STATE OF WISCONSIN

CONTINUING DISCLOSURE ANNUAL REPORT

FILED PURSUANT TO UNDERTAKINGS PROVIDED TO PERMIT COMPLIANCE WITH SECURITIES EXCHANGE COMMISSION RULE 15C2-12

STATE OF WISCONSIN

General Obligations
Master Lease Certificates of Participation
Transportation Revenue Obligations
Clean Water Revenue Bonds

December 23, 1998

www.doa.state.wi.us/debf/capfin/annreport/98condis.htm

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
101 East Wilson Street, Madison, Wisconsin

TOMMY G. THOMPSON
GOVERNOR
MARK D. BUGHER
SECRETARY

Mailing Address:
Post Office Box 7864
Madison, WI 53707-7864

Frank R. Hoadley
Capital Finance Director
Telephone: (608) 266-2305
Facsimile: (608) 266-7645

December 23, 1998

To the Municipal Bond Investment Community and Other Users of this Report:

This document constitutes the Annual Report for the fiscal year ending June 30, 1998 submitted by the State of Wisconsin (**State**) in fulfillment of undertakings it has made to permit brokers, dealers and municipal securities dealers to comply with Rule 15c2-12 under Securities Exchange Act of 1934. This Annual Report is being submitted on this date to each nationally recognized municipal securities information repository. At this date, there is no state information depository for the State of Wisconsin.

The State continues a global approach to this report with more information than is required by the State's disclosure undertakings. This report will be incorporated by reference into Official Statements and Offering Memoranda for bonds and notes issued by the State in 1998. The format of this document will be modified from time to time to keep it useful. Feedback on format and content is appreciated.

This Annual Report is divided into six parts. The first two parts present some general information.

- **Part I** presents the State's continuing disclosure undertakings. The State has executed a Master Agreement on Continuing Disclosure that establishes a general framework under which the State will provide continuing disclosure on different types credits issued by the State. The State has also executed four separate addenda that describe the information to be provided in an annual report about general obligations, master lease certificates of participation, transportation revenue obligations, and clean water revenue bonds, respectively.

- **Part II** presents general information about the State, including its operations and financial results. This part includes the audited general purpose financial statements for the fiscal year ending June 30, 1998 and the State Auditor's report.

The remaining parts separately present information about different types of municipal securities issued by the State.

- **Part III** presents information on general obligations of the State.

- **Part IV** presents information on master lease certificates of participation

- **Part V** presents information on transportation revenue obligations

- **Part VI** presents information on clean water revenue bonds

Because these parts relate to different types of municipal securities issued by the State, the context or meaning for terms used in one part may differ from that of terms used in another part.

The following is a summary of the ratings, as of December 1, 1998, assigned to the different types of municipal securities issued by the State:

Credit	Fitch IBCA, Inc.	Moody's Investors Service, Inc.	Standard & Poor's Ratings Services
General Obligations	AA+	Aa2	AA
Master Lease Certificates of Participation	AA–	A1	A+
Transportation Revenue Bonds	AA	A1	AA–
Clean Water Revenue Bonds	AA+	Aa2	AA+

This Annual Report includes the State's audited general purpose financial statements for the fiscal year ending June 30, 1998, as prepared by the State Controller. Interested parties may also wish to refer to the State Controller's comprehensive annual financial report (**CAFR**) for the same period. The CAFR may be obtained by contacting this office or can be located on the world wide web.

We wish to direct interested parties to additional information about the State that are located on the world wide web. Please use the following addresses to locate these resources:

Financial Disclosure and Debt Management, including this Annual Report, the CAFR, Official Statements, Offering Memoranda, Upcoming Sale Materials and Secondary Market Continuing Disclosure Announcements	www.doa.state.wi.us/debf/scf1.htm
State of Wisconsin Information, including Wisconsin Statutes, Legislation and other general information	badger.state.wi.us

The Capital Finance Office is the investors relations office for the State. Persons interested in information about financial obligations issued by the State and information bearing on the credit of these obligations should seek such information through the Capital Finance Office. No other person is authorized to speak on behalf of the State on these matters. In addition, participants in the securities market are cautioned that statements made by other persons affiliated with the State – whether or not those statements are understood to be political speech – are not intended to be relied upon by participants in the securities market.

The general telephone number for information is (608) 266-2305. The e-mail address for information is capfin@doa.state.wi.us.

Sincerely,

Frank R. Hoadley
Capital Finance Director

SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 1, 1998

	Principal Balance 12/15/97	Principal Issued 12/15/97 – 12/1/98	Principal Matured or Redeemed 12/15/97 – 12/1/98	Principal Balance 12/1/98
GENERAL OBLIGATIONS[a]				
Total General Obligations	**$3,428,350,624**	**$663,580,000**	**$527,706,555**	**$3,564,224,069**
General Purpose Revenue (GPR)	2,447,229,443	436,071,081	427,633,681	2,455,666,842
Self-Amortizing: Veterans	665,020,000	125,725,000	35,545,000	745,200,000
Self-Amortizing: Other	326,101,182	101,783,919	64,527,874	363,357,227
MASTER LEASE CERTIFICATES OF PARTICIPATION[b]				
Master Lease COPs	**$38,241,971**	**$30,538,993**	**$26,204,121**	**$42,576,843**
TRANSPORTATION REVENUE OBLIGATIONS[a]				
Transportation Revenue Obligations	**$878,309,000**	**$240,590,000**	**$161,701,000**	**$957,198,000**
CLEAN WATER REVENUE BONDS				
Clean Water Revenue Bonds	**$437,370,000**	**$194,360,000**	**$118,375,000**	**$513,355,000**
OPERATING NOTES				
Operating Notes	**$450,000,000**	**$350,000,000**	**$450,000,000**	**$350,000,000**

(a) This table includes commercial paper notes. The State intends to treat each issue of commercial paper notes as if it were a long-term obligation and will make annual payments on the outstanding commercial paper notes to reflect a principal amortization. The State also intends to make semi-annual interest payments on the outstanding commercial paper notes. See Table III-10 (general obligation commercial paper notes) and Table V-5 (transportation revenue commercial paper notes) for additional information on these payments.

(b) As of December 10, 1998.

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STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF STATE OF WISCONSIN BONDS AND NOTES

BUILDING COMMISSION MEMBERS

Voting Members	Term of Office Expires
Governor Tommy G. Thompson, Chairperson	January 4, 1999
Senator Fred A. Risser, Vice-Chairperson	January 8, 2001
Senator Carol Roessler	January 8, 2001
Senator Brian D. Rude	January 8, 2001
Representative Timothy Hoven	January 4, 1999
Representative Clifford Otte	January 4, 1999
Representative Robert Turner	January 4, 1999
Mr. Bryce Styza, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Mark D. Bugher, Secretary Department of Administration	At the pleasure of the Governor
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Wilbert King, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert Brandherm (also serves as Administrator, Division of Facilities Development of the Department of Administration)	At the pleasure of the Building Commission and Secretary of Administration

OTHER PARTICIPANTS

Mr. Jack C. Voight State Treasurer	January 4, 1999
Mr. James E. Doyle State Attorney General	January 4, 1999

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
capfin@doa.state.wi.us

Mr. Frank R. Hoadley
Capital Finance Director
(608) 266-2305
frank.hoadley@doa.state.wi.us

Mr. Lawrence K. Dallia
Assistant Capital Finance Director
(608) 267-7399
larry.dallia@doa.state.wi.us

Mr. David R. Erdman
Capital Finance Officer
(608) 267-0374
david.erdman@doa.state.wi.us

As of the date of this Annual Report, additional information about the State of Wisconsin can be found on the internet at:

badger.state.wi.us

(This additional information, however, is not part of this Annual Report)

PART I

STATE'S CONTINUING DISCLOSURE UNDERTAKINGS

This part provides information on the undertakings the State of Wisconsin has made to enable brokers, dealers and municipal securities dealers, in connection with their participation in the offerings of municipal securities issued by the State, to comply with Rule 15c2-12 (b) (5) under the Securities Exchange Act of 1934.

This part includes a conformed copy of the State's Master Agreement on Continuing Disclosure, which establishes a general framework under which the State will provide continuing disclosure on different credits issued by the State. This part of the Annual Report also includes four addenda that the State has executed. These describe information to be provided in an annual report about the following credits:

- general obligations
- master lease certificates of participation
- transportation revenue bonds
- clean water revenue bonds

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:	capfin@doa.state.wi.us

This Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part. Material referred to in this Annual Report, including information available on the world wide web, is not part of this Annual Report unless expressly included by reference.

MASTER AGREEMENT ON CONTINUING DISCLOSURE

This Master Agreement on Continuing Disclosure (the "Disclosure Agreement") is executed and delivered by the State of Wisconsin (the "Issuer"), a municipal securities issuer and a sovereign government. The Issuer covenants and agrees as follows:

SECTION 1. Definitions. The following capitalized terms shall have the following meanings:

"**Addendum Describing Annual Report**" means an addendum, substantially in the form of Exhibit A hereto, that describes the contents of an Annual Report for a particular type of obligation.

"**Annual Report**" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

"**Bonds**" shall mean any issue of the Issuer's obligations to which this Disclosure Agreement applies.

"**Bondholders**" shall mean the beneficial owners from time to time of the Bonds.

"**Disclosure Agreement**" shall mean this agreement.

"**Issuer**" shall mean the municipal securities issuer described above.

"**Listed Events**" shall mean any of the events listed in Section 6 (a) of this Disclosure Agreement.

"**MSRB**" shall mean the Municipal Securities Rulemaking Board.

"**National Repository**" shall mean any nationally recognized municipal securities information repository for purposes of the Rule.

"**Participating Underwriter**" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with an offering of the Bonds.

"**Resolution**" shall mean the resolution or resolutions of the State of Wisconsin Building Commission (the agency of the Issuer responsible for issuance of the Bonds) or the trust indenture entered into by the Issuer, pursuant to which the Bonds are issued.

"**Rule**" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"**State Depository**" shall mean the public or private entity, if any, designated by the Issuer as a state depository for the purpose of the Rule.

"**Supplemental Agreement**" means an agreement, substantially in the form of Exhibit B hereto, that determines that the Disclosure Agreement shall apply to a specific issue of obligations and specifies the contents of the Annual Report.

SECTION 2. Purpose of the Disclosure Agreement. The purpose of this Disclosure Agreement is to assist Participating Underwriters in complying with the Rule in connection with the Bonds.

SECTION 3. Application of the Disclosure Agreement. This Disclosure Agreement shall apply to an issue of Bonds when the Issuer executes and delivers a Supplemental Agreement. This Disclosure Agreement may apply to more than one issue of Bonds but shall be construed as a separate agreement for each issue of Bonds. The purpose of having this Disclosure Agreement apply to more than one issue of Bonds is to let the Issuer's obligations be uniform for all issues of Bonds.

SECTION 4. Provision of Annual Reports.

(a) The Issuer shall, not later than 180 days following the close of the Issuer's fiscal year (starting with the fiscal year that ends June 30, 1996), provide to each National Repository and State Depository an Annual Report that is consistent with the requirements of Section 5 of this Disclosure Agreement.

(b) If the Annual Report does not include the Issuer's audited financial statements, the Issuer shall submit them to each National Repository and State Depository within ten business days after the statements are publicly available.

(c) If the Issuer fails to provide to each National Repository and State Depository an Annual Report by the date required in subsection (a), the Issuer shall send a notice to each National Repository and State Depository.

SECTION 5. Content of Annual Reports.

(a) The Annual Report shall be provided for each obligated person described in the Addendum Describing Annual Report, and it shall contain or incorporate by reference, the financial statements and operating data, and use the accounting principles, described in the Addendum Describing Annual Report.

(b) The Annual Report may be submitted as a single document or as a package comprising separate documents. Any or all of the items constituting the Annual Report may be incorporated by reference from other documents that have been submitted to (i) each National Repository and the State Depository, if any or (ii) the Securities and

Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

(c) To allow for uniformity of the contents of Annual Reports with respect to obligations that are similar in character, the Issuer may from time to time describe the contents in an Addendum Describing Annual Report and shall incorporate a description by reference in a Supplemental Agreement.

SECTION 6. Reporting of Significant Events.

(a) This Section 6 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of Bondholders.
8. Bond calls.
9. Defeasances.
10. Release, substitution, or sale of property securing repayment of the Bonds.
11. Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall promptly file a notice of such occurrence with each National Repository and the State Depository, if any (or to the MSRB and the State Depository, if any). Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and

(9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to affected Bondholders if it is required pursuant to the Resolution.

(c) Similarly, if the Issuer determines that it failed to give notice as required by this section, it shall promptly file a notice of such occurrence in the same manner as described in subsection (b).

SECTION 7. <u>Termination of Reporting Obligation</u>. The Issuer's obligations under this Disclosure Agreement with respect to the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds or if the Rule shall be revoked or rescinded by the Securities and Exchange Commission or declared invalid by a final decision of a court of competent jurisdiction.

SECTION 8. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if the following conditions are met:

(a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer, or an obligated person, or the type of business conducted; and

(b) This Disclosure Agreement, as amended or waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of Bondholders, as determined by an opinion of nationally recognized bond counsel, a certificate from an indenture trustee for the Bonds, or an approving vote of Bondholders pursuant to the terms of the Resolution at the time of the amendment or waiver.

SECTION 9. <u>Additional Information</u>. The Issuer may from time to time choose to disseminate other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or include other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy of a Bondholder under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance. The Issuer reserves any defense it may have to any such action including that this Disclosure Agreement violates sovereign rights or that no funds have been appropriated for performance.

SECTION 11. Beneficiaries. The Issuer intends to be contractually bound by this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Participating Underwriters and Bondholders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Responsible Officer. Pursuant to a resolution adopted by the State of Wisconsin Building Commission on August 9, 1995, the Capital Finance Director has been authorized to execute this Disclosure Agreement on behalf of the Issuer and the Capital Finance Office has been designated the office of the Issuer responsible for providing Annual Reports and giving notice of Listed Events, to the extent required hereunder. Any inquiries regarding this Disclosure Agreement should be directed to the Capital Finance Office, Department of Administration, Division of Executive Budget and Finance, 101 East Wilson Street, Madison, Wisconsin 53702, Phone: (608) 266-5355, Fax: (608) 266-7645.

IN WITNESS WHEREOF, the Issuer has caused this Disclosure Agreement to be executed by its duly authorized officer.

Date: September 25, 1995

STATE OF WISCONSIN
Issuer

By /S/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

<u>EXHIBIT A</u>

FORM OF ADDENDUM DESCRIBING ANNUAL REPORT

ADDENDUM DESCRIBING ANNUAL REPORT
FOR [TYPE OF OBLIGATIONS]

This Addendum Describing Annual Report for [Type of Obligation] (the "Addendum") is delivered by the State of Wisconsin (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated ________________, 1995. This Addendum describes the content of an Annual Report prepared with respect to [type of obligation]. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

<u>Issuer</u>. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

<u>Additional Obligated Person(s)</u>: [None] [Each of the entity named or described by objective criteria below is an obligated person:
____]

<u>Content of Annual Report for Issuer</u>. *Accounting Principles.* The following accounting principles shall be used for the financial statements: __________________
__________________________________.

Financial Statements. The following financial statements shall present the following information:
________.

Operating Data. In addition to the financial statements, operating data about the following matters shall be presented: _______________________________________
______________________________.

<u>Content of Annual Report for Additional Obligated Person(s)</u>. *Accounting Principles.* The following accounting principles shall be used for the financial statements:
___________________________.

Financial Statements. The financial statements shall present the following information:
________.

Operating Data. In addition to the financial statements, operating data about the following matters shall be presented:
____.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: ___________, ____

STATE OF WISCONSIN
Issuer

By ________________________________

Name: ________________________
Title: _________________________

EXHIBIT B

FORM OF SUPPLEMENTAL AGREEMENT

SUPPLEMENTAL AGREEMENT

This Supplemental Agreement is executed and delivered by the State of Wisconsin (the "Issuer") to supplement the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated _______________, 1995. Pursuant to the provisions of the Disclosure Agreement, the Issuer hereby determines that the Disclosure Agreement and the Addendum Describing Annual Report for [Type of Obligation] shall apply to the following issue of obligations:

Name of Obligations:

____
____

Date of Issue: ___________, ____

CUSIPs: ___________________________

IN WITNESS WHEREOF, the Issuer has caused this Supplemental Agreement to be executed by its duly authorized officer.

Date: ____________, ____

STATE OF WISCONSIN
Issuer

By _________________________________

Name: _________________________
Title: __________________________

ADDENDUM DESCRIBING ANNUAL REPORT
FOR GENERAL OBLIGATIONS

This Addendum Describing the Annual Report for General Obligations (the "Addendum") is delivered by the State of Wisconsin (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated September 25, 1995. This Addendum describes the content of an Annual Report to be prepared with respect to general obligations. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): None

Content of Annual Report for Issuer. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information: The General Purpose Financial Statements section of the Comprehensive Annual Financial Report.

Operating Data. In addition to the financial statements, unaudited operating data concerning the following matters shall be presented: (i) revenues received by the State, (ii) expenditures made by the State, (iii) budgets, (iv) selected financial data concerning the General Fund, (v) information concerning interfund borrowings, (vi) pertinent information on significant pending litigation, (vii) balances of outstanding State obligations, and (viii) statistical information on the State's economic condition, veterans housing loan program and Wisconsin Retirement System.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: September 25, 1995

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

ADDENDUM DESCRIBING ANNUAL REPORT FOR MASTER LEASE CERTIFICATES OF PARTICIPATION

This Addendum Describing the Annual Report for Master Lease Certificates of Participation (the "Addendum") is delivered by the State of Wisconsin, acting by and through its Department of Administration (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated September 25, 1995. This Addendum describes the content of an Annual Report to be prepared with respect to Master Lease Certificates of Participation. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person in this respect: it is required to make lease payments from any source of legally available funds, subject to annual appropriation, which lease payments will be used to pay, when due, the semi-annual principal and interest due with respect to the Master Lease Certificates of Participation. No other entity is an obligated person.

Content of Annual Report for Issuer. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information: The General Purpose Financial Statements section of the Comprehensive Annual Financial Report.

Operating Data. In addition to the financial statements, unaudited operating data concerning the following matters shall be presented: (i) revenues received by the State, (ii) expenditures made by the State, (iii) budgets, (iv) selected financial data concerning the General Fund, (v) information concerning interfund borrowings, and (vi) pertinent information on significant pending litigation.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: November 7, 1996

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

ADDENDUM DESCRIBING ANNUAL REPORT
FOR TRANSPORTATION REVENUE BONDS

This Addendum Describing the Annual Report for Transportation Revenue Bonds (the "Addendum") is delivered by the State of Wisconsin (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated September 25, 1995. This Addendum describes the content of an Annual Report to be prepared with respect to transportation revenue bonds. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): None

Content of Annual Report for Issuer. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information: Audited financial statements of the transportation revenue bond program and supplemental information to the audited financial statement.

Operating Data. In addition to the financial statements, operating data about the following matters shall be presented:

(a) History of Section 341.25 registration fees for last 10 years

(b) Estimated Section 341.25 registration fees for next 10 years

(c) Debt service on all outstanding transportation revenue bonds and estimated revenue coverage based on estimated Section 341.25 registration fee(s) for next 10 years

(d) Demographic information for the State of Wisconsin relating to vehicle registrations

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: September 25, 1995

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

ADDENDUM DESCRIBING ANNUAL REPORT FOR CLEAN WATER REVENUE BONDS

This Addendum Describing the Annual Report for Clean Water Revenue Bonds (the "Addendum") is delivered by the State of Wisconsin (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated September 25, 1995. This Addendum describes the content of an Annual Report to be prepared with respect to clean water revenue bonds. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): Each entity described by the objective criteria below is an obligated person (an "Additional Obligated Person"): Any person, including an issuer of municipal securities, who directly or indirectly at the close of the Issuer's fiscal year, is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of 20 percent or more of the cash flow servicing the then outstanding clean water revenue bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

Any Additional Obligated Person, other than the Issuer, will be required by the Issuer to enter into an undertaking agreement to provide each Repository, not later than 180 days following the close of that Additional Obligation Person's fiscal year, an annual report meeting the requirements outlined below under "Content of Annual Report for Additional Obligated Person".

Content of Annual Report for Issuer. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information:

(a) Audited financial statements of the clean water fund program and supplemental information to the audited financial statement.

Operating Data. In addition to the financial statements, operating data about the following clean water fund program matters shall be presented:

(a) List of outstanding loans

(b) List of financial assistance commitments

(c) Information concerning the investments of the Loan Credit Reserve Fund

Content of Annual Report for Additional Obligated Person. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information: Audited financial statements of the Additional Obligated Person.

Operating Data. In addition to the financial statements, operating data about the following matters shall be presented: None.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: February 11, 1997

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

This part provides general information about the State of Wisconsin. It describes:

- State Government Organization
- Budgeting Process and Fiscal Controls
- Accounting and Financial Reporting
- Year 2000 Readiness Disclosure
- Financial Information; Revenues and Expenditures
- Results of 1997-98 Fiscal Year
- State Budget
- General Fund Information
- State Obligations
- Statistical Information

APPENDIX A to this part includes the audited general purpose financial statements for the fiscal year ending June 30, 1998, and the State Auditor's 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: capfin@doa.state.wi.us

This Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part. Material referred to in this Annual Report, including information available on the world wide web, is not part of this Annual Report unless expressly included by reference.

STATE GOVERNMENT ORGANIZATION

The State of Wisconsin (**State**) is located in the Midwest. The State ranks 18th 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.

General Organization

Executive Branch

The executive branch is under the direction of the Governor. The Governor is the chief executive officer of the State and is assisted by five elected constitutional officers (each elected to a four-year term):

- *Lieutenant Governor*. The Governor and Lieutenant Governor are elected on the same ballot. The Lieutenant Governor serves as Acting Governor during the absence or incapacity of the Governor.
- *Attorney General*. The Attorney General heads the Department of Justice, which provides all state agencies with legal advice and counsel.
- *State Treasurer*. The State Treasurer receives and disburses all money of the State Treasury in accordance with law.
- *Secretary of State*. The Secretary of State keeps a record of the official acts of the Legislature and executive agencies.
- *Superintendent of Public Instruction*. The Superintendent of Public Instruction heads the Department of Public Instruction, which supervises the operations of and establishes standards for schools throughout the State.

The executive branch consists of 18 departments (including two headed by other constitutional officers) and 14 independent agencies.

Legislative Branch

The legislative branch consists of the Legislature and its subordinate service agencies. The Legislature is bicameral, composed of the Senate and the Assembly. The 33 members of the Senate serve staggered four-year terms and the 99 Representatives of the Assembly serve identical two-year terms. Both the Senate and the Assembly operate on a committee system. The Legislature's biennial session begins in odd-numbered years on the first Tuesday after the eighth day of January. By a joint resolution, the biennial session is divided into floor periods interspersed with committee work periods. In odd-numbered years, the floor periods generally cover six months, while in even-numbered years the floor periods usually run for shorter periods. The Legislature also meets in special session when so called by the Governor, at which time it may transact only that business for which the special session is called.

Judicial Branch

The judicial branch consists of:

- the Supreme Court, composed of seven justices who are elected statewide for staggered ten-year terms
- the Court of Appeals, composed of 16 judges who are elected statewide for staggered six-year terms sitting in three-judge panels
- 69 circuit courts (the State's trial courts), each with one or more judges who are locally elected for six-year terms and which are administered from ten administrative districts

The State pays all costs of the Supreme Court and Court of Appeals and certain costs of the circuit courts.

Description of Services Provided by State Government

The State provides a wide range of services to its residents and to its local government units. These services are organized for budgetary and financial reporting of the General Fund into eight functional groupings. Each State agency is categorized into one of these functions. There are some agency activities that fit into more than one function. Listed below is a description of each function, an identification of those State agencies within each function, and a brief summary of the responsibilities of each State agency.

Commerce

The State's involvement in the commerce function is in the regulation of conduct of commercial transactions. The objective is to protect the public as consumers of agricultural and manufactured goods and services and as participants in financial transactions. The State actively promotes economic development by working with companies seeking to expand or move to the State. These objectives are met in several ways:

- Inspection of raw products and conditions under which they are grown or obtained, including conducting research in areas such as animal or plant diseases, grading of products, and establishing standards for contents of processed foods.
- Licensing of various trades and professions whose activities affect the health of individuals, such as doctors and nurses, or whose actions are considered important for public safety, such as architects and engineers.
- Maintaining an orderly market in which to conduct business and specifying methods of fair competition:
    - regulating the rates that public utilities may charge for their services
    - setting standards for the operation of banks, savings and loan companies and credit unions to protect depositors
    - regulating the sale of securities and insurance offered for sale in the State
    - approving or disapproving the establishment or discontinuance of transportation routes

Several State agencies participate in the field of commerce:

- *Department of Agriculture, Trade and Consumer Protection* regulates the conditions of the growth and processing of food and fair trade practices in general, including consumer protection.
- *Department of Regulation and Licensing* supervises a variety of examining boards in the various trades and professions.
- *Department of Financial Institutions* regulates securities transactions and supervises banks, credit unions, and savings and loans.
- *Public Service Commission* regulates the rates and services offered by railroads, and heat, light, power, and water companies.
- *Department of Commerce* promotes industrial development in the State and coordinates relations between the State and local governments and between the Federal Government and State and local governments.
- *Department of Tourism* promotes the State's many attributes to visitors.

Education

The State views its responsibilities in education to encompass all levels and nearly all types of education and related activities. As a result the State provides significant financial support to primary and secondary schools and technical colleges operated at the local level and assists private higher educational institutions as well as operating the University of Wisconsin system.

There are 426 school districts in the State, which administer the elementary and secondary schools within those districts. There were approximately 881,248 students attending public elementary and secondary schools in 1997–98. The State is divided into 16 technical college districts. In the 1996–97 academic year, 434,885 full- and part-time students were enrolled in the technical college system. The elementary and secondary schools and the technical colleges are operated by district boards, but a State-level agency functions in each case to supervise the system. The Department of Public Instruction supervises the former; the Technical College System Board supervises the latter.

The University of Wisconsin System consists of its central campuses in Madison—the largest campus in the state—and Milwaukee and 11 other degree-granting institutions providing 4-year courses of study and 13 colleges providing 2-year courses. The system's total enrollment in 1997–98 was 150,574 students. State moneys also support the Medical College of Wisconsin, Inc.

Other agencies are concerned with the education function of the state: the Educational Communications Board, the State Historical Society, the Arts Board and Technology for Educational Achievement in Wisconsin Board (**TEACH Wisconsin**). The Communications Board operates the state public radio network, the state public television network and the state educational television network. The State Historical Society maintains the State historical library, museum, and various historical sites. The Arts Board encourages and assists artistic and cultural activities within the State. TEACH Wisconsin provides support for investment in educational technology and telecommunications access for public school districts, public library boards, cooperative educational service agencies, private schools and colleges, tribal colleges, and technical college districts.

Environmental Resources

Two major State agencies, the Department of Transportation and the Department of Natural Resources, compose this function, which is concerned with the development or protection of the land, forest, water, air, and minerals of the State.

Municipalities and industries must be prevented from dumping untreated sewage or industrial wastes into the lakes and streams. Smokestacks and automobile exhausts must be prevented from polluting the air. Parks and forests must be established and maintained both to preserve unusual phenomena of nature and to provide the public with recreational and educational opportunities. Private forest owners must observe scientific conservation practices so that new growth may replace cut timber. Hunting and fishing limits must be set and hunters and fishermen licensed to preserve the fish and wildlife from extinctive practices. Farming procedures must be such as to preserve the quality and stability of the soil.

Governmental activities for preserving and protecting the State's natural resources are largely the province of the Department of Natural Resources, but the Department of Agriculture, Trade and Consumer Protection, and the Board of Soil and Water Conservation Districts at the University of Wisconsin are also actively involved.

Resources must not only be preserved, they must be used, both in the work and recreation of the people. They must be developed and consumed for a multitude of purposes. Timber must be used in the lumber and paper industries, land must be cultivated for crops or used for grazing, minerals must be extracted, and scenic areas must be preserved for camp sites, resorts, and ski areas.

With the tremendous growth in the number of automobiles and trucks, sizable amounts of land are taken away from housing in the cities and from cultivation in the country to handle the traffic. The freeways in the city and interstate highway in the country exercise an enormous impact on the use and development of the surrounding land. They affect where people live, where they work, and where they play. Highways and city streets must be planned with great foresight not only to weigh how well they will handle the flow of traffic, but also to determine what effect they will have on people's lives.

The State has an elaborate system of highways. It consists of interstate highways financed from federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also very much concerned with the safety and convenience of the people who are using those roads. Over 4.5 million vehicles are registered each year. The Department of Transportation gives various forms of driver examination tests when driver licenses are issued or renewed.

The State must see to it that the drivers know the laws, are physically fit to drive, and have the required driving skills. It must keep track of the accident rate of drivers and remove those who prove hazardous to themselves and to others. It must collect taxes to pay for highway construction and maintenance, for the policing of the highways, and for the enforcement of driver and vehicle standards. The road building and motor vehicle regulating functions of the State are the province of the Department of Transportation, which also by virtue of its transportation function has charge of the State's aeronautical activities, the administration of funds to assist mass transit, railroad preservation, and intermodal transportation planning.

Human Relations and Resources

The inhabitants of a state are its prime resource, and a state must protect their general welfare and insure peaceable relations among them. The departments that have been brought together in this category are concerned with people, their health, their living standards, their safety, and their working relationships with each other.

Public health covers the prevention and detection of disease, health education programs, assistance in hospital construction, maintenance of institutions for the care and treatment of the mentally handicapped, the setting of standards of cleanliness of public facilities and safety in construction, and the maintenance of public health records.

Living standards are the concern of those who determine the amount of monetary aid and health services that are granted to needy, aged, handicapped, and minors under various social security aid programs. It is their task, within the limitations set by law, to provide minimum health and living standards for these recipients. Such health and welfare activities are primarily the work of the Department of Health and Family Services. The Board of Aging makes recommendations on programs to benefit the aged. The Department of Veterans Affairs operates additional assistance programs for military service veterans.

As a worker, the individual comes in contact with the State in many ways:

- Minimum wages and maximum hours are set by law.
- State worker's compensation provides financial assistance if a worker is injured on the job.
- Unemployment compensation is provided to the worker if the worker's job is lost.

- Employment service is provided by the State (in partnership with the Federal Government) to help a worker find a job or to acquire the skills necessary for employment.
- Investigation of discrimination matters occurs if a worker cannot obtain a job and suspects discrimination based on race, age, gender, creed, or handicap.

The State's agent in protecting and assisting the worker is the Department of Workforce Development. The State also mediates or arbitrates labor disputes between workers and their employers, which is the task of the Employment Relations Commission.

To promote the general welfare of its citizens and insure peaceable relations among them, the State must not only protect their health and their ability to earn a living, but must also protect them from lawless elements in society by maintaining those conditions of stability and order necessary for a well-functioning society. Law enforcement is largely a local matter, but the State's Department of Corrections is responsible for segregating convicted adult and juvenile criminals in its penal institutions and rehabilitating them for eventual return to society. The Department of Justice furnishes legal services to State agencies and provides technical assistance to local law enforcement agencies.

The State also provides an armed military force to protect the populace in times of State or national emergencies, natural or man-made, and to supplement the federal armed forces in time of war. These activities come under the jurisdiction of the Department of Military Affairs.

General Executive

The administrative or staff functions that support the direct services provided to Wisconsin residents and local governments are included in this functional group. While each operating agency may conduct some staff functions, some agencies perform staff functions almost exclusively.

- *Department of Administration* duties include budgeting, preauditing, financial reporting, engineering and facilities management, planning, and data processing.
- *Department of Employment Relations* supervises State personnel practices.
- *Ethics Board* administers a code of ethics for State public officials.
- *Department of Revenue* collects the taxes imposed by State law, distributes that part of the revenue that is to be returned to the local units of government, and calculates the equalized value of the property that has been assessed by local government.
- *Department of Employee Trust Funds* manages the public employee retirement system.
- *Office of the State Treasurer* processes the receipt and disbursement of monies received or expended by the State.
- *Office of the Secretary of State* keeps various state records and affixes the state seal on certain records to authenticate them.
- *Department of Financial Institutions* is responsible for chartering corporations.
- *State Elections Board* oversees the election processes of the State, monitoring campaign expenditures and keeping election records.

Judicial

The judicial function provides for the operation of the Supreme Court, the Court of Appeals, and the Circuit Courts as well as several State agencies that serve the courts, establish professional standards, and conduct legal research.

Legislative

The legislative function provides for the operation of the State Legislature, its committees, and service agencies.

General Appropriations

The function of general appropriations is assigned those appropriations that do not fit easily into any of the other functions. The bulk of the appropriations are for payments to local governments of taxes collected by the State, whose revenues are shared with local governments, and for other payments intended to relieve local taxes.

The major portion of this reporting area relating to State operations is the funding of any planned adjustments to employee compensation, which is budgeted centrally but transferred to and ultimately paid by each agency.

BUDGETING PROCESS AND FISCAL CONTROLS

The State Constitution requires the Legislature to enact a balanced budget. The State's fiscal year runs from July 1 through June 30 of the following year. State law establishes procedures for the budget's enactment. The Secretary of Administration, under the direction of the Governor, compiles all budget information and prepares an executive budget consisting of the planned operating expenditures and revenues of all State agencies. The Department of Revenue furnishes forecasts of tax revenues to the Department of Administration. The budget is submitted to the Legislature on or about January 31 of each odd-numbered year. The Legislature's Joint Committee on Finance reviews the executive budget and reports its findings to the full Legislature, usually in the form of a substitute budget bill. Upon concurrence by both houses of the Legislature in the appropriations and revenue measures embodied in the budget bill, the entire bill is submitted to the Governor. The Governor is empowered to sign the bill into law or to veto all or part of the bill. If the Governor vetoes any portions, those items may be reconsidered in accordance with the rules of each house and, if approved by two-thirds of the members of each house, will become law notwithstanding the Governor's veto. In the event that a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time as a new one is enacted.

The Legislature is required to provide an annual tax sufficient to meet the estimated expenses of the State each year, including debt service on all outstanding general obligations. Should a deficiency occur in any year, the Legislature must levy taxes sufficient to cover both the deficit and the estimated expenses of the ensuing year.

No money shall be paid out of the Treasury except as appropriated by law. The Statutes require that the Secretary of Administration and the State Treasurer must approve all payments. The Secretary of Administration is also responsible for audit of expenditures prior to disbursement. The Legislative Audit Bureau has postaudit responsibility.

The Department of Administration maintains separate accounts for all appropriations, showing the amounts appropriated, the amounts allotted, the amounts encumbered, the amounts expended, and certain other data necessary to the financial management and control of all State accounts.

The Department of Administration also maintains the general ledgers of the General Fund and all other funds of the State.

State law prohibits the enactment of legislation that would cause the estimated General Fund balance to be less than 1% of the general purpose revenue appropriations for that fiscal year. For the 1997–98 fiscal year, the statutorily required reserve was $98 million, and for the 1998–99 fiscal year, the statutorily required reserve is $99 million.

Should estimated revenues prove to be less than anticipated in the budget or should expenditures for open-ended appropriations be greater than anticipated, the budget could move out of balance. The Statutes provide that if, following the enactment of the budget, the Secretary of Administration determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues (consisting of general taxes, miscellaneous receipts and revenues collected by state agencies which lose their identity and are available for appropriation by the Legislature), no action can be taken regarding approval of expenditure estimates. Further, the Secretary of Administration must notify the Governor, the Legislature and its Joint Committee on Finance, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter.

The Secretary of Administration also has statutory power to order reductions in the appropriations of state agencies (which represent less than one-third of the General Fund budget). The Secretary of Administration may also temporarily reallocate free balances of certain funds to other funds that have insufficient balances and, further, may prorate or defer certain payments in the event current or projected balances are insufficient to meet current obligations. In such an event, the Department of Administration may also request the issuance of operating notes by the State of Wisconsin Building Commission (**Commission**).

STATE OF WISCONSIN BUILDING COMMISSION

Wisconsin Statutes provide that the Commission has supervision over all matters relating to the issuance by the State of general and revenue obligations.

At the inception of statehood, constitutional limitations severely restricted the issuance of direct State debt. In April 1969, the voters of the State, by referendum, adopted an amendment to the Constitution that authorized the State to borrow money. Delegation of powers, limitations and procedures to be followed for the issuance of debt are set forth in Chapter 18 of the Wisconsin Statutes.

The Commission is composed of eight members including the Governor as chairperson, six members of the Legislature (three from each house) appointed in the same manner as standing committees in the respective houses, and one citizen member appointed by the Governor and serving at his pleasure. State law provides that the two major political parties shall be represented in the membership from each house, and that one member appointed from either house shall be a member of the Legislative State Supported Program Study and Advisory Committee. The Secretary of Administration, the head of the engineering function and the ranking architect in the Department of Administration are nonvoting advisory members. The members act without liability except for misconduct.

The Department of Administration assists the Commission. The Divisions of Facilities Development and Executive Budget and Finance are subdivisions of the Department of Administration. The Administrator of the Division of Facilities Development, with the concurrence of the Secretary of Administration, serves as the Secretary to the Building Commission. Employees of the Division of Executive Budget and Finance serve as the Capital

Finance Director and staff responsible for managing the State's general obligation, revenue bond and operating note programs.

The Commission's office location is Administration Building, 7th Floor, 101 East Wilson Street, its mailing address is P.O. Box 7866, Madison, Wisconsin 53707-7866, and its telephone number is (608) 266-1855.

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

The State accounts for, reports and budgets its operations as set forth in the statutes. The Annual Fiscal Report (which is unaudited) must be published each year on or before October 15. Except as noted in the following paragraph, under statutory accounting, receipts are recorded only at the time money or checks are deposited in the State Treasury, and disbursements are recorded only at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore can significantly affect the amounts reported in a fiscal year

For budgeting and constitutional compliance purposes, the State's records are maintained in conformity with statutory requirements. The more important legal provisions are:

- In all cases the date of the contract or order determines the fiscal year in which it is charged unless it is determined that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgeting intent.
- The current year records must remain open until July 31 to permit departments to certify for payment bills applicable to the year ended June 30 and to deposit revenues applicable to such year, with the following exceptions: (i) amounts withheld for income taxes prior to July 1, and (ii) taxes imposed on sales prior to July 1 are deemed to be accrued tax receipts as of the close of the fiscal year, provided such revenue is deposited on or before August 15.
- On July 31 all outstanding encumbrances entered for the previous year must be transferred to the new fiscal year and an equivalent prior year appropriation balance must also be forwarded to the new fiscal year.
- Revenues and expenditures are reported on a net basis. Overcollections refunded are deducted from revenues and current year overpayments made are deducted from expenditures.
- General Fund investments are carried at the lower of cost or par with discounts, premiums and earnings recorded on an accrual basis.

Generally Accepted Accounting Principles

The State accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). For the fiscal year ended June 30, 1998 the State has prepared a Comprehensive Annual Financial Report (**CAFR**) in accordance with GAAP. The General Purpose Financial Statements section of the CAFR for the fiscal year ended June 30, 1998 has been audited and is included as APPENDIX A to this part of the Annual Report.

Financial statements prepared in accordance with GAAP differ from those prepared in accordance with the Statutes. A notable difference pertains to the general-fund balance. The undesignated balance for the fiscal year ended June 30, 1998 was a surplus of $552 million on the statutory basis. Under GAAP, the balance at June 30, 1998 was a deficit of $1.595 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 1998 was $504.3 million and related to the State's payment of shared revenues to municipalities and counties. Determining this liability is difficult for several reasons including the lack of a specific pronouncement from the Governmental Accounting Standards Board concerning accounting for state and local government shared revenues.

The State continues to use the statutory basis for both budgeting and constitutional compliance purposes.

YEAR 2000 READINESS DISCLOSURE

Overview

The Department of Administration, which has overall responsibility for the coordination of information technology in State government, is coordinating the State's Year 2000 compliance efforts.

The Department of Administration created an interagency executive taskforce to advise on ways to coordinate Year 2000 compliance oversight activities and has developed a detailed enterprise Year 2000 project plan to manage enterprise efforts. This approach allows the State to focus on the highest priority Year 2000 compliance needs.

In 1996, the Department of Administration identified 100 critical business applications (that is, applications that support core state government operations and services). The Department of Administration has deemed 21 of these as the "highest priority" critical applications. Among the financial-related systems within the group of 21 highest priority critical applications are:

- WiSMART (State's accounting system)
- Income Tax Processing
- Shared Revenues
- Motor Vehicle Registration
- Wisconsin Employee Benefit Systems
- Investment Accounting System
- Local Government Investment Pool

The Department of Administration is requiring agencies to report monthly on efforts to ensure operation of critical business functions within the agency, progress on making information technology systems supporting those critical business functions and efforts to address issues related to equipment with embedded microprocessors that support critical business functions. The reporting on information technology systems measures progress in five stages: (1) analysis, (2) design, (3) modification, (4) testing, and (5) implementation.

Based on this reporting, as of November 1998, the following information is available:

- Three of the 21 most critical applications are completed through testing and implementation of changes, or have been certified as Year 2000 ready by the private vendor responsible for the system.
- Fourteen of the 21 applications are in final acceptance testing of changes made to make the application ready for Year 2000.

- Four of the 21 applications are in the modification phase, and the agencies have indicated that the work is proceeding and is expected to be completed before the end of calendar year 1999.

The Department of Administration is continuing to work with all agencies to ensure full reporting of critical business functions and the work needed to remedy Year 2000 problems. In addition, as part of the enterprise Year 2000 project plan, the Department of Administration has instituted independent risk assessment studies of the State's most critical business functions.

The State has not identified any significant Year 2000 consequences or unbudgeted costs to make the critical business applications Year 2000 compliant. The costs to the State to become Year 2000 compliant have been and will continue to be absorbed within existing base operating budgets because most Year 2000 compliance work is being completed by State agencies as part of ongoing maintenance and upgrades previously identified and budgeted for by the State.

In addition to the assessments, the following is a summary of the efforts currently being undertaken by the State:

- On July 27, 1998 the Governor issued an executive order that directs all state agencies to make Year 2000 compliance activities their top technology priority. In addition, this executive order creates a blue ribbon commission to recommend ways to enhance communication and coordination between public and private efforts to address Year 2000 issues.
- The State has created a central Year 2000 test environment for use by State agencies to verify the effectiveness of Year 2000 compliance activities. The State maintains a web site that provides specific technical information to assist agency Year 2000 compliance efforts. The Internet address for this site is: y2k.state.wi.us/.
- Agencies are preparing contingency plans designed to address possible problems arising from failures of information technology systems or other disruptions of business processes. The Department of Administration has provided agencies with instructions and templates for their contingency planning efforts and will be offering use of standardized software for documenting contingency planning. This last element will allow the Department of Administration to consolidate agencies' plans and provide an enterprise contingency plan for the State that will allow for better coordination with local government and the private sector.

Internal Year 2000 Issues

The 21 highest priority critical applications have a direct impact on critical and core State operations. Specific examples include the following. WiSMART, the State's accounting system, has recently been updated for Year 2000 and is undergoing testing for Year 2000 compliance. The Department of Revenue, the agency responsible for the collection of State taxes, has completed modification of 15 of its 16 critical applications and has completed or is in the process of going through final acceptance testing. The one application not tested is scheduled for testing in April 1999, after the main workload for the tax processing season is completed.

External Year 2000 Issues

The State has contacted each of its paying agents, registrars, escrow agents, trustees, and depositories and has been informed by each of these firms that they intend to meet federal regulations that all securities processing institutions be Year 2000 compliant by December 31, 1998. The State will continue to monitor these compliance activities and take appropriate steps to ensure timely compliance, as needed. The Department of Health and Family Services is the State agency that interfaces with the Federal government for Medicare and Medicaid reimbursement payments. This department is addressing Year 2000 efforts with the Federal government and is also working on contingency plans in the event of a problem.

