State of Wisconsin
Event Filing #2021-09
Dated August 26, 2021

This Event Filing concerns an event described in Securities and Exchange Act Rule 15c2-12, as amended.

Issuer: State of Wisconsin
Transportation Revenue Bonds

CUSIP Numbers: 977123 Prefix (All)

Type of Information: Event Filing; Rating Change

S&P Global Ratings has upgraded the rating on the State of Wisconsin Transportation Revenue bonds from AA+ to AAA, with a "stable" outlook.

Attached is a report issued by S&P Global Ratings.

The State of Wisconsin is providing this Event Filing with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. This Event Filing is also available on the State of Wisconsin Capital Finance Office web site and State of Wisconsin investor relations web site at:

doa.wi.gov/capitalfinance

wisconsinbonds.com

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing annual reports and Event Filings pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated March 1, 2019), and is authorized to distribute this information publicly.

/S/ DAVID R. ERDMAN

David R. Erdman, Capital Finance Director
State of Wisconsin Capital Finance Office
Wisconsin Department of Administration
101 East Wilson Street, FLR 10
Madison, WI 53703
Phone: (608) 267-0374
Fax: (608) 266-7645
E-mail: DOACapitalFinanceOffice@wisconsin.gov
Website: doa.wi.gov/capitalfinance
wisconsinbonds.com

S&P Global Ratings

RatingsDirect®

Wisconsin; Appropriations; CP; Gas Tax; General Obligation; Miscellaneous Tax; Moral Obligation

Primary Credit Analyst:
Thomas J Zemetis, New York + 1 (212) 4381172; thomas.zemetis@spglobal.com

Secondary Contact:
Geoffrey E Buswick, Boston + 1 (617) 530 8311; geoffrey.buswick@spglobal.com

Table Of Contents

Wisconsin; Appropriations; CP; Gas Tax; General Obligation; Miscellaneous Tax; Moral Obligation

Credit Profile		
US$283.565 mil GO rfdg bnds of 2021 (Taxable) ser 4 due 05/01/2037		
Long Term Rating	AA+/Stable	New
Wisconsin MISCTAX		
Long Term Rating	AAA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin MISCTAX		
Long Term Rating	AAA/Stable	Upgraded

Rating Action

S&P Global Ratings raised its long-term rating on the state of Wisconsin's general obligation (GO) debt one notch to 'AA+' from 'AA'. At the same time, we assigned our 'AA+' rating to the state's series $283.565 million GO refunding bonds of 2021, series 4 (federally taxable). The outlook on all ratings is stable.

S&P Global Ratings also raised its rating on Wisconsin's appropriation-secured debt to 'AA' from 'AA-' and the state's moral obligation debt rating to 'AA-' from 'A+' on bonds backed by the state's moral obligation pledge. We also raised our rating to 'A+' from 'A' on the Wisconsin Center District appropriation bonds (Milwaukee Arena Project). The outlook on all long-term ratings is stable.

Finally, we raised our rating to 'AAA' from 'AA+' on Wisconsin's transportation revenue bonds (TRBs) outstanding, which under our "Priority-Lien" criteria (published Oct. 22, 2018, on RatingsDirect), is limited to one notch above our GO rating. For more information on the credit characteristics of TRB debt, see our most recent analysis, published July 16, 2021, on RatingsDirect.

The state's full faith, credit, and taxing power, which are irrevocably pledged to make principal and interest payments, secures the bonds and the state's GO debt outstanding. The Wisconsin Constitution requires that the legislature provide for the payment of GO bonds by appropriation. In accordance with state statutes, all GO debt service payments have an irrevocable first charge on all state revenue, and no legislative action is required to release revenues for the payment of GO debt. To further protect bondholders, state statutes prohibit Wisconsin's Secretary of Administration from prorating or reducing debt service payments.

Wisconsin will use proceeds from the 2021 series 4 bonds to advance refund certain series of general obligation bonds of the state, which were originally used to finance various general government purpose capital improvements.

