. The subpoena contains no allegations or statements concerning the activities of Financial Guaranty. Financial Guaranty intends to cooperate fully with the investigation.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell, or hold the Insured 2007 Series A Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured 2007 Series A Bonds. Financial Guaranty does not guarantee the market price or investment value of the Insured 2007 Series A Bonds nor does it guarantee that the ratings on the Insured 2007 Series A Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Notice or any information or disclosure that is provided to potential purchasers of the Insured 2007 Series A Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy in this Notice under the heading "Bond Insurance". In addition, Financial Guaranty makes no representation regarding the Insured 2007 Series A Bonds or the advisability of investing in the Insured 2007 Series A Bonds.