Mechanical Year 2000 Issues

With respect to debt service payments, the State maintains paper copy records of all its debt service schedules. In the event computer payment systems fail, the State is prepared to provide manual payment checks to paying agents and The Depository Trust Company (**DTC**). Debt service payments due on State obligations for the first six months of calendar year 2000 are:

Date	Obligation	Parties Involved
January 3, 2000	General Obligation Bonds	State Treasurer's Office/DTC or State Street Bank and Trust Company, N.A.
January 3, 2000	Transportation Revenue Bonds	Bank One Trust Company, NA (Trustee)/DTC
February 14, 2000	Master Lease Certificates of Participation	State Treasurer's Office/Firstar Bank Milwaukee, N.A.(Trustee)
March 1, 2000	Master Lease Certificates of Participation	Firstar Bank Milwaukee, N.A. (Trustee)/DTC
May 1, 2000	General Obligation Bonds	State Treasurer's Office/DTC
June 1, 2000	Clean Water Revenue Bonds	Firstar Bank Milwaukee, N.A. (Trustee)/DTC

As a contingency, the State is further considering sending the payments due on January 3, 2000 to DTC on or before December 31, 1999.

The State cannot provide any assurances that all Year 2000 problems will be corrected by January 1, 2000 nor that all information technology systems will continue to work efficiently on January 1, 2000. There remains a possibility that some Year 2000 problems will not be identified or corrected by January 1, 2000. However, the actions that the State is currently completing should minimize such potential problems, especially for critical business applications. Agencies are preparing contingency plans designed to address possible problems arising from failures of information technology systems or other disruptions of business processes.

FINANCIAL INFORMATION

Revenue Structure

The State raises revenues from diverse sources:

- Various taxes levied by the State (35% of total revenue)
- Federal government payments
- Various kinds of fees, licenses, permits, and service charges paid by users of specific services, privileges, or facilities
- Investment income
- Gifts, donations, and contributions

Table II-1 identifies the specific sources of revenue and the amounts raised from each source for each of the last five years. There can be no assurance that future receipts will correlate with historical data.

Tax Structure

The State's tax structure has a diverse underlying base consisting of income, general and special product sales, and property value. A brief description follows of each tax that yields more than $5 million annually.

- *Individual Income Tax*

The current tax brackets and rates are as follows:

Taxable Income Brackets		
Single	**Married Filing Jointly**[a]	**Marginal Tax Rate**
$0-7,500	$0-10,000	4.85%
7,501-15,000	10,001-20,000	6.48
15,001+	20,001+	6.87

[a] Brackets for married filing separately are half of married filing jointly.

The above tax brackets, which began in calendar year 1998, will be indexed to the consumer price index beginning in calendar year 1999.

- *Corporate Franchise and Income Taxes*

Both the franchise tax measured by net income and the income tax are levied at a rate of 7.9% of corporate net income.

- *Public Utility Taxes*

There are two methods used for taxing public utilities. An ad valorem method on property is used for pipeline companies, conservation and regulation companies, railroads, and airlines. The State assesses the value of the property; then the average statewide property tax rate is applied to derive the tax. On May 15, 1998, the gross revenues license fee was replaced by an ad valorem tax on the real and tangible personal property of each telephone company. A transitional adjustment fee will be assessed in 1999 and 2000 on each cellular telecommunications utility and local exchange company. The transitional fee will be the difference between the taxpayer's monthly ad valorem utility tax payment and the amount that the taxpayer would pay during that month if subject to a gross revenues tax of 5.77%.

The gross receipts tax is 3.19% for electric cooperatives. Light, heat, and power companies pay a gross receipts license fee at the rates of 0.97% of revenues from gas services and 3.19% of revenues from electric services. Each year's fee is based on revenues collected in the previous year. Revenue received from utilities are deposited to the General Fund, however, revenue from railroads and airlines are deposited in the Transportation Fund. Car line companies, businesses that furnish or lease car line equipment to a railroad but do not operate a railroad, are subject to a 3% gross receipts tax that is also deposited into the Transportation Fund.

- *General Sales and Use Tax*

A 5% tax is imposed on the sale or use of services and all tangible personal property unless specifically exempted. The most notable exemptions are food, prescription drugs, and motor and heating fuel.

Table II-1

REVENUES (ALL SOURCES)[a]
1997-98 FROM 1993-94

	1997-98	1996-97	1995-96	1994-95	1993-94
State Collected Taxes					
Individual Income	$ 5,047,324,479	$ 4,544,739,246	$ 4,157,444,344	$ 3,932,948,357	$ 3,638,710,246
General Sales and Use	3,047,406,215	2,864,373,180	2,704,226,017	2,571,212,098	2,427,900,047
Corporate Franchise and Income	627,024,134	643,821,885	636,009,525	631,750,239	541,284,287
Public Utility	288,376,893	306,500,391	288,773,786	271,979,923	268,236,755
Excise	299,091,574	253,904,414	245,350,413	223,419,538	219,567,523
Inheritance and Gift	80,110,729	50,825,151	45,602,214	40,783,701	53,201,971
Insurance Companies	88,065,247	94,641,133	92,284,836	94,416,471	95,990,959
Motor Fuel	740,209,790	692,893,775	676,002,610	651,186,179	634,621,215
Forest	49,561,411	45,557,665	42,943,134	39,193,215	36,512,823
Miscellaneous	235,983,488	130,528,135	134,422,491	119,666,306	119,276,892
Subtotal	10,503,153,960	9,627,784,975	9,023,059,370	8,576,556,027	8,035,302,718
Federal Aid					
Medical Assistance	1,578,071,534	1,590,405,412	1,461,929,742	1,457,070,300	1,361,264,722
AFDC/W2	154,334,829	164,787,870	188,491,658	212,576,642	236,096,288
Transportation	421,841,928	474,426,495	558,478,336	484,075,362	512,447,000
Education	805,930,081	798,317,039	739,728,615	705,186,682	656,580,271
Other	972,945,870	987,991,522	946,163,108	917,134,225	912,102,104
Subtotal	3,933,124,242	4,015,928,338	3,894,791,459	3,776,043,211	3,678,490,385
Fees					
University of Wisconsin System	552,167,916	509,412,010	460,539,331	459,980,731	454,232,963
Other	244,291,725	232,011,982	519,180,189	488,347,136	476,710,654
Subtotal	796,459,641	741,423,992	979,719,520	948,327,867	930,943,617
Licenses and Permits					
Vehicles and Drivers	290,782,206	244,748,335	249,312,483	249,461,275	250,475,479
Hunting and Fishing	56,268,405	49,494,891	49,602,129	47,357,165	50,822,937
Other	273,800,793	372,081,930	368,467,942	332,090,249	331,515,213
Subtotal	620,851,404	666,325,156	667,382,554	628,908,689	632,813,629
Miscellany					
Service Charges	407,273,543	407,520,980	439,035,773	424,749,482	406,308,823
Sales of Products	675,171,110	640,015,801	690,834,331	722,782,430	685,092,976
Investment Income	8,626,768,140	7,887,795,007	5,446,036,326	5,146,837,274	1,276,947,011
Gifts and Grants	301,417,790	258,967,175	210,638,629	176,311,213	165,759,549
Employee Benefit Contributions[b]	1,484,849,345	1,455,505,437	1,318,994,693	1,478,712,390	1,310,111,343
General Obligation Proceeds	444,985,883	290,612,226	330,950,056	324,941,338	243,711,514
Other Revenues[c]	847,094,578	749,323,693	438,067,477	493,451,382	368,652,742
Subtotal	12,787,560,389	11,689,740,319	8,874,557,285	8,767,785,509	4,456,583,958
Summary					
TOTAL NET REVENUE	28,641,149,636	26,741,202,780	23,439,510,188	22,697,621,303	17,734,134,307
Transfers	956,781,647	669,555,936	403,849,988	385,960,590	521,021,635
Gross Revenue	$ 29,597,931,283	$ 27,410,758,716	$ 23,843,360,176	$ 23,083,581,893	$ 18,255,155,942

[a] The amounts shown are based on statutorily required accounting and not on GAAP. The amounts are unaudited.

[b] Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled $608,663,836 for 1997-98, $576,660,781 for 1996-97; $564,506,750 for 1995-96; $583,132,459 for 1994-95 and $563,812,191 for 1993-94.

[c] Approximately $175 million of the increase from fiscal year 1995-96 to fiscal year 1996-97 is from additional transactions being charged to this category as the result of: (i) reorganization of duties and programs between the Departments of Health and Family Services and Workforce Development, and (ii) changes in practices at the Department of Health and Family Services for the Community Integration Program and Community Options Program.

Source: Wisconsin Department of Administration.

- *Excise Taxes*

Cigarettes are taxed at the rate of 59 cents per pack of 20. Tobacco products, other than cigarettes, are taxed at the rate of 20% of the manufacturer's list price. The tax is collected from distributors and subjobbers. Wine is taxed at 25 cents or 45 cents per gallon depending on its alcohol content. Liquor is taxed at $3.25 per gallon. The wine and liquor tax is collected from wholesalers. Beer is taxed at the rate of $2 per barrel, and the tax is paid monthly by brewers.

- *Motor Fuel Tax*

Motor fuel is taxed at the rate of 25.4 cents per gallon. Effective April 1, 1998, the motor fuel tax is indexed using an inflation-only factor based on the Consumer Price Index. Prior to this date, the motor fuel tax was indexed using a formula that accounted for both inflation and maintenance costs. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the segregated Transportation Fund, where they are used primarily for highway purposes.

- *Estate, Inheritance and Gift Taxes*

The State imposes an estate tax equal to the state death tax credit provided under federal tax law. This is often referred to as the "gap" or "pick-up" tax. Prior to 1992, the State also imposed separate inheritance and gift taxes

- *Insurance Company Premium Tax*

Wisconsin-based life insurance companies pay a tax of 2% of the premiums received less a credit equal to 50% of personal property taxes. (Small companies may choose to pay 2.5% of all income except premiums less the personal property tax credit.) Nondomestic life companies pay the 2% rate with no personal property tax credit.

Domestic casualty companies are taxed 2% on premiums received on fire insurance, while nondomestic casualty companies pay 2.375% on all forms of casualty premiums. The 2% tax levied on fire insurance premiums is redistributed to local governments as a "fire department dues" tax.

- *Forest Tax*

The forest tax is the only State tax upon general property. It is a 2/10 mill levy on all taxable property in the State. The tax is collected by municipal treasurers and remitted to the State during property tax settlements. After its receipt in the General Fund, it is transferred to the segregated Conservation Fund.

- *Real Estate Transfer Fee*

The real estate transfer fee is paid by the grantor of real estate at a rate of $0.30 per $1,000 of value. The value of real estate is the amount paid in an arms-length sale, or if a gift, the prevailing market value.

Tax Credits

Complementing the State's tax structure are tax credits designed to relieve certain taxes. These credits are reflected as expenditures for budgeting purposes. A brief description of the principal tax credits follows.

- *Homestead Tax Credit*

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit on state individual income taxes. The maximum household income limit is $19,154. The maximum amount of aidable property taxes is $1,450, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the amount of rent allocated as property tax is 25%, or 20% if heat is included in rent.

- *Earned Income Tax Credit*

The earned income tax credit provides assistance to lower-income workers. The credit supplements the wages and self-employment income of such families. It offsets the impact of the social security tax and increases the incentive to work. The State is one of seven states offering an earned income credit. Four of those states, including the State, offer a refundable earned income credit.

The State's earned income tax credit is calculated as a percentage of the federal credit. The federal earned income tax credit varies by income and family size. In addition to the federal standards, the State's credit varies the percent of the federal credit by number of children: 4% or the federal credit for one child, 14% for two and 43% for three or more. The maximum State credit in tax year 1998 ranges from $91 for one child, $526 for two children and $1,615 for three or more children.

- *Farmland Preservation Tax Credit*

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax and the type of land use provisions protecting the farmland (either a preservation agreement or exclusive agricultural zoning). Claimants may receive a credit on up to $6,000 of property taxes. The maximum potential credit is $4,200. In 1996-97, farmers received $22.4 million in farmland preservation tax credits, averaging $996. This represented a 28% average property tax reduction for these farmers.

- *School Levies Tax Credit*

The school levies tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (commercial, industrial and other types, as well as residential). For property taxes levied in December 1998, $469 million of school levy tax credits will be distributed Statewide, and the credit will lower school property taxes paid by taxpayers by 17.2% of the gross school tax levy. The credits are paid to municipalities to reduce the amount due from all property taxpayers.

- *Lottery Property Tax Credit.*

The net proceeds of the state lottery are reserved for property tax relief. For property taxes levied in December 1998, a lottery credit of $150 million will be distributed on a per parcel basis, which is equal to an average of $51 per parcel, to municipalities to reduce the amount due from taxpayers.

- *School Property Tax/Rent Credit*

The school property tax/rent credit is equal to 10% of property taxes or rent constituting property taxes paid on a person's primary residence. A credit of up to $200 may be claimed annually as a credit against income taxes owed. For renters, "rent constituting property taxes" means 25% of rent if heat is not included in the rent payment, or 20% of rent if heat is included in the rent payment. No credit is allowed for property taxes or rent that is deductible as a trade or business expenses. In fiscal year 1997-98, taxpayers received $232.5 million in school property tax/rent credits. For tax year 1998, Wisconsin will provide a one-time increase credit of up to 14% of property taxes, or rent constituting property taxes, with a maximum credit of $350. In tax year 1998, taxpayers will receive an estimated additional $125 million in credits as a result of the one-time increase in the credit. See "STATE BUDGET, Budget for 1998-99".

Tax Collection Procedure (Delinquencies)

When a taxpayer does not file a valid return when requested, the Department of Revenue estimates the amount of tax due and the taxpayer is sent an assessment of the amount owing with a due date for payment. From the time the assessment is received until the due date, the taxpayer may appeal the amount stated to be owing. If at the due date no appeal has been made, the account is then considered delinquent. Other delinquencies occur when a taxpayer fails to properly pay taxes on a return filed or undercomputes the tax due. In such a case, the taxpayer is billed for the shortfall. There is no appeal process in this circumstance.

The recording and collection of State taxes that are subject to collection problems (individual and corporate income, corporate franchise, sales and use taxes) are computerized. The payment records on delinquent accounts are stored centrally with district offices linked to the computer to follow the progress.

Collection of delinquencies begins with a notice of warrant, which is prepared centrally and then sent to the delinquent taxpayer. This notice informs the taxpayer that failure to pay within 30 days will result in a warrant being filed in the county of residence. When the warrant is filed with the clerk of court, a field referral is sent out to the district office in whose area the delinquent taxpayer resides and a field representative makes contact either by phone or in person. The field representative may schedule an informal hearing with the taxpayer. The information on the file is still retained centrally but details of the file are provided to the field representative. The field representative then tries to solicit payment in full or reach an agreement for payment in installments.

It may be determined that garnishment proceedings should be undertaken. In some cases provision is made for an individual's employer to withhold additional money from the salary check. If the delinquent taxpayer has a refund forthcoming from any tax other than that for which the taxpayer has been determined delinquent, the refund is offset against the delinquent balance.

In some cases it is unknown whether the taxpayer has any assets against which garnishment proceedings may be instituted. In these cases a supplemental hearing may be called before the court commissioner in the county of residence, and it might be determined that the taxpayer's affairs should be placed in receivership. If the taxpayer is without any assets at all, proceedings may be stayed and the account periodically reviewed for up to 10 years.

An analysis of delinquency rate for the income, franchise, sales, and use taxes is shown in Table II-23 of "STATISTICAL INFORMATION".

Expenditures

General

State expenditures are categorized under eight functional categories and the general obligation bond program and further by three distinct types of expenditures within each. The eight functional categories are previously described in this part of the Annual Report. See "STATE GOVERNMENT ORGANIZATION; Description of Services Provided by State Government". The types of expenditures are defined below.

- *State Operations.* Direct payments by State agencies to carry out State programs for such expenses as salaries, supplies, services, debt service and permanent property.

- *Aids to Individuals and Organizations*. Payments from a State fund made directly to or on behalf of an individual or private organization (for example, Medicaid or student financial assistance).
- *Local Assistance*. Payments from a State fund to or on behalf of local units of government and school districts, including payments associated with State programs administered by local governments and school districts, such as aid for families with dependent children and school aids.

Table II-2 shows the amounts expended (all funds) by function and type for each of the last five years.

General Fund Expenditures

Over 60% of all general-fund taxes collected by the State are returned to local units of government. The remaining funds are used for payments to individuals and organizations (16%) and state programs (24%).

Table II-2

EXPENDITURES BY FUNCTION AND TYPE (ALL FUNDS)[(a)]

1997-98 FROM 1993-94

	1997-98	1996-97	1995-96	1994-95	1993-94
Commerce					
State Operations	$ 147,344,847	$ 145,911,884	$ 172,663,899	$ 181,381,591	$ 169,547,039
Aids to Individuals and Organizations	151,694,308	157,468,642	345,586,275	354,331,970	321,207,957
Local Assistance	53,076,585	62,755,294	52,620,000	43,629,795	30,817,241
Subtotal	352,115,740	366,135,820	570,870,174	579,343,356	521,572,237
Education					
State Operations	2,502,704,172	2,344,846,070	2,521,127,678	2,473,042,166	2,338,021,272
Aids to Individuals and Organizations	280,565,768	286,352,107	246,362,211	189,484,289	182,593,262
Local Assistance	4,163,022,316	3,982,781,815	3,110,348,236	2,864,657,285	2,569,340,081
Subtotal	6,946,292,256	6,613,979,992	5,877,838,125	5,527,183,740	5,089,954,615
Environmental Resources					
State Operations	1,289,397,451	1,207,567,848	1,168,542,505	1,159,663,779	1,152,013,867
Aids to Individuals and Organizations	11,458,404	19,948,063	26,915,579	22,244,920	18,830,360
Local Assistance	851,469,438	825,580,909	779,576,130	782,756,275	742,154,919
Subtotal	2,152,325,292	2,053,096,820	1,975,034,214	1,964,664,974	1,912,999,146
Human Relations and Resources					
State Operations	1,573,507,826	1,397,116,967	1,371,651,160	1,258,608,769	1,231,587,975
Aids to Individuals and Organizations	3,484,623,091	3,463,741,981	3,415,134,822	3,367,986,626	3,266,649,767
Local Assistance	650,326,226	669,708,105	720,706,514	692,135,323	661,800,665
Subtotal	5,708,457,143	5,530,567,053	5,507,492,496	5,318,730,718	5,160,038,407
General Executive					
State Operations	2,885,868,362	2,307,744,396	2,052,231,694	1,934,984,996	1,773,191,971
Aids to Individuals and Organizations	304,857,854	300,295,018	27,173,763	32,334,180	28,122,954
Local Assistance	36,173,254	63,969,441	26,213,441	19,924,069	15,469,064
Subtotal	3,226,899,470	2,672,008,855	2,105,618,898	1,987,243,245	1,816,783,989
Judicial					
State Operations	69,616,266	65,595,425	64,237,307	64,107,905	62,686,535
Local Assistance	21,410,600	21,362,200	18,263,107	7,691,854	11,066,928
Subtotal	91,026,866	86,957,625	82,500,414	71,799,759	73,753,463
Legislative					
State Operations	55,051,282	53,218,947	50,047,274	50,840,285	46,952,652
Subtotal	55,051,282	53,218,947	50,047,274	50,840,285	46,952,652
General					
State Operations	725,825,981	721,694,632	504,768,472	467,730,594	522,102,729
Aids to Individuals and Organizations	185,874,167	191,255,582	209,922,994	206,100,611	216,600,048
Local Assistance	1,701,484,672	1,347,118,143	1,510,746,840	1,447,264,919	1,419,981,721
Subtotal	2,613,184,820	2,260,068,357	2,225,438,306	2,121,096,124	2,158,684,498
General Obligation Bond Program					
State Operations	435,910,841	440,373,335	310,823,789	425,243,946	289,286,562
Local Assistance					
Subtotal	435,910,841	440,373,335	310,823,789	425,243,946	289,286,562
Summary Totals					
State Operations	9,685,227,028	8,684,069,504	8,216,093,778	8,015,604,031	7,585,390,602
Aids to Individuals and Organizations	4,419,073,591	4,419,061,393	4,271,095,644	4,172,482,596	4,034,004,348
Local Assistance	7,476,963,090	6,973,275,907	6,218,474,268	5,858,059,520	5,450,630,619
GRAND TOTAL	$21,581,263,709	$20,076,406,804	$18,705,663,690	$18,046,146,147	$17,070,025,569

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The amounts are unaudited.

Source: Wisconsin Department of Administration.

RESULTS OF 1997-98 FISCAL YEAR

Both actual and projected financial results are described in this Annual Report on an all-funds basis and a general-fund basis. See "STATE BUDGET" in this part of the Annual Report.

The Annual Fiscal Report for the fiscal year ending June 30, 1998 was published October 15, 1998. It reports that the State ended the fiscal year on a statutory and unaudited basis with an unreserved, undesignated balance of $552 million

The following summarizes the actual results from fiscal year 1997-98 as compared to the budgeted amounts for fiscal year 1997-98.

State Budget
General-Fund Basis
(Amounts in Millions)

	Actual 1997-98	Budgeted 1997-98
Beginning Balance	$ 327	$ 331
Tax Revenues	9,537	9,351
Nontax Revenues	6,164	6,573
Total Amount Available	$16,028	$16,255
Total Disbursements/Reserves	$15,420	$16,001
Estimated Balance	$ 608	$ 254
Designated For Expenditure	56	(98) [a]
Total Balance	$ 552	$ 352

State Budget
All-Funds Basis
(Amounts in Millions)

	Actual 1997-98	Budgeted 1997-98
Beginning Balance	$ 327	$ 331
Tax Revenues	10,503	9,350
Nontax Revenues	19,095	14,163
Total Amount Available	$29,925	$23,844
Total Disbursements/Reserves	$29,317	$23,590
Estimated Balance	$ 608	$ 254
Designated For Expenditure	56	(98) [a]
Total Balance	$ 552	$ 352

[a] Reflects the statutorily required reserve for the 1997-98 budget.

The budget adjustment bill for the 1997-99 biennial budget provided that up to $125 million of any budget surplus above the estimated balance ($352 million) on June 30, 1998 be used to increase the school property tax credit for tax year 1998. As outlined in the Annual Fiscal Report for the period ending June 30, 1998, the actual budget surplus above the estimated balance is approximately $200 million. As a result, $125 million of the surplus on June 30, 1998 will be used for the school property tax credit for tax year 1998.

During the fiscal year ending June 30, 1998, the State issued $450 million of operating notes. The operating notes were issued on July 1, 1997 and November 12, 1997 and matured on June 15, 1998. Operating notes are not general obligations of the State and are not on a parity with State general obligations.

STATE BUDGET

Budget for 1998-99

On June 2, 1998, the Governor signed into law a budget adjustment bill for the 1997-99 biennial budget. The budget on an all-funds and general-fund basis projects a balance of $117 million for the fiscal year ending June 30, 1999.

The following summarizes the actual results from fiscal year 1997-98 as compared to the budgeted amounts for fiscal year 1998-99.

State Budget
General-Fund Basis
(Amounts in Millions)

	Actual 1997-98	Budgeted 1998-99
Beginning Balance	$ 327	$ 352
Tax Revenues	9,537	9,663
Nontax Revenues	6,164	6,434
Total Amount Available	$16,028	$16,449
Total Disbursements/Reserves	$15,420	$16,431
Estimated Balance	$ 608	$ 18
Designated For Expenditure	56	(99) [a]
Total Balance	$ 552	$ 117

State Budget
All-Funds Basis
(Amounts in Millions)

	Actual 1997-98	Budgeted 1998-99
Beginning Balance	$ 327	$ 352
Tax Revenues	10,503	9,663
Nontax Revenues	19,095	14,344
Total Amount Available	$29,925	$24,099
Total Disbursements/Reserves	$29,317	$24,340
Estimated Balance	$ 608	$ 18
Designated For Expenditure	56	(99) [a]
Total Balance	$ 552	$ 117

[a] Reflects the statutorily required reserve for the fiscal year 1998-99 general and all-funds budgets.

Table II-3 includes a detailed summary of the all-funds budget and Table II-4 includes a detailed summary of the general-fund budget.

The above summaries and Tables II-3 and II-4 *do not include* (i) a beginning balance based on the actual results from fiscal year 1997-98, or (ii) revised revenue estimates for fiscal year 1998-99 that were released by the Department of Administration on November 20, 1998. Based on these two factors, the undesignated balance on June 30, 1999 for the all-funds and general-fund budgets is estimated at $328 million.

Potential Effect of Litigation

APPENDIX A to this part of the Annual Report includes the General Purpose Financial Statements for the fiscal year ended June 30, 1998. The notes to the General Purpose Financial Statements include a description of various legal proceedings, claims, and tax refunds that may have a potential budgetary effect. The potential budgetary impact of these legal proceedings and claims, and any updates to those proceedings subsequent to June 30, 1998, are outlined below.

Corporate Tax Apportionment Methodology

The State is current on making the refunds. The 1998–99 budget does provide for payment of any remaining refunds.

Wage Overtime Case

The United States Supreme Court vacated the Court of Appeals decision and remanded the matter for further consideration. Upon reconsideration, the court of appeals dismissed the case. The plaintiffs refiled in State court and the matter is pending. The 1998-99 budget does not provide for this payment.

Assessment of Taxes for Railroads

The actions brought in federal court have been disposed of without financial impact. The actions brought in State court between 1994 and 1997 were settled in 1998 in a manner that results in a reduction of tax collections of approximately $810,000. Final judgment dismissing the actions brought in State court between 1989 and 1993 for omitted property was entered in the fall of 1998, and an appeal is likely. The 1998-99 budget does not provide for this payment.

Corporate Tax Measured by Interest from U.S. Securities

On December 15, 1998, the State Supreme Court reversed the Court of Appeals and held that the state franchise tax in nondiscriminatory. A petition for writ of certiorari is unlikely as the State Supreme Court resolved the issue by deciding a question of State law.

Other

The State, its officers, and employees are defendants in numerous other lawsuits. It is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially impair its financial position. Potential liability for such pending litigation does not constitute a significant impairment of the State’s financial position or the payment of debt service.

Table II-3
STATE BUDGET–ALL FUNDS[a]

`	Actual [b] 1997-98	Budget 1997-98	Budget 1998-99
RECEIPTS			
Fund Balance from Prior Year	$ 327,145,000	$ 331,145,100 [c]	$ 352,243,400
Tax Revenue			
Individual Income	5,047,325,000	4,916,000,000	5,052,400,000
General Sales and Use	3,047,406,000	2,999,850,000	3,134,030,000
Corporate Franchise and Income	627,024,000	644,800,000	654,700,000
Public Utility	288,358,000	277,300,000	272,600,000
Excise			
Cigarette/Tobacco Products	257,096,000	257,000,000	268,900,000
Liquor and Wine	32,735,000	32,000,000	32,300,000
Malt Beverage	9,260,000	9,500,000	9,500,000
Inheritance, Estate & Gift	80,111,000	73,000,000	55,000,000
Insurance Company	88,065,000	95,000,000	95,000,000
Other	1,025,774,000	46,025,000 [d]	88,237,500 [d]
Subtotal	10,503,154,000	9,350,475,000	9,662,667,500
Nontax Revenue			
Departmental Revenue	428,998,000	159,375,900	151,226,600
Total Federal Aids	3,462,744,000	4,323,934,400	4,339,196,600
Total Program Revenue	2,272,046,000	2,284,115,900	2,353,325,400
Total Segregated Funds	2,851,387,000	2,175,818,200	2,229,010,500
Fund Transfers In	NA	261,605,900	NA
Bond Authority	444,985,000	415,000,000	430,000,000
Employee Benefit Contributions [e]	9,634,618,000	4,542,998,211	4,840,878,164
Subtotal	19,094,778,000	14,162,848,511	14,343,637,264
Total Available	$ 29,925,077,000	$ 23,844,468,611	$ 24,358,548,164
DISBURSEMENTS AND RESERVES			
Commerce	$ 355,424,000	$ 399,608,700	$ 390,029,300
Education	7,102,297,000	7,046,047,900	7,332,883,400
Environmental Resources	2,225,495,000	2,153,578,600	2,183,076,800
Human Relations and Resources	5,867,267,000	5,889,776,700	6,120,171,500
General Executive	3,250,801,000	818,817,000	613,160,900
Judicial	91,027,000	89,630,900	90,209,800
Legislative	55,051,000	55,274,500	55,994,700
General Appropriations	2,633,902,000	2,107,286,500	2,012,329,700
General Obligation Bond Program	386,312,000	415,000,000	430,000,000
Employee Benefit Payments [e]	1,759,164,000	1,889,607,836	2,019,386,350
Reserve for Employe Benefit Payments [e]	7,875,454,000	2,653,390,375	2,821,491,814
Subtotal	31,602,194,000	23,518,019,011	24,068,734,264
Less: (Lapses)	NA	(62,926,600)	(60,255,000)
Compensation Reserves	NA	34,915,600	66,338,400
Required Statutory Balance	NA	98,110,700	99,426,600
Fund Transfers Out	NA	2,217,200	166,108,600
Change in Continuing Balance	(2,285,220,000)	NA	NA
Total Disbursements & Reserves	$ 29,316,974,000	$ 23,590,335,911	$ 24,340,352,864
Fund Balance	$ 608,103,000	$ 254,132,700	$ 18,195,300
Undesignated Balance	$ 552,311,000	$ 352,243,400	$ 117,621,900

(a) The amounts shown are based on statutorily required accounting and not on GAAP.

(b) The amounts shown are unaudited and rounded to the nearest thousand.

(c) There is a difference in the budgeting and accounting treatment of a $4,000,000 loan from the Local Government Property Insurance Fund which was outstanding as of June 30, 1997. For budgeting purposes, the loan increases the balance of the General Fund which is then reduced when the repayment is made. For accounting purposes, the loan has no effect on the General Fund balance.

(d) The budgets do not include taxes collected for segregated funds. The largest such tax is the motor vehicle fuel tax, of which $740 million were collected in the 1997-98 fiscal year. For the 1998-99 fiscal year, the amount shown includes $40 million of revenue expected to be raised through a program that offers a tax amnesty program. As of the date of this Annual Report, this program is complete and the State is evaluating the results, which results should be available in December 1998.

(e) State law separates the accounting of employee benefits from the budget. They are included for purposes of comparability to the figures presented in this table and Tables II-1 and II-2 of this Annual Report. Benefits are provided for on a fully funded basis. Therefore, when contributions actually received exceed the benefits actually paid out, the difference is added to the trust funds. In the event that the actual benefit payments exceed the contributions, investment earnings will be used to cover the difference before they are deposited in the Employee Benefit Fund.

Source: Wisconsin Department of Administration.

Table II-4
STATE BUDGET–GENERAL FUND[a]

	Actual [b] 1997-98	Budget 1997-98	Budget 1998-99
RECEIPTS			
Fund Balance from Prior Year	$ 327,145,000	$ 331,145,100 [c]	$ 352,243,400
Tax Revenue			
State Taxes Deposited to General Fund			
Individual Income	5,047,325,000	4,916,000,000	5,052,400,000
General Sales and Use	3,047,406,000	2,999,850,000	3,134,030,000
Corporate Franchise and Income	627,024,000	644,800,000	654,700,000
Public Utility	288,358,000	277,300,000	272,600,000
Excise			
Cigarette/Tobacco Products	257,096,000	257,000,000	268,900,000
Liquor and Wine	32,735,000	32,000,000	32,300,000
Malt Beverage	9,260,000	9,500,000	9,500,000
Inheritance, Estate & Gift	80,111,000	73,000,000	55,000,000
Insurance Company	88,065,000	95,000,000	95,000,000
Other	60,044,000	46,025,000	88,237,500 [d]
Subtotal	9,537,424,000	9,350,475,000	9,662,667,500
Nontax Revenue			
Departmental Revenue	428,998,000	159,375,900	151,226,600
Program Revenue-Federal	3,462,744,000	3,868,165,100	3,929,984,000
Program Revenue-Other	2,272,046,000	2,284,115,200	2,353,325,400
Fund Transfers In	NA	261,605,900	NA
Subtotal	6,163,788,000	6,573,262,100	6,434,536,000
Total Available	$ 16,028,357,000	$ 16,254,882,200	$ 16,449,446,900
DISBURSEMENTS AND RESERVES			
Commerce	$ 193,084,000	$ 207,291,600	$ 195,817,600
Education	6,905,997,000	6,981,265,900	7,185,455,400
Environmental Resources	238,916,000	239,538,800	239,024,700
Human Relations and Resources	5,573,049,000	5,792,936,500	6,013,539,700
General Executive	716,887,000	742,911,000	533,306,400
Judicial	90,711,000	88,987,000	89,565,900
Legislative	55,051,000	55,274,500	55,994,700
General Appropriations	1,735,920,000	1,820,227,300	1,846,928,600
Subtotal	15,509,615,000	15,928,432,600	16,159,633,000
Less: (Lapses)	NA	(62,926,600)	(60,255,000)
Compensation Reserves	NA	34,915,600	66,338,400
Required Statutory Balance	NA	98,110,700	99,426,600
Fund Transfers Out	NA	2,217,200	166,108,600
Federal Retiree Reserve	NA	NA	NA
Changes in Continuing Balance	(89,361,000)	NA	NA
Total Disbursements & Reserves	$ 15,420,254,000	$ 16,000,749,500	$ 16,431,251,600
Fund Balance	$ 608,103,000	$ 254,132,700	$ 18,195,300
Undesignated Balance	$ 552,311,000	$ 352,243,400	$ 117,621,900

[a] The amounts shown are based on statutorily required accounting and not on GAAP.

[b] The amounts shown are unaudited and rounded to the nearest thousand.

[c] There is a difference in the budgeting and accounting treatment of a $4,000,000 loan from the Local Government Property Insurance Fund which was outstanding as of June 30, 1997. For budgeting purposes, the loan increases the balance of the General Fund which is then reduced when the repayment is made. For accounting purposes, the loan has no effect on the General Fund balance.

[d] Includes $40 million of revenue expected to be raised through a program that offers a tax amnesty. As of the date of this Annual Report, this program is complete and the results are being evaluated by the State, which results should be available in December 1998.

Source: Wisconsin Department of Administration.

Employee Relations

Of the State's approximately 37,500 civil service employees, approximately 33,000 are employees whose wage rates, fringe benefits, hours, and conditions of employment are determined by collective bargaining agreements. All of these classified employees are either assigned to a collective bargaining unit or are exempted from bargaining unit coverage due their "confidential" or "management" designation. Covered employees are assigned to one of twenty-two bargaining units set up by occupational groupings based by their civil service classification. An exclusive bargaining unit represents nineteen of the bargaining units. Current labor agreements expire on June 30, 1999.

The employment of non-represented civil service employees is covered by civil service statutes, rules, and the non-represented compensation plan.

Each contract contains a no-strike and no-lockout provision, and State law specifies that it is illegal for a State employee "to engage in, induce, or encourage any employee to engage in a strike or a concerted refusal to work or perform their usual duties as employees". Also, the State and its agencies have established contingency plans to staff and operate the various State agencies, programs and institutions should an incident occur that could disrupt the delivery of critical State services and necessary agency functions. These plans covering various situations including strikes and work stoppages are updated annually.

The budgets provide for salary and fringe benefits in an amount that is expected to be sufficient to meet all contract obligations. By statute the contracts between the State and the individual bargaining units are two-year contracts that coincide with the State's biennium. A contract agreement requires ratification by the members of the labor unions, approval by the Joint Committee on Employment Relations, passage by both houses of the Legislature and signature of the Governor.

State Budget Assumptions

Tax revenue projections for the 1998–99 budget are based on November 1998 Department of Revenue estimates. The revenue projections are based on the State tax structure and on assumptions about basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. Any variation from that expected level of revenue will result in a corresponding increase or decrease in expenditures.

The projections of total State disbursements for the budgets are based on assumptions relating to economic and demographic factors, desired levels of services, and the success of expenditure control mechanisms applied by the Secretary of Administration pursuant to statutory authority in controlling disbursements for State operations. Factors that may affect the level of disbursements in the budgets and make the projected levels difficult to maintain include uncertainties relating to the economy of the nation and the State.

Economic Assumptions

The economic forecast underlying the 1997–98 budget was based primarily on certain projections of Data Resources, Inc. (DRI) as presented in its report of May 1997. The economic forecast underlying the 1998–99 budget is based primarily on certain projections of DRI as presented in its November 1998 report and results of the economic model that incorporates the projections. See Table II-5 for a summary of the November 1998 DRI report and results of the DOR model.

Table II-5

ECONOMIC FORECASTS
U.S. ECONOMIC FORECAST

	Calendar Year				
	1998	1999	2000	2001	2002
Real GDP and its Components (Amounts in Billions of Chain-Weighted 1992 Dollars)					
GDP	$7,531.0	$7,660.9	$7,837.2	$7,998.8	$8,199.9
Percent Change	3.6	1.7	2.3	2.1	2.5
Consumption	5,145.5	5,284.9	5,405.3	5,505.1	5,671.0
Percent Change	4.7	2.7	2.3	1.8	2.0
Investment (including inventory)	1,325.3	1,321.5	1,361.7	1,403.2	1,477.6
Percent Change	9.9	(0.3)	3.0	3.0	5.3
Nonresidential Structures	199.9	192.3	194.4	199.1	215.0
Percent Change	(1.6)	(3.8)	1.3	2.2	8.0
Business Equipment	770.3	820.2	858.6	900.7	951.4
Percent Change	16.6	6.5	4.7	4.9	5.6
Residential Fixed	308.7	303.3	301.4	302.1	307.9
Percent Change	9.2	(1.7)	(0.6)	0.2	1.9
Change in Inventory	60.1	28.5	35.0	34.8	39.9
Exports	972.6	993.3	1,068.2	1,151.4	1,238.4
Percent Change	0.3	2.1	7.5	7.8	7.6
Imports	1,220.8	1,290.8	1,367.4	1,441.7	1,526.5
Percent Change	10.4	5.7	5.9	5.4	5.9
Federal Government	452.9	458.5	451.3	443.4	440.8
Percent Change	(1.1)	1.2	(1.6)	(1.8)	(0.6)
State and Local Government	844.3	870.3	894.3	916.0	937.0
Percent Change	2.1	3.1	2.8	2.4	2.3
GDP (Current Dollars)	8,489.0	8,774.8	9,158.3	9,547.4	10,013.8
Percent Change	4.7	3.4	4.4	4.2	4.9
Employment, Unemployment, Wages and Prices					
Nonfarm Employment (millions)	125.8	127.4	128.9	130.5	132.2
Percent Change	2.5	1.3	1.2	1.2	1.3
Unemployment Rate (%)	4.5	4.9	5.1	5.4	5.4
Compensation per hour (%)	4.1	4.1	3.8	3.5	3.4
Consumer Price Index (%)	1.6	2.4	2.7	2.8	2.8
Producer Price Index (%)	(2.2)	0.8	1.6	1.7	1.7
GDP Price Deflator (%)	1.0	1.6	2.0	2.1	2.3
Industrial Production (% change)	3.1	1.3	2.8	2.5	3.5
Money and Interest Rates					
Money Supply (M2) (billions)	$4,358.9	$4,698.2	$4,941.4	$5,128.5	$5,333.3
Percent Change	8.3	7.8	5.2	3.8	4.0
Prime Commercial Rate	8.4	7.4	7.1	7.5	7.5
3-Month Treasury Bills (rate)	4.8	3.7	3.6	4.0	4.0
30-Year U.S. Gvt. Bonds (rate)	5.6	5.0	4.8	4.9	5.1
G.O. AAA Municipals (rate)	4.9	4.5	4.4	4.4	4.6
New Conventional Mortgages (rate)	7.1	6.7	6.3	6.5	6.6

Table II-5 – Continued

Income, Profits and Savings
(Amounts in Billions)

	Calendar Year				
	1998	1999	2000	2001	2002
Personal Income	$7,119.0	$7,425.5	$7,747.5	$8,087.7	$8,470.3
Percent Change	4.9	4.3	4.3	4.4	4.7
Personal Income ($ 1992)	$6,313.5	$6,459.3	$6,581.9	$6,701.6	$6,841.4
Percent Change	4.1	2.3	1.9	1.8	2.1
Savings Rate	0.4	0.3	0.6	1.0	1.3
Corporate Profits Before Tax	$ 815.1	$ 773.2	$ 794.9	$ 805.7	$ 854.4
Percent Change	(0.3)	(5.1)	2.8	1.4	6.1

Source: Data Resources, Inc./McGraw-Hill, November, 1998

WISCONSIN EMPLOYMENT FORECAST

	Calendar Year				
	1998	1999	2000	2001	2002
Annual Industry Detail Average (Thousands of Workers)					
Durable Goods	377.7	363.8	357.4	356.7	359.9
Percent Change	1.8	(3.7)	(1.8)	(0.2)	0.9
Nondurable Goods	240.1	235.5	234.3	235.2	236.1
Percent Change	0.8	(1.9)	(0.5)	0.4	0.4
Mining	2.3	2.0	2.0	2.0	1.9
Percent Change	(8.0)	(12.0)	(1.9)	(1.9)	(1.6)
Construction	112.8	111.7	111.1	112.3	115.6
Percent Change	3.8	(1.0)	(0.5)	1.1	2.9
Transportation and Utilities	124.5	125.0	126.4	127.7	128.7
Percent Change	1.3	0.5	1.1	1.1	0.8
Finance, Insurance, Real Estate	144.1	145.8	148.3	151.4	154.1
Percent Change	2.7	1.2	1.7	2.1	1.7
Retail Trade	480.2	490.2	501.9	508.2	513.8
Percent Change	1.8	2.1	2.4	1.3	1.1
Wholesale Trade	136.3	139.3	141.8	143.3	144.8
Percent Change	2.6	2.2	1.8	1.0	1.1
Services	700.1	718.3	740.8	763.0	784.5
Percent Change	3.3	2.6	3.1	3.0	2.8
Government	392.2	402.0	410.7	415.5	420.0
Percent Change	1.8	2.2	2.2	1.2	1.1
Total Nonfarm	2,711.4	2,733.7	2,774.6	2,815.	2,859.5
Percent Change	2.2	0.8	1.5	1.5	1.6

Source: Wisconsin Department of Revenue, Economic Outlook, November 1998

Table II-5 – Continued

WISCONSIN INCOME SUMMARY

	Calendar Year				
	1998	**1999**	**2000**	**2001**	**2002**
Components of Personal Income (Amounts in Billions)					
Wages and Salaries	$77.56	$81.36	$85.46	$89.39	$93.81
Other Labor Income	8.36	8.71	9.20	9.69	10.24
Farm Proprietor's Income	(0.01)	0.19	0.08	0.04	0.06
Nonfarm Proprietor's Income	7.21	7.39	7.76	8.10	8.47
Rental Income	2.91	3.06	3.29	3.54	3.78
Personal Dividend Income	5.14	5.31	5.54	5.70	5.95
Personal Interest Income	13.97	13.81	13.45	13.50	13.75
Transfer Payments	19.33	20.24	21.27	22.38	23.58
Residence Adjustment	2.17	2.28	2.39	2.51	2.64
Contributions to Social Insurance	6.08	6.33	6.60	6.87	7.18
Personal Income	130.58	136.02	141.83	147.98	155.11
Personal Taxes and Nontax Pmts	21.94	22.79	23.07	23.75	24.78
Disposable Personal Income	108.64	113.23	118.77	124.23	130.33
Annual Rates of Change (Percent Change)					
Wages and Salaries	5.1	4.9	5.0	4.6	4.9
Other Labor Income	1.9	4.1	5.6	5.4	5.7
Farm Proprietor's Income	97.7		(56.9)	(45.9)	31.3
Nonfarm Proprietor's Income	5.7	2.5	5.0	4.4	4.6
Rental Income	2.4	5.2	7.7	7.6	6.6
Personal Dividend Income	0.7	3.2	4.3	2.9	4.4
Personal Interest Income	1.9	(1.2)	(2.6)	0.4	1.9
Transfer Payments	3.2	4.7	5.1	5.2	5.4
Residence Adjustment	9.0	5.0	5.1	4.8	5.2
Contributions to Social Insurance	4.9	4.1	4.4	4.1	4.4
Personal Income	4.4	4.2	4.3	4.3	4.8
Personal Taxes and Nontax Pmts	10.8	3.9	1.2	3.0	4.3
Disposable Personal Income	3.2	4.2	4.9	4.6	4.9
Inflation Adjusted Income Measures (1992 Dollars)					
Real Personal Income (billions)	$ 115.79	$ 118.32	$ 120.49	$ 122.62	$ 125.28
Percent Change	3.5	2.2	1.8	1.8	2.2
Real Personal Income per Capita	$22,079.0	$22,390.0	$22,642.0	$22,890.0	$23,244.0
Percent Change	2.7	1.4	1.1	1.1	1.5
Per Capita Personal Income	$24,899.0	$25,740.0	$26,652.0	$27,624.0	$28,778.0
Percent Change	3.6	3.4	3.5	3.6	4.2

Source: Wisconsin Department of Revenue, Wisconsin Economic Outlook, November 1998

Wisconsin Econometric Model

The Wisconsin Econometric Model (**Model**) is a forecasting tool used for predicting the future of the State's economy, measured primarily by income and employment. The model provides the Department of Revenue with information about how the State's economy responds to changes in the national environment and plays a critical role in the revenue estimating process. The Model was designed by DRI, which continues to provide national economic forecasts, data base support, and consulting services. It is maintained by the Department of Revenue.