Credit overview

The upgrade reflects S&P Global Ratings' view of sustained financial improvement for Wisconsin stretching over the last two biennia and reporting of budgetary surpluses in four of the previous five fiscal years, which have increased the state's combined reserve balance and liquidity positions to levels we view as very strong entering the fiscal 2021-2023 biennium. The rating action also reflects our view that Wisconsin has well-embedded statutory procedures in place that reinforce its commitment to preserve considerable reserve flexibility in its budget stabilization fund (BSF) over the longer term to mitigate fiscal volatility in future economic recessions. It also incorporates our expectation that Wisconsin will continue to take responsive budgetary measures to maintain structural balance amid lingering pandemic-induced public health and safety risks and a potentially uneven recessionary recovery within segments of its economy. This is supported by the executive branch's broad statutory authority to make intra-year spending adjustments in response to potential revenue shortfalls, and Wisconsin's development of long-term financial forecasts that incorporate conservative revenue growth assumptions and enacted legislative changes to the budget, while also identifying possible out-year structural gaps through the end of the fiscal 2023-2025 biennium. At the same time, we view Wisconsin's fully funded pension system and relatively low exposure to other postemployment benefit (OPEB) costs as key factors underpinning its longer-term credit stability.

Wisconsin estimates that it will end the fiscal 2019-2021 biennium with a relatively substantial structural surplus, totaling $1.35 billion over the previous fiscal year, and its projected ending net general fund balance is expected to increase to $2.52 billion, from $1.17 billion, in the previous fiscal year. Wisconsin attributes this surplus to comparatively strong revenue collections relative to budgeted revenue estimates and tight spending controls implemented during a period of pandemic-driven economic and revenue uncertainty. In June 2021, the state's Legislative Fiscal Bureau (LFB) released its fiscal biennium 2019-2021 report, indicating actual revenue collections will exceed biennial budget projections by $1.6 billion, or approximately 9.1%, a substantial improvement from the LFB's January 2021 forecast. Additionally, the June 2021 report revised general fund tax revenue estimates upward by approximately $1.54 billion for fiscal 2022 and $1.44 billion for fiscal 2023, which incorporates accelerating economic activity and additional federal stimulus on the state's revenue growth outlook and the effective implementation of the COVID-19 vaccination program--all uncertainties at the time of the January 2021 forecast.

Based on the recent trend of better-than-budgeted financial performance, Wisconsin has built a substantial financial cushion due to a statutory mechanism that requires the state to deposit 50% of actual general fund tax revenue (if in excess of projected revenues) to be transferred into the state's BSF. Under these provisions, LFB projects that the state will deposit approximately $807.9 million to its BSF and set aside an additional $5 million in its statutory reserve--in accordance with Wisconsin statutes--bringing its combined reserve balance to $1.655 billion, or approximately 9% of general-purpose fund expenditures, to begin the fiscal 2021-2023 biennium. This deposit would increase balances in the Wisconsin's BSF to the highest level in its history, and the enacted fiscal 2021-2023 biennium budget does not appropriate BSF reserves. Drawing down reserves would require both executive and legislative approval, which, in our view, is likely to support the BSF's stability over the near term.

The year-end increase to BSF reserves and access to substantial internal sources of liquidity largely, in our opinion, indicates that Wisconsin has built financial capacity to alleviate near-term budgetary pressures should they arise. Wisconsin maintains significant liquidity in the form of internal borrowable resources that are capped at 9% of general-purpose revenue appropriations and an additional 3% that can be borrowed for a 30-day period. If needed, these temporary reallocations would provide approximately $1.73 billion and $576 million, respectively.

Wisconsin enacted a fiscal 2021-2023 biennial budget that, like previous biennial budgets, projects the use of prior-year general fund surplus, although actual revenue growth has historically outperformed the state budget's conservative revenue estimates. In the current biennium, Wisconsin estimates year-over-year general fund tax revenue to decrease by 3.5% in fiscal 2022 and grow by 4.8% in fiscal 2023, which we view as reasonable, given current economic conditions. At the same time, the biennial budget estimates the use of $519 million (or 2.7%) from the prior-year general fund surplus in fiscal 2022 and $327 million (or 1.6%) in fiscal 2023, resulting in a projected reduction of the net general fund balance to $1.58 billion at the end of the biennium. In our view, Wisconsin's ability to manage its budget proactively and make timely adjustments to service levels, coupled with an emphasis on structural balance should revenue projections fall short in fiscal 2021-2023, will remain important considerations for its credit profile.