The Model provides forecasts of the major components of income and employment. It is a structural model that employs accounting identities and theoretical constructs for predictions on each economic variable. It is driven by a set of exogenous variables. These exogenous variables include forecasts of both national and State data. The forecast data are entered into the model to generate forecasts of state employment, income, tax revenue, and other economic indicators.

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, proprietary income, transfer payments, industrial production, housing permits, and taxes. The Model currently consists of 172 equations.

The equations of the Model are a mixture of definitional equations and stochastic equations. Definitional equations are used to formulate accounting relationships (for example, total employment is the sum of employment for each industry). Stochastic equations are used to specify probability or statistical relationships in which the relation between any two economic measures cannot be defined exactly. Both types of equations rely on an extensive historical database that contains both national and State measures of the economy dating from the early 1960s.

The Model structure adopts an adaptive expectations framework in which the forecasted economic variables (for example, the level of income and employment) in the current period depend on expectations about the economic variables. Adaptive expectations models assume that expectations about current economic phenomena are based on the historical values of the economic phenomena.

Stochastic equations within the Model are determined using regression techniques. All estimated coefficients are statistically significant and consistent with economic theory.

In order to produce forecasts with the Model, data from several outside (exogenous) sources are required. Forecasts of economic variables at the national level are required to drive the Model. National forecast data includes measures of industry output, factor costs, tax levels and rates, interest rates, inflation, etc. Currently, DRI forecasts for these national variables are used.

Other exogenous data come from both federal and State agencies. These data are principally measures of State population, milk prices, and state tax rates. Once the data are entered into the Model, the system of equations is simultaneously solved for income, employment, and other economic variables.

The Model uses data on U.S. economic trends to forecast the State economy. In turn, it uses the State forecast data to estimate General Purpose Revenues.

In the Model, separate equations for employment, income, and taxes are estimated to acknowledge the complexity of the State's economy. Changes in population, international exchange rates, productivity, and tax rates can affect each of the economic indicators differently. The Model recognizes this by estimating each economic indicator separately.

Employment is estimated at the one- and two-digit standard industrial classification levels. It is the major determinant of earnings, which is the sum of wages and salaries, other labor income, and proprietor's income. Personal income is the sum of earnings, property income, and transfer payments. Forecasts of personal income are determined by calculating separate forecasts of the level of each of these components. Federal, State, and local tax revenue and non-tax accruals are functions of income, employment, and tax rates. Disposable income is the difference between personal income and personal taxes.

Maintaining the Model is an ongoing process. The Model is calibrated to be temporally consistent either by adjusting the equations to accurately reflect current levels, or by re-estimating the system of equations.

The purpose of updating and revising the Model is to keep the Model's forecasts as reliable as possible. It is believed that if the Model can account for previous changes in income and employment, then it should be able to accurately forecast current levels of income and employment barring any large, unforeseen changes in the structure of the economy.

Budget Format

The State prepares an all-funds budget, a general purpose revenue (**GPR**) budget and subbudgets for each fund. The all-funds or total budget includes all money appropriated for the fiscal year revenues from general state tax collections, federal funds that are estimated to be received, revenues which are paid into a specific fund (such as the Transportation or Conservation Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and finally revenues resulting from the contracting of public debt. Because it includes only estimates of federal funds to be received and expended, it is a budget that may vary during the course of the fiscal year.

The GPR budget includes the money appropriated from all state-collected general taxes (such as income taxes, sales taxes, and excise taxes), from revenues collected by State agencies that are deposited into the General Fund and lose their identity (departmental revenues) and from various miscellaneous receipts. A portion of these revenues is then returned to local governments in the form of shared tax payments and to school districts in the form of general equalization aid payments, which are used to meet the cost of local operations. Additionally, some of the revenues are used for aids to individuals. The remaining portion is the operating budget for State agencies conducting State-administered programs.

The financial material reported in this document is a representation of the all-funds budget. The subbudget for the General Fund is also provided. The General Fund is the principal operating fund of the State. It receives all State income that is not required by law to be deposited in other funds (including more than 90% of total State tax receipts) and many other revenues.

Impact of Federal Programs

Future Federal budgets which include reductions in Federal aid would have a more immediate effect on individuals, local governments, and other service providers than on the State directly. Such proposals, if enacted, would increase the likelihood that the State will be asked to increase its support of the affected parties. Implementing choices posed by the Federal budget would involve State legislative action.

Supplemental Appropriations

The State may increase appropriations from or reduce taxes below the levels established in its budget. In recent past years, including the current fiscal year, the State has adopted appropriation measures subsequent to passage of the budget act. However, it has been the State's policy that supplemental appropriations adopted by the Legislature will be within revenue projections for that fiscal period or balanced by reductions in other appropriations. Thus, spending from additional appropriations has been matched by reduced disbursements, increased revenues or a combination of both.

No legislation directly or indirectly affecting general purpose revenue (tax revenue and departmental revenue) of the General Fund may be enacted if the bill would cause the estimated General Fund balance on June 30 of the fiscal year to be less than the required statutory reserve.

GENERAL FUND INFORMATION

General Fund History

Table II-6 presents the General Fund condition for the previous five years.

Table II-6

COMPARATIVE CONDITION OF THE GENERAL FUND
AS OF JUNE 30[a]
(Amounts in Thousands)

	1998	1997	1996	1995	1994
ASSETS					
Cash & Investment Pool Shares	$ 446,212	$ 498,692	$ 574,513	$ 489,935	$ 186,705
Imprest Funds	3,981	4,086	4,108	4,107	4,107
Investments	445	445	445	445	445
Receivables					
Accounts Receivable	811,184	816,708	684,739	763,515	714,859
Due from Other Funds	58,454	16,486	16,716	9,244	135,924
Inventory					379
Prepayments	50,935	40,884	34,361	39,878	33,406
TOTAL ASSETS	$ 1,371,211	$ 1,377,301	$ 1,314,882	$ 1,307,124	$ 1,075,825
LIABILITIES					
Accounts Payable	$ 337,998	$ 330,589	$ 295,189	$ 333,644	$ 251,849
Due to Other Funds	59,090	301,406	32,251	36,564	57,093
Tax and Other Deposits	50,406	62,084	40,400	59,666	44,490
Advances from Other Funds	2,000	4,000	6,000	8,000	14,226
Deferred Revenue	27,889	26,498	22,417	21,995	26,235
TOTAL LIABILITIES	$ 477,383	$ 724,577	$ 396,257	$ 459,869	$ 393,893
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 143,312	$ 110,482	$ 160,963	$ 120,329	$ 159,128
Program Revenue Balances	217,276	155,684	171,864	321,938	284,242
Contingent Fund Advances			4,108	4,107	3,685
Student Loans					
Total Reserves	$ 360,588	$ 266,166	$ 336,935	$ 446,374	$ 447,055
Unreserved Balance-Undesignated	533,240	386,558	581,690	400,881	234,877
TOTAL FUND BALANCE	$ 893,828	$ 652,724	$ 918,625	$ 847,255	$ 681,932
TOTAL LIABILITIES AND FUND BALANCE	$ 1,371,211	$ 1,377,301	$ 1,314,882	$ 1,307,124	$ 1,075,825

[a] The amounts shown are based on statutorily required accounting and not GAAP. The amounts are unaudited.

Source: Wisconsin Department of Administration.

General Fund Cash Flow

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate up to 5% of the general-purpose revenue appropriations then in effect of available cash in other funds to the General Fund. This amount is nearly $500 million for fiscal year 1998-99. The Secretary of

Administration may set priorities for payments from the General Fund as well as prorate certain payments.

The Statutes provide that all payments shall be in accordance with the following order of preference:

- all direct and indirect payments of principal and interest on State general obligation debt have first priority and may not be prorated or reduced
- all direct and indirect payments of principal and interest on operating notes have second priority and may not be prorated or reduced
- all State employee payrolls have third priority and may be prorated or reduced
- all other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced

Table II-7 presents the actual cash flow of the General Fund from July 1996 through November 1998 and the projected cash flow for December 1998 through June 1999. The amounts reported include the proceeds of the sale of operating notes in July 1996, 1997, and 1998 and the payment of impoundments for February, March, April and May of 1997, 1998, and 1999. The table should be read in conjunction with other information concerning the State budget set forth elsewhere in this part of the Annual Report, including "BUDGETING PROCESS AND FISCAL CONTROLS", "STATE BUDGET" and "STATE OBLIGATIONS; Operating Notes". There has been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentation in the following tables includes all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in Tables II-3 and II-4 include tax revenues that are net of tax refunds. There are other situations that prevent a direct reconciliation of the two presentations.

Monthly projections of cash flow are based upon the 1998–99 budget and upon historical experience as adjusted to reflect economic conditions, statutory, and administrative changes and anticipated payment dates for debt service, payrolls, and State aid.

Unforeseen events or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month and thus may adversely affect the projection of cash flow for the time shown. Additionally, the timing of transactions from month to month may vary from the forecast. The State updates its projection of the remaining fiscal year cash flow each month as a result of actual revenues and expenditures received, from unforeseen events, or from revised forecasts of month-to-month timing of transactions.

Table II-8 presents the actual cash balances available for interfund borrowings from July 1, 1996 through December 1, 1998 and the projected balances for January 1, 1999 through June 1, 1999.

Tables II-9 and II-10 present actual revenues deposited into the General Fund and expenditures made from the General Fund for the period of July 1, 1998 to November 30, 1998 as compared to the period of July 1, 1997 to November 30, 1997.

Table II-7

GENERAL FUND MONTHLY CASH POSITION
July 1, 1997 through November 30, 1998 ¾ Actual
December 1, 1998 through June 30, 1999 ¾ Estimated[(a)]
(Amounts in Thousands)

	Starting Date	Starting Balance	Receipts[(b)]	Disbursements[(b)]
1996	July....................	$ 569,086	$ 1,279,815	$ 1,434,154
	August................	414,747	1,030,924	844,258
	September..........	601,413	1,476,166	1,011,367
	October..............	1,066,212	1,137,121	855,357
	November...........	1,347,976	1,201,689	1,691,802
	December...........	857,863	1,191,440	1,728,258
1997	January..............	321,045	1,660,082	969,951
	February.............	1,011,176	1,143,553	1,018,864
	March................	1,135,865	1,187,307	1,888,887
	April..................	434,285	1,507,412	964,595
	May....................	977,102	1,282,737	965,508
	June....................	1,294,331	1,390,068	2,190,931
	July....................	493,468	1,583,435	1,558,759
	August................	518,144	1,092,096	868,164
	September..........	742,076	1,518,617	1,140,770
	October..............	1,119,923	1,281,159	1,220,979
	November...........	1,180,103	1,363,754	1,575,478
	December...........	968,379	1,221,439	1,810,967
1998	January..............	378,851	1,701,236	1,004,066
	February.............	1,076,021	1,222,276	1,122,065
	March................	1,176,232	1,357,272	2,111,569
	April..................	421,935	1,536,033	1,078,050
	May....................	879,918	1,258,276	990,358
	June....................	1,147,836	1,535,006	2,240,138
	July....................	442,704	1,641,655	1,750,960
	August................	333,399	1,200,704	803,188
	September..........	730,915	1,607,957	1,283,254
	October..............	1,055,618	1,267,513	1,035,960
	November...........	1,287,171	1,408,782	1,619,285
	December...........	1,076,668	1,362,914	1,778,961
1999	January..............	660,621	1,754,549	993,997
	February.............	1,421,173	1,282,543	1,261,174
	March................	1,442,542	1,345,839	2,232,620
	April..................	555,761	1,655,128	1,232,102
	May....................	978,787	1,397,266	1,057,765
	June....................	1,318,288	1,586,622	2,493,135

(a) The monthly receipt and disbursement projections for December 1, 1998 through June 30, 1999 are based on estimates provided by the Division of Executive Budget and Finance.

(b) The receipt amounts shown in July 1996–1998 include the proceeds received, or expected to be received, at closing for respective issues of operating notes. See "STATE OBLIGATIONS; Operating Notes". The disbursement amounts shown for February, March, April and May 1997–1999 include impoundment payments required in connection with the operating notes.

Source: Wisconsin Department of Administration.

Table II-8

BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[a]
July 1, 1996 to December 1, 1998 — Actual
January 1, 1999 to June 1, 1999 — Estimated[b]
(Amounts in Millions)

	1996	1997	1998	1999
January		$3,210	$3,363	$3,363[b]
February		3,554	3,906	3,906
March		3,793	4,222	4,222
April		3,832	4,298	4,298
May		3,423	4,011	4,011
June		3,318	3,811	3,811
July	$3,252	3,522	3,926	
August	3,512	3,825	4,236	
September	3,251	3,546	3,982	
October	3,010	3,456	3,822	
November	2,687	3,126	3,429	
December	2,073	3,177	3,465	

(a) Consists of the following funds:

Transportation
Conservation (Partial)
Wisconsin Health Education Loan Repayment
Waste Management
Wisconsin Election Campaign
Investment & Local Impact
Elderly Property Tax Deferral
Lottery
Children's Trust
Racing
Work Injury Supplemental Benefit
Unemployment Compensation Interest Repayment
Uninsured Employers
Health Insurance Risk Sharing Plan
Local Government Property Insurance
Patients Compensation
Mediation
Agricultural College
Common School
Normal School
University
Local Government Investment Pool
Farms for the Future
Agrichemical Management
Historical Society Trust
School Income Fund
Benevolent
Groundwater
Petroleum Storage Environmental Cleanup
Clean Water
Environmental
Recycling
University Trust Principal
Veterans Mortgage Loan Repayment
State Building Trust

(b) Estimated balances for January 1, 1999 and succeeding months include $480 million (a portion of the estimated balance) for the local government pool of the available funds. The local government pool has varied from a low of $63 million on July 1, 1983 to a high of $4.426 billion on March 1, 1994. The pool is composed of funds deposited by local units of government which may be withdrawn without notice. Under Section 20.002(11) of the Statutes, interfund borrowing is limited to 5% of the total general-purpose revenue appropriations then in effect, which for the 1998–99 budget is nearly $500 million.

Source: Wisconsin Department of Administration.

Table II-9

REVENUES DEPOSITED TO THE GENERAL FUND[a]
July 1, 1998 to November 30, 1998 compared with previous year
(Unaudited)

	Actual Receipts 1997–98 FY[b]	Projected Receipts 1998–99 FY	Actual Receipts July 1, 1997 to November 30, 1997	Actual Receipts July 1, 1998 to November 30, 1998
Individual Income Tax	$ 5,047,325,000	$ 5,052,400,000	$ 1,616,568,273	$ 1,740,535,409
General Sales and Use Tax ..	3,047,406,000	3,134,030,000	1,029,858,922	1,096,108,495
Corporate Franchise and Income Tax	627,024,000	654,700,000	169,081,040	158,853,240
Public Utility Taxes	288,358,000	272,600,000	164,259,797	114,396,810
Excise Taxes	299,091,000	310,700,000	94,128,512	112,194,033
Inheritance Taxes	80,111,000	55,000,000	46,539,482	27,825,012
Miscellaneous Taxes	148,109,000	183,237,500	55,189,739	46,390,979
SUBTOTAL..............	9,537,424,000	9,662,667,500	3,175,625,765	3,296,303,978
Federal Receipts....................	3,462,744,000	3,929,984,000	1,286,476,075	1,465,057,950
Dedicated and Other Revenues[c]............	2,701,044,000	2,504,552,000	1,382,273,537 [d]	1,162,058,824 [d]
TOTAL......................	$15,701,212,000	$16,097,203,500	$5,844,375,377	$5,923,420,752

(a) The amounts shown are based on the statutory accounting basis and not on GAAP. See "ACCOUNTING AND FINANCIAL REPORTING" in this part of the Annual Report.

(b) The amounts shown are the sum of all revenues for fiscal year 1997-98 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ending June 30, 1998.

(c) The statutory basis of accounting requires that certain transfers between General Fund appropriations be 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.

(d) The amounts shown do not reflect receipt from, the sale of operating notes, of $450 million principal amount in fiscal year 1997–98 and $350 million principal amount in fiscal year 1998–99.

Source: Wisconsin Department of Administration.

Table II-10

GENERAL FUND EXPENDITURES BY FUNCTION[(a)]
July 1, 1998 to November 30, 1998 compared with previous year
(Unaudited)

	Actual Expenditures 1997–98 FY[(b)]	Appropriations 1998–99 FY	Actual Expenditures July 1, 1997 to November 30, 1997	Actual Expenditures July 1, 1998 to November 30, 1998
Commerce.................................	$ 193,084,000	$ 195,817,600	$ 79,904,216	$ 78,298,181
Education..................................	6,905,997,000	7,185,455,400	2,636,823,051	2,014,295,743
Environmental Resources..........	238,916,000	239,024,700	71,654,758	99,718,101
Human Relations & Resources..	5,573,049,000	6,013,539,700	2,199,247,253	2,285,682,844
General Executive.....................	716,887,000	533,306,400	404,128,794	197,720,513
Judicial......................................	90,711,000	89,565,900	40,170,387	41,568,712
Legislative.................................	55,051,000	55,994,700	18,908,396	17,207,245
General Appropriations.............	1,735,920,000	1,846,928,600	679,891,759	1,501,828,377
TOTAL..........	$ 15,509,615,000	$ 16,159,633,000	$ 6,130,728,614	$ 6,236,319,716

(a) The amounts shown are based on the statutory accounting basis and not on GAAP. See "ACCOUNTING AND FINANCIAL REPORTING" in this part of the Annual Report.

(b) The amounts shown are the sum of all expenditures for fiscal year 1997-98 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ending June 30, 1998.

Source: Wisconsin Department of Administration.

STATE OBLIGATIONS

General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. Payments of debt service on State general obligations are paramount to all other obligations of the State. As of December 1, 1998, the State had nearly $3.6 billion of outstanding general obligations.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments. The State has reserved no right to reduce or modify any terms with respect to security or source of payment of general obligation bonds or notes. See Part III of this Annual Report for additional information on general obligations.

Operating Notes

The Commission may issue operating notes to fund operating expenses upon the request of the Department of Administration if the Department determines that a deficiency will occur in the funds of the State that will not permit the State to pay its operating expenses in a timely manner. The Governor and the Joint Finance Committee of the Legislature must also approve the request for issuance.

Operating notes may be issued in an amount not exceeding 10% of budgeted appropriations of general purpose and program revenues in the year in which operating notes are issued. Operating notes are not general obligations of the State and are not on parity with State general obligations. The General Fund may be pledged for the repayment of operating notes and moneys of the

General Fund may be impounded for future payment of principal and interest; however, any such repayment or impoundment must be made subsequent to the payment of the amounts due the Bond Security and Redemption Fund securing the repayment of State general obligation bonds. All payments and impoundments securing the operating notes are also subject to appropriation. Owners of the operating notes have a right to file suit against the State in accordance with procedures established in State law.

The State issued $350 million of operating notes on July 1, 1998 that mature on June 15, 1999.

Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring equipment, (and in limited situations, prepaid service) contracts for state agencies through installment payments. The State's obligation to make lease payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State's obligation to make the lease payments does not constitute debt for purposes of the Constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that state agencies may separately incur such obligations. Certificates of participation have been issued that evidence a proportionate interest in certain base payments to be made by the State. As of December 10, 1998, the principal amount of the State's obligations under the master lease program was nearly $43 million. See Part IV of this Annual Report for additional information on master lease certificates of participation.

State Revenue Obligations

Subchapter II of Chapter 18 of the Wisconsin Statutes authorizes the State, acting through the Commission, to issue revenue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance of these revenue obligations. Any such program to be undertaken must be specifically authorized by the Legislature. The resulting obligations are not general obligations of the State. Repayment is secured only by funds to be generated within the financed programs.

Revenues pledged to the repayment of revenue obligations are deposited with a trustee for the obligations. Because these revenues are pledged to the owners of revenue obligations, who have a first lien on all such monies, the owners of State general obligations have no claim to the revenues pledged for the repayment of such revenue obligations.

Five such programs have been authorized.

- *Student loan program–colleges, universities, and technical colleges*. This program is operated in conjunction with an independently funded corporation, which insures against default in repayment, and the federal guaranteed student loan program, which reimburses the corporation for insurance payments made. The Commission has issued three bond series for this program. All outstanding bonds were defeased on June 11, 1991.
- *Student loan program–medical and dental schools in Wisconsin.* This program operates with direct insurance from the federal government under its Health Educational Assistance Loan program. The Commission has issued six series of bonds for this program, with approximately $3 million outstanding as of December 1, 1998.
- *Veterans housing loan program.* All loans under this program are to be guaranteed by the Federal Veterans Administration or insured by a private mortgage insurer. The

- Commission has issued two series of bonds for this program. All outstanding bonds were redeemed on August 1, 1996.
- *Transportation revenue bond program.* This program finances State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees. The Commission has issued ten series of bonds and one series of commercial paper notes for this program, which were outstanding in the amount of $957 million as of December 1, 1998. See Part V of this Annual Report for additional information on transportation revenue obligations.
- *Clean water fund program.* The funds from revenue obligations are primarily used to make loans to municipalities in the State for the construction or improvement of their wastewater treatment facilities and to make deposits in certain funds established for the Clean Water Fund program. The Commission has issued five series of bonds for this program, which were outstanding in the amount of $513 million as of December 1, 1998. See Part VI of this Annual Report for additional information on clean water revenue bonds.

Moral Obligations

In certain situations where the State does not have a legal obligation to make a payment, the Legislature has recognized a moral obligation to make an appropriation for the payment and has expressed its expectation and aspiration that, if ever called upon to do so, it would. These situations, which are described further in this section, include:

- payments required to be made by municipalities on loans from the Clean Water Fund, if so designated by the State
- payments to reserve funds securing certain obligations of the Wisconsin Housing and Economic Development Authority
- payments to reserve funds securing certain obligations of a local exposition district or a local professional baseball park district

Nonstock, Nonprofit Corporations

Four nonstock, nonprofit corporations have been used to issue debt on behalf of the State; two of the corporations still have debt outstanding. The Constitutional amendment of 1969, which authorized direct borrowing, simultaneously prohibited any further borrowing by these entities. Table III-6 in "DEBT INFORMATION" of Part III of this Annual Report sets forth the amount of these obligations, and as required by the Constitution, the State includes them with the State's direct debt.

Independent Authorities and Exposition Districts

State law creates and grants to two independent special purpose authorities the power to issue bonds and notes. Neither of these entities is a department or agency of the State, and neither can issue bonds or notes that are legal obligations of the State. By law, the Commission serves as financial advisor to each of the independent authorities in the issuance of this debt.

Wisconsin Housing and Economic Development Authority

The Wisconsin Housing and Economic Development Authority (**WHEDA**) (formerly the Wisconsin Housing Finance Authority) acts as a funding vehicle for the development of housing for low– and moderate–income families and economic development projects. WHEDA is also authorized to administer the State's agricultural production loan guaranty and interest subsidy program.

WHEDA may issue bonds and notes, which are to be general obligations of WHEDA (except for bonds for the housing rehabilitation loan program) unless WHEDA chooses to limit the obligation. The State is expressly not liable on WHEDA debts. Repayment may be secured by capital reserve funds, which may be created for each bond issue in an amount that is appropriate for the type of projects being funded. Invasion of this reserve triggers a moral obligation pledge on the part of the State and prevents further WHEDA borrowing until the invasion is restored. As of November 30, 1998 there were $442 million of moral obligation debt outstanding. In the event a capital reserve fund is not established for a particular bond issue, the moral obligation pledge would not be applicable. WHEDA has debt authority for several specific programs:

- *General programs.* $325 million of borrowing authority, excluding debt issued to refund other debt, of which $213 million were available on November 30, 1998.
- *Housing rehabilitation programs.* $100 million of borrowing authority, of which $94 million were available on November 30, 1998.
- *Single-family home ownership mortgage loan program.* WHEDA has issued $3.7 billion in such bonds as of November 30, 1998. In the one-year period ending November 30, 1998, WHEDA sold three single-family issues totaling $405 million.
- *Residential facilities for the elderly and chronically disabled.* $99 million of borrowing authority, by which it has sold three bond issues totaling $5 million as of November 30, 1998.
- *Economic development and agriculture loans.* $217 million of borrowing authority of which, as of November 30, 1998, it has sold 121 series of bonds for economic development and agriculture totaling $73 million, which are not general obligations of WHEDA, and 56 series of bonds, totaling $92 million, which are general obligations of WHEDA.

WHEDA is directed by a twelve-member board: the Secretary of the Department of Administration, the Secretary of the Department of Development, two representatives to the Assembly and two State Senators who are appointed in the same manner as the members of standing committees in their respective houses and equally represent the two major political parties, and six public members serving staggered terms, nominated by the Governor and confirmed by the Senate. Financial reports can be obtained from the Wisconsin Housing and Economic Development Authority, P.O. Box 1728, Madison, WI 53701. The phone number is (608) 266-7884.

Wisconsin Health and Educational Facilities Authority

The Wisconsin Health and Educational Facilities Authority (**WHEFA**) (formerly the Wisconsin Health Facilities Authority) provides revenue bond financing for hospitals, nursing homes, other health-related organizations, and private, higher educational facilities. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 1998 WHEFA had outstanding 208 issues totaling approximately $4.0 billion. All bonds are limited obligations of WHEFA, payable only from revenues specified in the documents pertaining to each bond financing and are not State debt. There is no capital reserve fund or moral obligation feature. An annual program and financial report to the Legislature and the Governor is required. The State Auditor is empowered to investigate WHEFA's financial affairs and prescribe methods of accounting. The governance of WHEFA is by a seven-member, staggered-term board nominated by the Governor and confirmed by the Senate. The Governor annually appoints the chairperson. Financial reports may be obtained from Wisconsin Health and Educational Facilities Authority, 18000 West Sarah Lane, Suite 140, Brookfield, WI 53045-5843. The phone number is (414) 792-0466.

Local Districts

The Legislature has authorized the creation of local exposition districts. A district may be created by one or more units of local government. A district is authorized to issue bonds for costs related to an exposition center, and if the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $200 million principal amount of bonds in the event that project revenues and tax revenues received by the district are inadequate to pay debt service on the bonds. To date, one such district has been created, and it has issued $120.5 million of bonds that are subject to the moral obligation. As of December 1, 1998, the outstanding principal amount of these bonds was $120.5 million.

Similarly, the Legislature has authorized the creation of local professional baseball park districts. A district's territory consists of each county with a population of not less than 500,000 and all contiguous counties. A district is authorized to issue bonds for costs related to a baseball park, and if the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created, and none of the obligations that it has issued is subject to the moral obligation.

Employee Pension Funds

The State's pension obligations are defined by formulas that establish monthly retirement benefits as a function of annual compensation and years of service. The State's current contributions to meet these pension obligations are established first by a yearly actuarial determination of the value of the retirement benefits that have accrued to State employees and will have to be paid out in the future. After deducting the fixed contributions of employees, the State then contributes an amount sufficient to meet the remaining value of the obligations. The actuarial method used to determine the size of the contributions is known as "Frozen Initial Liability" for prior service liability and "Entry Age Normal" for current contributions. Actuarial assumptions that have been adopted in application of this method are shown in Tables II-18, II-19 and II-20.

The Wisconsin Department of Employe Trust Funds administers the pension programs of both the State and local governments, and the State of Wisconsin Investment Board is responsible for investment of all the funds. Although the State provides pension and investment management staff for its own and local government employees, *the State has no financial obligation for payment of any local government contribution.*

A description of the Wisconsin Retirement System and an identification of the State's obligation follows. This is supplemented with additional statistical material in Tables II-11 through II-20.

The Wisconsin Retirement System covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution. Member contributions are presently set at:

- 5% of salary for general employees including teachers

- 4.3% for elected officials, judges, and certain other positions in State government
- 4.9% for protective occupation participants who are also covered by Social Security
- 5.4% for protective occupation participants not covered by Social Security

Employer pick-up of some or all of the member's required contribution is permitted by statute. Currently the entire member contribution of 5% of each State employee's salary is assumed by the State. An additional 0.8% nonrefundable contribution is required from general employees, including teachers.

The employer contribution is actuarially determined each year by an independent actuarial firm. For calendar year 1999 employer rates have been established at:

- 8.0% for protective participants with Social Security
- 12.8% for protective participants without Social Security
- 9.8% for elected officials and judges
- 4.4% for general employees

In addition, the State is charged an average of 0.9% of its protective payroll, 1.0% of its elected payroll and 1.3% of its general payroll to liquidate its portion of the fund's accrued liability by June 30, 2029. The State is also charged 3.7% of its protective payroll for special duty disability coverage.

Monthly benefits upon retirement at normal retirement age (65 for general employees, 62 for elected officials and certain other state positions, and 55 for protective occupation participants) are computed on a formula basis (the formula varies by particular class of participation). Some inactive members and a small number of currently active employees may have benefits computed on some other basis when they apply for benefits.

Contributions into the Wisconsin Retirement System are invested by the State of Wisconsin Investment Board as provided by law, and are maintained in two separate funds: the Fixed Retirement Investment Trust and the Variable Retirement Investment Trust. Investments are recorded pursuant to statutes as follows:

- The assets of the Fixed Retirement Trust are carried by a hybrid method providing for the amortization of capital gains and losses as well as deferred items over a five-year period.
- The Variable Retirement Investment Trust assets are recorded at market value with all market adjustments included in current operations.

Except for certain protective occupation employees and a few other minor exceptions, employees under the Wisconsin Retirement System are also covered by Social Security.

Table II-11 provides comparative actuarial balance sheets for the most recent reporting periods. As an employer, the State's share of the unfunded accrued liability of the Wisconsin Retirement System stood at $643 million as of December 31, 1997.

Table II-11

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 1997 (UNAUDITED)
(Amounts in Millions)

	12/31/97	12/31/96	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division	$32,557.2	$28,850.3	$3,706.9
Variable Division	6,027.4	5,112.3	915.1
Totals	38,584.6	33,962.6	4,622.0
Obligations of Employers			
Unfunded Accrued Liability	2,178.3	2,134.4	43.9
TOTAL ASSETS	$40,762.9	$36,097.0	$4,665.9
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$10,912.2	$ 9,707.9	$ 1,204.3
Member Additional Contributions	160.3	157.2	3.1
Employer Contributions	13,705.3	12,267.2	1,438.1
Total Contributions	$24,777.8	$22,132.3	$2,645.5
Actuarial Present Value of Projected Benefits Payable to Current Retirees and Beneficiaries:			
Fixed Annuities	$12,240.4	$10,977.1	$ 1,263.3
Variable Annuities	2,371.5	1,976.7	394.8
TOTAL ANNUITIES	14,611.9	12,953.8	1,658.2
TOTAL RESERVES	$39,389.7	$35,086.1	$4,303.6
Surplus			
Fixed Annuity Reserve Surplus	$ 944.7	$ 722.7	$ 222.0
Variable Annuity Reserve Surplus	428.5	288.2	140.3
TOTAL SURPLUS	1,373.2	1,010.9	362.3
TOTAL RESERVE AND SURPLUS	$40,762.9	$36,097.0	$4,665.9

The accompanying notes are an integral part of this statement.

Source: Wisconsin Department of Employe Trust Funds.

Notes to Wisconsin Retirement System

All eligible State of Wisconsin employees participate in the Wisconsin Retirement system **(System)**, a cost-sharing multiple-employer public employee retirement system **(PERS)**. The payroll for employees covered by the system for the year ended December 31, 1997 was $2,312,418,149.

All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees are required by statute to contribute 5.0% of their salary (4.3% for Executive and Elected Officials, 4.9% for Protective Occupations with Social Security, and 5.4% for Protective Occupations without Social Security), to the plan. Participants are also required to make a non-refundable Benefit Adjustment Contribution to the plan. Employers may make these contributions to the plan on behalf of the employees. Employers are required to contribute the remaining amounts necessary to pay the projected cost of future benefits. The total required contribution for the year ended December 31, 1997 was $300,839,598 which consisted of $183,974,620 or 8.0% of payroll from the employer and $116,864,979 or 5.1% of payroll from employees.

Employees who retire at or after age 65 (55 for protective occupation employees) are entitled to receive a retirement benefit. The benefit is calculated as 1.6% (2.0% for Executives, Elected Officials, and Protective Occupations with social security and 2.5% for protective occupations without social security) of final average earnings for each year of creditable service. Final Average Earnings is the average of the employee's three highest years' earnings. Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefit. Benefits are fully vested upon entry into the System for participants first employed January 1, 1990 or earlier. Creditable service in each of five years is required for vesting for those participants first employed after January 1, 1990.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 40 of the State Statutes.

The System utilizes the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40 year period beginning January 1, 1990. The unfunded liability for the State of Wisconsin as of December 31, 1997 was $643,088,649 or 30.1% of the total system unfunded liability of $2.14 billion.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 1998 Comprehensive Annual Financial Report.

The proceeding provides a comparative actuarial balance sheet for the most recent reporting periods.

Table II-12

WISCONSIN RETIREMENT SYSTEM
FUNDING RATIO
(Amounts in Thousands)

Year	A Net Real Assets	B Unfunded Actuarial Liability	C Reserve Requirement (A+B)	D Funding Ratio (A, C)
1988	$14,684,125	$1,440,350	$16,124,475	91.1%
1989	17,471,693	2,014,262	19,485,955	89.7
1990	18,440,674	1,980,240	20,420,914	90.3
1991	20,849,375	2,041,706	22,891,081	91.6
1992	22,967,100	1,984,865	24,951,965	92.1
1993	25,437,200	2,042,926	27,480,126	92.6
1994	26,884,600	2,006,900	28,891,500	93.1
1995	30,059,826	2,055,718	32,115,544	93.6
1996	33,962,600	2,134,400	36,097,000	94.1
1997	38,584,600	2,178,300	40,762,900	94.7

Source: Wisconsin Department of Employe Trust Funds.

Table II-13

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES
1988 to 1997

Year	Active State	Active Local	Retired
1988	55,663	143,791	70,017
1989	56,807	147,663	73,232
1990	59,827	153,515	77,666
1991	60,963	158,723	79,465
1992	62,422	163,340	81,508
1993	63,118	166,242	83,836
1994	64,178	169,488	86,214
1995	63,977	172,297	88,998
1996	63,886	175,749	92,198
1997	64,381	179,531	95,128

Source: Wisconsin Department of Employe Trust Funds.

Table II-14

WISCONSIN RETIREMENT SYSTEM
REQUIRED CONTRIBUTIONS BY SOURCE[a]
(Amounts in Thousands)

	State		Local		Total	
Year	**Employee**	**Employer**	**Employee**	**Employer**	**Employee**	**Employer**
1988	$1,809	$180,595	$2,673	$445,760	$ 4,482	$
1989	1,225	174,942	2,631	428,092	3,865	603,034
1990	1,710	208,531	3,020	499,937	4,730	708,468
1991	3,550	221,537	5,128	535,689	8,678	757,226
1992	5,536	235,759	6,797	584,521	12,333	820,280
1993	5,789	246,913	5,223	628,321	11,012	875,234
1994	5,921	258,278	5,218	656,714	11,139	914,992
1995	6,410	270,770	4,816	683,840	11,226	954,610
1996	7,582	282,430	5,570	759,765	13,152	1,042,195
1997	6,006	294,834	8,336	761,116	14,342	1,055,950

[a] Employer contributions include employer pick-up of employee contributions.

Source: Wisconsin Department of Employe Trust Funds.

Table II-15

WISCONSIN RETIREMENT SYSTEM
STATE EMPLOYER CONTRIBUTION RATES[a]

Employee Classification	**Current Service**	**Prior Service**	**Total**
Protective..................	8.0%	0.9%	8.9%
Elected......................	9.8%	1.0%	10.8%
General.....................	4.4%	1.4%	5.8%

[a] Effective January 1, 1999

Source: Wisconsin Department of Employe Trust Funds.

Table II-16

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

	Contributions						
Year	**Required Employee**	**Required Employer[a]**	**Additional Employee**	**Investment Income**	**Supplemental**	**Misc.**	**Total**
1988	$254,035	$378,985	$ 5,138	$1,549,692	$(2,967)	$569	$2,185,452
1989	269,342	394,334	4,343	3,320,496	693	161	3,989,369
1990	287,389	425,809	4,420	981,390	640	0	1,699,648
1991	307,748	464,834	3,847	2,429,198	595	94	3,206,316
1992	329,801	502,812	4,687	2,080,630	540	0	2,918,470
1993	349,914	536,331	5,516	2,608,684	496	0	3,500,941
1994	364,864	561,265	6,060	1,654,301	444	0	2,586,934
1995	380,993	584,842	8,977	5,903,712	407	113	6,879,044
1996	393,765	661,582	13,199	5,414,556	358	160	6,483,620
1997	410,567	659,725	6,422	7,241,025	216,590	179	8,534,508

(a) Employer contributions include amounts required to reduce unfunded accrued liability over a 40–year amortization period beginning in 1990.

Source: Wisconsin Department of Employe Trust Funds.

Table II-17

WISCONSIN RETIREMENT SYSTEM
BENEFIT EXPENDITURES BY TYPE[a]
(Amounts in Thousands)

Year	**Separations**	**Death**	**Annuities**	**Supplemental[b]**	**Misc.**	**Total**
1988	$33,983	$10,728	$ 481,543	$(2,697)	$	$ 523,857
1989	28,038	8,388	546,756	693	146	584,021
1990	32,728	9,816	677,896	640	0	721,080
1991	27,536	9,512	751,554	595	0	789,197
1992	26,041	10,155	829,546	540	0	866,282
1993	20,462	8,078	915,300	496	31,362	975,698
1994	23,966	11,339	993,771	444	31,362	1,060,882
1995	30,180	10,812	1,080,227	407	25,593	1,147,219
1996	36,883	15,359	1,254,044	358	24,586	1,331,230
1997	41,039	12,332	1,514,634	216,590	11,108	1,795,703

(a) Amounts include payments from employee additional contributions.

(b) Supplemental benefits were granted to certain employees by the Legislature in 1974. These benefits are paid out of the State General Fund.

Source: Wisconsin Department of Employe Trust Funds.

ACTUARIAL ASSUMPTIONS

The following set forth the actuarial assumptions which will be applied in the determination of contributions levels required for the funding of the retirement system effective January 1, 1997.

Table II-18

WISCONSIN RETIREMENT SYSTEM
SEPARATION BEFORE AGE AND SERVICE RETIREMENT

Select and Ultimate Withdrawal

	% of Active Participants Terminating								
	Protective		Public Schools		University			Others	
Age & Service	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females	Executive &Elected	Males	Females
0	7.0%	5.0%	14.0%	14.0%	18.0%	20.0%	N/A	14.0%	16.0%
1	5.5	2.0	11.0	12.0	17.5	20.0	N/A	10.0	12.0
2	4.0	2.0	9.0	9.0	15.0	18.0	N/A	7.0	9.0
3	4.0	1.7	8.0	8.0	15.0	15.5	N/A	6.0	7.5
4	3.5	1.7	6.0	7.0	12.5	13.0	N/A	5.0	7.0
5&over									
25	3.2	1.6	5.4	6.9	12.3	12.9	10.6%	4.8	6.9
30	2.5	1.4	3.8	5.3	11.3	11.7	9.7	3.9	5.8
35	1.8	1.1	2.2	3.1	8.1	8.1	7.9	2.9	4.1
40	1.5	1.0	1.5	1.9	5.0	5.6	6.1	2.1	3.2
45	1.4	0.9	1.2	1.5	3.1	4.4	4.8	1.6	2.7
50	0.0	0.0	1.1	1.5	1.8	3.2	3.5	1.3	2.5
55	0.0	0.0	1.1	1.3	1.6	2.8	3.0	1.1	1.5
60	0.0	0.0	1.1	1.0	1.3	2.8	3.0	1.1	0.5

Disability Rates

	% of Active Participants Becoming Disabled							
	Protective		Public Schools		University		Others	
Age	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females	Males	Females
20..................	0.04%	0.08%	0.02%	0.02%	0.02%	0.02%	0.04%	0.03%
25..................	0.05	0.08	0.02	0.02	0.02	0.02	0.04	0.03
30..................	0.06	0.10	0.03	0.02	0.02	0.02	0.05	0.04
35..................	0.08	0.12	0.03	0.03	0.02	0.05	0.05	0.05
40..................	0.12	0.15	0.04	0.04	0.03	0.08	0.09	0.08
45..................	0.18	0.22	0.07	0.07	0.05	0.10	0.15	0.13
50..................	0.59	0.66	0.17	0.12	0.09	0.14	0.30	0.22
55..................	0.88	1.03	0.33	0.25	0.18	0.27	0.60	0.39
60..................	0.98	1.17	0.52	0.44	0.32	0.39	1.00	0.64

Source: Wisconsin Department of Employe Trust Funds.

Table II-19

WISCONSIN RETIREMENT SYSTEM
RETIREMENT PATTERNS

Rates of Retirement for Those Eligible to Retire
(Normal Retirement Pattern)

	% Retiring Next Year								
	General		Public Schools		University		Protective		
							With	Without	Executive
Age	Males	Females	Males	Females	Males	Females	Soc. Sec.	Soc. Sec.	& Elected
50							4%	3%	
51							4	3	
52							4	3	
53							25	25	
54							25	25	
55							25	30	
56							25	35	
57	12%	12%	20%	15%	10%	20%	25	40	6%
58	15	15	20	15	12	20	25	40	6
59	20	20	20	15	13	20	25	40	6
60	20	20	20	15	13	20	25	40	8
61	25	30	25	15	15	20	25	40	8
62	40	40	45	30	25	20	40	40	15
63	40	40	45	20	25	20	40	30	18
64	40	40	45	20	25	20	40	30	18
65	55	55	55	40	30	38	40	30	30
66	40	52	50	35	30	38	40	30	30
67	40	40	40	35	25	25	40	30	30
68	35	35	40	30	25	25	40	30	30
69	35	35	40	30	25	25	40	30	35
70	35	35	40	30	25	25	100	100	35
71	35	35	40	30	25	25	100	100	40
72	100	100	100	100	100	100	100	100	100

Source: Wisconsin Department of Employe Trust Funds.

Table II-20

WISCONSIN RETIREMENT SYSTEM
OTHER ASSUMPTIONS

Mortality Rates

Active & Retired Life Mortality Rates

Sample Attained Ages	Future Life Expectancy (years) Males	Females
40	39.7	45.1
45	34.9	40.3
50	30.2	35.4
55	25.7	30.7
60	21.4	26.1
65	17.3	21.6
70	13.5	17.3
75	10.3	13.4
80	7.6	10.1
85	5.5	7.3

Salary Scale

% Increases in Salaries Next Year

	Merit					Total			
Age	**Other**	**Teachers**	**Protective**	**Executive & Elected**	**Base (Economy)**	**Other**	**Teachers**	**Protective**	**Executive & Elected**
30	3.2%	4.4%	3.1%	3.2%	4.8%	8.0%	9.2%	7.9%	8.0%
35	2.2	3.4	1.6	2.2	4.8	7.0	8.2	6.4	7.0
40	1.3	2.4	0.9	1.3	4.8	6.1	7.2	5.7	6.1
45	0.7	1.5	0.5	0.7	4.8	5.5	6.3	5.3	5.5
50	0.5	0.8	0.3	0.5	4.8	5.3	5.6	5.1	5.3
55	0.3	0.4	0.1	0.3	4.8	5.1	5.2	4.9	5.1
60	0.3	0.3	–	0.3	4.8	5.1	5.1	4.8	5.1
65	–	–	–	–	4.8	4.8	4.8	4.8	4.8

Future Annual Investment Return

The future annual invested return is assumed to be 8.0%.
For benefit calculation purposes an assumed benefit rate of 5.0% is used.

Source: Wisconsin Department of Employe Trust Funds.

STATE OF WISCONSIN INVESTMENT BOARD

The State of Wisconsin Investment Board (**SWIB**) invests the assets of the State Investment Fund, the Wisconsin Retirement System, and several smaller trust funds established by the State. Overall policy direction for SWIB is established by an independent, nine-member Board of Trustees (**Trustees**). The Trustees establish long-term investment polices, set guidelines for each investment portfolio, and monitor investment performance.

The State Investment Fund consists of cash balances of the General Fund, State agencies and departments and Wisconsin Retirement System reserves. Pursuant to Statutes, these participants' cash balances are placed in the State Investment Fund. In addition, the State Investment Fund also includes investment deposits from elective participants consisting of over 1,100 municipalities and other public entities which are accounted for in a subset of the State Investment Fund called the Local Government Investment Pool (**LGIP**). The LGIP portion of the State Investment Fund is additionally secured as to credit risk.

The objectives of the State Investment Fund are to provide (in order of priority):

- safety of principal
- liquidity
- reasonable rate of return

This fund includes the cash balances from retirement trust funds while they are pending longer-term investment by other investment divisions. This fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The State Investment Fund is strategically managed as a mutual fund and may have a longer average maturity than a money market fund. This strategy is made possible by the mandatory investment of State funds for which the cash flow requirements can be determined significantly in advance. Because of the role played by the State Investment Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

With regard to investments of the State Investment Fund, State law establishes parameters and the Trustees establish and monitor policies covering:

- types of assets and the amount that can be acquired
- delegation of powers to purchase and sell and specific guidelines for various types of investments
- emergency powers in the event the Trustees cannot meet
- guidelines pertaining to use of derivatives, financial futures, and related options

The policies seek to achieve safety of principal and liquidity by attention to quality standards, maturity, and marketability. The policies seek to enhance return through portfolio management that considers, among other things, anticipated changes in interest rates and the yield curve.

SWIB's executive director is appointed by the Trustees. The executive director is responsible for oversight of staff activities and developing and recommending policies for adoption by the Trustees. The investment directors, portfolio managers, and analysts are all responsible for daily investment decisions in their markets. Their activities are monitored by SWIB's chief investment officer, who is appointed by the executive director with participation of the Trustees. SWIB has a staff of approximately 100 positions.

The nine members of the Trustees include:

- Secretary of Administration.
- Two members are participants in the Wisconsin Retirement System. One of these is a teacher who is appointed by the Teacher Retirement Board. The other represents non-teacher participants and is appointed by the Wisconsin Retirement Board.
- Six members, called public members, are appointed by the Governor. Of these public members, four are required to have at least ten years of investment experience and one is required to be a non-elected government official from a smaller LGIP participant, with at least ten years of financial experience.

All appointed members serve six-year terms. The Trustees usually meet on a monthly basis.

As a public agency, SWIB is not registered under the Investment Company Act of 1940, the Investment Advisor Act of 1940, or the Commodity Exchange Act. However, a description of LGIP and State Investment Fund risk factors, guidelines, and investment objectives may be obtained from SWIB.

Table II-21 presents unaudited statistical information for the State Investment Fund. A copy of SWIB's annual report or information on the LGIP and State Investment Fund may be obtained by submitting a written request to the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842.

Table II-21

STATE INVESTMENT FUND
AS OF SEPTEMBER 30, 1998 (UNAUDITED)
Market Versus Amortized Cost Valuation Report

	Estimated Amortized Cost	Traded Market Value	Portfolio Percentage at Amortized Cost
Corporate Commercial Paper	$ 790,309,198	$ 790,414,486	11.8%
Certificates of Deposit	265,285,016	265,285,016	4.0
U.S. Government Repurchase	546,087,500	546,087,500	8.2
U.S. Government Agencies	4,695,804,061	4,697,885,230	70.2
U.S. Government Treasuries	344,293,811	367,947,165	5.1
Asset-Backed Securities	43,719,244	43,579,486	0.6
Mortgage-Backed Securities	4,973,635	4,973,635	0.1
Swaps	0	(66,288,198)	0.0
	$6,690,472,465	$6,649,884,321	100.0%

Accrued Gross Income: $11,520,651

Average Maturity for the Last Six Months

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
9/30/1998	71	6/30/1998	78
8/31/1998	75	5/31/1998	49
7/31/1998	76	4/30/1998	56

Summary of Investment Fund Participants

	Par Amount (Amounts in Thousands)	Percent of Portfolio
Mandatory Participants		
State of Wisconsin and Agencies	$2,153,866	33.6%
State of Wisconsin Investment Board	1,456,868	22.7
Elective Participants		
Local Government Investment Pool	2,801,109	43.7
	$ 6,411,843	100.0%

NOTE: The difference between the total of participants share ($6,411,843,000) and the amortized cost ($6,690,472,465) is the result of check float (checks written and posted at the Department of Administration that have not cleared the bank) and a timing delay in posting bank receipts at the department which have already been invested by SWIB.

Source: State of Wisconsin Investment Board

STATISTICAL INFORMATION

The following tables include population, income, and employment information pertaining to the State's economic condition.

Table II-22

STATE ASSESSMENT (EQUALIZED VALUE) OF TAXABLE PROPERTY 1989 TO 1998

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
1989	$133.206.184.580	—
1990	141.370.307.160	6.1%
1991	150.927.756.160	6.8
1992	159.927.756.190	5.7
1993	171.677.163.530	7.6
1994	184.994.866.100	7.8
1995	201.538.109.000	8.9
1996	216.943.757.600	7.6
1997	233.074.233.400	7.4
1998	248.994.915.200	6.8

Source: Wisconsin Department of Administration.

Table II-23

DELINQUENCY RATE: INCOME, FRANCHISE, GIFT, SALES AND USE TAXES 1993-94 TO 1997-98

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
1993-94	$6.624.041	$429.460	6.48%
1994-95	7.139.198	460.108	6.44
1995-96	7.535.003	497.220	6.60
1996-97	8.059.345	503.470	6.25
1997-98	8.767.838	549.488	6.27

Source: Wisconsin Department of Revenue.

Table II-24

POPULATION TREND[a]

	Wisconsin Total (Amounts in Thousands)	Rank	% Change Wisconsin	% Change U.S.	Population Per Sq. Mile Wisconsin	Population Per Sq. Mile U.S.
1910	2.334	13	12.8	21.0	42.2	26.0
1920	2.632	13	12.8	15.0	47.6	29.9
1930	2.939	13	11.7	16.2	53.7	34.7
1940	3.138	13	6.8	7.3	57.3	37.2
1950	3.435	14	9.5	14.5	62.8	42.6
1960	3.952	15	15.1	18.5	72.6	50.6
1970	4.418	16	11.8	13.3	81.1	57.5
1980	4.706	16	6.5	11.4	86.5	64.0
1981	4.725	16	0.4	1.3	86.9	64.9
1982	4.727	16	0.1	1.0	86.9	65.5
1983	4.720	16	-0.1	1.0	86.8	66.2
1984	4.734	16	0.3	0.9	87.1	66.8
1985	4.746	17	0.3	1.0	87.3	67.5
1986	4.754	17	0.2	1.0	87.5	68.1
1987	4.776	17	0.5	1.0	87.9	68.8
1988	4.823	17	1.0	1.0	88.8	69.4
1989	4.857	17	0.7	1.0	89.4	70.1
1990	4.892	16	0.7	0.8	90.1	70.3
1991	4.946	17	1.1	1.2	91.1	71.3
1992	4.991	18	0.9	1.1	91.9	72.1
1993	5.038	18	0.9	1.1	92.8	72.9
1994	5.075	18	0.7	1.0	93.4	73.6
1995	5.113	18	0.7	1.0	94.1	74.3
1996	5.146	18	0.6	0.9	94.7	75.0
1997	5.170	18	0.5	0.9	95.2	75.7

[a] 1981-1989 and 1991-1997 are July 1st estimates, U.S. Bureau of the Census

Source: Decennial census and land area statistics—1990 Census of Population and Housing, U.S. Bureau of the Census World Wide Web Site.

Table II-25

POPULATION CHARACTERISTICS
(April 1990)

	Wisconsin	U.S.
% Urban	65.7	75.2
% Rural/nonfarm	30.3	23.2
% Rural/farm	4.0	1.6
% Foreign-born	2.5	7.9
Dependency Ratio [a]	1.52	1.62

Years of School Completed
(as % of population age 25 and over)

	Wisconsin	U.S.
Grade School - 8 years	90.5	89.6
High School - 4 years	78.6	75.2
Bachelor's Degree	17.7	20.3

[a] Population age 18-64 years of age divided by population less than 18 years of age and population 65 years of age and older.

Source: General Population Characteristics and General Social and Economic Characteristics, 1990 Census of Population and Housing, U.S. Bureau of the Census.

Table II-26

POPULATION BY AGE GROUP
July 1, 1997

	Wisconsin	U.S.
Under 5	6.5%	7.2%
5-17	22.5	21.6
18-44	37.1	37.8
45-64	20.7	20.7
65 +	13.2	12.7
Total	100.0	100.0

Source: U.S. Bureau of the Census; World Wide Web Site.

Table II-27

ESTIMATED PERSONAL INCOME

Year	Wisconsin Total (Amounts in Millions)	Per Capita Wisconsin	Per Capita U.S.	Percentage Wis. to U.S.
1988	$ 76,224	$ 15,806	$17,038	92.8%
1989	81,719	16,827	18,153	92.7
1990	86,726	17,692	19,156	92.4
1991	90,320	18,261	19,624	93.1
1992	96,746	19,382	20,546	94.3
1993	101,159	20,078	21,220	94.6
1994	107,063	21,096	22,056	95.6
1995	112,917	22,084	23,063	95.8
1996	119,042	23,132	24,169	95.7
1997	125,100	24,199	25,298	95.7

Source: Bureau of Economic Analysis, U.S. Department of Commerce, State Personal Income 1929–97 CD-ROM, September 1998.

Table II-28

MEDIAN INCOME FOR FOUR-PERSON FAMILY

Year	Wisconsin	U.S.	Percentage Wis. to U.S.
1987	$36.674	$36.812	99.6%
1988	38.662	39.051	99.0
1989	40.557	40.763	99.5
1990	43.182	41.451	104.2
1991	42.746	43.056	99.3
1992	44.219	44.251	99.9
1993	46.363	45.161	102.7
1994	48.982	47.012	104.2
1995	50.628	49.687	101.9
1996	52.986	51.518	102.8

Source: Prepared by U.S. Bureau of the Census for Low Income Home Energy Assistance Program of the U.S. Department of Health and Human Services; World Wide Web Site.

Table II-29

DISTRIBUTION OF EARNINGS BY INDUSTRY

	Wisconsin Distribution 1995	Wisconsin Distribution 1996	Wisconsin Distribution 1997	U.S. Distribution 1997
Farm	0.4%	0.7%	0.3%	1.0%
Nonfarm	99.6	99.3	99.7	99.0
Private Nonfarm	85.9	85.8	86.4	84.2
Agricultural Services, Forestry, Fisheries, etc.	0.6	0.6	0.5	0.6
Mining	0.1	0.1	0.1	0.9
Construction	6.1	6.3	6.3	5.7
Manufacturing	29.0	28.2	28.5	17.7
Transportation & Public Utilities	6.0	5.9	5.8	6.9
Trade	15.0	15.1	15.2	15.4
Finance, Insurance & Real Estate	6.6	6.7	6.8	8.5
Services	22.4	22.9	23.2	28.5
Government	13.8	13.5	13.2	14.8
Total Earnings by Industry	100.0	100.0	100.0	100.0
Total Earnings by Industry (Amount in Millions)	$79,824	$83,612	$88,513	$4,824,114

Source: Bureau of Economic Analysis, U.S. Department of Commerce, State Personal Income 1929-96 CD-ROM, September 1998

Table II-30

ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS[(a)] 1997 ANNUAL AVERAGE

	Wisconsin (Amounts in Thousands)	Wisconsin %	U.S. (Amounts in Thousands)	U.S. %
Mining	2.5	0.1	592	0.5
Contract Construction	108.7	4.1	5,686	4.6
Manufacturing	609.4	23.0	18,657	15.2
Transportation & Public Utilities	122.8	4.6	6,395	5.2
Wholesale Trade	132.9	5.0	6,648	5.4
Retail Trade	471.7	17.8	22,011	17.9
Finance, Insurance & Real Estate	140.3	5.3	7,091	5.8
Miscellaneous Services	677.8	25.6	36,040	29.4
Government	386.4	14.6	19,569	15.9
Total	2,652.5	100.0	122,690	100.0

[(a)] Not seasonally adjusted.

Note: This table excludes Agriculture, Forestry and Fisheries employees. (In 1990, this group accounted for 4.6% of all employed persons in Wisconsin and 2.7% in total U.S.)

Source: Wisconsin Department of Workforce Development.

Table II-31

GENERAL STATISTICS OF MANUFACTURING[a]

	1996	1995	1994	1992
New Capital Expenditures (millions)	$ 3,985.7	$ 3,507.2	$ 3,319.4	$ 2,951.2
Number of Employees (thousands)	601.0	598.6	576.2	546.0
Total Payroll (millions)	$ 19,778.8	$ 19,178.4	$ 18,100.8	$16,087.3
Number of Production Workers (thousands)	415.7	417.0	395.6	369.4
Value Added by Manufacturer (millions)	$ 53,618.8	$ 51,186.7	$ 48,324.8	$41,704.9
Value of Shipments (millions)	$114,463.9	$109,560.7	$101,905.1	$88,560.2

[a] Data for 1992 is from the census of manufacturers. Data for 1994, 1995, and 1996 are based on a representative sample of establishments canvassed annually and may differ from the results of a complete canvass of all establishments.

Source: U.S. Bureau of the Census.

Table II-32

ESTIMATED PRODUCTION WORKERS IN MANUFACTURING: HOURS AND EARNINGS ANNUAL AVERAGE

	Wisconsin			United States		
	1980	1997	% Change	1980	1997	% Change
Weekly Earnings	$323.10	$579.18	79.3	$288.62	$553.14	91.6
Weekly Hours	40.2	42.4	5.5	39.7	42.0	5.8
Hourly Earnings	$ 8.03	$ 13.66	70.1	$ 7.27	$ 13.17	81.2
Number of All Manufacturer Workers (Amounts in thousands)	558	609	9.2	20,285	18,495	(8.0)

Source: Wisconsin Department of Workforce Development.

Table II-33

TOTAL NEW HOUSING UNITS AUTHORIZED IN PERMIT–ISSUING PLACES

		% Change	
Year	**Wisconsin**	**Wisconsin**	**U.S.**
1988	24.122	0.2	(5.2)
1989	26.914	11.6	(8.1)
1990	27.282	1.4	(17.0)
1991	25.122	(7.9)	(14.6)
1992	30.995	23.4	15.4
1993	32.114	3.6	9.5
1994	34.619	7.8	14.4
1995	32.403	(6.4)	(2.8)
1996	33.296	2.8	7.0
1997	31.925	(4.1)	1.1

Source: U.S. Bureau of the Census, World Wide Web Site.

Table II-34

UNEMPLOYMENT RATE COMPARISON[a]
BY MONTH 1993 to 1998
BY QUARTER 1989 to 1992

	1998		1997		1996		1995		1994		1993	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January	3.8	5.2	4.5	5.9	4.4	6.3	4.6	6.2	5.7	6.8	5.1	7.9
February	3.9	5.0	4.6	5.7	4.6	6.0	4.7	5.9	6.1	7.1	5.2	7.7
March	3.8	5.0	4.4	5.5	4.2	5.8	4.5	5.7	5.8	7.3	5.6	7.3
April	2.7	4.1	4.1	4.8	3.9	5.4	4.1	5.6	5.2	6.2	5.2	6.8
May	2.5	4.2	3.5	4.7	3.4	5.4	3.6	5.5	4.7	5.9	4.8	6.7
June	3.2	4.7	4.0	5.2	3.7	5.5	3.8	5.8	5.1	6.2	5.1	7.1
July	3.3	4.7	3.7	5.0	3.4	5.6	3.4	5.9	4.6	6.2	4.7	6.9
August	2.9	4.5	3.3	4.8	3.1	5.1	3.2	5.6	4.3	5.9	4.4	6.5
September	2.7	4.4	3.1	4.7	2.8	5.0	3.1	5.4	3.9	5.6	4.1	6.4
October	2.9	4.2	2.9	4.4	2.8	4.9	3.1	5.2	3.8	5.4	4.1	6.3
November			3.0	4.3	3.0	5.0	3.3	5.3	3.8	5.3	4.4	6.1
December			3.0	4.4	3.1	5.0	3.2	5.2	3.7	5.1	4.4	6.0
Annual Average			3.7	4.9	3.5	5.4	3.7	5.6	4.7	6.1	4.7	6.8

1992 Quarters	Wis.	U.S.
I	6.1	8.0
II	5.4	7.4
III	4.9	7.4
IV	4.3	6.9
Annual Average	5.2	6.4

1990 Quarters	Wis.	U.S.
I	5.2	5.7
II	4.3	5.2
III	3.8	5.5
IV	4.2	5.7
Annual Average	4.4	5.5

1991 Quarters	Wis.	U.S.
I	6.4	7.1
II	5.6	6.7
III	4.7	6.5
IV	4.9	6.6
Annual Average	5.4	6.7

1989 Quarters	Wis.	U.S.
I	5.1	5.6
II	4.5	5.2
III	3.9	5.2
IV	4.1	5.1
Annual Average	4.4	5.3

[a] Figures show the percentage of labor force that is unemployed and are not seasonally adjusted.

Source: Wisconsin Department of Workforce Development and U.S. Bureau of Labor Standards.

APPENDIX A

GENERAL PURPOSE FINANCIAL STATEMENTS

The following material is a reprint of the "General Purpose Financial Statements" section of the audited CAFR for the fiscal year ended June 30, 1998. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR is also available on the internet at:

www.doa.state.wi.us/debf/cafr/FY98/98cafr.htm

{This page number is the last sequential page number of the Annual Report to be used in this part of the Annual Report. The following uses page numbers from the general purpose financial statements. The sequential page numbers for the Annual Report will continue in Part III}

PART III

GENERAL OBLIGATIONS

This part provides information about general obligations issued by the State of Wisconsin. The Wisconsin Statutes provide that the State of Wisconsin Building Commission (**Commission**) has supervision over the issuance of the State's general obligations. Employees of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's general obligation and operating note programs.

The law firm of Foley & Lardner provides bond counsel services to the State for the issuance of general obligations. The State has issued general obligations in the form of bonds, notes, and commercial paper notes. The State has rarely employed a financial advisor for the issuance of general obligations, except for advance refunding issues. There are different registrars and paying agents for general obligations issued in certificated form. The State Treasurer is the registrar and paying agent for general obligations issued in book-entry-only form.

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

Contact:	Capital Finance Office Attn: Capital Finance Director
Phone:	(608) 266-2305
Mail:	101 East Wilson Street, FLR10 P.O. Box 7864 Madison, WI 53707-7864
E-mail:	capfin@doa.state.wi.us

This Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part. Material referred to in this Annual Report, including information available on the world wide web, is not part of this Annual Report unless expressly included by reference.

SECURITY PROVISIONS FOR GENERAL OBLIGATIONS

Security

The State Constitution contains the following provision about general obligations, which are public debt for purposes of the State Constitution and Statutes:

> *"The full faith, credit and taxing power of the state are pledged to the payment of all public debt created on behalf of the state pursuant to this section and the legislature shall provide by appropriation for the payment of the interest upon and installments of principal of all such public debt as the same falls due, but, in any event, suit may be brought against the state to compel such payment."*

In addition, statutory provisions establish additional protections and provide for the repayment of all general obligations. The more significant provisions are summarized below:

- One irrevocably appropriates, as a first charge upon all revenues of the State, an amount sufficient for the payment of principal, interest, and premium on all general obligations when due.

- Another creates a Bond Security and Redemption Fund, which receives the funds appropriated to repay principal, interest and premium on general obligation bonds when due.
- Yet another provides that the Capital Improvement Fund shall receive the funds appropriated to repay principal and interest on general obligation notes and loans.
- Still another provides that the validity of general obligations shall not be affected by any defect in their contracting, that all instruments evidencing general obligations are valid and incontestable, and that any legislative, judicial, or administrative determination that proceeds of general obligations may not be spent shall not affect their validity.

Through these provisions, the Legislature provides as security for the payment of all debt service on general obligations, a first claim on all revenues of the State. Further, these revenues are irrevocably appropriated, so that no subsequent legislative action is required to release the funds.

The State has never defaulted in the punctual payment of principal or interest on any general obligation bond or note and has never attempted to prevent or delay such required payments. The State has reserved no right to reduce or modify any terms with respect to security or source of payment of its general obligation bonds or notes.

In the event of default, recourse is guaranteed by constitutional provision allowing suit to be brought against the State to compel payment. Statutory provisions expedite the bringing of suit. Further, in the event of a final judgment against the State, payment will be made as specifically provided, together with interest at a rate of 10% per annum until the date of payment.

The Statutes also provide that, when payment is made or duly provided for, interest ceases to accrue on the date that a general obligation becomes due for payment. On that date the general obligation is no longer outstanding. If the holder of any general obligation, including any interest and premium thereon, fails to present that general obligation for payment, the unpaid unclaimed moneys shall be administered pursuant to the unclaimed property statutory provisions.

Flow of Funds to Pay Debt Service on General Obligations

All funds necessary for timely payment of principal and interest coming due on general obligation bonds (**Debt Service**) are deposited in the Bond Security and Redemption Fund at least 15 days in advance of the due date, except when an impoundment payment required in connection with operating notes is payable within the 45 days preceding the due date for payment of Debt Service, then Debt Service payments will be deposited in the Bond Security and Redemption Fund at least 45 days in advance of the due date.

Funds for the payment of debt service on general obligation notes are deposited in a separate and distinct account created in the Capital Improvement Fund for the repayment of notes. Proceeds of issues of general obligations may also be used to retire notes. The Statutes specifically provide that if, at any time, there are not on hand in the Capital Improvement Fund sufficient moneys for the payment of principal and interest on general obligation notes, the Department of Administration shall transfer to the Capital Improvement Fund from an irrevocable and unlimited appropriation as a first charge upon all revenues of the State, the amount necessary to make the payment of principal and interest on general obligation notes when due.

General Fund stands behind the payment of debt service on all general obligation bonds and the notes regardless of the internal fund flows established for budgetary control purposes. Should the General Fund have insufficient resources to pay debt service, there is a single irrevocable and unlimited appropriation from all revenues of the State for timely payment on all general obligations. It is this appropriation, which pledges all revenues of the State for payment of Debt

Service due from any program using general obligation bond and note proceeds on a parity with any other such program, that enables the State to issue a general obligation bond or note which is undifferentiated by the purpose for which proceeds are used.

Purposes of General Obligations

The purposes for which State general obligations may be issued are set forth in the Wisconsin Constitution, which provides the basis for the State's general obligation borrowing program. It permits three types of borrowing. The first is to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, railways, buildings, equipment, or facilities for public purposes. The second is to make funds available for veterans housing loans. The third is to fund or refund any outstanding State general obligations. Subject to constitutional limitations about purposes and amounts, procedures governing the use of this borrowing authority are to be established by the Legislature. There is no constitutional requirement that the issuance of general obligations receive the direct approval of the electorate.

Limitations on Issuance of General Obligations

All general obligations issued by the State fall within a debt limit set forth in the Wisconsin Constitution and Statutes. Each year, the State's issuance of general obligations is limited to the lesser of two amounts, each based on the aggregate value of all taxable property in the State: (1) three-quarters of one percent, and (2) five percent less outstanding debt. The lesser is the first amount, currently $1,867,461,864. A refunding bond issue does not count for purposes of the annual debt limit, and a refunded bond issue does not count for purposes of the cumulative debt limit. Accrued interest on any obligation that is not paid during the fiscal year that is accrues is treated as debt and taken into account for purposes of the debt limitations. See Table III-4 in "DEBT INFORMATION".

Authorization of General Obligations

Within prescribed limitations, the State Constitution assigns to the Legislature, acting by vote of a majority of the members elected to each of the two houses, all matters relating to the issuance of general obligations. The quorum in such votes is 60% of the membership. Among these assigned powers is the authority to establish the purposes (uses) and fix the amounts for which general obligations may be issued.

To date, the Legislature has authorized the issuance of general obligations for 67 distinct purposes and has limited the amount of general obligations that may be issued for each purpose. In practice, as a part of the budget, these amounts are adjusted to accommodate newly budgeted activity. The Legislature has delegated to the Commission responsibility to establish the form and terms of the issuance and sale of these general obligations.

Table III-1
STATE OF WISCONSIN
GENERAL OBLIGATION ISSUANCE STATUS REPORT
November 15, 1998

~~Program Purpose~~	Legislative Authorization	General Obligations Issued to Date[(a)]	Interest Earnings[(b)]	Total Authorized Unissued Debt[(a)]
University of Wisconsin; academic facilities..........................	$ 762,124,100	$ 713,892,229	$ 11,235,364	$ 36,996,507
University of Wisconsin; self-amortizing facilities................	438,248,600	271,362,621	884,232	166,001,747
Natural resources; municipal clean drinking water grants..................................	9,800,000	9,519,342	141,818	138,840
Clean water fund program................	552,743,200	314,735,573		238,007,627
Safe drinking water loan program………………………	12,130,000	8,200,000		3,930,000
Natural resources; nonpoint source grants..................	34,363,600	27,780,658	132,570	6,450,372
Natural resources; nonpoint source compliance……………………..	2,000,000			2,000,000
Natural resources; environmental repair......................	43,000,000	15,754,900	161,017	27,084,083
Natural resources; environmental segregated fund supported administrative facilities……………	145,000	136,100		8,900
Natural resources; segregated revenue supported dam maintenance, repair, modification, abandonment and removal..................................	6,350,000	1,315,000		5,035,000
Natural resources; pollution abatement and sewage collection facilities, ORAP funding...............	146,850,000	145,010,325	50,000	1,789,675
Natural resources; pollution abatement and sewage collection facilities.............	902,449,800	872,803,888	18,510,235	11,135,677
Natural resources; pollution abatement and sewage collection facilities; combined sewer overflow..............	200,600,000	194,144,242	6,287,401	168,357
Natural resources; recreation projects.........................	56,055,000	56,053,036	1,005	959
Natural resources: local parks land acquisition and development...........................	2,490,000	2,439,349	42,259	8,392
Natural resources; recreation development.................	23,061,500	22,778,166	141,227	142,107
Natural resources; land acquisition.............................	45,608,600	45,115,269	491,670	1,661
Natural resources; Wisconsin natural areas heritage program............................	2,500,000	2,442,545	17,174	40,281

TABLE III-1–CONTINUED
GENERAL OBLIGATION ISSUANCE STATUS REPORT–CONTINUED
November 15, 1998

~~Program Purpose~~	Legislative Authorization	General Obligations Issued to Date[(a)]	Interest Earnings[(b)]	Total Authorized Unissued Debt[(a)]
Natural resources; segregated revenue supported facilities	18,746,600	11,639,722	48,761	7,058,117
Natural resources; general fund supported administrative facilities	8,295,800	5,951,075	17,958	2,326,767
Natural resources; ice age trail	750,000			750,000
Natural resources; dam maintenance, repair, modification, abandonment and removal	5,500,000	5,370,000	49,701	80,299
Natural resources; segregated revenue supported land acquisition	2,500,000	2,498,446		1,554
Natural resources; Warren Knowles - Gaylord Nelson stewardship program	231,000,000	149,055,000	1,446,521	80,498,479
Transportation; administrative facilities	8,890,400	8,759,479	33,943	96,978
Transportation; accelerated bridge improvements	46,849,800	46,849,800		
Transportation; rail passenger route development	50,000,000			50,000,000
Transportation; accelerated highway improvements	185,000,000	185,000,000		
Transportation; connecting highway improvements	15,000,000	15,000,000		
Transportation; federally aided highway facilities	10,000,000	10,000,000		
Transportation; highway projects	41,000,000	41,000,000		
Transportation; harbor improvements	15,000,000	11,800,000	232,606	2,967,394
Transportation; rail acquisitions and improvements	19,000,000	10,645,000		8,355,000
Corrections; correctional facilities	594,680,500	444,011,762	8,856,020	141,812,718
Corrections; self-amortizing facilities and equipment	7,337,000	700,000	99	6,636,901

TABLE III-1–CONTINUED
GENERAL OBLIGATION ISSUANCE STATUS REPORT–CONTINUED
November 15, 1998

Program Purpose	Legislative Authorization	General Obligations Issued to Date[a]	Interest Earnings[b]	Total Authorized Unissued Debt[a]
Corrections; juvenile correctional facilities……..	26,441,500	24,323,556	101,839	2,016,105
Health and family services; mental health and secure treatment facilities............	88,712,500	81,500,268	680,486	6,531,746
Agriculture; soil and water……………………..	3,000,000			3,000,000
Administration; Black Point Estate…………………	1,600,000			1,600,000
Building commission; previous lease rental authority..............................	143,071,600	143,068,654		2,946
Building commission; refunding corporation self-amortizing debt.......................	1,940,000			1,940,000
Building commission; refunding tax-supported general obligation debt....................	2,125,000,000	1,896,403,677 [c]		228,596,323
Building commission; refunding self-amortizing general obligation debt....................	275,000,000	231,440,786 [c]		43,559,214
Building commission; housing state departments and agencies....................................	259,727,600	202,074,121	1,929,678	55,723,801
Building commission; 1 West Wilson street parking ramp..................................	15,100,000	14,650,000	294,479	155,521
Building commission; project contingencies......................	28,233,200	12,790,000	49,419	15,393,781
Building commission; capital equipment acquisition.........	84,312,100	60,999,191	728,337	22,584,572
Building commission; discount sale of debt.......................	90,000,000	50,518,484		39,481,516
Building commission; discount sale of debt (higher education bonds)...............	100,000,000	99,988,833 [c]		11,167
Building commission; other public purposes...................	919,466,000	633,181,152	4,659,371	281,625,477
Medical College of Wisconsin, Inc.; basic science education and health information technology facilities…	10,000,000	10,000,000		
Technology for educational achievement in Wisconsin board; school district educational technology infrastructure loans……	100,000,000			100,000,000

TABLE III-1–CONTINUED
GENERAL OBLIGATION ISSUANCE STATUS REPORT–CONTINUED
November 15, 1998

Program Purpose	Legislative Authorization	General Obligations Issued to Date[a]	Interest Earnings[b]	Total Authorized Unissued Debt[a]
Technology for educational achievement in Wisconsin board; public library educational technology infrastructure loans......	10,000,000			10,000,000
Educational communications board; educational communications facilities..............................	8,354,100	7,154,539	36,946	1,162,615
Historical society; self-amortizing facilities................	3,173,600	1,029,156	3,896	2,140,548
Historical society; historic records..............................	400,000			400,000
Historical society; historic sites.................................	1,839,000	1,825,756		13,244
Historical society; museum facility.............................	4,384,400	4,336,000		48,400
Public instruction; state schools and library facilities...	7,367,700	7,329,197	32,508	5,995
Military affairs; armories and military facilities.......	19,590,200	16,297,527	192,543	3,100,130
Veterans affairs; veterans facilities..........................	10,090,100	8,368,065	50,556	1,671,479
Veterans affairs; self-amortizing mortgage loans.......	1,807,500,000	1,734,861,295	5,999,599	66,639,106
Veterans affairs; refunding bonds.............................	665,000,000	610,594,245		54,405,755
Veterans affairs; self-amortizing housing facilities............................	2,031,900			2,031,900
State fair park board; board facilities..............................	2,000,000			2,000,000
State fair park board; housing facilities............................	11,000,000	10,990,000		10,000
State fair park board; self-amortizing facilities...............	27,850,000	21,128,800	6,046	6,715,154
Total...	$11,352,255,000	$9,536,616,829	$63,547,284	$1,752,090,887

[a] On December 1, 1998, the State issued General Obligation Commercial Paper Notes of 1998, Series A&B in an aggregate amount of $50,000,000 which is not reflected in these amounts.

[b] Interest earnings reduce issuance authority by the same amount.

[c] Interest scheduled to accrue on any obligation that is not payable during the current fiscal year is treated as debt and taken into account for purposes of the statutory authority to issue debt.

Source: Wisconsin Department of Administration.

DEBT INFORMATION

The following tables provide data pertaining to the State's outstanding general obligation debt.

Table III-2
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 1, 1998)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Long-Term General Obligations				
1970- Series A	3/1/70	1971-90	$ 50,510,000	$ -0-
Series B	3/1/70	1971-2000	8,075,000	-0-
Series C	6/1/70	1971-90	39,000,000	-0-
Series D	6/1/70	1971-2001	30,025,000	-0-
Series E	9/15/70	1971-1990	70,000,000	-0-
1971- Series A	1/15/71	1972-91	35,000,000	-0-
Series B	3/15/71	1972-91	19,500,000	-0-
Series C	6/15/71	1972-91	32,800,000	-0-
Series D	9/15/71	1972-91	30,000,000	-0-
Series E	9/15/71	1972-2001	5,020,000	-0-
1972- Series A	1/15/72	1973-92	40,000,000	-0-
Series B	4/15/72	1973-92	61,500,000	-0-
Series C	7/15/72	1973-92	43,000,000	-0-
Series D	10/15/72	1973-92	35,000,000	-0-
1973- Series A	1/15/73	1974-93	37,500,000	-0-
Series B	4/15/73	1974-93	30,000,000	-0-
Series C	4/15/73	1974-2003	6,505,000	-0-
1974- Series A	2/15/74	1975-94	59,600,000	-0-
1975- Series A	3/1/75	1976-95	75,000,000	-0-
Series B	8/15/75	1976-95	18,200,000	-0-
Series D	8/15/75	1976-2000	50,000,000	-0-
Series E	12/1/75	1976-2000	96,400,000	-0-
Series F	12/1/75	1976-2005	5,500,000	-0-
1976- Series A	3/15/76	1977-2001	147,600,000	-0-
Series B	7/1/76	1977-2006	119,900,000	-0-
Series C	11/1/76	1978-2001	40,000,000	1,600,000
1977- Series A	2/15/77	1978-2007	74,000,000	-0-
Series B	5/15/77	1978-2002	128,000,000	6,600,000
Series C	10/1/77	1978-2002	39,000,000	-0-
1978- Series A	2/1/78	1979-2003	118,000,000	-0-
Series B	6/1/78	1979-2003	94,500,000	-0-
Series C	11/1/78	1979-2003	77,300,000	3,920,000
1979- Series A	2/1/79	1980-2004	84,800,000	-0-
Series B	5/15/79	1980-2004	86,800,000	-0-
Series C	10/15/79	1980-2004	90,000,000	-0-
1980- Series A	1/1/80	1981-2005	46,500,000	-0-
Series B	6/15/80	1981-2000	40,000,000	-0-
Note Issue IX	6/15/80	1981-2010	2,000,000	-0-
1981- Series A	6/15/81	1982-2001	75,000,000	-0-
Series B	12/1/81	1982-2001	65,000,000	-0-
1982- Series A	6/15/82	1983-2002	60,000,000	-0-
Series B	9/15/82	1987-2007	30,000,000	-0-
Series C	12/15/82	1983-2007	160,000,000	-0-
1983- Series A	5/1/83	1987-2008	20,000,000	-0-
Series B	5/1/83	1984-2003	90,000,000	-0-
Series C	12/1/83	1984-2008	100,300,000	-0-
1984- Series A	4/1/84	1989-2011	50,000,000	-0-

Table III-2 – Continued
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 1, 1998)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Series B	4/1/84	1985-2004	110,000,000	-0-
Daily Demand Note	9/27/84	1985-1989	75,600,000	-0-
1985- Series A	4/1/85	1986-2015	150,000,000	-0-
Series B	4/1/85			
Serial Bonds		1996-2001	60,010,000	-0-
Term Bonds		2003	40,815,000	-0-
Term Bonds		2009	140,130,000	-0-
Term Bonds		2016	50,000,000	-0-
1986- Series A	5/15/86			
Serial Bonds		1995-2002	13,145,000	9,180,000
Term Bonds		2006	13,025,000	-0-
Term Bonds		2015	12,015,000	2,150,000
Series B	4/1/86	1987-2006	247,800,000	-0-
1987- Notes Series A	11/5/87	1989	46,480,000	-0-
1988- Notes Series A	3/10/88	1989	26,895,000	-0-
Refunding	5/1/88			
Serial Bonds		1991-2005	389,505,000	-0- [a]
Term Bonds		2015	2,405,000	-0-
Capital Appreciation Bonds		1994-2004	55,545,000	-0- [a]
Bonds Series A	7/1/88			
Serial Bonds		1989-2003	2,825,000	1,365,000
Term Bonds		2008	1,200,000	-0-
Term Bonds		2018	7,925,000	-0-
Accelerated Term Bonds		2008	3,050,000	-0-
Notes Series B	8/16/88	1989	61,280,000	-0-
Bonds Series B	12/1/88	1990-2009	143,980,000	-0- [a]
1989- Bonds Series A	1/1/89			
Serial Bonds		1990-2004	4,150,000	2,375,000
Term Bonds		2009	775,000	-0-
Term Bonds		2019	11,175,000	-0-
Accelerated Term Bonds		2009	3,900,000	-0-
Bonds Series B	3/1/89	1990-2009	43,755,000	-0-
Bonds Series C	5/1/89	1990-2009	71,415,000	-0-
Bonds Series D	8/1/89			
Serial Bonds		1990-2004	4,150,000	2,525,000
Term Bonds		2009	725,000	725,000
Term Bonds		2019	11,350,000	11,350,000
Accelerated Term Bonds		2009	3,775,000	-0-
Bonds Series E	10/1/89	1991-2010	63,365,000	-0- [a]
1990- Bonds Series A	1/1/90	1991-2010	134,495,000	-0- [a]
Bonds Series B	3/1/90			
Serial Bonds		1991-2004	3,575,000	2,300,000
Accelerated Term Bonds		2010	3,975,000	-0-
Term Bonds		2020	12,450,000	-0-
Bonds Series C	5/1/90	1991-2010	38,170,000	-0- [a]
Bonds Series D	5/24/90	1996-2010	65,859,000	52,661,000
Bonds Series E	8/1/90	1991-2010	76,810,000	-0- [a]
Bonds Series F	10/1/90			
Serial Bonds		1991-2005	3,775,000	2,425,000

[a] Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table.

Table III-2 – Continued
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 1, 1998)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Accelerated Term Bonds		2010	3,800,000	-0-
Term Bonds		2020	12,425,000	-0-
Bonds Series G	12/1/90	1992-2011	128,765,000	6,470,000 [a]
1991- Bonds Series A	4/1/91			
Serial Bonds		1992-2006	5,775,000	3,775,000
Accelerated Term Bonds		2011	5,825,000	-0-
Term Bonds		2021	18,400,000	18,400,000
Bonds CWF Series 1	Various	1993-2011	55,000,000	45,834,539
Bonds Series B.....................................	5/15/91	1996-2011	117,136,000	95,162,000
Bonds Series C	6/1/191	1992-2011	60,580,000	2,485,000 [a]
Bonds Series D	9/1/91	1993-2012	97,000,000	9,365,000 [a]
1992- Bonds Series A	3/1/92	1993-2012	219,040,000	44,090,000 [a]
Refunding Bonds	3/1/92	1994-2015	448,935,000	408,010,000
Bonds Series B.....................................	6/1/92			
Serial Bonds		1993-2008	7,780,000	2,095,000
Accelerated Term Bonds		2012	4,000,000	-0-
Term Bonds		2022	18,220,000	6,605,000
Loan Series B	10/2/92	1995	5,330,000	-0-
Refunding Bonds Series 2	10/15/92	1994-2015	5,975,000	5,165,000
Bonds Series C	11/1/92	1994-2013	173,285,000	42,270,000 [a]
1993- Refunding Bonds Series 1	1/1/93	1994-2009	280,060,000	240,275,000
Bonds CWF Series A	1/15/93	1993-2011	5,000,000	4,202,106
Refunding Bonds Series 2	3/1/93	1993-2011	137,530,000	134,160,000
Bonds Series A	2/1/93	1994-2013	124,325,000	36,790,000 [a]
Refunding Bonds Series 3	8/1/93	1995-2012	302,050,000	247,350,000
Refunding Bonds Series 6	10/15/93			
Serial Bonds		1994-2006	5,510,000	3,700,000
Term Bonds		2010	2,125,000	2,125,000
Term Bonds		2013	2,150,000	2,150,000
Term Bonds		2016	10,215,000	10,215,000
Refunding Bonds Series 4	12/1/93	1994-2006	77,575,000	46,915,000
Refunding Bonds Series 5	12/1/93			
Serial Bonds		1994-2006	113,550,000	112,710,000
Term Bonds		2010	14,770,000	14,770,000
Term Bonds		2013	1,190,000	1,190,000
Term Bonds		2016	1,405,000	1,405,000
Term Bonds		2023	4,340,000	4,340,000
1994- Bonds CWF Series 1	1/25/94	1994-2013	15,000,000	13,743.853
Bonds Series A	1/1/94	1995-2014	119,810,000	87,680,000 [a]
Refunding Bonds Series 1	3/1/94	1995-2002	106,610,000	18,600,000
Refunding Bonds Series 2	3/1/94			
Serial Bonds		1999-2009	52,050,000	52,050,000
Term Bonds		2014	1,700,000	1,700,000
Term Bonds		2014	4,775,000	4,775,000
Bonds Series B.....................................	6/1/94	1995-2014	110,000,000	33,745,000 [a]
Refunding Bonds Series 3	9/15/94	1995-2008	10,400,000	7,200,000
Bonds Series C	9/15/94			
Serial Bonds		1998-2013	17,135,000	15,085,000
Term Bonds		2016	5,135,000	5,060,000
Term Bonds		2020	8,535,000	8,405,000

[a] Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table.

Table III-2 – Continued
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 1, 1998)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Term Bonds		2023	14,195,000	13,980,000
Bonds CWF Series 1	1/17/95	1994-2013	4,935,573	4,581,284
1995- Bonds Series A	1/15/95	1996-2015	231,315,000	100,180,000 [a]
Refunding Bonds, Series 1	2/15/95			
Serial Bonds		1999-2000	4,350,000	4,350,000
Serial Bonds		2004	860,000	860,000
Serial Bonds		2007-2015	10,525,000	10,525,000
Bonds Series B	2/15/95			
Term Bonds		2016	4,215,000	4,215,000
Term Bonds		2020	7,920,000	7,920,000
Term Bonds		2025	17,130,000	17,130,000
Note, Series B	7/6/95	2005	361,623	278,420
Bonds CWF Series 1	8/23/95	1996-2015	5,000,000	4,312,961
Bonds Series C	6/15/95	1997-2016	97,480,000	79,750,000 [a]
Refunding Bonds Series 2	10/15/95			
Serial Bonds		1997-2000	5,780,000	2,995,000
Serial Bonds		2004-2005	2,715,000	2,715,000
Serial Bonds		2007-2015	34,355,000	34,355,000
1996- Bonds Series A	1/15/96	1997-2016	158,080,000	132,180,000 [a]
Refunding Bonds Series 1	2/15/96	1996-2015	104,765,000	102,300,000
Bonds Series B	5/15/96			
Serial Bonds		1998-1999	4,215,000	2,155,000
Serial Bonds		2007-2014	16,550,000	16,550,000
Term Bonds		2021	10,305,000	10,305,000
Term Bonds		2026	13,930,000	13,930,000
Bonds Series C	9/1/96	1998-2017	115,230,000	55,175,000 [a]
Bonds CWF Series A	8/29/96	2001-2011	5,000,000	4,683,144
Bonds Series D	10/15/96			
Serial Bonds		2007-2009	8,550,000	8,550,000
Term Bonds		2014	3,700,000	3,700,000
Term Bonds		2020	6,405,000	6,405,000
Term Bonds		2027	11,345,000	11,345,000
1997- Bonds CWF Series A			10,000,000	9,455,302
Bonds Series A	3/15/97			
Serial Bonds		2006-2015	17,880,000	17,880,000
Serial Bonds		2017	5,760,000	5,760,000
Bonds Series 1	3/15/97			
Term Bonds		2021	8,065,000	8,065,000
Term Bonds		2028		13,295,000
Bonds Series B	7/15/97	1999-2018	101,010,000	101,010,000
Bonds Series C	9/15/97			
Serial Bonds		2000-2001	520,000	520,000
Serial Bonds		2003-2013	22,755,000	22,755,000
Term Bonds		2017	7,850,000	7,850,000
Term Bonds		2023	10,580,000	10,580,000
Term Bonds		2026	3,295,000	3,295,000

[a] Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table.