The LFB published its projected general fund condition statement in August 2021, which, in our view, serves as an important budget planning tool for the state. This analysis carries forward the budgetary effect on base revenues and appropriations for fiscal 2023-2025 based on current legislatively enacted expenditures and assumes no estimated revenue growth. Based on these assumptions, the LFB estimates the net structural deficit to be $362 million (or 1.8%) for fiscal 2024, growing to $391 million (or 1.9%) for fiscal 2025, resulting in a net general fund balance of $1.02 billion. Absent any tail risks during the current biennium that could materially change these assumptions, however, we believe future measures to close these out-year structural gaps remain manageable for Wisconsin.

The 'AA+' rating on Wisconsin's GO bonds reflects our view of the state's:

- Governmental framework, which is supportive of credit quality, with a constitutional balanced-budget requirement and a statutory provision that gives GO debt service the first claim on state revenue;
- Demonstrated executive branch authority and ability to make midyear budget corrections and introduce budget repair bills when intra-year revenue and expenditure gaps are identified;
- Improved revenue collections and budgetary performance that generated surpluses over the past two biennia and contributed to a gradual build-up of reserves in its statutory reserve and BSF; and
- Well-funded pension system and only an implicit unfunded OPEB liability.

These strengths are partially offset by our view of the state's:

- Economic, wealth, and income growth rates that have persistently lagged those of the nation and longer economic vulnerability stemming from the relatively large manufacturing sector, the effects of a stronger U.S. dollar, and the potential for weaker demand from trading partners for state exports; and
- Moderate-to-moderately high debt burden, and the state's recognition of nearly $1.5 billion in moral obligation-backed debt, whereby the state would make up deficiencies in the special debt service reserve funds related to various authorities, economic development-related projects backed by local governments, and local district revenue bonds.

Environmental, social, and governance (ESG) factors

In general, S&P Global Ratings considers Wisconsin's social risks in line with the sector, although the state's aging working-age population and relatively slow population growth and outmigration rates compared with the sector will likely weigh on its long-term demographic conditions and economic growth forecasts. We view the state's governance and environmental risks as being in line with the sector, and the state has historically maintained a policy framework to manage current service demands and long-term fixed costs (particularly pensions and OPEB) effectively. Wisconsin has also integrated climate change and cybersecurity preparedness planning across states agencies and has made capital investments to respond to these emerging risks.

Stable Outlook

Downside scenario

Although we anticipate that Wisconsin will uphold budget oversight practices and make commensurate budgetary adjustments when necessary, should counterbalancing budgetary solutions prove insufficient or difficult to implement in response to a material structural budget misalignment, and Wisconsin demonstrates a lack of commitment to sustaining its reserve or liquidity position at levels we view as commensurate with peers, we could lower the rating. In our view, the state's higher concentration in more cyclical economic sectors could also intensify this downside risk should a slower-than-forecast economic recovery and weaking revenue collections lead to less manageable projected budget gaps in the current and future fiscal biennia.

Upside scenario

While unlikely over the outlook period, if Wisconsin's economic growth and income metrics strengthen to a level that more closely aligns with the broader U.S. economy and higher-rated peers, and the state capitalizes on economic development initiatives that diversify its economic base and sustains it in a way that we believe better insulates the state from economic and revenue cyclicality, we could raise the rating. Positive rating action would also be predicated on legislative and executive consensus on recurring solutions to achieve and sustain structural budget stability in the current and subsequent biennia, while also reducing its currently moderate-to-moderately high debt burden.

We have assigned a total score of '1.8' to Wisconsin under our state ratings methodology, in which '1.0' is the strongest score and '4.0' the weakest. This score corresponds to our 'AA+' rating.