Table III-2 – Continued
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 1, 1998)

Financing		Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
	Bonds Series D (Taxable)	9/15/97			
	Serial Bonds		1999-2012	13,385,000	13,385,000
	Term Bonds		2017	6,760,000	6,760,000
	Term Bonds		2028		24,855,000
1998-	Bonds Series A	3/1/98	1999-2018	156,185,000	156,185,000
	Bonds CWF Series A	2/12/98	1998-2018	5,000,000	4,987,458
	Bonds Series B	5/15/98			
	Serial Bonds		2007-2008	2,865,000	2,865,000
	Term Bonds		2010	4,775,000	4,775,000
	Term Bonds		2018	2,865,000	2,865,000
	Term Bonds		2023	8,670,000	8,670,000
	Term Bonds		2028	11,390,000	11,390,000
	Bonds Series C (Taxable)	5/15/98			
	Serial Bonds		1999-2008	6,245,000	6,245,000
	Term Bonds		2028		27,760,000
	Refunding Bonds Series 1	8/15/98			
	Serial Bonds		1999	2,820,000	2,820,000
	Serial Bonds		2004-2016	154,760,000	154,760,000
	Refunding Bonds Series 2	9/15/98			
	Serial Bonds		1999-2001	17,095,000	17,095,000
	Serial Bonds		2004-2009	77,155,000	77,155,000
	Bonds Series D	9/1/98	2000-2019	74,840,000	74,840,000
	Bonds Series E	10/15/98	2012-2017	6,155,000	6,155,000
	Bonds Series F (Taxable)	10/15/98			
	Serial Bonds		1999-2009	9,410,000	9,410,000
	Term Bonds		2029		45,590,000
	Total Long-Term General Obligations			$9,607,127,19 6	$3,401,702,066
Short-Term General Obligations					
1997-	Commercial Paper Series A	4/3/97		$	$ 87,354,000
	Commercial Paper Series B	7/15/97			24,933,000
1998-	Commercial Paper Series A	12/1/98		65,790,000	25,000,000
	Commercial Paper Series B	12/1/98			25,000,000
	Total Short-Term General Obligations			$ 301,850,000	$ 162,287,000
	TOTAL GENERAL OBLIGATIONS			$9,908,977,19	$3,563,989,066

Table III-3

PER CAPITA STATE GENERAL OBLIGATION DEBT
1988 TO 1997

Year Ending December 31	Outstanding Indebtedness[(a)] (Amounts in Thousands)	Debt Per Capita	Debt Per Capita as % of Per Capita Income
1988	$2.403.070	$498.25	3.15%
1989	2.566.496	528.41	3.14
1990	2.781.071	568.49	3.21
1991	3.126.391	632.10	3.46
1992	3.065.122	614.13	3.17
1993	3.104.055	616.13	3.07
1994	3.244.079	639.23	3.03
1995	3.305.471	646.48	2.93
1996	3.468.447	674.01	2.91
1997	3.604.798	697.25	2.88

(a) Includes obligations of nonstock, nonprofit building corporations

Sources: Legislative Audit Bureau
Tables II-24 and II-27 in Part II of the Annual Report.

Table III-4

LIMITATION ON AGGREGATE PUBLIC DEBT
DERIVATION OF AMOUNT
FOR 1998

The aggregate debt contracted in 1998 shall not exceed the lesser of (a) or (b):

(a)	3/4 of 1% x $248,994,915,200		$1,867,461,864
(b)	5% x $248,994,915,200	$12,449,745,760	
	Deduct: Net Indebtedness 1/1/97	(3,604,247,701)	
			$8,844,948,049

The amount of $248,994,915,200 shown above is the aggregate full market value of all taxable property in the State for the year 1998 as certified by the Department of Revenue.

The amount of $3,604,247,701 shown above is the net indebtedness as of January 1, 1998 as certified by the Legislative Audit Bureau.

The lesser of (a) or (b) is $1,867,461,864. Aggregate debt contracted in the calendar year shall not exceed this amount.

Source: Wisconsin Department of Administration.

Table III-5

ANNUAL DEBT LIMIT COMPARED TO ACTUAL BORROWING 1988 TO 1997

Calendar Year	Annual Debt Limitation	Actual Borrowing	Borrowing as Percentage of Limitation
1988	$ 949,406,681	$247,155,000	26.0%
1989	999,046,384	218,535,000	21.9
1990	1,060,277,304	484,099,000	45.7
1991	1,131,958,171	359,716,000	31.8
1992	1,196,902,524	427,655,000	35.7
1993	1,287,578,726	129,325,000	10.0
1994	1,387,461,496	289,810,000	20.9
1995	1,511,535,818	368,322,196	24.4
1996	1,627,078,182	353,295,000	21.7
1997	1,748,056,751	404,310,000	23.1

Source: Wisconsin Department of Administration.

Table III-6

DEBT STATEMENT December 1, 1998

	Tax-Supported Debt		Revenue-Supported Debt[a]		
	General Fund	Segregated Funds[b]	Veterans Housing	Other[c]	Total
GENERAL OBLIGATIONS					
Outstanding Indebtedness	$2,430,026,618	$45,531,119	$745,324,070	$343,107,263	$3,563,989,070
NONSTOCK, NONPROFIT CORPORATIONS[d]					
Wisconsin University Building Corp.				$ 91,957	$ 91,957
Wisconsin State Colleges Building Corp.				775,000	775,000
Outstanding Indebtedness				$ 866,957	$ 866,957
Total Outstanding Indebtedness	$2,430,026,618	$45,531,119	$745,324,070	$343,974,220	$3,564,856,027

(a) Revenue Supported Debt represents general obligation debt of the State and indebtedness of its nonstock, nonprofit corporations issued to fund particular programs and facilities with the initial expectation that revenues and other proceeds derived from the operation of the programs and facilities will amortize the allocable debt without recourse to the General Fund.

(b) Includes the Transportation Fund and certain administrative facilities for the Department of Natural Resources.

(c) Includes university dormitories, food service, intercollegiate athletic facilities, certain facilities on the State Fair grounds and capital equipment acquisition.

(d) See "STATE OBLIGATIONS; Nonstock, Nonprofit Corporations" in Part III of the Annual Report for a description of the nonstock, nonprofit corporations.

Source: Wisconsin Department of Administration.

Table III-7

COMPARISON OF OUTSTANDING INDEBTEDNESS TO EQUALIZED VALUATION OF PROPERTY 1988 TO 1997

Calendar Year	Value of Taxable Property (Amounts in Thousands)	Outstanding Indebtedness[a] (Amounts in Thousands)	Debt as Percentage of Equalized Value
1988	$126.587.558	$2.403.070	1.90%
1989	133.206.185	2.566.496	1.93
1990	141.370.307	2.781.071	1.97
1991	150.927.756	3.126.391	2.07
1992	159.587.003	3.065.122	1.92
1993	171.677.164	3.104.055	1.81
1994	184.994.866	3.244.079	1.75
1995	201.538.109	3.305.471	1.64
1996	216.943.758	3.468.447	1.60
1997	233.074.233	3.604.798	1.55

[a] Including obligations of nonstock, nonprofit building corporations as of December 31.

Sources: Wisconsin Department of Revenue.
Wisconsin Legislative Audit Bureau.

Table III-8

DEBT SERVICE PAYMENT HISTORY: AMOUNT PAID ON GENERAL OBLIGATIONS

Fiscal Year	Principal	Interest	Total Debt Service
To June 30, 1986	$1.149.785.000	$1.104.960.605	$2.254.745.605
1986-87	159.920.000	161.142.905	321.062.905
1987-88	170.105.000	157.666.783	327.771.783
1988-89	168.560.000	140.461.544	309.021.544
1989-90	169.615.000	147.115.426	316.730.426
1990-91	185.050.000	161.025.824	346.075.824
1991-92	157.985.000	100.545.026	258.530.026
1992-93	131.634.000	138.331.828	269.965.828
1993-94	151.416.138	153.491.249	304.907.387
1994-95	188.718.292	159.985.783	348.704.075
1995-96	199.622.231	159.090.781	358.713.012
1996-97	205,112,886	167,659,261	372,772,147
1997-98	217,184,565	171,783,741	388,968,306
7/1/98-12/1/98	72,818,367	81,750,581	154,568,948
Totals	$3,327,526,479	$3,005,011,337	$6,332,537,816

Source: Wisconsin Department of Administration.

Table III-9

DEBT SERVICE MATURITY SCHEDULE:
AMOUNT DUE ANNUALLY ON GENERAL OBLIGATION BONDS
ISSUED TO DECEMBER 1, 1998 [(a)]

Fiscal Year (Ending June 30)	Principal	Interest	Total Debt Service
1999 [(b)]	$ 162,680,705	$ 90,655,319	$ 253,336,024
2000	238,471,911	168,756,561	407,228,472
2001	235,807,311	158,390,579	394,197,890
2002	231,443,755	146,392,646	377,836,401
2003	223,712,654	134,098,138	357,810,792
2004	208,130,674	122,631,499	330,762,173
2005	202,786,494	111,248,746	314,035,240
2006	198,813,101	99,786,087	298,599,188
2007	194,971,611	89,510,460	284,482,071
2008	191,173,601	79,197,031	270,370,632
2009	187,815,539	69,486,491	257,302,030
2010	170,352,097	60,065,246	230,417,343
2011	154,466,796	51,569,287	206,036,083
2012	129,227,278	43,587,238	172,814,516
2013	110,717,479	37,465,861	148,183,340
2014	90,721,973	31,782,260	122,504,233
2015	78,994,374	27,133,511	106,127,885
2016	61,435,119	22,868,020	84,303,139
2017	58,630,273	19,472,723	78,102,996
2018	43,324,325	16,545,185	59,869,510
2019	27,630,000	14,073,509	41,703,509
2020	22,575,000	12,393,196	34,968,196
2021	22,005,000	10,994,542	32,999,542
2022	24,325,000	9,584,004	33,909,004
2023	25,260,000	8,040,979	33,300,979
2024	25,985,000	6,456,081	32,441,081
2025	21,100,000	4,828,566	25,928,566
2026	17,075,000	3,467,616	20,542,616
2027	19,775,000	2,381,837	22,156,837
2028	11,525,000	1,247,300	12,772,300
2029	6,820,000	484,342	7,304,342
2030	3,950,000	126,400	4,076,400
TOTALS	$3,401,702,069	$1,654,721,261	$5,056,423,330

[(a)] This maturity schedule does not include interest and principal payments on outstanding general obligation commercial paper.

[(b)] For the fiscal year ending June 30, 1999, the table includes debt service amounts for the period December 1, 1998 through June 30, 1999.

Source: Wisconsin Department of Administration.

Table III-10

AMORTIZATION SCHEDULE: AMOUNT DUE ANNUALLY ON GENERAL OBLIGATION COMMERCIAL PAPER ISSUED TO DECEMBER 1, 1998 [a]

Fiscal Year (Ending June 30)	Principal [b]
1999	$ 5,085,000
2000	5,270,000
2001	5,495,000
2002	5,730,000
2003	5,485,000
2004	5,730,000
2005	6,000,000
2006	6,280,000
2007	6,595,000
2008	4,695,000
2009	4,935,000
2010	5,190,000
2011	5,460,000
2012	5,750,000
2013	6,060,000
2014	6,385,000
2015	6,735,000
2016	7,110,000
2017	7,505,000
2018	1,945,000
TOTAL	$113,440,000

[a] The State intends to treat each issue of general obligation commercial paper as if it were a long-term bond issue by making annual payments on May 1. Each annual payment reflects a principal amortization. The Program Resolution does not permit the State to have any commercial paper outstanding for more than 10 years after its issuance date. The State also intends to make a payment on each May 1 and November 1 on all outstanding general obligation commercial paper in an amount equal to the interest accrued and accruing for that period.

[b] Does not include principal amounts for General Obligation Commercial Paper Notes of 1998, Series A and Series B.

Source: Wisconsin Department of Administration.

Table III-11

SOURCE OF DEBT SERVICE PAYMENTS ON GENERAL OBLIGATIONS ISSUED AS OF JUNE 30, 1998

	1997-98	%	1996-97	%	1995-96	%
Tax-Supported Debt						
General Fund	$291,537,272	75.0	$285,144,741	76.3	$273,694,885	77.7
Segregated Funds	7,891,732	2.0	8,281,595	2.2	9,720,739	2.8
Subtotal	299,429,004	77.0	293,426,336	78.5	283,415,624	80.4
Self-Amortizing Debt						
Veterans	56,473,654	14.5	49,677,302	13.3	42,703,489	12.1
University of Wisconsin	18,092,511	4.7	17,256,324	4.6	14,656,650	4.2
State Fair Park	1,438,159	0.4	1,405,901	0.4	1,165,114	0.3
Historical	94,604	0.0	94,591	0.0	96,096	0.0
Housing State Departments	13,406,584	3.4	12,002,489	3.2	10,429,917	3.0
Subtotal	89,505,511	23.0	80,436,607	21.5	69,048,266	19.6
Total Debt Service	$388,934,515	100.0	$373,862,943	100.0	$352,463,890	100.0

REVENUE-SUPPORTED GENERAL OBLIGATION DEBT

General

Although all general obligation bonds and notes issued by the State are supported by its full faith, credit and taxing power, a portion of the indebtedness of the State is issued with the expectation that Debt Service payments will not impose a direct burden on the State's taxpayers and its general revenue sources.

Beneficiaries and users of revenue-supported programs and facilities pay fees and other amounts that are estimated upon issuance of the related debt to be at least sufficient to pay or reimburse to the General Fund an amount equal to the amount to be paid out for Debt Service and other costs related to the operation of the programs and facilities.

The programs and facilities financed by indebtedness designated as revenue supported in Table III-6 all have user charges that historically have been sufficient to pay or reimburse the General Fund for all Debt Service or rental obligations incurred by State agencies for these programs and facilities. These programs and facilities support Debt Service payments on nearly $1.1 billion of State general obligations and nearly $1 million of corporation indebtedness outstanding on December 1, 1998. Revenue-supported debt service payments were approximately 23% of the total Debt Service cost for the fiscal year ending June 30, 1998. See Table III-11.

Veterans Housing Loan Program

General

The veterans housing loan program, operated by the Wisconsin Department of Veterans Affairs (**DVA**), is the largest revenue-supported program of the State. Lending activities under the program began in 1974. Except for four revenue bond issues (which are not backed by the full faith and credit or taxing power of the State), the program has been funded by State general obligation bond issues that have been either tax-exempt (**Tax-Exempt Veterans Mortgage Bonds**) or taxable (**Taxable Veterans Mortgage Bonds**). These bonds are collectively referred to as **Veterans Mortgage Bonds**. Taxable Veterans Mortgage Bonds are issued to principally finance housing loans made to veterans who are not "qualified veterans" under federal tax law.

Approximately $745 million in aggregate principal amount of the Veterans Mortgage Bonds were outstanding on December 1, 1998. All revenue bonds issued for the program have been redeemed. Tables III-15 through III-23 in this part of the Annual Report include unaudited financial and statistical information and related notes that may be helpful in describing the operation of the Veterans Housing Loan Program.

Program Description and Operations

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

Home Improvement Loan Program

In addition to housing loans, which are secured by a first, or primary, mortgage, DVA also makes loans under the home improvement loan program (**HILP**) which are funded with proceeds of various series of Taxable Veterans Mortgage Bonds. This program has a maximum loan amount of $15,000 and is processed through County Veterans Service Officers rather than lending institutions. HILP loans have a maximum term of 15 years. HILP loans in excess of $3,000 are secured by either a first or second mortgage on the improved property and a minimum equity position after considering the HILP loan of 10%. HILP loans under $3,000 may be secured by a guarantor or first or second mortgage. HILP loans require the same basic underwriting standards as the housing loan program, but do not include loan-servicing charges.

Mortgage Interest Rates

It has been the policy of DVA to set the interest rate charged to the borrower at a rate calculated to be sufficient to pay the debt service on the Veterans Mortgage Bonds, the cost of program administration and, if deemed necessary, a loan loss reserve (which since 1985 has been charged to fund the Insurance Reserve Account described below). In the past, the State has made certain arrangements so that housing loans and HILP loans funded with proceeds of Taxable Veterans Mortgage Bonds have the same mortgage rate as housing loans funded with proceeds of Tax-Exempt Veterans Mortgage Bonds issued on the same date.

- The State has provided a subsidy from excess proceeds of eligible mortgage pools for housing loans and HILP loans funded with proceeds of Taxable Veterans Mortgage Bonds (the source of the subsidy is excess proceeds of eligible mortgage pools, including repayments of veterans housing loans that under federal tax law are eligible for such use).

- The State has allocated portions of the housing loans to veterans who are "qualified veterans" under federal tax law to both the Tax-Exempt Veterans Mortgage Bonds and the Taxable Veterans Mortgage Bonds so that the aggregate housing loan will bear interest at a blended rate.

The State has not determined if any subsidy or similar arrangement will be available for housing loans funded with future issues of Veterans Mortgage Bonds.

Other

Tax-Exempt Veterans Mortgage Bonds issued prior to 1985 assumed a certain level of prepayments in estimating program cash flow. No prepayments have been assumed in scheduling principal payments for Veterans Mortgage Bonds issued since 1985. Based on March 1, 1998 balances and existing DVA assumptions, the cash flow of the mortgages is sufficient to meet future debt service payments even if no mortgages are prepaid. Program loans may be assumed only by other qualifying veteran borrowers.

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

Program loans financed with Veterans Mortgage Bonds are not required to be insured or guaranteed (casualty insurance coverage is, however, required). Instead, the default risk with respect to such loans is borne by the program. The ability of DVA to dispose of defaulted properties and realize the amount of the outstanding principal balances of the related loans has varied in recent years depending upon the location of such properties within the State and their physical condition upon foreclosure. Although DVA expects that it will continue to experience liquidation losses, it expects that such losses will not require recourse to the State's General Fund, but rather will be covered by the Insurance Reserve Account within the Fund. As of October 31, 1998, of the 15,464 outstanding veterans housing loans financed by the program there were 144 loans of an aggregate principal amount of approximately $4.4 million for which payments were 60 days or longer past due. The Insurance Reserve requirement (4% of outstanding loans) is currently satisfied in full.

Special Redemption for Veterans Mortgage Bonds

Tax-Exempt Veterans Mortgage Bonds

Certain Tax-Exempt Veterans Mortgage Bonds are subject to special redemption prior to maturity, at the option of the Commission, on any date, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption. The sources for these redemptions are:

- unexpended proceeds of the respective series of Tax-Exempt Veterans Mortgage Bonds
- payments on veterans housing loans, or interest or income on investments in certain accounts, including money available from the Insurance Reserve Account, in excess of amounts required to meet scheduled debt service on Tax-Exempt Veterans Mortgage Bonds, and costs associated with the veterans housing loan program
- prepayments of veterans housing loans funded from or attributed to any series of Tax-Exempt Veterans Mortgage Bonds

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

Prepayments of mortgages originated with or attributed to any series of Taxable Veterans Mortgage Bonds may not be used for special redemption of Tax-Exempt Veterans Mortgage Bonds, and prepayments of mortgages originated with or attributed to any series of Tax-Exempt Veterans Mortgage Bonds may not be used for special redemption of Taxable Veterans Mortgage Bonds.

The State had outstanding, as of December 1, 1998, approximately $611 million of Tax-Exempt Veterans Mortgage Bonds. Of this amount, approximately $599 million were subject to special redemption from certain loan prepayments or excess revenues, as provided for in the resolution authorizing the particular series of Tax-Exempt Veterans Mortgage Bonds. Table III-12 presents information about the outstanding Tax-Exempt Veterans Mortgage Bonds that are subject to special redemption.

Table III-12
Summary of Outstanding Tax-Exempt Veterans Mortgage Bonds
Subject to Special Redemption
December 1, 1998

Series	Dated Date	Original Principal Amount Subject to Special Redemption	Outstanding Principal Amount Subject to Special Redemption	Range of Interest Rates on Outstanding Bonds
1986 Series A	05/15/86	$ 38,185,000	$ 11,330,000	7.25–7.50%
1988 Series A	07/01/88	14,425,000	1,365,000	7.20–7.60
1989 Series A	01/01/89	19,375,000	2,375,000	7.40–7.70
1989 Series D	08/01/89	19,475,000	14,600,000	6.85–7.20
1990 Series B	03/01/90	19,600,000	2,300,000	6.90–7.30
1990 Series F	10/01/90	19,675,000	2,425,000	6.95–7.35
1991 Series A	04/01/91	29,575,000	10,175,000	6.40–7.50
1992 Series B	06/01/92	29,850,000	8,700,000	5.75–6.60
1993 Series 6	10/15/93	20,000,000	18,190,000	4.10–5.30
1993 Series 5	12/01/93	135,255,000	134,415,000	4.10–5.40
1994 Series 2	03/01/94	58,525,000	58,525,000	4.85–6.20
1994 Series 3	09/15/94	10,400,000	7,200,000	4.90–5.80
1994 Series C	09/15/94	45,000,000	42,530,000	5.50–6.65
1995 Series 1	02/15/95	15,735,000	15,735,000	5.25–6.10
1995 Series B	02/15/95	29,265,000	29,265,000	6.40–6.50
1995 Series 2	10/15/95	42,850,000	40,065,000	4.25–5.75
1996 Series B	05/15/96	45,000,000	42,940,000	4.70–6.20
1996 Series D	10/15/96	30,000,000	30,000,000	5.25–6.00
1997 Series A	03/15/97	21,360,000	21,360,000	6.00–6.00
1997 Series 1	03/15/97	23,640,000	23,640,000	5.20–5.75
1997 Series C	09/15/97	45,000,000	45,000,000	4.25-5.50
1998 Series B	05/15/98	30,565,000	30,565,000	4.75-5.35
1998 Series E	10/15/98	6,155,000	6,155,000	
		$ 748,910,000	$ 598,855,000	

The State has historically received, and expects to continue to receive, prepayments of veterans housing loans funded with Tax-Exempt Veterans Mortgage Bonds. The State may use, and has from time to time used, veterans housing loan prepayments to make new veterans housing loans. If the State determines that it is not feasible to make new veterans housing loans, the State intends to use these prepayments to purchase or redeem Tax-Exempt Veterans Mortgage Bonds as determined by the Commission. Table III-23 includes a summary of prepayments on veterans housing loans.

Prior to 1996, it was generally the State's policy, subject to federal tax requirements and the redemption provisions of each particular series of Tax-Exempt Veterans Mortgage Bonds, to redeem Tax-Exempt Veterans Mortgage Bonds in order of the highest interest rate maturities. The State has modified this policy and currently intends to call maturities of Tax-Exempt Veterans Mortgage Bonds based on the highest proxy price at the time the call decision is evaluated; however, after giving consideration of this proxy price, the State can only call maturities of Tax-Exempt Veterans Mortgage Bonds that further allow the program to continue to meet the Legislature's mandate that the program be self-amortizing. In establishing this proxy price, the State intends:

- to determine a hypothetical yield to maturity for each maturity of Tax-Exempt Veterans Mortgage Bonds being evaluated, using published market indices
- to adjust these indices to reflect the historical price relationship of the indices to comparable Tax-Exempt Veterans Mortgage Bonds and any maturity difference between the indices and the maturity of Tax-Exempt Veterans Mortgage Bonds being evaluated
- to convert each hypothetical yield to the proxy price

The Commission most recently exercised its option of special redemption on Tax-Exempt Veterans Mortgage Bonds, from prepayments of veterans housing loans funded by Tax-Exempt Veterans Mortgage Bonds, on July 1, 1998. At that time, the Commission made the special redemption summarized in Table III-13.

Table III-13
July 1, 1998 Special Redemption
Tax-Exempt Veterans Mortgage Bonds

Bond Issue	Maturity Date	Coupon	Redemption Amount
1991 Series A	January 1, 2021	7.50%	$12,000,000

In addition, the State will use prepayments of veterans housing loans funded by Tax-Exempt Veterans Mortgage Bonds, and replacement refunding proceeds from the General Obligation Bonds of 1998, Series E, to exercise its option of special redemption on January 1, 1999, as summarized in Table III-14.

Table III-14
January 1, 1999 Special Redemption
Tax-Exempt Veterans Mortgage Bonds

Bond Issue	Maturity Date	Coupon	Redemption Amount
1986 Series A	January 1, 2021	7.50%	$1,370,000
1989 Series D	July 1, 2019	7.00	2,000,000
1991 Series A	January 1, 2021	7.50	6,400,000

Taxable Veterans Mortgage Bonds

As of December 1, 1998, the State has issued three series of Taxable Veterans Mortgage Bonds. The State had outstanding, as of December 1, 1998, approximately $134 million of Taxable Veterans Mortgage Bonds. Each series of Taxable Veterans Mortgage Bonds is subject to special redemption pursuant to the term of the resolutions authorizing the respective series of Taxable Veterans Mortgage Bonds.

Prepayments of mortgages originated with or attributed to any series of Taxable Veterans Mortgage Bonds may not be used for special redemption of any other series of Taxable Veterans Mortgage Bonds. Prepayments of mortgages originated with or attributed to any series of Tax-Exempt Veterans Mortgage Bonds may not be used for special redemption of Taxable Veterans Mortgage Bonds, and prepayments of mortgages originated with or attributed to any series of Taxable Veterans Mortgage Bonds may not be used for special redemption of Tax-Exempt Veterans Mortgage Bonds.

Financial and Statistical Information

The following unaudited financial and statistical information and related notes may be helpful in describing the operation of the Veterans Housing Loan Program. Since bonds issued to fund this program are general obligations of the State of Wisconsin, the bondholders have no special pledge or lien on revenues derived from this program.

Table III-15
VETERANS HOUSING LOAN PROGRAM

BALANCE SHEET
AS OF JUNE 30
(Amounts in Thousands)

	1998	1997	1996	1995	1994
ASSETS					
Cash and Cash Equivalents	$ 195,575	$ 135,404	$ 125,556	$ 135,069	$ 144,570
Investments					
Veterans Loans	602,088	580,499	540,959	528,219	472,298
Other Receivables	3,314	3,628	3,449	3,264	2,916
Due From Other Funds	1,100	130	223	234	901
Prepaid Items	46	44	43	57	22
Deferred Charges	4,862	4,065	3,731	3,789	1,829
Fixed Assets (net of accumulated depreciation)	69	94	101	83	68
Other Assets	44	85	130	194	165
Total Assets	$ 807,099	$ 723,950	$ 674,191	$ 670,909	$ 622,770
Liabilities and Fund Equity					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 24,688	$ 10,042	$ 10,742	$ 11,652	$ 10,018
Due to Other Funds	1,035	128	149	102	541
Due to Other Governments	0	6	3	26	12
Tax and Other Deposits	1	1	1	2	1
Deferred Revenue	992	1,165	1,338	1,511	1,953
Interest Payable	5,391	4,526	3,537	3,445	3,023
Compensated Absences	187	178	177	155	132
General Obligation Bonds Payable	697,495	564,971	524,597	526,919	485,632
Total Liabilities	$ 729,789	$ 581,017	$ 540,543	$ 543,810	$ 501,312
Fund Equity:					
Retained Earnings:					
Unreserved	$ 77,310	$ 143,370	$ 133,648	$ 127,099	$ 121,458
Total Fund Equity	$ 77,310	$ 143,370	$ 133,648	$ 127,099	$ 121,458
Total Liabilities and Fund Equity	$ 807,099	$ 724,386	$ 674,191	$ 670,909	$ 622,770

Source: Wisconsin Department of Veterans Affairs.

Table III-16
VETERANS HOUSING LOAN PROGRAM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
AS OF JUNE 30
(Amounts in Thousands)

	1998	1997	1996	1995	1994
Operating Revenues:					
Investment and Interest Income	$ 37,122	$ 39,418	$ 37,263	$ 35,203	$ 36,234
Other Income					
Total Operating Revenues	$ 37,122	$ 39,418	$ 37,263	$ 35,203	$ 36,234
Operating Expenses:					
Personal Services	$ 3,122	$ 3,002	$ 3,087	$ 2,907	$ 2,734
Supplies and Services	699	773	638	633	584
Depreciation	51	36	36	30	28
Interest Expense	35,881	30,458	32,064	31,679	31,998
Other Expenses	2,941	2,595	2,757	2,329	2,227
Total Operating Expenses	$ 42,695	$ 36,864	$ 38,582	$ 37,577	$ 37,571
Operating Income (Loss)	($ 5,573)	$ 2,554	($ 1,319)	($ 2,374)	($ 1,337)
Nonoperating Revenues (Expenses):					
Investment and Interest Income	$ 6,110	$ 6,018	$ 6,381	$ 7,039	$ 5,889
Other Expenses		(45)	(36)	(69)	(48)
Total Nonoperating Revenue (Expense)	6,110	5,973	6,345	6,970	5,841
Income (Loss) Before Operating Transfers	538	8,527	5,026	4,596	4,504
Operating Transfers In	3,015	468	747	1,468	698
Operating Transfers Out	(4)		(427)		(10,172)
Net Income before Extraordinary Items and Cumulative Effect of a Change in Accounting Principals	3,548	8,995	5,345	6,064	(4,970)
Extraordinary Items:					
Gain (Loss) from Extinguishment of Debt		(56)	104	(424)	2,850
Net Income	$ 3,548	$ 8,939	$ 5,449	$ 5,640	($ 2,120)
Retained Earnings, Beginning of Year	$142,933	$133,648	$127,099	$121,458	$131,753
Prior Period Adjustments	(1,133)		1,101		11,825
Residual Equity Transfers Out	(68,038)				(20,000)
Retained Earnings, End of Year	$77,310	$142,933	$133,648	$127,099	$121,458

Source: Wisconsin Department of Veterans Affairs.

Table III-17
VETERANS HOUSING LOAN PROGRAM
STATEMENT OF CASH FLOWS
AS OF JUNE 30
(Amounts in Thousands)

	1998	1997	1996	1995	1994
Cash Flows from Operating Activities:					
Cash Payments to Suppliers for Goods and Services	($ 1,106)	($ 374)	($ 734)	($ 587)	($ 643)
Cash Payments to Employes for Services	(2,196)	(2,978)	(3,030)	(3,271)	(699)
Cash Payments for Loans Originated	(134,421)	(97,067)	(72,972)	(109,286)	(33,438)
Investment and Interest Income	37,396	39,338	37,212	35,238	36,974
Collection of Loans	64,337	56,170	59,155	54,286	103,239
Other Operating Revenues (Expenses)	(3,271)	(2,529)	(2,653)	(2,311)	(1,437)
Net Cash Provided (Used) by Operating Activities	($ 39,261)	($ 7,441)	$ 16,977	($ 25,932)	$103,996
Cash Flows from Noncapital Financing Activities:					
Proceeds from Issuance of Long-Term Debt	$ 142,302	$ 50,520	$ 44,437	$ 73,052	$ 43,657
Retirement of Long-Term Debt	(10,242)	(10,247)	(46,699)	(34,155)	(103,659)
Interest Payments	(35,159)	(29,395)	(31,941)	(30,859)	(33,055)
Interfund Loans to Other Funds	17,516	(17,516)			
Operating Transfers In	3,015	468	747	1,468	428
Operating Transfers Out	(4)				(10,172)
Residual Equity Transfers Out	(5,627)				(20,000)
Net Cash Provided (Used) by Noncapital Financing Activities	$ 111,800	($6,170)	($ 33,884)	$ 9,506	($122,801)
Cash Flows from Capital and Related Financing Activities:					
Payments for Purchase of Fixed Assets	($ 26)	($ 29)	($ 54)	($ 45)	($ 49)
Net Cash Provided (Used) by Capital and Related Financing Activities	($ 26)	($ 29)	($ 54)	($ 45)	($ 49)
Cash Flows from Investing Activities:					
Proceeds from Sale and Maturities of Investment Securities					
Interest and Dividends Receipts	6,110	5,973	6,345	6,970	5,858
Net Cash Provided (Used) by Investing Activities	$ 6,110	$ 5,973	$ 6,345	$ 6,970	$ 5,858
Net Increase (Decrease) in Cash and Cash Equivalents	$ 78,623	($ 7,667)	($ 10,616)	($ 9,501)	($ 12,996)
Cash and Cash Equivalents, Beginning of Year	116,950	125,556	136,171	144,570	157,568
Cash and Cash Equivalents, End of Year	$195,573	$117,889	$125,555	$135,069	$144,572
Operating Income (Loss)	($ 5,573)	$ 2,554	($ 1,319)	($ 2,374)	($ 1,337)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	$ 51	$ 36	$ 36	$ 30	$ 28
Amortization					252
Provision for Uncollectible Accounts	4	8	3	11	(15)
Operating Expense (Interest Expense) Classified as Noncapital Financing Act.	35,881	30,458	32,064	31,679	31,998
Changes In Assets and Liabilities:					
Decrease (Increase) in Receivables	(83,885)	(39,728)	(12,927)	(56,280)	63,261
Decrease (Increase) in Due From Other Funds	(828)				362
Decrease (Increase) in Investments					
Decrease (Increase) in Prepaid Items	(2)	(1)	13	(35)	
Decrease (Increase) in Deferred Charges	(334)	58	101	8	
Decrease (Increase) in Other Assets	41	45	64	(29)	234
Decrease (Increase) in Accounts Payable and Other Accrued Liabilities	14,646	(699)	(910)	1,634	8,780
Decrease (Increase) in Compensated Absences	10	1	22	23	53
Decrease (Increase) in Due to Other Funds	908	(22)	48	(439)	374
Decrease (Increase) in Due to Other Governments	(6)	3	(23)	14	(52)
Decrease (Increase) in Tax and Other Deposits					(1)
Decrease (Increase) in Deferred Revenues	(173)	(173)	(173)	(173)	59
Decrease (Increase) in Interest Payable					
Total Adjustments	($ 33,688)	($ 9,995)	$ 18,297	($ 23,558)	$105,333
Net Cash Provided by Operating Activities	($ 39,261)	($ 7,441)	$ 16,977	($ 25,932)	$103,996
Noncash Investing, Capital and Financing Activities					
Other (Residual Equity Transfer)	($ 62,411)				
Total Noncash Investing, Capital and Financing Activities	($ 62,411)				

Source: Wisconsin Department of Veterans Affairs.

Table III-18
VETERANS HOUSING LOAN PROGRAM
BONDS ISSUED AND RELATED RATES OF INTEREST
(On Bonds Issued to December 1, 1998)

Bonds Dated	Amount of Issue	Interest Rate Paid by the State	Interest Rate Charged to Veterans[(a)]
4/01/85	290,955,000	9.49	10.60
5/22/86	$38,185,500	7.78%	8.55%
7/01/88	15,000,000	7.87	8.55
1/01/89	20,000,000	7.98	8.55
8/01/89	20,000,000	7.22	7.85
3/01/90	20,000,000	7.60	8.25
10/01/90	20,000,000	7.62	8.25
4/01/91	30,000,000	7.36	8.10
6/01/92	30,000,000	6.56	7.40
10/15/93	20,000,000	5.40	5.25[(b)]
9/15/94	45,000,000	6.62	7.25
2/15/95	29,625,000	6.46	7.45
10/15/95	42,850,000	5.58	6.55
5/15/96	45,000,000	6.07	7.00
10/15/96	30,000,000	5.93	6.90
3/15/1997	45,000,000	5.97	6.90
9/15/1997	45,000,000	5.41	6.40
9/15/1997	45,000,000	7.30	6.40[(c)]
5/15/1998	30,565,000	5.41	6.65
5/15/1998	34,005,000	6.93	6.65[(c)]
10/15/1998	6,155,000	4.87	6.50
10/15/1998	55,000,000	6.37	6.50[(c)]

(a) Includes an add-on to cover lender's fees, DVA administrative costs, and reserve for self-insurance.

(b) A subsidy resulting from refunding savings is being used to cover the difference between the Debt Service on the bonds and cash flow from the mortgages. In addition, the subsidy covers the lender's fees, DVA administrative costs and a reserve for self-insurance.

(c) This is a Taxable Veterans Mortgage Bond. The State (i) used a subsidy from excess proceeds of eligible mortgage pools, or (ii) allocated resulting mortgages funded with this bond or Tax-Exempt Veterans Mortgage Bonds on the same date, so that the resulting mortgage rates are the same as the mortgage rates for loans funded with Tax-Exempt Veterans Mortgage Bonds issued on the same date.

Source: Wisconsin Department of Administration.

Table III-19
VETERANS HOUSING LOAN PROGRAM
60+ DAY LOAN DELINQUENCIES

	Month Ending	Principal Amount Outstanding	Number of Loans Outstanding	60+ Day Delinquent Loans	Percent of Total
1994	July	$458,245,991	17,493	210	1.20%
	August	466,310,378	17,515	232	1.32
	September	472,261,007	17,514	225	1.28
	October	474,971,606	17,471	220	1.26
	November	482,123,736	17,516	196	1.12
	December	484,137,457	17,481	204	1.17
1995	January	489,595,902	17,509	197	1.13
	February	490,726,186	17,492	198	1.13
	March	493,801,439	17,471	165	0.94
	April	496,568,057	17,450	193	1.11
	May	499,520,436	17,427	188	1.07
	June	504,175,347	17,390	177	1.02
	July	508,081,670	17,347	192	1.11
	August	508,968,509	17,275	187	1.08
	September	510,381,666	17,228	201	1.17
	October	511,241,469	17,166	183	1.07
	November	513,949,975	17,129	210	1.23
	December	514,205,581	17,075	201	1.18
1996	January	516,759,032	17,039	210	1.23
	February	515,973,158	16,967	210	1.24
	March	514,179,132	16,874	189	1.12
	April	512,091,370	16,753	174	1.04
	May	515,135,128	16,691	160	0.96
	June	518,464,350	16,636	178	1.07
	July	521,776,451	16,570	157	0.95
	August	526,834,282	16,551	160	0.97
	September	536,335,861	16,594	180	1.08
	October	540,434,442	16,556	169	1.02
	November	545,574,566	16,534	166	1.00
	December	545,778,074	16,483	181	1.10
1997	January	548,471,386	16,454	169	1.03
	February	549,783,460	16,412	163	0.99
	,arch	548,669,843	16,327	146	0.89
	April	548,571,557	16,244	153	0.94
	May	551,560,397	16,195	149	0.92
	June	555,130,634	16,151	139	0.86
	July	560,303,147	16,135	153	0.95
	August	562,979,629	16,096	168	1.04
	September	564,772,521	16,024	153	0.95
	October	564,982,487	15,954	140	0.88
	November	567,450,363	15,906	146	0.92
	December	568,177,780	15,842	123	0.78
1998	January	575,718,021	15,857	143	0.90
	February	578,994,241	15,814	143	0.90
	March	580,965,811	15,710	121	0.77
	April	590,104,309	15,680	117	0.75
	May	596,302,367	15,640	128	0.82
	June	609,093,336	15,645	133	0.85
	July	624,155,413	15,669	143	0.91
	August	636,434,524	15,669	151	0.96
	September	643,113,821	15,611	154	0.99
	October	641,875,504	15,465	144	0.93

Source: Wisconsin Department of Veterans Affairs.

Table III-20

DEBT SERVICE SCHEDULE ON STATE GENERAL OBLIGATIONS ISSUED TO FUND VETERANS HOUSING LOANS (December 1, 1998)

Fiscal Year (Ending June 30)	Principal	Interest	Total Debt Service
1999[a]	$ 18,910,000	$ 21,570,598	$ 40,480,598
2000	27,595,000	41,630,091	69,225,091
2001	31,940,000	40,048,706	71,988,706
2002	33,385,000	38,383,004	71,768,004
2003	31,515,000	36,627,756	68,142,756
2004	30,440,000	35,034,196	65,474,196
2005	31,475,000	33,437,904	64,912,904
2006	31,425,000	31,841,608	63,266,608
2007	30,520,000	30,254,769	60,774,769
2008	27,975,000	28,650,086	56,625,086
2009	26,895,000	27,107,289	54,002,289
2010	24,145,000	25,649,353	49,794,353
2011	21,000,000	24,350,904	45,350,904
2012	20,230,000	23,169,294	43,399,294
2013	21,210,000	21,961,543	43,171,543
2014	21,285,000	20,684,835	41,969,835
2015	21,300,000	19,406,069	40,706,069
2016	19,875,000	18,104,048	37,979,048
2017	28,625,000	16,829,004	45,454,004
2018	22,460,000	15,256,663	37,716,663
2019	22,600,000	13,829,554	36,429,554
2020	22,575,000	12,393,196	34,968,196
2021	22,005,000	10,994,543	32,999,543
2022	24,325,000	9,584,004	33,909,004
2023	25,260,000	8,040,979	33,300,979
2024	25,985,000	6,456,081	32,441,081
2025	21,100,000	4,828,566	25,928,566
2026	17,075,000	3,467,616	20,542,616
2027	19,775,000	2,381,838	22,156,838
2028	11,525,000	1,247,300	12,772,300
2029	6,820,000	484,342	7,304,342
2030	3,950,000	126,400	4,076,400
TOTALS	$745,200,000	$623,832,139	$1,369,032,139

[a] For the fiscal year ending June 30, 1998, the table includes debt service amounts for the period December 1, 1998 through June 30, 1999.

Source: Wisconsin Department of Administration.

Table III-21

TOTAL LOANS BY COUNTY
GENERAL OBLIGATION BOND FUNDS
THROUGH NOVEMBER 1998

County	Number of Loans	% of Total Loans	County	Number of Loans	% of Total Loans
Adams	135	0.27%	Marinette	299	0.59%
Ashland	90	0.18	Marquette	67	0.13
Barron	420	0.83	Menominee	15	0.03
Bayfield	91	0.18	Milwaukee	9,089	18.06
Brown	2,783	5.53	Monroe	408	0.81
Buffalo	95	0.19	Oconto	293	0.58
Burnett	74	0.15	Oneida	338	0.67
Calumet	312	0.62	Outagamie	1,979	3.93
Chippewa	461	0.92	Ozaukee	502	1.00
Clark	190	0.38	Pepin	48	0.10
Columbia	448	0.89	Pierce	334	0.66
Crawford	111	0.22	Polk	200	0.40
Dane	3,878	7.70	Portage	685	1.36
Dodge	747	1.48	Price	133	0.26
Door	234	0.46	Racine	2,052	4.08
Douglas	515	1.02	Richland	105	0.21
Dunn	282	0.56	Rock	2,056	4.08
Eau Claire	1,135	2.25	Rusk	163	0.32
Florence	8	0.02	St. Croix	550	1.09
Fond du Lac	1,121	2.23	Sauk	478	0.95
Forest	28	0.06	Sawyer	63	0.13
Grant	355	0.71	Shawano	276	0.55
Green	301	0.60	Sheboygan	1,234	2.45
Green Lake	136	0.27	Taylor	100	0.20
Iowa	192	0.38	Trempeleau	201	0.40
Iron	34	0.07	Vernon	143	0.28
Jackson	196	0.39	Vilas	114	0.23
Jefferson	695	1.38	Walworth	596	1.18
Juneau	165	0.33	Washburn	120	0.24
Kenosha	1,331	2.64	Washington	959	1.91
Kewaunee	130	0.26	Waukesha	2,503	4.97
LaCrosse	1,207	2.40	Waupaca	423	0.84
Lafayette	123	0.24	Waushara	143	0.28
Langlade	117	0.23	Winnebago	1,967	3.91
Lincoln	196	0.39	Wood	1,035	2.06
Manitowoc	1,097	2.18	Total	50,337	100.00
Marathon	1,233	2.45			

Source: Wisconsin Department of Veterans Affairs.

Table III-22
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

	Dated		Original Par Amount		Par Amount Outstanding[a]		
Series	Date	Maturities	January	July	January	July	Coupon
1985 Series B	04/01/85	1996	$ 3,550,000				8.65%
		1997	8,110,000				8.80
		1998	8,365,000				8.90
		1999	10,415,000				9.05
		2000	12,700,000				9.15
		2001	16,870,000				9.25
		2009	140,130,000				9.50
		2016	50,000,000				9.00
1986 Series A	05/15/86	1995	460,000				6.90
		1996	1,055,000				7.00
		1997	1,090,000				7.25
		1998	1,360,000				7.25
		1999	1,655,000		$ 1,655,000		7.25
		2000	2,200,000		2,200,000		7.50
		2001	2,420,000		2,420,000		7.50
		2002	2,905,000		2,905,000		7.50
		2006	13,025,000				7.50
		2015	12,015,000		2,150,000		7.50
1988 Series A	07/01/88	1994	75,000	$ 75,000			6.40
		1995	75,000	75,000			6.60
		1996	75,000	100,000			6.80
		1997	100,000	100,000			7.00
		1998	100,000	100,000			7.10
		1999	100,000	125,000	100,000	$ 125,000	7.20
		2000	125,000	125,000	125,000	120,000	7.30
		2001	125,000	125,000	125,000	125,000	7.40
		2002	150,000	150,000	150,000	150,000	7.50
		2003	150,000	200,000	150,000	195,000	7.60
		2008		1,200,000			7.85
		2008		3,050,000 [b]			7.00
		2018		7,925,000			8.10
1989 Series A	01/01/89	1994	100,000	100,000			7.00
		1995	100,000	100,000			7.10
		1996	100,000	125,000			7.20
		1997	125,000	125,000			7.25
		1998	125,000	150,000			7.35
		1999	150,000	175,000	150,000	175,000	7.40
		2000	175,000	200,000	175,000	200,000	7.50
		2001	200,000	225,000	200,000	225,000	7.60
		2002	225,000	250,000	225,000	250,000	7.65
		2003	250,000	250,000	250,000	250,000	7.70
		2004	275,000		275,000		7.70
		2009	775,000				7.80
		2009	3,900,000 [b]				7.80
		2019	11,175,000				7.90
1989 Series D	08/01/89	1994	100,000	100,000			6.50
		1995	100,000	100,000			6.60
		1996	100,000	100,000			6.70
		1997	125,000	125,000			6.75
		1998	125,000	125,000			6.80
		1999	150,000	150,000	150,000	150,000	6.85
		2000	175,000	175,000	175,000	175,000	6.90
		2001	200,000	200,000	200,000	200,000	6.95

Table III-22 — Continued
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount January	Original Par Amount July	Par Amount Outstanding[a] January	Par Amount Outstanding[a] July	Coupon
1989 Series D		2002	225,000	225,000	225,000	225,000	7.00
(continued)		2003	250,000	250,000	250,000	250,000	7.05
		2004	250,000	275,000	250,000	275,000	7.10
		2009		725,000		725,000	7.15
		2009		3,775,000 [b]			6.75
		2019		11,350,000		11,350,000	7.20
1990 Series B	03/01/90	1994	75,000	75,000			6.40
		1995	75,000	75,000			6.50
		1996	75,000	100,000			6.60
		1997	100,000	100,000			6.70
		1998	100,000	100,000			6.80
		1999	125,000	125,000	125,000	125,000	6.90
		2000	125,000	150,000	125,000	150,000	7.00
		2001	175,000	175,000	175,000	175,000	7.10
		2002	175,000	175,000	175,000	175,000	7.10
		2003	200,000	200,000	200,000	200,000	7.20
		2004	225,000	225,000	225,000	225,000	7.25
		2005	225,000		225,000		7.30
		2010	3,975,000 [b]				7.25
		2020	12,450,000				7.60
1990 Series F	10/01/90	1994	75,000	75,000			6.45
		1995	100,000	100,000			6.55
		1996	100,000	100,000			6.65
		1997	100,000	125,000			6.75
		1998	125,000	125,000			6.85
		1999	125,000	125,000	125,000	125,000	6.95
		2000	150,000	150,000	150,000	150,000	7.05
		2001	150,000	175,000	150,000	175,000	7.15
		2002	175,000	150,000	175,000	150,000	7.20
		2003	200,000	200,000	200,000	200,000	7.25
		2004	200,000	225,000	200,000	225,000	7.30
		2005	225,000	175,000	225,000	175,000	7.35
		2010		3,800,000 [b]			7.30
		2020		12,425,000			7.60
1991 Series A	04/01/91	1994	150,000	150,000			5.70
		1995	150,000	150,000			5.90
		1996	150,000	150,000			6.10
		1997	150,000	175,000			6.20
		1998	175,000	175,000			6.30
		1999	175,000	175,000	175,000	175,000	6.40
		2000	200,000	200,000	200,000	200,000	6.50
		2001	225,000	250,000	225,000	250,000	6.60
		2002	250,000	250,000	250,000	250,000	6.75
		2003	250,000	300,000	250,000	300,000	6.90
		2004	275,000	300,000	275,000	300,000	7.00
		2005	325,000	325,000	325,000	325,000	7.10
		2006	275,000		275,000		7.10
		2011	5,825,000 [b]				6.75
		2021	18,400,000		6,400,000		7.50
1992 Series B	06/01/92	1994	175,000	175,000			5.60
		1995	175,000	180,000			5.60
		1996	180,000	185,000			5.60
		1997	190,000	200,000			5.60
		1998	200,000	200,000			5.60
		1999	210,000	215,000	80,000	75,000	5.75
		2000	230,000	230,000	85,000	85,000	5.90
		2001	250,000	255,000	90,000	90,000	6.00
		2002	270,000	280,000	100,000	100,000	6.10
		2003	290,000	295,000	105,000	110,000	6.20
		2004	315,000	330,000	110,000	120,000	6.30
		2005	340,000	355,000	125,000	130,000	6.40

Table III-22 — Continued
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount January	Original Par Amount July	Par Amount Outstanding[a] January	Par Amount Outstanding[a] July	Coupon
1992 Series B		2006	365,000	370,000	130,000	135,000	6.40
(continued)		2007	370,000	400,000	135,000	145,000	6.50
		2008	400,000		145,000		6.50
		2012	4,000,000 [b]				6.00
		2022	18,220,000		6,605,000		6.60
			Original Par Amount May	**Original Par Amount November**	**Par Amount Outstanding[a] May**	**Par Amount Outstanding[a] November**	
1993 Series 6	10/15/93	1994	210,000	165,000			2.70/2.80
		1995	170,000	170,000			3.30
		1996	175,000	175,000			3.65
		1997	180,000	185,000			3.85
		1998	185,000	195,000			4.00
		1999	195,000	195,000	195,000	195,000	4.10
		2000	205,000	210,000	205,000	210,000	4.20
		2001	210,000	220,000	210,000	220,000	4.30
		2002	220,000	230,000	220,000	230,000	4.45
		2003	230,000	240,000	230,000	240,000	4.55
		2004	240,000	250,000	240,000	250,000	4.65
		2005	255,000	260,000	255,000	260,000	4.75
		2006	270,000	270,000	270,000	270,000	4.85
		2010	2,125,000		2,125,000		5.15
		2013	2,150,000		2,150,000		5.25
		2016	10,215,000		10,215,000		5.30
1993 Series 5	12/01/93	1994		95,000			2.50
		1995	90,000	85,000			3.20
		1996	90,000	95,000			3.60
		1997	95,000	95,000			3.80
		1998	95,000	100,000			4.00
		1999	105,000	105,000	105,000	105,000	4.10
		2000	105,000	6,805,000	105,000	6,805,000	4.20
		2001	3,605,000	9,135,000	3,605,000	9,135,000	4.35
		2002	5,650,000	10,885,000	5,650,000	10,885,000	4.45
		2003	8,425,000	9,555,000	8,425,000	9,555,000	4.55
		2004	7,160,000	11,000,000	7,160,000	11,000,000	4.65
		2005	8,875,000	10,275,000	8,875,000	10,275,000	4.75
		2006	9,000,000	12,025,000	9,000,000	12,025,000	4.85
		2010		14,770,000		14,770,000	5.20
		2013		1,190,000		1,190,000	5.30
		2016		1,405,000		1,405,000	5.35
		2023		4,340,000		4,340,000	5.40
1994 Series 2	03/01/94	1999	10,565,000		10,565,000		4.85
		2000	9,070,000		9,070,000		5.00
		2001	8,680,000		8,680,000		5.10
		2002	6,390,000		6,390,000		5.20
		2003	4,810,000		4,810,000		5.30
		2004	3,715,000		3,715,000		5.40
		2005	2,540,000		2,540,000		5.50
		2006	2,050,000		2,050,000		5.60
		2007	1,760,000		1,760,000		5.70
		2008	1,580,000		1,580,000		5.80
		2009	890,000		890,000		5.85
		2014	1,700,000		1,700,000		6.10
		2024	4,775,000		4,775,000		6.20
1994 Series 3	09/15/94	1995	800,000				3.90
		1996	800,000				4.30
		1997	800,000				4.55
		1998	800,000				4.75
		1999	800,000		800,000		4.90
		2000	800,000		800,000		5.00
		2001	800,000		800,000		5.10
		2002	800,000		800,000		5.20

Table III-22 — Continued
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount		Par Amount Outstanding[a]		Coupon
			May	November	May	November	
1994 Series 3		2003	800,000		800,000		5.30
(continued)		2004	800,000		800,000		5.40
		2005	800,000		800,000		5.50
		2006	600,000		600,000		5.60
		2007	600,000		600,000		5.70
		2008	400,000		400,000		5.80
1994 Series C	09/15/94	1996	575,000				5.50
		1997	610,000				5.50
		1998	635,000				5.50
		1999	670,000		660,000		5.50
		2000	700,000		690,000		5.50
		2001	740,000		730,000		5.50
		2002	780,000		770,000		5.60
		2003	825,000		815,000		5.70
		2004	870,000		855,000		5.80
		2005	915,000		900,000		5.90
		2006	980,000		965,000		6.00
		2007	1,040,000		1,025,000		6.10
		2008	1,105,000		1,090,000		6.20
		2009	1,175,000		1,155,000		6.30
		2010	1,255,000		1,235,000		6.30
		2011	1,335,000		1,315,000		6.40
		2012	1,415,000		1,395,000		6.40
		2013	1,510,000		1,485,000		6.50
		2016	5,135,000		5,060,000		6.60
		2020	8,535,000		8,405,000		6.60
		2025	14,195,000		13,980,000		6.65
1995 Series 1	2/15/95	1999	1,110,000		1,110,000		5.25
		2000	3,240,000		3,240,000		5.30
		2004	860,000		860,000		5.55
		2008	1,300,000		1,300,000		5.80
		2009	1,380,000		1,380,000		5.80
		2010	1,465,000		1,465,000		6.00
		2011	1,560,000		1,560,000		6.00
		2012	1,660,000		1,660,000		6.00
		2013	1,765,000		1,765,000		6.00
		2014	1,395,000		1,395,000		6.10
1995 Series B	2/15/95	2016	4,215,000		4,215,000		6.40
		2020	7,920,000		7,920,000		6.50
		2025	17,130,000		17,130,000		6.50
1995 Series 2	10/15/95	1997		1,100,000			4.00
		1998		1,685,000			4.15
		1999		1,395,000		1,395,000	4.25
		2000		1,600,000		1,600,000	4.35
		2004		730,000		730,000	4.85
		2005		1,985,000		1,985,000	4.95
		2007		1,975,000		1,975,000	5.20
		2008		3,245,000		3,245,000	5.25
		2009		3,450,000		3,450,000	5.40
		2010		3,660,000		3,660,000	5.40
		2011		3,895,000		3,895,000	5.50
		2012		4,130,000		4,130,000	5.60
		2013		4,390,000		4,390,000	5.70
		2014		4,660,000		4,660,000	5.75
		2015		4,950,000		4,950,000	5.75
1996 Series B	5/15/96	1998		2,060,000			4.40
		1999		2,155,000		2,155,000	4.70
		2007		6,730,000		6,730,000	5.50
		2008		5,430,000		5,430,000	5.60
		2009		3,255,000		3,255,000	5.70
		2010		200,000		200,000	5.80
		2011		210,000		210,000	5.90
		2012		230,000		230,000	6.00

Table III-22 — Continued
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount May	Original Par Amount November	Par Amount Outstanding[a] May	Par Amount Outstanding[a] November	Coupon
1996 Series B		2013		240,000		240,000	6.00
(continued)		2014		255,000		255,000	6.00
		2021		10,305,000		10,305,000	6.10
		2026		13,930,000		13,930,000	6.20
1996 Series D	10/15/96	2007	4,500,000		4,500,000		5.25
		2008	2,250,000		2,250,000		5.30
		2009	1,800,000		1,800,000		5.40
		2014	3,700,000		3,700,000		5.75
		2020	6,405,000		6,405,000		5.80
		2027	11,345,000		11,345,000		6.00
1997 Series A	3/15/97	2021	8,065,000		8,065,000		6.00
		2028	13,295,000		13,295,000		6.00
1997 Series 1	3/15/97	2006	1,000,000		1,000,000		5.20
		2007	2,385,000		2,385,000		5.25
		2008	1,015,000		1,015,000		5.25
		2009	725,000		725,000		5.35
		2010	1,290,000		1,290,000		5.50
		2011	3,165,000		3,165,000		5.50
		2012	2,330,000		2,330,000		5.50
		2013	1,910,000		1,910,000		5.55
		2014	1,990,000		1,990,000		5.60
		2015	2,070,000		2,070,000		5.65
		2017	5,760,000		5,760,000		5.75
1997 Series C	9/15/97	2000		250,000		250,000	4.25
		2001		270,000		270,000	4.30
		2003		1,445,000		1,445,000	4.50
		2004		1,645,000		1,645,000	4.50
		2005		1,390,000		1,390,000	4.50
		2006		1,480,000		1,480,000	4.60
		2007		1,935,000		1,935,000	4.75
		2008		2,035,000		2,035,000	4.80
		2009		2,445,000		2,445,000	5.00
		2010		2,765,000		2,765,000	5.00
		2011		2,655,000		2,655,000	5.00
		2012		2,600,000		2,600,000	5.10
		2013		2,360,000		2,360,000	5.20
		2017		7,850,000		7,850,000	5.40
		2023		10,580,000		10,580,000	5.50
		2026		3,295,000		3,295,000	5.50
1998 Series B	5/15/98	2007	955,000		955,000		4.75
		2008	1,910,000		1,910,000		4.80
		2010	4,775,000		4,775,000		5.00
		2018	2,865,000		2,865,000		5.30
		2023	8,670,000		8,670,000		5.30
		2028	11,390,000		11,390,000		5.35
1998 Series E	10/15/98	2012	905,000		905,000		4.60
		2013	950,000		950,000		4.70
		2014	995,000		995,000		4.80
		2015	1,050,000		1,050,000		4.75
		2016	1,100,000		1,100,000		4.75
		2017	1,155,000		1,155,000		4.80

[a] As of December 1, 1998.
[b] Accelerated Redemption Term Bond.

Source: Wisconsin Department of Administration

Table III-23

SUMMARY OF PREPAYMENTS ON VETERANS HOUSING LOANS

Mortgage Pool	Interest Rate Charged to Veterans	Prepayments July 1995 - June 1998					
		July-December 1995	January-June 1996	July-December 1996	January-June 1997	July-December 1997	January-June 1998
1975 Series D	7.00%	$ 367,234	$ 345,447	$ 221,172	$ 118,832	$ 173,068	$ 71,780
1975 Series E	6.75	245,766	351,724	199,264	325,157	231,467	151,270
1976 Series A	7.00	545,972	687,683	680,445	488,101	444,936	210,920
1976 Series B	7.00	560,318	514,761	668,582	596,743	605,827	303,144
1976 Series C	6.35	253,176	245,267	273,310	119,699	113,170	258,403
1977 Series A	6.23	277,711	289,782	354,715	249,027	330,457	107,734
1977 Series B	6.11	797,031	952,596	863,606	727,485	808,050	865,063
1977 Series C	6.03	370,158	307,585	216,011	189,127	342,773	54,325
1978 Series A	6.44	758,099	772,863	916,243	779,703	701,061	286,375
1978 Series B	6.58	564,578	885,364	796,458	591,582	619,296	204,007
1978 Series C	6.25	480,062	449,647	446,219	265,960	387,184	440,605
1979 Series A	6.88	735,468	649,636	707,844	513,872	742,940	231,543
1979 Series B	6.70	705,763	802,298	1,000,789	684,392	748,420	170,987
1979 Series C	6.91	496,146	996,467	813,309	633,019	1,015,071	190,059
1980 Series A	7.31	436,219	253,869	304,974	309,432	391,618	131,486
1982 Series B	10.20	237,984	362,008	162,654	168,045	280,227	72,392
1983 Series A	9.20	248,377	322,863	129,287	112,973	187,317	140,179
1983 Series C	9.90	299,388	476,456	314,513	250,418	231,544	130,489
1984 Series A	10.30	555,636	834,788	861,757	427,404	678,859	399,053
1985 Series B	10.60	58,902	239,859	219,936	174,106	7,956	75,535
1986 Series A	8.55	625,861	1,067,002	523,936	715,418	750,196	1,935,418
1988 Series A	8.55	224,347	432,037	103,792	360,428	227,477	749,573
1989 Series A	8.55	293,160	595,560	622,167	429,272	780,354	703,351
1989 Series D	7.85	492,865	352,851	768,327	250,156	810,673	855,574
1990 Series B	8.25	406,606	858,800	404,402	247,053	641,985	1,548,371
1990 Series F	8.25	505,603	714,794	421,383	563,284	336,437	1,187,101
1991 Series A	8.10	452,956	880,732	856,555	445,617	988,322	1,701,152
1992 Series B	7.40	244,494	540,482	412,038	343,563	445,293	358,883
1993 Series 6	5.25	147,116	42,377	490,426	381,408	571,691	375,090
1993 Series 5	5.25	0	0	0	0	0	2,344,620
1994 Series 3	5.25	0	0	0	0	0	286,701
1994 Series C	7.25	565,401	433,513	866,128	660,837	1,439,824	1,006,996
1994 Series 1	6.00	199,553	238,892	267,153	292,923	498,677	2,020,569
1995 Series B	7.45	33,350	490,009	183,151	926,409	933,958	759,055
1995 Series 1	7.45	11,232	271,433	213,497	93,864	369,885	603,084
1995 Series 2	6.55	150	9,099	130,558	117,536	294,627	521,206
1996 Series B	7.00	N/A	0	27,907	277,502	372,136	531,286
1996 Series D	6.90	N/A	N/A	0	14,916	164,203	93,347
1997 Series A	6.90	N/A	N/A	N/A	0	96,978	70,608
1997 Series 1	6.90	N/A	N/A	N/A	0	11,358	232,966
1997 Series C	6.40	N/A	N/A	N/A	N/A	0	16,321
1998 Series B	6.65	N/A	N/A	N/A	N/A	N/A	0
Equity Pool	N/A	0	0	0	0	0	728,031
	Totals	$13,196,683	$17,668,544	$16,442,511	$13,845,261	$18,775,315	$23,124,651

Source: Wisconsin Department of Veterans Affairs.

PART IV

MASTER LEASE CERTIFICATES OF PARTICIPATION

This part of the Annual Report provides information about master lease certificates of participation (**Certificates**) issued under the State of Wisconsin Master Lease Program (**Program**). The Certificates are issued and secured by a Master Indenture, dated as of July 1, 1996 (**Master Indenture**), among the State of Wisconsin, acting by and through the Department of Administration (**State**), Firstar Bank Milwaukee, N.A. (**Lessor**) and Firstar Trust Company, now known as Firstar Bank Milwaukee, N.A. (**Trustee** and **Paying Agent**).

The Certificates evidence a proportionate interest in certain lease payments to be made by the State for the rental of certain equipment items and service contracts. These equipment items and service contracts are purchased under the Second Amended and Restated Master Lease #1992-1, dated as of July 1, 1996 (**Master Lease**), between the Lessor and the State.

The full faith and credit of the State are not pledged to the payment of the Certificates. The State is not obligated to levy or pledge any tax to pay the Lease Payments. The Certificates do not constitute debt of the State or any of its subdivisions.

The law firm of Foley & Lardner provides bond counsel services to the State for issuance of the Certificates. The firm of Public Financial Management provides financial advisory services to the State for the Program.

Requests for additional information about the Program or Certificates 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:	capfin@doa.state.wi.us

This Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part. Material referred to in this Annual Report, including information available on the world wide web, is not part of this Annual Report unless expressly included by reference.

THE MASTER LEASE PROGRAM

General

The State created the Program for the purpose of acquiring equipment and, in limited circumstances, prepaid service contracts (**Leased Items**) for State agencies through installment payments. Particular Lease Items are described in schedules that are prepared under the Master Lease (**Lease Schedules)**. The Program is available for all State agencies. Through the period ending December 1, 1998, 16 of the 18 State departments, the Legislature, the Supreme Court, and various other State bodies have used the Program for acquiring approximately $154 million of equipment or service contracts.

Program Structure

The structure of the Program is established by the Master Lease and the Master Indenture. The Master Lease contains general terms and conditions applicable to both the Program and Lease Schedules entered into by the Lessor and the State. A Supplemental Indenture creates a particular series of Certificates. See "SUMMARY OF THE MASTER LEASE".

The Master Indenture establishes a trust (**Trust**) comprising certain Lease Schedules, rents, and other payments the State is required to make under the Master Lease (**Lease Payments**), Leased Items, and other property and rights related to those Lease Schedules, including the security interest granted in the Master Lease. The Trust serves as a common pool of collateral, ratably securing all present and future Certificates. See "SUMMARY OF THE MASTER INDENTURE".

Program Operations

The Program structure places within the Department of Administration centralized control of day-to-day operations:

- functions related to Program administration, review of requests to use the Program, and day-to-day Program operations occur in the Capital Finance Office
- functions related to reviewing requests to use the Program and biennial budget preparation occur in the State Budget Office
- functions related to collecting Lease Payments due under the Master Lease occur in the State Controller's Office

Each of these offices is further within the Department of Administration's Division of Executive Budget and Finance.

To use the Program to acquire equipment or a service contract, a state agency submits a written request to the Capital Finance Office. This request is reviewed and approved by the Capital Finance Office, State Budget Office, and the Secretary of the Department of Administration. Requests that include information technology items are also reviewed by the Department of Administration's Division of Technology Management. This review process includes a determination by the Capital Finance Office that lease financing is the best alternative for the particular circumstance and a determination by the State Budget Office that current resources are available to make the Lease Payments due in the current fiscal year. Upon receiving approval to use the Program, the agency completes procurement of the equipment or service contract in compliance with State procurement requirements.

Upon installation and acceptance of the equipment and service contract, the agency forwards all related outstanding invoices to the Department of Administration for payment. Parallel to payment being made to the equipment or service vendor, a Lease Schedule is prepared by the Department of Administration and executed by the State, the Lessor, and the State agency. This Lease Schedule is then added to the Master Lease. The Lease Schedule also identifies the budgetary appropriation from which the related Lease Payments will be made.

The State currently uses a two-phase financing structure for the Program, including a first phase of acquisition financing through a revolving credit facility and a second phase of long-term take-out financing. See "SECURITY FOR CERTIFICATES; Two-Phase Financing Structure". Payments to the equipment or service vendors are made with proceeds from the revolving credit facility.

Lease Payments due under the Master Lease are collected by the State Controller's Office. Scheduled Lease Payments are automatically withdrawn from the appropriations identified by the agency and electronically wired to the Trustee.

State Appropriation Process

Lease Payments due under the Master Lease are not included in the State budget as a separate budget line item; rather, Lease Payments are included with other expenditures in one or more of an agency's existing budget lines. State law establishes procedures for the budget's enactment. Part II of this Annual Report includes a detailed summary of the budget enactment process and other financial procedures of the State. The State Budget Office review and approval of requests to use the Program helps assist in preparation of a biennial budget so that Lease Payments will not be mistakenly omitted.

State law provides that in the event that a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time as a new one is enacted.

The Department of Administration maintains separate accounts for all appropriations, showing the amounts appropriated, the amounts allotted, the amounts encumbered, the amounts expended, and certain other data necessary to the financial management and control of all State accounts. The Department of Administration also maintains the general ledgers of the General Fund and all other funds of the State.

SECURITY FOR CERTIFICATES

General

The Certificates represent a proportionate interest in certain Lease Payments to be made by the State under the Master Lease. The State is required under the Master Lease to make Lease Payments from any source of legally available funds, subject to annual appropriation, and the scheduled Lease Payments are sufficient to pay when due the semiannual principal and interest payments on the Certificates. *The obligation of the State to make Lease Payments does not constitute an obligation for which the State is obligated to levy or pledge any form of taxation or for which the State has levied or pledged any form of taxation. The obligation of the State to make Lease Payments does not constitute debt of the State or any of its political subdivisions.* See "RISK FACTORS; Event of Nonappropriation".

Cross-Collateralization

Under the Master Indenture, the Lessor has assigned to the Trustee, for the benefit of all Certificate holders, all its rights in the funds and accounts created by the Master Indenture, the Lease Schedules specified in Supplemental Indentures, and all Lease Payments, Leased Items, and other property and rights related to those Lease Schedules, including the security interest granted in the Master Lease.

All this property serves as a common pool of collateral, ratably securing all present and future Certificates. All Leased Items are cross-collateralized, regardless of their funding source or the time at which they are financed by the Program. An Event of Default or Nonappropriation under any Certificate constitutes an Event of Default or Nonappropriation under all outstanding Certificates, so any remedial action affects all Certificates equally. Once a Lease Schedule is fully paid, the applicable Leased Item no longer serves as collateral. See "SUMMARY OF THE MASTER INDENTURE" for other provisions of the Master Indenture.

In the opinion of Bond Counsel, the transfer of Lease Schedules by the Lessor to the Trustee constitutes a true sale and not a secured transaction. The State's obligation to make Lease Payments does not depend upon any service provided by the Lessor, and thus the transfer of Lease Schedules would be unaffected by any insolvency of the Lessor.

Reserve Fund

The Master Indenture allows for the funding of a reserve fund for a specific series of Certificates. As of December 1, 1998, no reserve funds apply to the outstanding Certificates. In the event that the Department of Administration establishes a reserve fund under the Master Indenture, the amounts in the reserve fund will only be available to the series of Certificates for which the reserve fund is authorized.

Governmental Use

The State will certify that each Leased Item will be used to perform a governmental function. Some of those functions may be deemed "essential" government functions. Examples of Leased Items currently existing in the Trust include the State's accounting system, expansion of the State's central mainframe computer, and various information technology items that provide various automated services and information technology upgrades for the State.

Centralized Control and Review

The Program structure allows one division within the Department of Administration to centrally administer many Program activities. Program functions related to administration, review, and day-to-day operations occur in the Capital Finance Office. Program functions related to review and biennial budget preparation occur in the State Budget Office. Program functions related to collection of Lease Payments occur in the State Controller's Office.

Two-Phase Financing Structure

The State currently uses a two-phase financing structure for the Program. In the first (or acquisition) phase, all Leased Items are initially financed with proceeds from a revolving credit facility. The revolving credit facility is a line of credit, and the State, acting on behalf of the Trustee, requests draws from the revolving credit facility only for amounts equal to invoices presented to the Program for payment. A Certificate has been issued to the current provider of this revolving credit facility, Bank of America Illinois, evidencing the State's repayment of balances under the facility. The State pays interest on funds provided by the facility based on a variable, taxable interest rate. Use of this line-of-credit approach eliminates any nonorigination risk for the second phase since an obligation is created only after the Leased Item has been installed and accepted and an invoice has been presented for payment.

In the second phase, the State, acting on behalf of the Trustee, sells additional Certificates to refinance the revolving credit facility with proceeds of a fixed-rate, and most often tax-exempt, financing. All sources of financing for the Program are completed under the Master Indenture. See "SECURITY FOR CERTIFICATES; Cross-Collateralization".

Appropriation Process

The central control of the Program provides the State Budget Office with knowledge of all past, current, and pending scheduled Lease Payments due under the Master Lease. Lease Payments due under the Master Lease are not included in the State budget as a separate budget line item; rather, Lease Payments due under the Master Lease are included with other expenditures in one or more of an agency's existing budget lines. The Secretary of the Department of Administration, under the direction of the Governor and with assistance from the State Budget Office, compiles all budget information and prepares an executive budget consisting of the planned operating expenditures and revenues of all State agencies.

State law establishes procedures for establishing and enacting a State budget. State law also provides that in the event a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time a new budget is enacted.

The Secretary of the Department of Administration has statutory power to order reductions in the appropriations of state agencies (which represent less than one-third of the General Fund budget). See Part II of this Annual Report for additional information on the State budget process.

Priority of Claims

The Master Lease includes representations that, if an emergency arises that requires the Department of Administration to draw vouchers for payment which will be in excess of available moneys, the Secretary of the Department of Administration will establish a priority schedule for payments which shall give a high priority to Lease Payments due under the Master Lease, but not higher than the priority given to payments on outstanding general obligation bonds. See "GENERAL FUND INFORMATION; General Fund Cash Flow" in Part II of this Annual Report.

RISK FACTORS

Event of Nonappropriation

The State's obligation to make Lease Payments is subject to appropriation of the necessary funds by Legislature. No assurance is given that sufficient funds will be appropriated or otherwise will be available to make the Lease Payments. A failure by the State to make a Lease Payment with respect to any Leased Item would cause the Master Lease to terminate with respect to all Leased Items. The State's obligation to make Lease Payments is not a general obligation of the State, and moreover, the obligation does not involve the State of Wisconsin Building Commission. Rather, the Master Lease is a contract entered into by the Department of Administration under separate statutory authority.

The Master Lease does not include a nonsubstitution clause. If the Legislature fails to appropriate necessary funds for the continued performance of the State's obligations under the Master Lease (**Event of Nonappropriation**) should occur, the State is allowed to acquire and use similar equipment or a similar service contract for the same function as the equipment or service contract for which no appropriation was made.

While it is possible that failure to make the Lease Payments would thereafter hinder the State's access to the capital markets, it should not be assumed that the Legislature would regard that possible consequence a compelling reason to make the appropriations needed for Lease Payments. See "SUMMARY OF THE MASTER LEASE" and "SUMMARY OF THE MASTER INDENTURE" for additional information on an Event of Nonappropriation and remedies available under the Master Lease and Master Indenture.

Essential Use of Leased Items

Although the State has made certain representations that the Leased Items each serve a governmental function, some of which functions may be deemed "essential" government functions, it should nevertheless be assumed that the State could function without any of the Leased Items.

Security Interest in Leased Items

Although the State has provided a security interest in the Leased Items to the Trustee (for the benefit of the owners of the Certificates), the Certificates are not offered on the basis of the collateral value of the Leased Items or value of any other pledged asset. The term of the Master Lease is not permitted to exceed the useful life of the Leased Item; however, it should not be assumed that the value of the Leased Item at any time will exceed the portion of the remaining Lease Payments that will be applied to principal or that the existence of such an excess would motivate the State to continue making Lease Payments. Typically it is difficult to realize the full value of collateral through sale of the collateral, and some of the Leased Items, such as service contracts or intangible property, may be particularly difficult to sell. Records that evidence the security interest are kept by the Department of Administration, separate and apart from the records kept by the Department of Financial Institutions with respect to security interests in most other property.

Tax Exemption

Should the Master Lease be terminated, there is no assurance that subsequent payments made by the Trustee with respect to the Certificates and designated as interest will be excluded from gross income for federal income tax purposes.

Applicability of Securities Law

Should the Master Lease be terminated, the transfer of a Certificate may be subject to compliance with the registration provisions of applicable federal and state securities laws, which could impair the liquidity of the Certificates.

Table IV-1

OUTSTANDING MASTER LEASE CERTIFICATES OF PARTICIPATION BY ISSUE

(As of December 10, 1998)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
1996- Master Lease COPs Series A (Revolving Credit Agreement)	7/1/96	2006	$ 50,000,000	$ 33,540,404 [a]
Master Lease COPs Series B.................	11/8/96	1997-2003	38,260,000	9,036,438 [b]
Total Master Lease COPs				$ 42,576,843

[a] The Master Lease Certificate of Participation of 1996, Series A evidences the State's repayment of a revolving line of credit which the State utilizes for acquisition funding for the Program. See "SECURITY FOR CERTIFICATES; Two-Phase Financing Structure". The Amount Outstanding for this Certificate includes interest that has accrued on this revolving line of credit since the last interest payment on the Certificates.

[b] The Master Lease provides that certain lease schedules can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. The principal amount of Certificates for which payment is provided is treated as not outstanding for purposes of this table.

Table IV-2
OUTSTANDING MASTER LEASE SCHEDULES
(As of December 10, 1998)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Leased Item	Amount Financed	Principal Balance
93-002	1/29/93	3/1/99	Administration	Accounting System Costs	$ 2,565,372.86	$ 256,927.84
93-008	5/27/93	9/1/99	Administration	Accounting System Costs	2,188,179.89	404,129.52
93-013	7/28/93	9/1/99	Administration	Accounting System Costs	654,527.06	123,083.20
93-019	9/15/93	3/1/99	University of Wisconsin	Used IBM Computer Mainframe	372,000.00	24,232.23
93-023	11/30/93	3/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	927,069.90	100,919.52
93-028	12/28/93	3/1/99	University of Wisconsin	Graphics Image Recorder/Printer	396,707.00	36,690.10
94-001	2/25/94	3/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	751,723.60	85,440.06
94-006	6/30/94	9/1/99	Finanical Institutions	Micro Fiche Reader	57,634.00	3,458.68
94-010	5/10/94	3/1/99	Administration	Xerox Printer	245,600.00	29,113.24
94-012	5/16/94	3/1/99	Administration	Escon Fiber Backbone	710,591.00	84,727.60
94-016	5/20/94	9/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	948,157.05	205,261.47
94-020	6/30/94	9/1/99	University of Wisconsin	Lab Information Management Equipment	42,635.00	9,328.77
94-024	7/28/94	9/1/99	University of Wisconsin	Mainframe Computer	326,062.91	72,430.57
94-025	7/28/94	3/1/99	Corrections	Bulk Milk Truck/License Plate Tooling	77,959.80	9,598.07
94-030	8/31/94	9/1/00	Administration	Accounting System Costs	4,342,320.19	1,644,166.69
94-031	8/31/94	9/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	1,013,423.30	230,173.12
94-036	9/14/94	9/1/99	University of Wisconsin	Furniture for Regent St. Building	300,803.41	68,439.26
94-040	10/14/94	9/1/01	Corrections	John Deere Combine	93,898.95	46,186.78
94-041	10/14/94	3/1/99	Administration	Escon Director Ports	65,520.00	8,449.68
94-045	10/31/94	9/1/99	University of Wisconsin	Furniture for Regent Street Building	39,804.31	9,267.99
94-046	11/23/94	9/1/99	University of Wisconsin	Gas Chromatograph/MS System	76,145.24	17,977.22
94-048	11/23/94	9/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	387,919.00	91,922.48
95-005	1/30/95	3/1/00	University of Wisconsin	Lab Info Mgmt System (LIMS)	96,397.00	31,847.61
95-009	2/27/95	3/1/99	Corrections	License Plate Tooling	37,418.20	5,232.20
95-010	2/27/95	9/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	360,728.85	89,800.92
95-011	2/27/95	9/1/99	University of Wisconsin	Furniture for Regent Street Building	3,813.53	945.91
95-014	3/29/95	9/1/99	University of Wisconsin	Furniture for Regent Street Building	438,329.80	111,030.88
95-020	4/24/95	9/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	503,480.88	129,307.79
95-021	5/18/95	3/1/00	Transportation	Systems Furniture for Eau Claire Dist	202,453.98	70,544.86
95-032	7/14/95	3/1/00	University of Wisconsin	Maintenance Equipment	97,928.00	35,070.51
95-037	7/27/95	3/1/00	University of Wisconsin	Lab Management Information Sytem Equip	7,000.00	1,892.24
95-038	8/28/95	9/1/99	Employment Relations	LAN (Computer Hardware/software)	71,431.60	19,667.93
95-039	9/15/95	3/1/00	University of Wisconsin	Mainframe Mini-Computer	140,260.04	45,715.95
95-040	8/28/95	9/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	389,225.08	107,564.55
95-042	9/19/95	9/1/02	Administration	Distance Education Network (WONDER)	1,985,260.00	833,903.38
95-045	10/2/95	9/1/00	Administration	Front-End Processors	373,664.06	167,357.12
95-046	10/2/95	9/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	96,202.00	27,068.86
95-047	10/20/95	9/1/99	Corrections	GMC Truck	46,820.00	13,326.40
95-049	11/7/95	9/1/99	Employment Relations	LAN (Computer Hardware/Software)	118,555.61	34,109.94
95-050	11/14/95	9/1/00	Transportation	Office Furniture (Truax Center)	170,331.26	77,796.70
96-002	1/11/96	9/1/99	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	41,754.00	12,556.93
96-003	1/11/96	9/1/02	Corrections	Dairy Processing Equipment	164,140.00	107,831.21
96-005	1/22/96	3/1/00	University of Wisconsin	Computer Hardware/Software-Admn Sprt Sys	962,816.00	327,849.55
96-006	1/25/96	3/1/99	University of Wisconsin	Computer Hardware-Routers, Modem, Server	81,107.80	14,357.43
96-007	2/2/96	3/1/99	Administration	High-Speed Tape Drives	144,000.00	25,677.18
96-008	2/7/96	3/1/99	Administration	Direct Access Storage Devices	761,848.00	136,572.77
96-009	2/7/96	3/1/01	University of Wisconsin	Duplo Booklet Making System	53,010.00	28,424.01
96-016	3/26/96	3/1/00	Legislature	Hardware/Software for Text 2000 Bill Draft Sys	67,251.00	27,865.85
96-017	4/10/96	3/1/01	Transportation	Systems Furniture-LaCrosse	254,892.90	141,374.96
96-021	4/10/96	3/1/99	Workforce Development	Systems/Office Furniture	187,933.07	35,561.10
96-024	4/19/96	3/1/99	Administration	Computer Hard/Software (EIS/VenderNet)	59,980.50	11,423.55
96-026	4/19/96	3/1/03	Corrections	Textile Cutting Machine/CADD (Pay #1)	49,600.00	35,034.16
96-027	4/29/96	3/1/00	Legislature	Personal Computers, Computer Software	2,309,606.00	981,519.68
96-029	4/26/96	3/1/01	Administration	High-Speed Tape Drives	135,000.00	75,506.49
96-030	4/26/96	3/1/03	Transportation	Database Re-design	146,821.55	59,045.33
96-031	4/26/96	3/1/99	Administration	Computer Aided Software Engineering System	1,200,000.00	230,669.90
96-032	5/20/96	3/1/99	Revenue	PCs/Equipment/Delinquent Tax Collection	163,115.97	32,039.50
96-033	6/4/96	3/1/99	University of Wisconsin	Computer Hardware	157,586.25	31,376.87
96-035	5/20/96	3/1/03	Transportation	April Database Re-design Costs	121,662.64	74,424.41
96-038	6/4/96	3/1/99	University of Wisconsin	4-Wheel Drive Trucks	83,120.40	16,518.15
96-039	6/4/96	3/1/00	Legislature	Computer Hardware/Software	221,183.35	96,125.33
96-040	6/4/96	3/1/03	Corrections	Dairy Processing Equipment	74,700.00	53,824.19
96-041	6/4/96	3/1/99	Health and Family Services	Computer Hardware (LAN)	132,223.50	26,326.90
96-043	6/14/96	3/1/03	Corrections	Textile Cutting Machine/CADD	31,245.00	22,489.04
96-044	6/14/96	3/1/01	Corrections	Semi-Tractor Truck	59,945.00	34,258.03
96-045	6/27/96	3/1/99	Revenue	Equipment/Computer Hardware for Scanning	95,201.55	19,354.56
96-046	6/27/96	3/1/99	Revenue	Computer Hardware (LAN)	84,422.10	17,163.09
96-047	6/27/96	3/1/03	Transportation	May Database Re-design	236,615.97	171,071.59
96-048	6/27/96	3/1/00	Legislature	IT Migration Project (Install,Training)	209,580.86	92,311.88

Table IV-2 – Continued
OUTSTANDING MASTER LEASE SCHEDULES
(As of December 10, 1998)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Leased Item	Amount Financed	Principal Balance
96-049	6/27/96	3/1/03	Corrections	Textile Cutting Machine/CADD	97,715.00	70,647.22
96-050	6/27/96	3/1/00	University of Wisconsin	Voice Mail System	131,750.00	58,030.53
96-051	6/27/96	3/1/99	Workforce Development	Office Furntiure/Workforce Mgmt Software	73,508.99	14,944.45
96-052	7/29/96	3/1/03	Corrections	Sewing Machines (Private Ind Initiative)	112,621.50	81,065.80
96-053	7/29/96	9/1/99	Natural Resources	Network Communications Equipment	164,845.94	57,851.75
96-054	7/29/96	9/1/99	Natural Resources	AlphaServers	87,384.67	30,667.26
96-055	8/1/96	3/1/99	Administration	Computer Hardware/Software (EIS)	25,458.00	5,170.07
96-056	8/1/96	3/1/03	Transportation	June Database Redesign	129,291.31	93,131.92
96-058	8/1/96	9/1/99	Workforce Development	Systems Furniture	52,500.16	18,418.79
96-059	8/1/96	3/1/00	Legislature	IT Migration Equipment	494,296.62	217,523.57
96-060	8/1/96	9/1/02	University of Wisconsin	NEWCS Dist Educ Network	158,391.85	110,663.88
96-061	8/15/96	3/1/03	Administration	Infrastructure for DOT MDT Project	531,916.34	389,283.93
96-062	8/15/96	9/1/99	Public Instruction	Computer Workstations	115,684.46	40,493.05
96-063	9/3/96	3/1/00	Legislature	IT Migration Plan - Hardware/Software/Training	57,832.00	25,973.32
96-064	9/3/96	9/1/03	Transportation	July Database Redesign Invoices	221,176.04	165,863.81
96-065	9/3/96	3/1/03	Corrections	Textile Cutting Maching/CADD	17,688.00	12,880.67
96-066	9/16/96	9/1/99	Workforce Development	Interactive Voice Response Units	162,814.00	56,847.69
96-067	9/16/96	3/1/99	Revenue	Local Area Network (LAN) Equipment-WI-Z	140,790.00	13,154.32
96-068	9/16/96	3/1/99	Revenue	Local Area Network (LAN)-Audit Bur.	39,457.06	8,266.13
96-070	9/16/96	3/1/00	Legislature	IT Migration Plan - Hardware/Software/Training	103,087.25	46,298.20
96-071	10/1/96	3/1/03	Corrections	Garment Cutting Machine/CADD	5,657.00	4,119.52
96-073	10/1/96	9/1/03	Transportation	August Payment-Database Redesign	168,597.60	126,434.32
96-074	10/1/96	3/1/00	Legislature	IT Migration Plan - Hardware/Software/Training	126,891.83	56,989.24
96-075	10/1/96	9/1/03	Administration	Infrastructure for Mobile Data Terminal	163,543.44	122,644.13
96-076	10/1/96	9/1/99	Natural Resources	AlphaServers	70,514.09	24,620.50
96-077	10/22/96	9/1/99	Workforce Development	50 Personal COmputers/Network Cards	184,250.00	68,143.12
96-078	10/22/96	3/1/99	Administration	IT Equipment (Small Agency Support Init)	187,045.86	32,250.29
96-079	10/22/96	9/1/99	University of Wisconsin	96 Personal Computers	215,503.00	79,701.74
96-080	11/1/96	3/1/00	Legislature	IT Migration Plan - Hardware/Software/Training	159,055.86	75,588.51
96-082	11/1/96	3/1/03	Administration	Mobile Data Terminal Infrastructure	499,255.33	385,082.08
96-083	11/1/96	9/1/00	Administration	VideoConferencing Equipment	93,564.35	51,541.93
96-084	11/15/96	3/1/99	Administration	IT Equipment (Small Agency Support Init)	374,977.11	64,283.85
96-086	11/27/96	3/1/00	Legislature	IT Migration Plan - Hardware/Software/Training	91,239.77	44,222.18
96-087	11/27/96	9/1/00	University of Wisconsin	Golf Course Maintenance Equipment	89,185.00	49,963.10
96-088	12/13/96	9/1/99	Administration	EPSON Directors/Connectors	129,400.00	50,133.08
96-092	12/23/96	3/1/99	Administration	IT Equipment (Small Agency Support Init)	149,677.70	25,392.55
96-093	12/23/96	9/1/03	Administration	MDTS Infrastructure	20,974.47	10,504.73
96-094	12/23/96	9/1/03	Corrections	1/2 Pint Filler/Sealer Machine	94,000.00	73,761.92
96-095	12/23/96	9/1/99	Revenue	Sale Tax Scanning Equipement	226,284.00	68,673.98
96-096	12/23/96	3/1/00	Legislature	IT Migration Plan	245,732.00	121,538.70
97-002	1/14/97	9/1/99	Revenue	IVR Units - Milwaukee Office (ITIF)	44,639.00	7,588.85
97-003	1/14/97	9/1/99	Administration	DASD	703,600.00	280,828.63
97-004	1/14/97	3/1/00	University of Wisconsin	Octel Voice Mail Network	210,800.00	106,028.57
97-005	1/14/97	9/1/99	Health and Family Services	Computer Terminals/Infrastructure	90,661.00	36,185.24
97-006	1/28/97	3/1/02	Administration	Automated Tape Drive System	1,065,019.00	767,355.13
97-007	1/28/97	3/1/00	Administration	Front-End Processors	141,585.00	72,093.50
97-008	1/28/97	9/1/03	Administration	Mobile Data Terminal Infrastructure	442,274.97	351,340.03
97-009	1/28/97	3/1/01	Administration	Video Conferencing Equipment	48,038.50	30,784.73
97-011	1/28/97	3/1/00	Legislature	IT Migration	81,674.00	41,587.48
97-012	1/28/97	3/1/00	Supreme Court	Information Technology Equipment	142,942.24	13,119.59
97-013	1/28/97	3/1/00	Workforce Development	Personal Computers	171,654.00	86,801.24
97-014	1/28/97	3/1/99	Administration	IT Equipment (Small Agency Support Init)	108,249.05	28,481.24
97-015	2/19/97	3/1/00	Legislature	IT Migration	124,917.75	64,696.51
97-016	2/19/97	9/1/03	Administration	Mobile Data Terminal Infrastructure	74,258.75	59,428.29
97-017	2/19/97	3/1/00	Natural Resources	Computer Equipment-Training Facility	88,540.57	45,856.31
97-018	2/19/97	3/1/99	Natural Resources	IT Equipment-Service Centers	212,480.58	14,924.81
97-021	3/13/97	9/1/99	Public Instruction	Personal Computers	113,553.00	31,976.45
97-022	3/13/97	3/1/00	Natural Resources	IT Training Facility	67,145.76	35,475.57
97-023	3/13/97	9/1/03	Administration	Mobile Data Terminal Infrastructure	208,874.27	168,485.25
97-025	3/13/97	3/1/00	Legislature	IT Migration Plan	133,674.80	70,625.32
97-026	3/27/97	9/1/99	Health and Family Services	IT Infrastructure-Mendota and South. Wis	66,702.00	28,676.01
97-027	3/27/97	3/1/00	Revenue	Sales Tax Scanning Equipment	454,729.80	133,225.90
97-029	3/27/97	3/1/04	Veterans Affairs	Fire Engine	63,853.13	52,816.68
97-030	3/27/97	3/1/00	Legislature	IT Migration Plan	54,861.50	29,331.94
97-031	4/16/97	3/1/00	Workforce Development	Systems Furniture-GEF 1	101,976.25	55,426.53
97-032	4/16/97	3/1/04	Administration	Infrastructure Equipment-MBT System	155,614.00	129,534.04
97-033	4/16/97	3/1/99	Natural Resources	IT Infrastructure-Service Centers (ITIF)	168,017.83	40,429.84
97-037	4/25/97	3/1/04	Veterans Affairs	Fire Engine	85,143.87	71,080.58
97-038	4/25/97	3/1/00	Legislature	IT Migration Equipment	109,961.00	60,242.07
97-040	4/25/97	3/1/04	Administration	Infrastructure-Mobile Data Terminal	274,825.00	229,431.90