Credit Opinion

Wisconsin's economic and employment recovery underway, although longer-term income and state GSP growth expected to trail U.S. levels

Optimism for an accelerating economic recovery for the U.S. in 2021 has been spurred on by faster-than-expected vaccination implementation that has quickened the reopening of large segments of the economy and relaxed social distancing restrictions, and the injection of additional federal stimulus from the enacted American Rescue Plan (ARP) to states and individuals. As economic headwinds have given way to expansion, S&P Global Economics raised its baseline real U.S. GDP forecast to 6.7% (annual) in 2021 and 3.7% in 2022, up from a forecast 6.5% and 3.1%, respectively, in its March 2021 report. While S&P Global Economics estimates that the broader labor market and employment rate recovery will have a longer tail-end recovery to pre-pandemic levels by first-quarter 2023, the risk of recession is now 10% to 15% over the next 12 months. For additional information, see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021, and "U.S. Public Finance Mid-Year Outlook: Beyond COVID?," published July 22, 2021, on RatingsDirect. In our view, Wisconsin has experienced cyclical contractions similar to the U.S., and despite a stronger employment recovery that has outpaced the nation following previous recessions, Wisconsin's growth rate has generally trailed the U.S. as broader economic expansion accelerates.

While the broader economic outlook is healthier across the U.S. compared with a year ago, we continue to monitor Wisconsin's longer-term path out of the current economic cycle. An important credit consideration will be the recovery track of the state's more traditional industries--including manufacturing and certain service-based sectors--and whether the state can pivot and diversify its industry and employment base in a way that better insulates it from considerable cyclical economic losses during recessions and supports swifter economic recoveries thereafter. State officials estimate that Wisconsin has recovered approximately 70% of its 400,000 jobs lost in the recession; we note that the concentration of employment losses and the ensuing recovery continues to be slowest among the state's lower-wage sectors, particularly leisure and hospitality. The state's unemployment rate fell to 3.9% as of June 2021, from a peak of 14.8% in April 2020, and it remains below the U.S. June 2021 average unemployment rate of 5.9%. However, Wisconsin could still face tail-end economic challenges should the COVID-19 variants reduce labor force participation, or if a sharp pullback in extraordinary federal stimulus that blunted the effect of employment losses on gross state product and personal income levels in 2020 and the first half of 2021 setback the state's recovery.

Wisconsin's strong balances, conservative revenue forecasting provide flexibility to manage fiscal 2021-2023 biennium budget

Wisconsin's governor signed the fiscal 2021-2023 biennial budget on July 8, 2021, which included net appropriations totaling $19.56 billion in fiscal 2022 and $20.28 billion in fiscal 2023. The state's biennial budgets have projected the use of prior-year general fund surplus in nine of the previous 10 fiscal biennia, yet actual revenue growth has historically outperformed the state's budget revenue estimates. In the current biennium, Wisconsin projects year-over-year general fund tax revenue to decrease by 3.5% in fiscal 2022 and grow by 4.8% in fiscal 2023, which we view as reasonable, given current economic conditions. At the same time, the biennial budget estimates the use of $519 million (or 2.7%) from the prior-year general fund surplus in fiscal 2022 and $327 million (or 1.6%) in fiscal 2023, resulting in a projected reduction of the net general fund balance to $1.58 billion at the end of the biennium. We are also monitoring the effect of recently enacted state individual income tax rate reductions on revenue growth expectations--the state's primary revenue source--as these changes are projected to reduce income tax collections by approximately $1.02 billion in fiscal 2022 and $994.3 million in fiscal 2023. While we view Wisconsin as having a high degree of flexibility ability to reduce expenditures, we will also monitor how it manages potential tail-end federal budgetary cliffs that could form through the fiscal recovery as the state's share of enhanced federal transfer payments--including enhanced federal medical assistance percentage allocations--decline over time.

Furthermore, we note that the enacted fiscal 2021-2023 biennial budget does not appropriate federal aid that came with the passage of the ARP to fund recurring operations. In total, Wisconsin expects to receive approximately $2.5 billion in direct aid from the State Fiscal Recovery Fund. Wisconsin's governor developed a proposal to allocate the first tranche of ARP funds (totaling $1.3 billion) received in May 2021 for nonrecurring expenses. The plan includes

$650 million for small business support, $525 million for state pandemic response expenditures, $510 million for economic wellbeing and health recovery, and $200 million infrastructure (including broadband expansion). Under the governor's plan, the state would also set aside up $416 million for future response.