Table IV-2 – Continued
OUTSTANDING MASTER LEASE SCHEDULES
(As of December 10, 1998)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Leased Item	Amount Financed	Principal Balance
97-041	4/25/97	3/1/00	Natural Resources	Training Facility IT Equipment	11,346.40	6,216.11
97-043	5/16/97	3/1/04	University of Wisconsin	Xylox Seating System-Kohl Center	100,000.00	84,056.74
97-045	5/14/97	3/1/00	Public Service Commission	IT Upgrades-Network	52,011.55	28,983.78
97-046	5/14/97	3/1/01	Administration	VideoConferencing - LAX, Waukesha	97,881.28	66,951.80
97-048	5/29/97	3/1/99	Health and Family Services	IT Equipment/Connect Regional to LAN	360,986.65	47,195.81
97-049	5/29/97	3/1/99	Administration	IT Equipment (Small Agency Support Init)	55,991.16	14,433.32
97-050	5/29/97	3/1/00	Natural Resources	SWEEP Anti-Virus Software/License	94,962.50	53,649.98
97-051	5/29/97	3/1/01	Legislature	IT Migration Plan	128,074.45	88,479.05
97-052	5/29/97	3/1/01	Administration	VideoConfernce Equip - Mad and Eau Clair	45,914.90	31,714.88
97-053	6/13/97	3/1/02	University of Wisconsin	Image Scanning System	64,765.00	30,574.46
97-055	6/13/97	3/1/01	Legislature	IT Migration Plan	111,156.00	77,493.29
97-056	6/13/97	3/1/02	University of Wisconsin	Tractor - Ashland Rsch Station	35,845.00	27,560.46
97-058	6/27/97	3/1/01	University of Wisconsin	Tractor/Skidloader	83,611.00	56,645.84
97-059	6/27/97	3/1/99	Corrections	Program Scheduling System (ITIF)	30,419.00	5,071.64
97-060	6/27/97	3/1/99	Natural Resources	Service Center IT Equip (ITIF)	218,590.26	37,213.91
97-061	6/27/97	3/1/99	Natural Resources	Senior Mgmt PC Rollout (ITIF)	184,393.00	29,090.44
97-062	7/10/97	3/1/04	Veterans Affairs	Fire Engine	100,924.72	86,380.45
97-063	6/27/97	3/1/00	Natural Resources	Dual AlphaServer 1000A Computer	57,760.70	33,503.34
97-065	6/27/97	3/1/00	University of Wisconsin	Personal Computers	162,390.00	83,281.32
97-066	6/30/97	3/1/04	University of Wisconsin	Xylox Seating System-Kohl Center	250,000.00	213,247.19
97-068	7/10/97	3/1/00	Workforce Development	Interactive Voice Response- Call Center	113,358.00	66,582.66
97-069	7/10/97	3/1/01	Legislature	IT Migration Phase I and II	127,090.75	90,246.89
97-070	7/10/97	3/1/04	University of Wisconsin	Xylox Seating System - Kohl Center	733,000.00	627,367.37
97-071	7/10/97	3/1/04	Administration	Infrastructure Equipment for Mobile Data	57,222.11	48,963.88
97-072	7/10/97	3/1/00	Public Service Commission	IT Infrastructure Equipment	34,468.00	20,245.35
97-073	7/10/97	3/1/99	Natural Resources	IT Infrastructure Equipment	13,058.00	3,342.50
97-075	7/25/97	3/1/00	Health and Family Services	IT/Telecommunications Infrastructure	445,925.80	265,852.50
97-077	7/25/97	3/1/99	Corrections	IT Infrastructure (ITIF)	309,583.06	33,722.36
97-078	7/25/97	3/1/04	Transportation	Database Redesign Costs	269,717.25	140,324.10
97-079	7/25/97	3/1/00	Workforce Development	PCs and System Furniture	379,057.17	186,625.72
97-080	7/25/97	3/1/01	Legislature	IT Migration Plan	96,331.46	69,105.56
97-081	7/25/97	3/1/01	University of Wisconsin	Postcript Imagesetter	99,105.00	53,160.90
97-083	8/15/97	9/1/01	University of Wisconsin	Tractors	96,112.00	73,546.78
97-084	8/15/97	3/1/00	Workforce Development	Personal Computers	68,239.00	41,525.55
97-085	8/15/97	3/1/00	Revenue	Sales/Stadium Tax Scanning Equipment	29,547.49	17,907.81
97-086	8/15/97	9/1/01	Administration	Video Conference Equipment-Spooner	54,405.35	41,632.03
97-089	9/3/97	3/1/04	Administration	Mobile Data Computer Infrastructure	62,488.00	54,461.15
97-090	9/3/97	3/1/99	Natural Resources	Information Technology Infrastrucutre	56,937.78	14,557.15
97-091	9/16/97	9/1/00	Administration	DASD; DASD Directors	1,469,370.00	1,022,305.94
97-092	9/16/97	9/1/03	Corrections	Dump-Truck	67,598.00	58,335.35
97-093	9/16/97	3/1/99	Corrections	IT Infrastructure	80,396.81	20,509.87
97-094	9/16/97	9/1/00	Health and Family Services	IT Infrastructure-Milw County	85,190.02	59,261.85
97-095	9/16/97	3/1/99	Natural Resources	IT Infrastructure	112,589.00	28,722.36
97-096	9/16/97	3/1/00	Workforce Development	Laptop Computers-Audit Bur.	151,628.00	95,209.83
97-097	9/16/97	9/1/01	University of Wisconsin	Tractor/Ag Equipment	46,587.00	36,321.82
97-098	9/30/97	3/1/99	Financial Institutions	IT Infrastructure	41,268.50	12,995.85
97-100	10/16/97	9/1/00	Health and Family Services	IT Infrastructure-Milw County	523,438.15	373,646.25
97-101	10/16/97	3/1/99	Corrections	IT Infrastructure (ITIF)	106,962.00	27,148.70
97-102	10/16/97	9/1/01	University of Wisconsin	Tractors/Ag Equipment	49,318.00	39,173.65
97-105	10/31/97	9/1/00	Revenue	IT Equipment-Delinquent Tax System	237,455.23	80,396.70
97-106	10/31/97	9/1/00	Health and Family Services	Systems Furniture-Eau Claire Adjud Cnt	84,331.95	60,947.94
97-107	10/31/97	3/1/01	Legislature	IT Migration Plan (PCs, Software,Instal)	416,670.75	319,988.22
97-109	11/14/97	9/1/04	Investment Board	Port. Mgmt. & Operations Software	1,000,000.00	871,280.90
97-110	11/14/97	9/1/00	Revenue	IT Infrastructure-Various Locations	113,642.99	83,140.22
97-112	12/8/97	3/1/01	Legislature	IT Migration	79,081.75	62,514.83
97-113	12/8/97	9/1/02	Commerce	Systems and Office Furniture/Equipment	141,359.54	16,507.23
97-116	12/22/97	3/1/99	Revenue	GEF III IT Infrastructure (ITIF)	120,825.15	7,329.14
97-117	12/22/97	9/1/04	Corrections	Wood Laminating System	127,251.75	116,366.62
97-118	12/22/97	3/1/04	Administration	Mobile Data Terminal Infrastructure	150,478.94	136,337.76
98-001	1/9/98	9/1/00	Administration	Sysplex Coupling Facility	283,118.39	218,188.04
98-002	1/9/98	3/1/01	Administration	Year 2000 Upgrades-Payroll/Leave Acct	31,596.40	25,630.07
98-003	1/9/98	3/1/99	Commerce	IT Infrastructure	224,469.60	69,503.77
98-004	1/9/98	9/1/04	Transportation	Year 2000 Upgrades-Driver/Motor Vehicle	234,945.25	216,087.94
98-006	1/30/98	3/1/01	Legislature	IT Migration Plan	97,384.75	80,320.00
98-007	1/30/98	3/1/01	Natural Resources	Systems Furn/IT Equi (Trng Fac)	135,394.74	110,689.49
98-008	1/30/98	3/1/01	Administration	Year 2000 Upgrades-Payroll/Leave Acct	30,004.80	24,747.05
98-009	1/30/98	3/1/99	Administration	Small Agency Support Init (IT)	24,791.58	12,652.18
98-010	1/30/98	3/1/03	Health and Family Services	Systems Furniture-Milw County	345,781.39	311,306.32
98-011	2/6/98	3/1/02	Administration	Magstar Tape Drives	625,760.00	298,132.43

Table IV-2 – Continued
OUTSTANDING MASTER LEASE SCHEDULES
(As of December 10, 1998)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Leased Item	Amount Financed	Principal Balance
98-012	2/6/98	3/1/01	Natural Resources	DEC Alphaserver (Y2K)	55,607.79	46,085.37
98-013	2/6/98	9/1/04	Transportation	Year 2000 Upgrades-Dbase	130,427.90	121,109.51
98-015	2/27/98	3/1/01	Justice	Personal Computers	151,890.62	128,057.31
98-016	2/27/98	9/1/01	Administration	VideoConferencing Equipment	97,397.00	84,497.52
98-017	2/27/98	9/1/04	Transportation	Year 2000 Upgrades-Dbase	112,326.27	105,046.15
98-018	2/27/98	3/1/03	University of Wisconsin	University Information System	289,239.55	263,661.50
98-020	3/10/98	3/1/04	University of Wisconsin	Xylox Seating System-Kohl Center	307,000.00	286,494.61
98-023	3/16/98	9/1/02	Justice	Upgrades to TIME System	440,820.13	266,716.03
98-024	3/16/98	3/1/99	Financial Institutions	IT Infrastructure	41,511.32	21,021.76
98-027	3/16/98	3/1/04	Administration	Mobile Computer Infrastructure	137,445.14	128,557.69
98-028	3/16/98	3/1/01	Health and Family Services	IT Infrastructure (Wilson St Bldg)	255,357.41	218,734.44
98-029	3/16/98	3/1/99	Natural Resources	VideoConferencing Equipment	47,748.50	15,941.98
98-030	4/1/98	3/1/01	Administration	WiSMART Upgrades	566,354.50	491,372.73
98-031	4/1/98	3/1/01	Public Instruction	PCs	157,371.00	97,493.79
98-032	4/1/98	3/1/01	Revenue	Real Estate Return Form Scanning	149,050.36	110,403.21
98-033	4/1/98	3/1/01	Revenue	Conversion of WP from Wang to WORD	172,842.68	128,802.46
98-034	4/1/98	3/1/05	Transportation	Year 2000 DMV Upgrades	39,213.73	37,289.58
98-035	4/1/98	3/1/01	Legislature	IT Migration Equipment/Software	265,671.29	230,498.08
98-036	4/1/98	3/1/03	University of Wisconsin	University Information System	292,418.35	270,873.11
98-038	4/17/98	3/1/01	Administration	IT Equipment (Server, Moni, Tape Drive)	22,375.00	15,285.61
98-039	4/17/98	3/1/01	Administration	JetForm Electronic Forms Software	844,000.00	742,506.99
98-040	4/17/98	3/1/01	Health and Family Services	IT Infrastructure Hard (Servers)	223,598.72	196,710.45
98-041	4/17/98	3/1/03	Health and Family Services	Systems Furniture (Milw County)	525,255.80	490,321.10
98-042	4/17/98	3/1/03	Natural Resources	WPDES Permit Streamlining	66,914.00	52,526.32
98-043	4/17/98	3/1/01	Natural Resources	Personal Computers	89,237.00	78,506.04
98-044	4/17/98	3/1/05	Transportation	DMV Database Upgrades	116,233.50	111,098.38
98-045	4/17/98	3/1/01	Legislature	IT Migration Equipment	143,974.50	126,661.23
98-046	5/5/98	3/1/05	Transportation	DMV Database Redesign Project	83,066.65	79,861.40
98-047	5/5/98	3/1/05	Transportation	YEAR 2000 DMV Database	150,044.76	144,255.06
98-049	5/5/98	3/1/99	Financial Institutions	IT Equipment (ITIF)	23,102.00	11,602.34
98-050	5/5/98	3/1/01	Justice	Imaging Equipment-Criminal Hist Records	252,736.33	71,520.50
98-052	5/5/98	3/1/01	Justice	Systems Furniture-OCTE	29,451.33	26,326.61
98-055	6/2/98	3/1/01	Administration	IBM Cut Sheet Printers	120,550.00	110,445.87
98-056	6/2/98	3/1/04	Administration	Mobile Computer Infrastructure	205,006.18	197,544.17
98-057	6/2/98	3/1/03	Natural Resources	WPDES Streamlining Project	58,827.75	56,150.18
98-058	6/2/98	3/1/05	Transportation	DMV Database Redesign	101,948.46	98,889.28
98-059	6/2/98	3/1/05	Transportation	DMV Year 2000 Upgrades	104,670.51	101,529.64
98-061	6/2/98	3/1/01	Legislature	IT Migration Equipment	115,042.85	105,400.31
98-062	6/2/98	3/1/01	Administration	Optical Storage Tapes-HFSOB	68,259.60	62,538.30
98-063	6/23/98	3/1/01	Transportation	Mobile Computers	203,434.35	35,559.59
98-064	6/23/98	9/1/01	University of Wisconsin	EtherNet Switching Equipment	817,790.10	581,424.27
98-065	6/23/98	3/1/00	University of Wisconsin	EtherNet Switching Equipment	215,366.75	87,601.84
98-066	6/23/98	3/1/01	Administration	DASD	671,000.00	627,014.66
98-067	6/23/98	3/1/01	Administration	Optical Storage Units-HFSOB	106,976.00	99,963.52
98-068	6/23/98	3/1/01	Administration	WiSMART Upgrades	405,600.00	379,012.14
98-069	6/23/98	3/1/03	Health and Family Services	Systems Furniture - Milw Cnty	30,264.24	29,196.65
98-070	6/23/98	3/1/01	Natural Resources	IT Hardware-Switching Equipment	53,629.00	50,113.52
98-071	6/23/98	3/1/03	Natural Resources	WPDES Streamlining	58,000.75	55,954.74
98-072	6/23/98	3/1/01	Public Instruction	PCs	301,432.98	281,673.46
98-073	6/23/98	3/1/02	University of Wisconsin	Vehicle/Truck for Ag Research/Depts	20,890.00	19,922.88
98-075	6/23/98	3/1/05	Transportation	DMV Year 2000 Upgrades	32,719.82	31,961.65
98-076	6/23/98	3/1/05	Transportation	DMV Database Redesign	70,752.31	69,112.87
98-077	7/8/98	3/1/01	Revenue	IT Equipment-Migration (WORD/Hub Hardwa)	113,083.80	107,208.57
98-078	7/8/98	3/1/01	Revenue	IT Equipment-Migration (PCs, Train Fac)	880,695.45	834,927.12
98-079	7/8/98	3/1/01	Revenue	PCS - Delinquent Tax Collection System	273,791.90	259,563.38
98-080	7/8/98	3/1/01	Workforce Development	PCs-Job Service Field District	190,500.00	180,600.02
98-081	7/8/98	3/1/01	Natural Resources	IT Equipment-Campground System	396,442.00	188,643.12
98-083	7/8/98	3/1/01	Administration	Electronic Forms Software	234,667.00	222,471.73
98-084	7/30/98	3/1/01	Administration	Electron Forms Software	150,000.00	145,322.83
98-085	7/30/98	3/1/01	Administration	WiSMART Upgrades/Y2K	116,465.00	112,833.49
98-086	7/30/98	3/1/03	Natural Resources	WPDES Database Redesign	60,192.00	59,198.88
98-087	7/30/98	3/1/01	Revenue	IT Migration-Servers	773,791.50	749,663.82
98-088	7/30/98	3/1/05	Transportation	DMV Year 2000 Upgrades	104,994.79	103,864.42
98-089	7/30/98	9/1/02	Transportation	Systems Furniture-FLR 9	177,146.35	177,146.35
98-090	7/30/98	3/1/05	Transportation	DMV Database Redeisgn	66,011.46	65,300.78
98-091	7/30/98	3/1/03	University of Wisconsin	Microwave/Refrigerator Units	339,830.00	299,830.00
98-093	7/30/98	9/1/01	University of Wisconsin	Tractor	23,070.00	23,070.00
98-094	7/30/98	9/1/01	University of Wisconsin	Ag. Field Sprayer	75,700.00	75,700.00
98-095	8/19/98	9/1/01	Natural Resources	Personal Computers	309,934.00	309,934.00
98-096	8/19/98	9/1/03	Natural Resources	WPDES Upgrade	49,982.00	49,982.00

Table IV-2 – Continued

OUTSTANDING MASTER LEASE SCHEDULES

(As of December 10, 1998)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Leased Item	Amount Financed	Principal Balance
98-099	8/19/98	3/1/05	Transportation	DMV Database Year 2000	113,400.61	113,400.61
98-100	8/19/98	3/1/05	Transportation	DMV Database Redesign	104,105.65	104,105.65
98-101	9/11/98	9/1/01	Natural Resources	DEC AlphaServer 4100	231,387.17	231,387.17
98-103	9/11/98	9/1/01	Public Instruction	Computer Switches	97,245.67	97,245.67
98-104	9/11/98	9/1/01	Revenue	PCs/Laptops/LAN Infrastructure	209,385.71	209,385.71
98-105	9/11/98	9/1/03	University of Wisconsin	IBM Multipurpose Mainframe CPU/2GB	2,267,800.00	2,267,800.00
98-106	10/8/98	3/1/01	Natural Resources	PCs-IT Migration	87,796.00	87,796.00
98-107	10/8/98	3/1/03	Health and Family Services	System Furniture	33,966.17	33,966.17
98-108	10/8/98	3/1/05	Transportation	DMV Database Year 2000	158,790.81	158,790.81
98-109	10/8/98	3/1/05	Transportation	DMV Database Redesign	84,330.13	84,330.13
98-110	10/8/98	9/1/03	Natural Resources	WPDES Upgrade	54,985.00	54,985.00
98-112	10/8/98	3/1/01	Revenue	IT Migration - PCS.WORD Conv.	337,893.95	337,893.95
98-113	10/8/98	9/1/01	Revenue	IT Migration Equipment/ WORD	509,553.44	509,553.44
98-114	10/8/98	9/1/01	Revenue	IT Migration - State&Local Finance	171,026.17	171,026.17
98-115	10/8/98	3/1/01	Natural Resources	Oracle Software for Y2K Server	10,660.00	10,660.00
98-117	10/8/98	3/1/01	Natural Resources	PCs-IT Migration	97,461.00	97,461.00
98-118	11/6/98	3/1/03	University of Wisconsin	University Information System	259,107.86	183,762.97
98-119	11/6/98	3/1/05	Transportation	DMV Database Redesign	148,639.11	148,639.11
98-120	11/6/98	3/1/05	Transportation	DMV Database Year 2000	49,980.37	49,980.37
98-121	11/6/98	3/1/02	University of Wisconsin	Suburban for Dept of Agronomy	28,341.00	28,341.00
98-122	11/6/98	9/1/01	University of Wisconsin	CISCO Server-WiscWorld	242,350.50	242,350.50
98-123	11/6/98	9/1/01	Administration	Upgrades to WiSMART	75,570.00	75,570.00
98-124	11/6/98	9/1/03	Natural Resources	WPDES Upgrades	39,607.00	39,607.00
98-125	11/6/98	9/1/01	Transportation	Data Protocol Convertor for Mobile Comp.	109,032.00	109,032.00
98-126	11/6/98	9/1/01	Justice	Servers for NT Migration	384,829.50	384,829.50
98-127	11/6/98	9/1/02	Justice	Upgrades to TIME System	222,095.00	222,095.00
98-128	11/6/98	9/1/04	Legislature	Voting Systems	200,000.00	200,000.00
98-129	11/20/98	9/1/01	Health and Family Services	Servers for DHFS use	233,301.50	233,301.50
98-130	11/20/98	9/1/04	Legislature	IT Migration-Infrastructure Components	627,192.01	627,192.01
98-131	11/20/98	9/1/01	Revenue	PCs/IT for Audit Automation	265,886.10	175,310.55
98-132	11/20/98	3/1/01	Administration	Electronic Forms Software	250,000.00	250,000.00
98-133	11/20/98	3/1/05	Transportation	DMV Database Redesign	97,192.09	97,192.09
98-134	11/20/98	3/1/05	Transportation	DMV Y2K Database Upgrades	58,342.81	58,342.81
98-135	11/20/98	3/1/01	University of Wisconsin	Tractor - Rhinelander Research Station	37,858.00	37,858.00
						$ 42,325,198.73

SUMMARY OF THE MASTER LEASE

The following is a summary of certain provisions of the Master Lease.

Acquisition, Delivery and Lease of Equipment

The Master Lease establishes the process for acquiring equipment or service contracts. It requires the State to provide written notice to the Lessor, identifying:

- the items it desires to lease
- the anticipated schedule for making Lease Payments
- the anticipated date or dates on which payments to acquire the Leased Item are due and payable

The notice must also confirm that the State expects that sufficient moneys will be available to pay the acquisition costs, as arranged solely by the State. The State (or the Lessor at the State's request) orders each Leased Item from the Contractor selected by the State.

The State is responsible for selecting Leased Items, reviewing the terms of purchase, and arranging for the delivery, installation, testing, servicing, and maintenance of the Leased Items.

Upon delivery and any required installation of any Leased Item that is equipment, the State is required to inspect such Equipment Item, and if it meets the State's specifications, the State, before the end of the acceptance period agreed to by the Contractor, must provide the Lessor with a certificate of acceptance. At the time the Equipment Item is accepted, the State will perfect a security interest therein in favor of the Lessor or any party to which such security interest is assigned with the State's consent. Before the commencement of service for a Leased Item that is a service contract, the State must provide the Lessor with a certificate of acceptance. Any Leased Items thus acquired become subject to the Master Lease, and upon acceptance, the State becomes obligated to make the Lease Payments.

Lease Term and Lease Termination

The Master Lease is in effect until all Lease Payments have been paid, unless the Master Lease is either extended or terminated earlier, as provided in the Master Lease. With respect to any Leased Item, the obligation to make Lease Payments begins:

- on the date of execution of the related Lease Schedule and the certificate of acceptance, or
- on the date that sufficient moneys are received in a particular fund from which the costs of Leased Items are to be paid

Subject to appropriation, the State presently intends to keep the Master Lease in effect for its entire term and to make all Lease Payments. The State agrees that the appropriate budget requests for each fiscal year will include all Lease Payments coming due in the fiscal year. In the event an emergency arises that requires the State to draw vouchers for payments that will be in excess of available moneys and the Secretary of Administration establishes a priority schedule for payments under the Statutes, the Secretary will give a high priority to payment of Rent.

In accordance with the Statutes, the continuance of the Master Lease beyond the limits of funds already available to the State is contingent upon appropriation of the necessary funds. If an event of Nonappropriation occurs for any fiscal year, the State has the right to terminate the Master Lease. Termination would affect all Leased Items and would be effective as of the last day of a fiscal year (that is, June 30).

The State would still be obligated to make any Lease Payments due by the end of the fiscal year but would not be responsible for the payment of any Lease Payments scheduled to come due in any succeeding fiscal year. In the event of termination of the Master Lease based on an Event of Nonappropriation, if the Lessor requests, the State is required to deliver possession of all Lease Items to the Lessor and must convey to the Lessor, or release, its interest in all Leased Items.

With respect to any Leased Item, the respective Lease Schedule terminates when all Lease Payments relating to it are paid under the Lease Schedule or when the State terminates the Lease Schedule by paying the applicable purchase price for the Leased Item.

The Master Lease will terminate in its entirety (which will affect all Leased Items) if an Event of Nonappropriation occurs, or if the State defaults and the Lessor elects to terminate the Master Lease.

Insurance Requirements; Loss or Damage to Equipment Items

The State is required to provide insurance coverage against certain risks, through its self-funded liability and property programs, for which sum-sufficient appropriations are made under the Statutes. Insured risks include:

- damage to or destruction of Equipment Items

- liability for injuries to or death of any person or damage to or loss of property related to use of the Leased Items
- the employer's costs for employee's worker's compensation relating to use of the Leased Items

The State assumes all risks and liabilities for loss or damage to any Equipment Items and for injury to or death of any person or damage to any other property arising from use of the Equipment Items or arising with respect to Service Items, to the extent such loss, damage, injury, death, or damage to other property is caused by acts committed by an officer or employee of the State while acting within the scope of employment or any agent of the State while acting within the scope of the agency.

If any Equipment Item delivered to the State is lost, the State is required to replace the Equipment Item or pay the applicable purchase price for the Equipment Item.

When the State pays the purchase price for any Leased Item, the Master Lease terminates with respect to such Leased Item and the State becomes entitled to such Leased Item, *as is, where is, and without any warranty,* except for any warranty provided by the contractor.

Other Obligations

The Lessor has no responsibility for the use or maintenance of Equipment Items. The State is required to use Equipment Items carefully, properly, and lawfully. The State is required to maintain all Equipment Items. The State is required to pay any charges assessed against Equipment Items.

Rights in Equipment; Security Interest

The Lessor does not have legal title to Equipment Items. Legal title to all Equipment Items rests in the State. Should the Master Lease terminate due to an Event of Nonappropriation or Event of Default the State is required to transfer to the Lessor its interest in all Equipment Items.

The State has granted to the Lessor a first priority purchase-money security interest in each Equipment Item, in order to secure the State's payment of all Lease Payments.

The Lessor has no responsibility in connection with such selection of the Leased Items or the contractors providing the Leased Items. The Leased Items and contractors shall be selected solely by the State.

The Lessor has no responsibility for the condition or usefulness of the Leased Items. The Leased Items are leased "as is" and "where is." Nor is the Lessor responsible for any damages in connection with the use of the Leased Items.

Assignment, Mortgaging and Selling

The Lessor may not, without the prior written consent of the State, assign its obligations under the Master Lease or its interest in the Leased Items or grant a security interest in or lien upon the Leased Items or enter into any financing for the Leased Items.

Option to Terminate Equipment Lease Schedule

Depending on the source of funding for the Lease Schedule, the State may have the option to terminate the Lease Schedule by depositing an amount equal to the applicable Purchase Price. The amount shall either be:

- An amount equal to the outstanding principal amount of the Lease Schedule, interest to the date of redemption of the source of funding and any redemption premium, or

- If permitted, an amount sufficient to purchase investments maturing on such dates and in such amounts to pay the Rent when due (or until the source of funding may be redeemed).

Events of Default and Remedies

Each of the following shall be an "Event of Default" under the Master Lease:

- Failure by the State to pay when due any Lease Payments and the continuation of such failure for five business days.
- Failure by the State to observe any covenant with respect to any Leased Item (other than a failure to make Lease Payments) for a period of thirty days after notice, unless the Lessor and the Trustee agree to an extension.
- Any representation or warranty by the State in the Master Lease was untrue in any material respect.
- An "event of default" shall have occurred and be continuing under the Indenture.

If by reason of force majeure the State is unable to carry out its obligations under the Master Lease with respect to any Leased Item (other than its obligation to make Lease Payments, which must still be paid when due), the State shall not be deemed in default during the period of inability.

Whenever any Event of Default occurs, the Lessor has the right to take one or more of the following steps:

- The Lessor, with or without terminating the Master Lease, may declare all Lease Payments due or to become due during the fiscal year to be immediately due and payable.
- The Lessor, with or without terminating the Master Lease, may give the State written notice requiring the State to deliver all the Leased Items to the Lessor. If the State fails to return them within 30 days, the Lessor may exercise all its legal rights to take possession of the Leased Items and to receive damages resulting from the State's failure. Even though the Lessor takes possession of the Leased Items, the State continues to be responsible for Lease Payments during the fiscal year. If the Event of Default is cured and the Master Lease has not been terminated with respect to such Leased Items, the Lessor is required to return the Leased Items to the State at the State's expense.
- If the Lessor terminates the Master Lease and takes possession of Leased Items, the Lessor is required to attempt to sell the Leased Items in a commercially reasonable manner. The Lessor must apply any proceeds of the sale in the following order: (i) all expenses incurred in securing possession of the Leased Items, (ii) all expenses incurred in completing the sale, (iii) any amounts payable to any party having a security interest in or lien against the Leased Items, (iv) the applicable purchase price for the Leased Items, and (v) the balance of any Lease Payments due with respect to such Leased Items for such Fiscal Year. Any remaining proceeds of the sale will be paid to the State.
- The Lessor may use any other remedy available at law or in equity with respect to such Event of Default.

If the Master Lease is terminated before all Lease Payments have been paid, the Lessor may require the State to return the Leased Items.

SUMMARY OF THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture.

General

Pursuant to the Master Indenture, the Lessor has transferred to the Trustee without recourse (but also without limitation on its obligations under the Master Lease) all its right in the funds and accounts established under the Master Indenture, the Lease Schedules specified in Supplemental Indentures, and all Lease Payments, Leased Items, and other property and rights related to those Lease Schedules, including the security interest granted in the Master Lease. Except as provided in the Master Indenture, all properties and rights received by, and moneys and investments held by, the Trustee under the provisions of the Master Indenture shall be held in trust for the benefit of the Certificate Holders.

Funds and Accounts; Payments to be Deposited

The Master Indenture creates the following funds and accounts to be held and administered by the Trustee for each series of Certificates: a **Project Fund** (within which is a **Project Account** and an **Earnings Account**), a **Lease Payment Fund** (within which is an **Interest Account** and **Payment Account**), an **Administrative Expense Payment Fund**, and an **Insurance Fund**.

The Trustee will deposit the proceeds from the issuance of Certificates, net of the underwriters' discount:

- If specified in the Supplemental Indenture, the Trustee will deposit in the Principal Account and the Interest Account of the Certificate Payment Fund an amount to be used for the partial or complete redemption of one or more series of outstanding Certificates, and the Leased Items related with the redeemed Certificates will thereafter relate to the newly issued Certificates.
- If specified in the Supplemental Indenture, the Trustee will pay to the Lessor the unreimbursed costs of acquiring Leased Items.
- Payment or reimbursement of cost of issuance.
- If specified in the Supplemental Indenture, the Trustee will deposit an amount in the Lease Payment Reserve Fund.
- The Trustee will deposit into the Project Account of the Project Fund the amount specified in the Supplemental Indenture.
- The Trustee will deposit the balance of the proceeds, if any, in the Lease Payment Fund.

Earnings on the Project Account of the Project Fund are transferred as received to the Earnings Account of the Project Fund. Moneys in the Earnings Account are transferred and used for payment of amounts due or coming due within 30 days, in the following order: *first,* to the Interest Account of the Lease Payment Fund for retransfer to the Interest Account of the Certificate Payment Fund; and *second,* to the Administrative Expense Payment Fund.

To the extent moneys in the Earnings Account of the Project Fund exceed amounts payable as described above, the excess is deposited in the Project Account of the Project Fund.

Subject to the requirement that the Trustee shall not invest or reinvest moneys in any Fund or Account in a manner that would cause any of the Certificates to become "arbitrage bonds", the moneys available in the Project Account of the Project Fund will be disbursed to pay for the acquisition of additional Leased Items, as directed by the State.

Except as provided in the Master Indenture, any moneys remaining in the Project Account of the Project Fund on the Disbursement Period Expiration Date will be transferred by the Trustee to the Principal Account of the Lease Payment Fund, to be applied as a credit against the Lease Payments required to be paid by the State.

Upon any Event of Nonappropriation or upon an Event of Default under the Lease Schedule requiring the surrender of Leased Items, or upon any other termination of a Lease Schedule other than pursuant to the payment of all Lease Payments, or the exercise by the State of its option to pay the Purchase Price, the Trustee is required immediately to transfer all amounts on deposit in the Project Account of the Project Fund to the Principal Account of the Lease Payment Fund.

On any day in which Certificates are to be paid or redeemed, the Trustee is required to transfer the aggregate amount on deposit in the Principal Account of the Lease Payment Fund for deposit into the Principal Account of the Certificate Payment Fund. On the date Certificates are to be redeemed in accordance with the Master Indenture as a result of deposit of moneys into the Principal Account of the Lease Payment Fund, the Trustee is required then to transfer the moneys deposited for deposit into the Principal Account of the Certificate Payment Fund. On the date that Certificates are to be redeemed due to the termination of a Lease Schedule as a result of an Event of Nonappropriation, and if funds have been transferred to the Lease Payment Fund, the Trustee is required to transfer all amounts on deposit in such Principal Account for deposit into the Principal Account of the Certificate Payment Fund. On the next succeeding Interest Payment Date after the date of transfer of moneys to the Principal Account of the Lease Payment Fund, the Trustee shall deposit such moneys into the Principal Account of the Certificate Payment Fund.

On each Interest Payment Date with respect to Certificates, the Trustee is required to transfer from the Interest Account of the Lease Payment Fund (and, if necessary, from the Earnings Account of the Project Fund) for deposit into the Interest Account of the Certificate Payment Fund, an amount equal to the interest then due on the Certificates.

Except as provided in the Master Indenture, the Trustee is required to pay to the State any amount remaining in any Fund or Account after full payment (or redemption) of all Certificates outstanding and payment of any fees, expenses or costs owing with respect to the Certificates or the Lease Schedules.

The Trustee is required to invest moneys it holds under the Master Indenture in **Qualified Investments** to be selected at the direction of the State giving consideration, however, to the times at which moneys are required to be disbursed under the Master Indenture and, in that connection, may place moneys in demand or time deposits with any bank or trust company authorized to accept deposits of public funds.

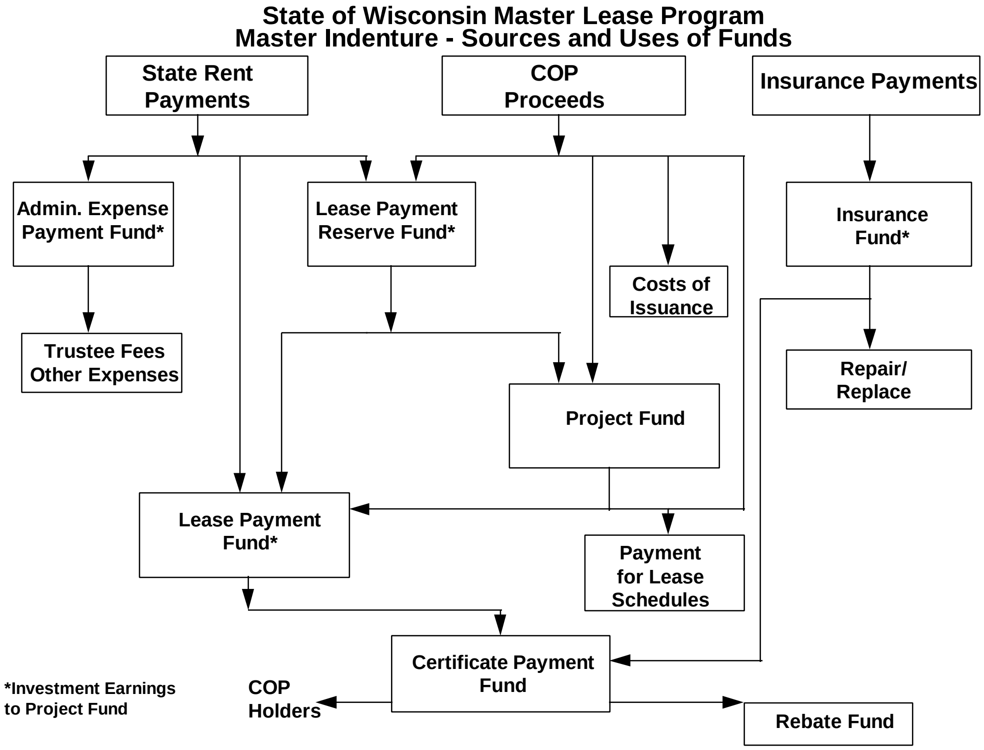
The following are Qualified Investments:

- Obligations of, or obligations guaranteed as to interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States.
- Federal Housing Administration debentures.
- Federal Home Loan Mortgage Corporation participation certificates.
- Farm Credit System consolidated system wide bonds and notes.
- Federal Home Loan Banks consolidated debt obligations.

- Federal National Mortgage Association senior debt obligations and mortgage backed issues.
- Student Loan Marketing Association senior debt obligations and letter-of-credit-backed issues.
- Resolution Funding Corporation debt obligations.
- Unsecured certificates of deposit, time deposits and banker's acceptances (having maturities of not more than 365 days) of any bank, the short-term obligations of which are rated the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies.
- Certificates of deposit or time deposits constituting direct obligations of any bank, the full amount of which is insured by the Federal Deposit Insurance Corporation.
- Debt obligations, including pre-refunded municipals, rated in either of the two highest classifications (without regard to any suffix or numerical order) by each of the Rating Agencies.
- Commercial paper rated the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies.
- Securities issued by those investment companies registered under the Investment Company Act of 1940 commonly known as "money market funds" rated in the highest classification by each of the Rating Agencies that invest solely in securities which are otherwise Qualified Investments.
- Investments made through repurchase agreements with any transferor with debt or commercial paper rated in the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies provided that each repurchase agreement (i) is acceptable in form and substance to the State and the Trustee, (ii) provides for the registration of title to certificated Government Obligations in the name of the Trustee or any agent of the Trustee and the physical transfer of certificated Government Obligations to the Trustee or to a custodial account in the name of the Trustee at a Federal Reserve Bank and for the registration of title to "book entry" Government Obligations in the name of the Trustee, (iii) provides that the Government Obligations acquired pursuant to such repurchase agreement shall be valued at least monthly at the lower of the then current fair market value or the repurchase price in the applicable repurchase agreement (except that the Lease Payment Reserve Fund shall always be valued at the then current fair market value), and (iv) is with any state or national bank or foreign bank with a United States branch or agency with short-term obligations rated in the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies.
- Any stripped securities rated in the highest classification by each of the Rating Agencies, including, but not limited to, U.S. Treasury STRIPS and REFCORP STRIPS.
- Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating from each of the Rating Agencies which is equal to or higher than the rating assigned to the Certificates by the Rating Agencies and the rating is in either of the two highest classifications (without regard to any suffix or numerical order) of each of the Rating Agencies.

The following diagram depicts the sources and uses of the various funds:

Figure IV-1



Servicing of Lease Schedules

The Lessor has agreed to service the Lease Schedules, and should the Lessor fail to do so, the Trustee has agreed to do so and enforce their terms.

Events of Default and Remedies

The following shall constitute Events of Default under the Master Indenture:

- Any Event of Nonappropriation or Event of Default under the Master Lease or any Lease Schedule.
- Failure by the Lessor or the State to observe any covenant, under the Master Indenture (other than an event specified above) for a period of 30 days after notice from the Trustee, the Lessor, or the owners of not less than 5% in aggregate principal amount of Certificates then outstanding; provided, however, if the failure cannot be corrected within the applicable period, those parties may not unreasonably withhold their consent to an extension of such time if corrective action is instituted and diligently pursued.
- Any additional event designated as an "Event of Default" under any Supplemental Indenture.

If an Event of Nonappropriation or an Event of Default under the Master Lease has occurred and is continuing, the Trustee is required to cause the Certificates of all series to be redeemed pursuant to the Master Indenture, pro rata, to the extent money is available in the Lease Payment Fund. In addition, if an Event of Nonappropriation or an Event of Default has occurred and is continuing, the Trustee may proceed, and upon written request of owners of not less than a majority in aggregate principal amount of Certificates then outstanding shall proceed, to take any of the remedial steps available under the Master Lease (including acceleration, if applicable) or whatever action at law or in equity may be necessary or appropriate to enforce its rights as assignee under the Master Indenture. All payments received by the Trustee with respect to the Trust Estate upon an Event of Default, whether from the sale of Leased Items, damages or otherwise, shall be applied by the Trustee, *first,* to its reasonable fees and expenses and, *second,* to the Lease Payment Fund.

In the event that no action is taken to eliminate an Event of Default, the owners of a majority in aggregate principal amount of the Certificates then outstanding may institute any suit, action, or other proceeding at law or in equity for the protection or enforcement of any right under the Master Lease or the Master Indenture, but only if such owners have first requested in writing that action be taken, have given a reasonable opportunity for such suit, action or other proceeding to be instituted, and have offered reasonable indemnity against the costs, expenses and liabilities to be incurred thereby.

Amendment

The Master Indenture, the Master Lease, or any Lease Schedule (**Operative Documents**) may be amended, or a Supplemental Indenture created, without the consent of any owners of certificates, in order to provide for the issuance of a series of Certificates, to cure any ambiguity, to correct or supplement any provision in any of the Operative Documents that may be inconsistent with any provision in any other Operative Document, or to add any other provision with respect to matters or questions arising under any Operative Document if it is not inconsistent with the provisions of any Operative Document provided that such action does not, as evidenced by an opinion of counsel, adversely affect in any material respect the interests of any owner of certificates.

Any of the Operative Documents may also be amended from time to time with the consent of the owners of not less than 51% of the aggregate outstanding principal amount of Certificates of any series affected thereby for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Operative Documents, or of modifying in any manner the rights of the owners of not less than 51% of the aggregate outstanding principal amount of Certificates; provided, however, that no amendment shall without the consent of the owners of all Certificates:

- increase or reduce the amount of, or delay the timing of, or otherwise adversely affect, collections of payments under any Lease Schedule or required to be made on any Certificate
- release any Lease Schedule or all or substantially all collateral securing a Lease Schedule, or
- reduce the percentage required for consent to any amendment

Limitation on Rights of Certificate Holders

No owner of a Certificate has any right to vote (except as provided in the Master Indenture) or in any manner otherwise control the operation and management of the Trust, or the obligations of the parties to any of the Operative Documents nor shall anything set forth in the Master Indenture, or contained in the terms of the Certificates, be construed so as to constitute the owners of Certificate as partners or members of an association; nor shall any owner of Certificate be under any liability to any third person by reason of any action taken by the parties to the Master Indenture pursuant to any provision of the Master Indenture.