Well-funded pension system offsets moderate-to-moderately high debt levels and will help support credit stability

Wisconsin's debt burden is moderate-to-moderately high, by most comparative measures, but we believe the state remains active in managing its fixed-cost profile and has sought out refunding and cash defeasance opportunities to achieve future debt service savings and reduce its overall debt burden. Wisconsin has historically maintained front-loaded debt service, and its amortization schedule is average, with approximately 55% of its tax-supported debt retired within the next 10 years. The state's annual tax-supported debt service is moderate, in our view, at 5.7% of general government spending and 3.8% of gross state product. At the same time, its tax-supported debt burden is $2,271 per capita and 4.3% of personal income, which we consider moderately high.

We also expect that employer contributions to the state's pension plans will continue to meet or exceed actuarially determined levels. In our opinion, Wisconsin's management of the Wisconsin Retirement System (WRS), postretirement-liability reform efforts, and flexibility to adjust employee contributions to address investment losses over the past decade have helped the state maintain minimum funding progress of its largest pension plans. WRS' three-year average pension funding ratio is 101% as of June 30, 2020, and ranks consistently as one of the most well-funded pension systems among U.S. states. While we continue to watch for latent stressors for WRS over the near term, we believe the state's management of its postretirement liabilities remains a stabilizing credit factor.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of August 25, 2021)		
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded

Ratings Detail (As Of August 25, 2021) (cont.)		
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP		
Long Term Rating	AA/Stable	Upgraded
Wisconsin APPROP (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Wisconsin APPROP (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Wisconsin CP		
Short Term Rating	A-1+	Affirmed
Wisconsin CP		
Short Term Rating	A-1+	Affirmed
Wisconsin CP		
Short Term Rating	A-1+	Affirmed
Wisconsin CP		
Short Term Rating	A-1+	Affirmed
Wisconsin CP		
Short Term Rating	A-1+	Affirmed
Wisconsin GASTAX		
Long Term Rating	AAA/Stable	Upgraded
Wisconsin GO		
Long Term Rating	AA+/Stable	Upgraded
Wisconsin GO		
Long Term Rating	AA+/Stable	Upgraded
Wisconsin GO		
Long Term Rating	AA+/Stable	Upgraded
Wisconsin GO		
Long Term Rating	AA+/A-1+/Stable	Upgraded
Wisconsin GO		
Long Term Rating	AA+/Stable	Upgraded
Wisconsin GO		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Wisconsin GO		
Long Term Rating	AA+/Stable	Upgraded
Wisconsin GO bnds		
Long Term Rating	AA+/Stable	Upgraded
Wisconsin GO (AGM)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Ratings Detail (As Of August 25, 2021) (cont.)		
Wisconsin GO (FGIC) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Wisconsin GO (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Wisconsin GO (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Wisconsin MISCTAX (BHAC) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Wisconsin MISCTAX (FGIC) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Milwaukee Redev Auth, Wisconsin		
State of Wisconsin, Wisconsin		
Milwaukee Redev Auth (Wisconsin) MORALOB		
Long Term Rating	AA-/Stable	Upgraded
Milwaukee Redev Auth (Wisconsin) MORALOB (National)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Wisconsin Center Dist, Wisconsin		
State of Wisconsin, Wisconsin		
Wisconsin Center Dist (Wisconsin) APPROP		
Long Term Rating	A+/Stable	Upgraded
Wisconsin Center Dist (Wisconsin) MORALOB (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Wisconsin Center Dist (Wisconsin) MORALOB (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Mount Pleasant Vill, Wisconsin		
Mount Pleasant Vill, Wisconsin		
State of Wisconsin, Wisconsin		
Mount Pleasant Vill (Wisconsin) MORALOB		
Long Term Rating	AA-/Stable	Upgraded
Mount Pleasant Vill, Wisconsin		
Mount Pleasant Vill, Wisconsin		
State of Wisconsin, Wisconsin		
Mount Pleasant Vill (Wisconsin) MORALOB (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Mount Pleasant Vill, Wisconsin		
Mount Pleasant Vill, Wisconsin		
State of Wisconsin, Wisconsin		
Mount Pleasant Vill (Wisconsin) MORALOB (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.