No owners of Certificate shall have any right by virtue of any provision of the Master Indenture to institute any suit, action, or proceeding at law or in equity under or with respect to the Master Indenture, unless:

- Such owner of a Certificate has previously given to the Trustee a written notice of an Event of Default and of the continuance thereof, as provided in the Master Indenture.
- The owners of not less than 25% of the aggregate outstanding principal amount of Certificates have made written request of the Trustee to institute such action, suit, or proceeding in its own name as Trustee under the Master Indenture and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses, and liabilities to be incurred therein or thereby.
- The Trustee, for 30 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit, or proceeding.

PART V

TRANSPORTATION REVENUE BONDS

This part of the Annual Report provides information about transportation revenue obligations issued by the State of Wisconsin. APPENDIX A includes audited financial statements for the Transportation Revenue Bond Program and Transportation Commercial Paper Program for the year ended June 30, 1998. The Wisconsin Statutes provide that the State of Wisconsin Building Commission (**Commission**) has supervision over all matters relating to the issuance by the State of revenue obligations. Employees of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's revenue bond programs.

Transportation revenue obligations are issued pursuant to the State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations General Resolution, dated June 26, 1986, as amended (**General Resolution**). The State has issued transportation revenue obligations in the form of bonds and commercial paper notes. Bank One Trust Company, NA serves as Trustee for the transportation revenue bond program (**Trustee**) as well as registrar and paying agent. The law firm of Quarles & Brady LLP provides bond counsel services to the State for issuance of transportation obligations. The State has rarely employed a financial advisor for the issuance of transportation revenue obligations, except for advance refunding issues.

Requests for additional information about the transportation revenue obligations 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: capfin@doa.state.wi.us

This Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part. Material referred to in this Annual Report, including information available on the world wide web, is not part of this Annual Report unless expressly included by reference. See "GLOSSARY" for the definition of capitalized terms used in Part V of the Annual Report.

BONDS

The State has previously issued the following Transportation Revenue Bonds:

Bond Issue	Dated Date
Transportation Revenue Bonds, 1986 Series A (**1986 Bonds**)	June 15, 1986
Transportation Revenue Bonds, 1988 Series A (**1988 Bonds**)	April 15, 1988
Transportation Revenue Bonds, 1989 Series A (**1989 Bonds**)	April 15, 1989
Transportation Revenue Bonds, 1991 Series A (**1991 Bonds**)	October 1, 1991
Transportation Revenue Bonds, 1992 Series A (**1992 Series A Bonds**)	July 1, 1992
Transportation Revenue Bonds, 1992 Series B (**1992 Series B Bonds**)	July 1, 1992
Transportation Revenue Bonds, 1993 Series A (**1993 Bonds**)	September 1, 1993

Transportation Revenue Bonds, 1994 Series A (**1994 Bonds**)	July 1, 1994
Transportation Revenue Bonds, 1995 Series A (**1995 Bonds**)	September 1, 1995
Transportation Revenue Bonds, 1996 Series A (**1996 Bonds**)	May 15, 1996
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

The 1986 Bonds, 1988 Bonds, and 1989 Bonds are redeemed in full and are not Outstanding Bonds within the meaning of the General Resolution. The 1991 Bonds, 1992 Series A Bonds, 1992 Series C Bonds, 1993 Bonds, 1994 Bonds, 1995 Bonds, 1996 Bonds, 1998 Series A Bonds, 1998 Series B Bonds (collectively, **Prior Bonds**) together with any additional Bonds issued by the State pursuant to the General Resolution are referred to collectively as the **Bonds**.

The State has issued its $188,600,000 Transportation Revenue Commercial Paper Notes of 1997, Series A (**Notes**). The Notes are issued pursuant to the General Resolution and are subordinate to the pledge granted to the Bonds. The Commission has adopted a Series Resolution that authorizes the issuance of Bonds to pay for the refunding of the Notes. This Series Resolution is required pursuant to the terms of a credit agreement by which a syndicate of banks provide a letter of credit for additional security on the Notes. These Bonds, when and if issued, will be issued on a parity with the Prior Bonds and any additional parity Bonds issued by the State pursuant to the General Resolution.

SECURITY

Sources of Payment

The Prior Bonds and any other revenue bond or obligation to be issued in the future on parity with the Prior Bonds, are revenue obligations of the State payable solely from the Redemption Fund created by the General Resolution. The Bonds are secured by a first lien pledge of Program Income, the Funds created by the General Resolution and any other income of the Program pledged to the payment of interest, principal, and Redemption Price on the Bonds. All Bonds previously authorized under the General Resolution are issued on parity with each other.

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 created by the General Resolution. The pledge of such Program Income to payment of the Notes is subordinate to the pledge of Program Income to payment of Bonds presently outstanding or hereafter incurred.

Program Income includes certain Vehicle Registration Fees authorized under Section 341.25 of the Wisconsin Statutes. All moneys derived under Section 341.25 of the Statutes or any other moneys that the State is authorized to pledge 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. Moneys derived from the Registration Fees are described below.

In accordance with and pursuant to the Revenue Obligations Act, the Act and the General Resolution, Program Income received or to be received by the Trustee in the Redemption Fund is deemed to be revenue of the Trustee and is pledged in the following order:

- to pay interest on all Outstanding Bonds

- to pay the principal or Redemption Price of all Outstanding Bonds as the same become due
- to maintain the Debt Service Reserve Requirement in the Reserve Fund
- to pay Program Expenses
- to pay principal and interest on the Notes

The pledge is effective upon the issuance of the Bonds and remains effective until all Bonds and Notes issued under the General Resolution are fully paid in accordance with their terms. All Program Income, which is in excess of the amounts necessary to meet the requirements outlined above, is transferred to the State for deposit in the Transportation Fund and becomes free of the lien of the pledge. The Department uses moneys in the Transportation Fund for any authorized purpose. See "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION".

The Bonds shall be revenue obligations of the State payable solely out of the Redemption Fund and each Bond shall contain on its face a statement to that effect. The State is not generally liable on the Bonds, and the Bonds shall not be a debt of the State for any purpose whatsoever. All Bonds previously authorized under the General Resolution are issued on parity with each other.

The Notes shall be revenue obligations of the State payable solely out of the Subordinated Debt Service Fund. The State is not generally liable on the Notes, and the Notes shall not be a debt of the State for any purpose whatsoever.

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

Registration Fees

Registration Fees as enumerated under Section 341.25, are highway user fees collected by the Department of Transportation from owners of most motor vehicles. Table V-1 summarizes the major Registration Fees authorized under Section 341.25. For summary purposes the revenues generated by the Registration Fees can be divided into four broad categories:

- 38% of total revenues are generated from automobiles
- 33% of total revenues are generated from large trucks (over 8,000 pounds gross weight)
- 26% of total revenues are generated from small trucks
- 3% of total revenues are generated by miscellaneous vehicles

Table V-1

Section 341.25 Registration Fees

Vehicle	Annual Fee
Automobile	$45
Trucks	Weight-based fee ranging from $48.50 to $1,969.50.
Bus	Fee equal to the fee for a truck of the same weight.
Trailer 12,000 lbs. and under	Fee equal to one-half of the fee for a truck of the same weight.
Trailer over 12,000 lbs.	Fee equal to the fee for a truck of the same weight.
Motor Homes	Weight-based fee ranging from $48.50 to $119.50.
Mobile Homes and Camping Trailers	$15
Motorcycle/Moped	$23 biennial fee.

Source: Wisconsin Department of Transportation

Section 341.25 registration fee revenues for the past ten years are summarized in Table V-2.

Table V-2

Section 341.25 Registration Fee Revenues
1989 to 1998

Fiscal Year (June 30)	Non-IRP Fees (Amounts in Millions)	Pledged IRP Fees[a] (Amounts in Millions)	Total (Amounts in Millions)	% Change
1989	$123.5	N.A.	$123.5	—
1990	126.0	$33.0	159.0	28.7
1991	126.3	31.4	157.7	-0.8
1992	173.6	34.1	207.7	31.7
1993	192.7	36.0	228.7	10.1
1994	198.5	37.1	235.6	3.0
1995	203.7	42.3	246.0	4.4
1996	205.4	43.3	248.7	1.1
1997	207.4	46.8	254.2	2.2
1998	232.4	48.2	280.6	10.4

[a] Prior to Fiscal Year 1990, fees collected under the International Registration Plan (**IRP**) were not a component of Section 341.25 revenues.

Source: Wisconsin Department of Transportation

In previous biennial budgets, the Legislature authorized a number of actions that have had an impact on the Registration Fees for the Program over the past ten years. Three of these actions increased the level of Registration Fees, and the fourth action affected the timing of the collection of a portion of the Registration Fees.

First, the 1997–99 biennial budget increased the Registration Fees for most motor vehicles effective December 1, 1997. Registration Fee increases authorized in that budget include:

- $5 increase in the automobile fee

- increase in truck registration fees ranging from $3.50 to $119.50
- increase in the motor home registration fees ranging from $3.50 to $8.50
- $3 increase in the biennial motorcycle/moped fee (effective May 1, 1998)

Second, the 1991–93 biennial budget increased the Registration Fees for most motor vehicles effective September 1, 1991. Registration Fee increases authorized in that budget include:

- $15 increase in the automobile fee
- increase in truck registration fees ranging from $15 to $150
- $15 increase in the motor home fee
- $6 increase in the biennial motorcycle/moped fee

Third, the 1989–91 biennial budget increased Program Income by including interstate truck registration revenues collected through the International Registration Plan (**IRP**) under the statutory pledge of revenues. Wisconsin is one of 48 states and three Canadian provinces that participate in the IRP, which is a multi-state compact for the collecting and sharing of large truck registration fees. Under the IRP, the registration fees on trucks involved in multi-state commercial activity are split between the participating states on the basis of proportionate mileage. Starting in Fiscal Year 1990, IRP revenues have been a component of the Program Income and have served to increase the level of pledged Registration Fees.

Finally, the 1989–91 biennial budget converted the registration fee for motorcycles and mopeds from an annual to a biennial fee, in order to obtain certain processing efficiencies. As a result, starting in Fiscal Year 1990, a two-year motorcycle/moped registration fee is now collected in even-numbered fiscal years.

As indicated in Table V-2, Section 341.25 revenues have historically increased (only once in the past ten years was there a minor reduction from one year to the next). When reviewing past Section 341.25 registration fee revenues, it is useful to divide total collections into two categories:

- non-IRP revenues
- IRP revenues

Table V-2 reflects the steady rate of growth that has occurred in non-IRP Section 341.25 revenues over the past ten years. The smallest rate of increase (0.2%) in these revenues occurred in Fiscal Year 1991. However, this figure was influenced by the implementation of biennial motorcycle registration during Fiscal Year 1990. If Fiscal Years 1990 and 1991 revenues are adjusted to eliminate the impact of the biennial motorcycle/moped fee, the rate of growth in Fiscal Year 1991 revenues would have totaled 1.9%, which is consistent with past collection trends. Thus, while the biennial fee influences the timing of the collection of a portion of the revenues (the growth rate in the even-numbered Fiscal Years has been and is expected to be greater than in odd-numbered Fiscal Years), the overall rate of growth in non-IRP Section 341.25 revenues has remained very steady. In Fiscal Year 1992 and 1993 the percentage changes reflect increases in Registration Fees required in the 1991–93 biennial budget. The increases were in effect for nine months of fiscal year 1992 with the remainder occurring in Fiscal Year 1993.

IRP Registration Fee collections have been included in the pledge of Section 341.25 revenues only since Fiscal Year 1990. On the basis of the Department's experience with the IRP, it is anticipated that this revenue source will be somewhat more volatile than the other portion of

Section 341.25 revenues. For example, over the last ten years, collections under the IRP have ranged from a low of $31.4 million to a high of $48.2 million. This volatility is a function of three different factors. First, IRP revenues are directly tied to the level of interstate trucking, which is directly associated with the condition of the national economy. Second, in recent years, the membership in the IRP has been expanding, which has resulted in shifts between states in the allocation of registration fees because of associated changes in proportional mileage. Federal law stated that by October 1, 1996, all of the contiguous 48 states must be IRP members. Because all 48 states are now members, this factor will no longer contribute to volatility in the future. Third, under the IRP, each state serves as the collection agent for the fees required to be paid by trucking firms based in that state and the base state is responsible for forwarding proportional fees to all other states. As a result, administrative issues in other participating states may cause delays in forwarding other states' shares of IRP fees.

Registration Fees are collected throughout the fiscal year. In order to smooth out the Department's vehicle registration workload, the Department has staggered vehicle registrations throughout the year. As a result, in Fiscal Year 1998, the flow of quarterly collections of annual Registration Fee revenues ranged from a low of 20.5% to a high of 28.7%. The recent and any future adjustment of Registration Fees may change the monthly distribution of Registration Fees collected.

Future Registration Fee revenues depend on the size of the vehicle fleet in subsequent years and the level of fees imposed on the various vehicle types. The methodology for registration fee revenue projections consists of two components:

- projection of registration by vehicle type by an econometric model developed by the Department, which relates the size of the vehicle fleet to anticipated changes in certain key economic variables
- adjustment of the econometric model projections based upon historical fleet information

The Department's model has two distinct components:

- anticipated changes in the size of the State's automobile fleet
- anticipated changes in the size of the State's truck fleet

The Department's econometric model relates the size of the automobile fleet to the disposable income in the State, the relative price of new autos, the level of unemployment, the size of the driving age population, historical rates of vehicle scrappage, and a measure of consumer confidence. The model relates the size of the truck fleet to the personal income in the State, industrial outlook, vehicle price, vehicle scrappage rates, and the level of unemployment. The long-range economic data used in the model are based on the projections published by Data Resources, Inc.

Projected Section 341.25 Registration Fee revenues for the next ten years are summarized in Table V-3

Table V-3

Projected Section 341.25 Registration Fee Revenues
1999 to 2008

Fiscal Year	Revenues[a] (Amounts in Millions)	% Change
1999	$297.8	—
2000	311.1	4.28%
2001	312.2	0.35
2002	324.6	3.82
2003	327.1	0.76
2004	341.5	4.22
2005	344.2	0.78
2006	359.2	4.18
2007	362.1	0.80
2008	377.7	4.13

[a] Includes both IRP and non-IRP Section 341.25 revenues.

Source: Wisconsin Department of Transportation

As previously indicated, the 1997–99 biennial budget increased most vehicle registration fees, effective December 1, 1997. In addition, effective October 1, 1998, the 1997–99 biennial budget also provides for a $10 fee for late registrations.

The Department will monitor Registration Fee revenue as it relates to scheduled debt service payments on the Bonds and payments on the Notes and recommend appropriate adjustments in Registration Fee schedules to the Governor and the Legislature. The State has covenanted in the General Resolution that as long as Bonds and Notes are Outstanding it will charge and cause to be deposited with the Trustee sufficient Program Income, including Registration Fees, to pay principal and interest on such Bonds, as the same become due, to maintain the Reserve Fund at the Debt Service Reserve Requirement, to pay Program Expenses, and to make payments into the Subordinated Debt Service Fund.

Forecasted Debt Service Coverage

Table V-4 shows the forecasted coverage of annual debt service on the Outstanding Bonds, based on the Department's estimated Registration Fees for 1999-2008. There can be no assurance that the estimated Registration Fees will be realized in the amounts shown. Table V-5 shows the amortization schedule of outstanding Notes if the Notes remain outstanding until 2018.

Table V-4
Debt Service on Outstanding Transportation Revenue Bonds and Estimated Revenue Coverage

Year Ending (July 1)	Total Debt Service[a]	Estimated Revenue[b] (Millions)	Estimated Coverage Ratio[c]
1999	$86,337,597.71	$297.80	3.45
2000	89,868,855.00	311.10	3.46
2001	91,073,052.50	312.20	3.43
2002	90,800,677.50	324.60	3.57
2003	90,756,140.00	327.10	3.60
2004	94,752,387.50	341.50	3.60
2005	94,604,300.00	344.20	3.64
2006	94,622,335.00	359.20	3.80
2007	82,890,847.50	362.10	4.37
2008	83,751,447.50	377.70	4.51
2009	79,638,400.00		
2010	66,631,452.50		
2011	66,696,045.00		
2012	66,765,322.50		
2013	67,318,110.00		
2014	67,438,485.00		
2015	58,991,747.50		
2016	50,109,462.50		
2017	40,821,277.50		
2018	40,870,982.50		
2019	24,728,087.50		
2020	16,087,000.00		
2021	16,083,500.00		
2022	16,088,750.00		
	1,577,726,263		

[a] Combined Debt Service on all Outstanding Bonds and *does assume* the issuance of up to $188.6 million to fund outstanding transportation revenue commercial paper notes.

[b] Excludes interest earnings.

[c] Assumes that no additional bonds will be issued and continuation of current registration fees. Estimates of revenue and coverage beyond 2008 are not shown.

Source: Wisconsin Department of Administration and Wisconsin Department of Transporation.

Table V-5

Amortization Schedule
Amount Due Annually on Transportation Revenue Commercial Paper
Issued to December 1, 1998 [(a)]

Fiscal Year (Ending June 30)	Principal
1999	$ 4,645,000
2000	4,835,000
2001	5,060,000
2002	5,295,000
2003	5,550,000
2004	5,825,000
2005	6,110,000
2006	6,425,000
2007	6,760,000
2008	7,120,000
2009	7,500,000
2010	7,905,000
2011	8,345,000
2012	8,810,000
2013	9,310,000
2014	9,840,000
2015	10,410,000
2016	11,010,000
2017	11,655,000
2018	12,340,000
TOTAL	$154,750,000

[(a)] The State intends to treat each issue of transportation revenue commercial paper as if it were a long-term bond issue by making annual payments on July 1. Each annual payment reflects a principal amortization. The State also intends to make payments on January 1 and July 1 on all outstanding transportation revenue commercial paper notes in amounts set forth in the Supplemental Resolution authorizing the particular issue of commercial paper notes.

Source: Wisconsin Department of Administration.

Registration Fee Collection Procedures

Pursuant to an agreement between the Department and the Trustee, the Department is the agent of the Trustee with respect to the collection of Registration Fees. The Registration Fees are collected in seven ways:

- by mail to a lock-box system operated by Firstar Bank Milwaukee, N.A. (**Bank**)
- over the counter in field registration stations
- by mail to the Department's Central office in Madison (**Central Office**)
- via telephone charge card renewal system
- at vehicle emission testing stations
- by State auto and light truck dealers

- via internet charge card renewal system

The Department is piloting an eighth method of collection, through financial institutions. Regardless of the method of collection, all Registration Fees are initially deposited with the Trustee for deposit in the Redemption Fund.

The principal method of collecting non-IRP Registration Fees is registration renewals by mail, which are sent directly to the Bank operating the lock-box system as agent for the Trustee. Under this lock-box system the renewals are mailed to the Bank by the vehicle owner. The renewal includes a check payable to "Registration Fee Trust" and an enclosure with relevant registration information on it. The Bank is to deposit its receipts of Registration Fees daily with the Trustee for deposit in the Redemption Fund.

Over-the-counter collections take place in 29 field registration stations throughout the State. These offices collect Registration Fees on behalf of the Trustee, as well as driver license fees, title fees, lien fees, salesman's license fees, permit fees, disabled identification card fees, and various other Department charges. The Department's financial system is a transaction-based computer system with the field stations linked to the Department's Central Office by terminal. All transactions are summarized daily and reported to the Central Office. The stations deposit their collections in an account in the Trustee's name for deposit in the Redemption Fund.

Collections at the Central Office differ from field-office collections in that it is primarily IRP payments and mail applications that are processed. IRP payments consist of checks submitted by individual truck operators, as well as checks generated by other states transmitting IRP payments to the State. Mail applications handled through the Central Office are primarily associated with the registration of vehicles that involve the transfer of ownership. All checks and cash collected through the Central Office are delivered to the Trustee for deposit in the Redemption Fund.

Telephone charge card renewal is a system available to motorists who prefer to charge their vehicle registration renewals. Under this system, motorists can renew their registrations through a touch-tone phone. The Department has contracted with a vendor to handle the voice response equipment and transmission of data. The vendor transfers all monies collected daily, from these transactions, through a wire transfer to the Trustee for deposit in the Redemption Fund. A service fee is charged to registrants to use this option.

The Department has a contract with a vehicle emission contractor to collect Registration Fees at emission testing stations. After a successful emission test, a registrant may chose to renew their registrations at a testing station. Under this method, the emission testing station is treated like a field registration station with direct connection to the Central Office's terminal. A service fee of $3.00 is charged to the registrant. This is the same fee paid at a Department Customer Service Center for this type of transaction. Currently there are six emission inspection locations providing this service with plans of adding six additional sites during the 1998-99 fiscal year.

The Department also has a series of contracts with car and light truck dealers to process vehicle title and registration and transmit such information electronically to the Department through an interface managed by a third-party vendor. The contracts provide an electronic interface between the Department and the dealer's data processing systems. The dealer collects registration and other fees that are electronically transferred daily from their bank accounts to the Department by the third-party vendor. A service fee is charged to registrants to use this option.

Internet charge card renewal is a system available to motorists who prefer to charge their vehicle registration renewals. Under this system, motorists can renew their registrations through the Internet. The Department has contracted with a vendor to handle the interfaces and transmission of data. The vendor transfers all monies collected from these transactions daily, through a wire transfer to the Trustee for deposit in the Redemption Fund. A service fee is charged to registrants to use this option.

The Department has a pilot program with financial institutions to process titles and registrations and transmit the information through an electronic interface provided by a separate vendor to the Department and financial institution. The financial institution collects registration and other fees that are electronically transferred daily from the financial institution to the Trustee for deposit into the Redemption Fund. A service fee is charged to registrants to use this option.

Reserve Fund

The General Resolution creates a Reserve Fund and provides that it shall be used to make up any deficiency in the Redemption Fund for the payment of principal of and interest on all of the Outstanding Bonds. Each Series Resolution sets forth the Debt Service Reserve Requirement, if any, for that Series. The Debt Service Reserve Requirements for all of the Outstanding Bonds are combined to determine the aggregate Debt Service Reserve Requirement. If all of the Bonds of a Series cease to be Outstanding, then the aggregate Debt Service Reserve Requirement may be reduced by the Debt Service Reserve Requirement attributable to that Series.

Currently, the Reserve Fund has been funded in an amount at least equal to the maximum annual interest due on the Outstanding Bonds. No representation is made as to the Debt Service Reserve Requirement that may be established upon the issuance of additional Series of Bonds. If there is a deficiency in the Reserve Fund, the Trustee shall, after setting aside in the Principal and Interest Account the applicable amounts 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 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 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.

Surety Bond

On May 27, 1993 and in conjunction with the issuance of the 1993 Bonds, the State began funding the Debt Service Reserve Requirement with an irrevocable surety bond from Ambac Assurance Corporation (**Ambac Assurance**). Subsequently, each time that Bonds have been issued, the Debt Service Reserve Requirement for the then Outstanding Bonds has been recalculated and the previous Surety Bond has been exchanged for a new Surety Bond. Currently, the Surety Bond is in an amount of $40,475,000 (**Surety Bond Coverage**), which is greater than the maximum annual interest due on the Outstanding Bonds. The premium for the Surety Bond is paid in full. The Surety Bond is noncancelable until it expires on the earlier of July 1, 2022 or when all Outstanding Bonds issued, now or in the future, under the General Resolution are paid in full. Principal payments or defeasance of Outstanding Bonds does not reduce the Surety Bond Coverage.

The Surety Bond provides that upon the later of:

- one day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made, or
- the interest payment date specified in the Demand for Payment submitted to Ambac Assurance

Ambac Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Bonds, but in no event exceeding the amount of Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the State is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the State is subordinate to the State's obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond, or other such additional funding instrument, draws on the Surety Bond and the additional funding instrument shall be made on a pro rata basis to fund the insufficiency.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

Ambac Assurance

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $3,200,000,000 (unaudited) and statutory capital of approximately $1,815,000,000 (unaudited) as of September 30, 1998. Statutory capital consists of Ambac Assurance policyholders' surplus and statutory contingency reserve. Moody's Investors Service, Standard & Poor's Ratings Services and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Annual Report other than the information supplied by Ambac Assurance and presented under the headings "*Surety Bond*" and "*Ambac Assurance* ".

Program Income Covenant

In the General Resolution, the State has covenanted that it will charge and cause to be deposited with the Trustee sufficient Program Income:

- to pay all principal of and interest on the Bonds as the same become due
- to maintain the Reserve Fund at its requirement
- to pay Program Expenses
- to make required deposits into the Subordinated Debt Service Fund
- to maintain the applicable requirements of such other funds and accounts specified under the General Resolution

See "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION".

Program Expense Fund

The General Resolution provides that on the first day of each January, April, July, and October, after setting aside in the Principal and Interest Account in the Redemption Fund the amount of principal of and interest on Outstanding Bonds accruing during each such quarterly period, the Trustee is to deposit in the Program Expense Fund Program Income equal to the amount of Program Expenses accruing during such quarterly period as set forth in the Department's annual budget for Program Expenses for such year. The General Resolution defines Program Expenses as the reasonable and proper costs and expenses of the Department for the operation and maintenance of the Program, including, without limitation, the administrative expenses allocable to the Program and the fees and the expenses of the Trustee and the Registrar for the Bonds and dealers, letter of credit provider and issuing and paying agent for the Notes.

Additional Bonds

The General Resolution authorizes the issuance of additional Bonds for the purpose of paying the costs of Projects and refunding 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 1.75 times the maximum aggregate Principal and Interest Requirement in any Bond Year for all Outstanding Bonds. The General Resolution defines Outstanding Bonds, as of any particular date, as all Bonds theretofore and thereupon being delivered except:

- any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Registrar
- any Bond deemed to have been defeased pursuant to the General Resolution
- 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

In addition, upon the issuance of such additional Bonds the amount on deposit in the Reserve Fund must at least equal the Debt Service Reserve Requirement. See "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION; Additional Bonds".

For purposes of establishing the requisite ratios set forth above, the amount of the Interest Requirement shall be determined by utilizing:

- the fixed interest rates applicable to the specified time periods in the case of a fixed interest rate Series of Bonds.
- the maximum interest rate permitted by the Series Resolution for the time period specified in the case of a variable interest rate Series of Bonds.

TRANSPORTATION PROJECTS COMMISSION

In 1983, the Transportation Projects Commission (**TPC**) was created under Section 13.489 of the Wisconsin Statutes to define, review and recommend major highway projects to the Governor and the Legislature. The recommendations of the TPC are reviewed and acted upon by the Governor and the Legislature during the course of the State's biennial budget process. The TPC consists of the Governor, three citizen members appointed by the Governor to serve at his or her pleasure and five State Senators and five representatives to the Assembly appointed as members of standing committees in their respective houses. Of the members from each house, three are chosen from the majority party and two chosen from the minority party. The Secretary of Transportation serves as a nonvoting member and the Governor serves as chairperson.

The Department assists the TPC in the performance of its duties by making studies and cost estimates for proposed projects under consideration by the TPC. The Department reports to the TPC by September 15 of each even-numbered year concerning its recommendation for adjustments in the major highway projects program. The TPC reports its recommendations to the Governor or Governor-elect and the Legislature, no later than December 15 of each even-numbered year. The TPC may recommend approval, approval with modifications or disapproval of any project, except that the TPC may not recommend the approval, with or without modifications of any project unless:

- The TPC determines that construction will be commenced on all currently enumerated projects and on the project(s) recommended for approval within six years after the first July 1 after the date on which the TPC recommends approval of the project(s), and
- The report recommending approval of the project(s) is accompanied by a financial proposal that, if implemented, would provide funding in an amount sufficient to ensure that construction will commence on all currently enumerated projects and on the recommended project(s) within those six years.

In determining the commencement date, the TPC shall assume the current year funding will be adjusted annually for inflation. The projects recommended by TPC are included in the Governor's recommendations in the next biennial budget submission. Legislative action is then required to statutorily enumerate the projects. The Department may not construct a major highway project without such statutory authorization.

THE WISCONSIN DEPARTMENT OF TRANSPORTATION

General

The Department, through legislative and executive action, has evolved into a cabinet-level transportation agency. The Secretary is appointed by the Governor and confirmed by the Senate.

The Department's principal administrative offices are located at 4802 Sheboygan Avenue in Madison, Wisconsin. In addition, the Department has approximately 151 field offices located throughout the State.

Management and Staff

The executive functions of the Department are directed and supervised by the Secretary who is assisted by the Deputy Secretary.

As of November 1, 1998 the Department had more than 3,900 employees, including approximately 600 civil engineers. Of the Department's employees, approximately 80% are represented employees whose wage rates, fringe benefits, hours, and conditions of employment are determined by collective bargaining agreements. These employees are assigned on the basis of occupational groupings to one of twelve Statewide bargaining units. By statute the contracts between the State and the individual bargaining units are two-year contracts and coincide with the State's fiscal biennium. A contract agreement requires ratification by the members of the labor organization as well as approval of both houses of the Legislature and the Governor.

Contracts covering the period of July 1, 1997 to June 30, 1999 for the represented employees are in effect for all of the Department's represented employees. Each contract contains a no-strike or no-lockout provision, and State Law specifies that it is illegal for a State employee "to engage in, induce, or encourage any employee to engage in a strike or a concerted refusal to work or perform their usual duties as employees."

Organization

The powers and duties of the Department are specified in the State statutes. Under the direction of the Secretary, these responsibilities are carried out by six Divisions within the Department and are summarized as follows:

- *Division of Transportation Investment Management*—The division provides the planning, data collection, and policy development necessary to guide the use of state and federal transportation dollars.
- *Division of Transportation Infrastructure Development*—The division develops the policies, standards, and procedures used to plan, design, and construct and operate the state's transportation system.
- *Division of Transportation Districts*—The division develops and promotes an understanding of the transportation needs of the respective regions, represents those needs to the Department, takes part in policy and budget development activities within the Department, works with local governments and planning agencies to define needs and delivers, operates, and maintains highway facilities administered by the Department.
- *Division of Motor Vehicles*—The division provides vehicle registration and licensing services; driver examination and licensing; dealer regulation and licensing; services to motor carrier operators; and consumer protection services.
- *Division of State Patrol*—The division is responsible for enforcing the State traffic and motor carrier laws, assisting motorists, and inspecting certain vehicles for safety.
- *Division of Business Management*—The division provides personnel management, accounting, general operations, and data processing services for all Departmental divisions.

The Department is involved with various forms of transportation facilities in the State, including air, highway, rail, mass transit, and water transportation for both people and goods. It uses both its own revenues and federal aid to fund this involvement. Table V-6 presents a summary of the facilities and their users for the latest available year.

Table V-6

Wisconsin Transportation
Facilities and Users

Mode	Facilities	Users
Streets and Highways	111,500 miles state and local	4.5 million vehicles 3.7 million drivers
Air	100 airports (eligible for state and/or federal aid)	5,073 active airplanes 10,989 pilots 26 scheduled airlines
Rail	4,208 (estimated) route miles	10 railroads plus Amtrak service
Bus	63 urban transit systems	
Water	12 Great Lakes ports 3 Mississippi River ports	

Source: Wisconsin Department of Transportation

Highway and Facilities Functions

The highway jurisdiction of the Department extends over a system of approximately 11,800 miles of roads, including more than 740 miles of interstate highways and nearly 5,300 bridges. In 1997 travel on the State trunk highway system was estimated to be 53.7 billion vehicle miles of travel and is expected by the Department to increase to 69.3 billion vehicle miles of travel by the year 2010. The Department's goal is to provide for and promote adequate, safe and efficient transportation for citizens of the State, business and industry.

The Department has many responsibilities concerning the development and use of highways and streets. The following is a list of its major areas of responsibility:

- to plan, design, construct and maintain the State trunk highway system
- to administer vehicle registration and licensing, driver examination and improvement, and dealer regulation and licensing program and to collect fees, including Registration Fees, for such functions
- to grant aid and to advise and assist towns, villages, cities, and counties in regard to construction and maintenance of roads and bridges under their jurisdiction (the transportation aid system in Wisconsin is generally predicated on the principle of sharing State collected transportation revenues with local governments)
- to administer all matters pertaining to the expenditure of State and federal funds for the improvement of State and local highways
- to promote the safe, efficient, and legal movement of persons and property on State highways through enforcement of State statutes applicable to highway safety and motor carrier regulation

The Department's transportation facilities consist of seven State Patrol headquarters, the State Patrol Academy, 62 communication towers and building locations, eight highway district offices and 128 driver examining and registration counter stations, as well as the Central Office, together with a number of support facilities such as a radio shop, materials lab and a fleet service facility.

Projects

Under current State law, the Department may commence construction on a major highway project only if the project has been enumerated for construction in the Statutes. A major highway project is defined as a project which has a total cost of more than $5,000,000 and which involves one or more of the following:

- constructing a new highway 2.5 miles or more in length
- relocating 2.5 miles or more of an existing highway
- adding one or more lanes, 5 miles or more to an existing highway
- improving 10 miles or more of existing multi-lane divided highway to freeway standards

Once a major highway project has been enumerated in the Statutes, the project is scheduled for construction by the Department. All state highway improvement projects, including authorized major highway projects, are scheduled in the Department's six-year highway improvement program. This six-year program, which is updated on a biennial basis, serves as the basic tool that translates the Department's long-term improvement plans into annual construction programs.

The Department and the State are currently authorized by statute to use Bond proceeds for right-of-way acquisition and construction of 75 major highway projects and certain transportation administrative facilities. Of the 75 enumerated major highway projects, the Department has completed construction on 43 projects.

The following is a brief summary of major highway projects and transportation administrative facilities. Projects expected to be constructed in whole or in part by the proceeds of the Bonds and Notes are as follows:

Lake Arterial (Segment between Layton Avenue to Carferry Drive in Milwaukee County).
This project is on a new location. It would extend from the southerly terminus of I-794 at Carferry Drive southerly on or adjacent to the Chicago and North Western right-of-way, to the intersection with Layton Avenue, a total distance of 3.1 miles.

US Highway 151 (Columbus to US Highway 41 in Columbia, Dodge and Fond du Lac Counties).
This corridor project will improve existing USH 151 to a four-lane expressway. The project begins at STH 73 south of Columbus and extends to USH 41 at Fond du Lac, a distance of 45.2 miles.

State Trunk Highway 29 (Green Bay to Chippewa Falls in Brown, Shawano, Marathon, Clark and Chippewa Counties).
This corridor project will improve existing STH 29 to a four-lane express highway, a distance of 140.2 miles.

US Highway 10 (Marshfield to Appleton in Outagamie, Waupaca, Portage and Wood Counties).
This corridor project will improve USH 10 to a four-lane expressway between Marshfield in Wood County and Appleton in Outagamie County, a distance of 95 miles.

US Highway 53 (Trego to Hawthorne in Douglas and Washburn Counties).
This project will improve existing USH 53 between Trego and Hawthorne to a four-lane expressway, a distance of 41.2 miles.

US Highway 51 (Tomahawk Bypass in Lincoln County).
This project will improve existing USH 51 bypass of Tomahawk between CTH S and USH 8 to a four-lane freeway, a distance of 9.3 miles.

US Highway 12 (Whitewater Bypass in Jefferson and Walworth Counties).
This project will construct a two-lane bypass of Whitewater between USH 12 approximately 1.5 miles northwest of Whitewater to USH 12, 1.0 mile east of CTH P, a distance of 6.6 miles.

State Trunk Highway 31 (Between STH 11 and CTH S in Racine and Kenosha Counties).
This project will improve existing STH 31 to a six-lane urban divided highway, a distance of 6 miles.

State Trunk Highway 29 (Chippewa Falls to I 94 in Chippewa and Dunn Counties).
This project constructs a high quality four-lane facility from Chippewa Falls to I 94, including a bypass of Chippewa Falls, a distance of 22 miles.

State Trunk Highway 35 (CTH U to I 94 in St. Croix County).
This project will upgrade existing STH 35 to a four-lane expressway between CTH U and I 94, a distance of 6.8 miles.

State Trunk Highway 50 (Slades Corners to USH 12 in Kenosha and Walworth Counties).
This project will improve existing STH 50 to a four-lane expressway between Slades Corners and USH 12, a distance of 7.7 miles.

State Trunk Highway 57 (STH 54 to CTH A in Brown and Kewaunee Counties).
This project will improve existing STH 57 between STH 54 in Brown County to CTH A in Kewaunee County to a four-lane expressway, a distance of 11.2 miles.

State Trunk Highway 110 (USH 41 to STH 116 in Winnebago County).
This project will construct a four-lane expressway between USH 41 to STH 116, a distance of 7.4 miles.

US Highway 41 (STH 145 to USH 41/141 Interchange in Washington, Dodge, Fond du Lac, Winnebago, Outagamie, Brown and Oconto Counties).
This corridor project will upgrade USH 41 to a freeway between STH 145 in Washington County and the USH 41/141 interchange in Oconto County, a distance of 84.2 miles.

State Trunk Highway 11 (Janesville Bypass and Beloit Bypass in Rock County).
This project will construct a two-lane bypass of Janesville, a distance of 6.1 miles and a two-lane bypass of Beloit, a distance of 2.5 miles.

US Highway 12 (USH 12/14 Interchange to State Trunk Highway 60 in Dane and Sauk Counties).
This project will upgrade existing USH 12 to a four-lane divided expressway between the USH 12/14 interchange area in Middleton and STH 60, a distance of 18.2 miles.

State Trunk Highway 13 (USH 10 to Lincoln Avenue, Marshfield in Wood and Marathon Counties).
This project will construct a new four-lane divided urban arterial between USH 10 and Lincoln Avenue in Marshfield, a distance of 5.0 miles.

State Trunk Highway 64 (Houlton to New Richmond in St. Croix County).
This project will upgrade existing STH 64 to a four-lane expressway between STH 64 northeast of Houlton and STH 65 east of New Richmond, a distance of 14.3 miles.

US Highway 151 (Fond du Lac Bypass in Fond du Lac County).
This project will construct a new two-lane bypass of Fond du Lac, a distance of 11 miles.

State Trunk Highway 57 (I 43 to State Trunk Highway 57 in Ozaukee and Sheboygan Counties).
This project will improve STH 57 to a four-lane expressway, between I 43 and 0.5 mile north of the southern Sheboygan County line, a distance of 10.5 miles.

US Highway 151 (USH 151 to STH 23 in Lafayette and Iowa Counties).
This project will extend approximately 18.2 miles between USH 151 west of Belmont and STH 23 south of Dodgeville, designated as the Belmont to Dodgeville project.

State Trunk Highway 16 and State Trunk Highway 16/67 (STH 16 to STH 16/67 in Jefferson and Waukesha Counties).
This project will extend approximately 7.4 miles from the junction of STH 16 with the Rock River to the STH 16/67 interchange east of Oconomowoc, designated as the Oconomowoc bypass.

US Highway 53 (USH 53/STH 93 to USH 53/STH 124 in Eau Claire and Chippewa Counties).
This project will extend approximately 7.5 miles between USH 53 south of the USH 53/STH 93 interchange in Eau Claire and the USH 53/STH 124 interchange south of Chippewa Falls, designated as the Eau Claire freeway.

State Trunk Highway 11 (Burlington Bypass in Walworth and Racine Counties)
This project, extending approximately 7.6 miles from west of Burlington to STH 36/83 east of Burnlington, will construct a part four-lane and part two-lane bypass with access control around Burlington, including a railroad grade separation.

US Highway 12 (Ski Hi Road to I90/94 in Sauk County)
This project will improve USH 12 to a four-lan expressway freeway from the junction of USH 12 and I90/94 to approximately 0.8 miles south of Ski Hi Road in Sauk County, a distance of 11.6 miles.

US Highway 53 (LaCrosse River Valley in LaCrosse County)
This project, extending approximately 6.2 miles between I90 and USH 14/61 in the City of LaCrosse, will increase north-south capacity through the City of LaCrosse by adding new roadway links, widening existing roadways and implementing measures such as one-way street pairs to improve the traffic flow in the downtown area. The roadway improvements also include measures to enhance bus transit and bicycle transportation.

State Trunk Highway 57 (Dyckesville to STH 42 in Kewaunee and Door Counties)
This project will improve STH 57 to a four-lane divided expressway with managed access from the junction of STH 57 with CTH "A" to STH 42, a distance of 17.3 miles, completing a four-lane route between Green Bay and Sturgeon Bay.

US Highway 141 (STH 22 to STH 64 in Marinette and Oconto Counties)
This project will improve USH 141 to a four-lane divided expressway between Lemere Road and 6th Road, a distance of 15.4 miles.

US Highway 141 (Abrams to STH 22 in Oconto County)
This project will improve USH 141 to a four-lane divided expressway between USH 141/41 interchange near Abrams and approximately 1.0 mile north of STH 22, a distance of 7.5 miles.

US Highway 151 (Dickeyville to Belmont in Grant and LaFayette Counties)
This project will improve USH 151 to a four-lane divided expressway with managed access between the junction of USH 151 and CTH "HH" south of Dickeyville to west of Belmont, a distance of 18 miles.

The following administrative facilities projects are expected to be financed in whole or in part from proceeds of Prior Bonds and additional Bonds and from Notes:

Driver's License Stations.
The Department plans to construct a parking lot rehabilitation project at the customer service station in Beaver Dam. The State Patrol District 2 headquarters expansion will include a Division

of Motor Vehicles Express Office. In addition, HVAC modifications to the Milwaukee Southeast DMV offices to improve indoor air quality will be made.

State Patrol Facilities.
District 2 Headquarters at Waukesha will be remodeled and expanded, including allowing space for the DMV Express Office. Five communication towers will be constructed:

- Eden in Fond du Lac County, including a building expansion
- Meteor in Sawyer County
- Ashridge in Richland County
- Marinette in Langlade County
- Lapham Peak Tower by the Education Communications Board and shared by the departments

Madison Hill Farms Building.
A project is authorized to upgrade telecommunications infrastructure and wiring in the Hill Farms State Transportation building.

Highways Facilities.
Four projects are authorized:

- Renovation of the sign shop at Transportation District Two in Waukesha
- Renovation of the headquarters building for Transportation District Three in Green Bay
- Remodeling and expansion of a building in Wisconsin Rapids that will house Transportation District Four offices in one location
- Construction of central materials laboratory and total renovation of the office wing at the Department's Truax location

Table V-7 summarizes cost information for the major highway projects and administrative facilities projects described above. Cost data for the major highway projects represent the estimated cost, in 1998 dollars, to finish the uncompleted portion of the project. The cost estimates for the administrative facilities projects represent the total cost to complete the construction.

Table V-7
Major Highway Projects Expected to be Constructed in Whole or in Part from Bond and Note Proceeds

		Estimated Cost of Completion (Amounts in Millions)	Anticipated Year of Completion
Lake Arterial	Milwaukee Co.	$ 7.5	2001
USH 151	Columbus to USH 41 in Columbia, Dodge and Fond du Lac Co.	56.1	2004
STH 29	Green Bay to Chippewa Falls in Brown, Shawano, Marathon, Clark and Chippewa Co	53.2	2000
STH 29	Chippewa Falls to I 94, including Chippewa Falls Bypass in Chippewa and Dunn Co.	114.2	2004
USH 10	Appleton to Marshfield, in Outagamie, Waupaca, Portage and Wood Co.	263.7	2009

		Estimated Cost of Completion (Amounts in Millions)	Anticipated Year of Completion
USH 53	Trego to Hawthorne in Douglas and Washburn Co.	4.2	1999
USH 51	Tomahawk Bypass in Lincoln Co.	21.7	2001
USH 12	Whitewater Bypass in Jefferson and Walworth Co..........................	28.8	2002
STH 31	STH 11 to STH 142 in Racine and Kenosha Co..............................	28.1	2001
STH 35	CTH U to I 94 in St. Croix Co..	12.0	2001
STH 50	Slades Corners to USH 12 in Kenosha and Walworth Co................	24.9	2001
STH 57	STH 54 to CTH A in Brown and Kewaunee Co.	29.4	2003
STH 110	USH 41 to STH 116 in Winnebago Co.	33.7	2003
USH 141	Abrams to STH 22 in Oconto Co...	24.2	2002
USH 41	STH 145 to the USH 41/141 Interchange in Washington, Dodge, Fond du Lac, Winnebago, Outagamie, Brown and Oconto Counties	71.6	2001
STH 11	Janesville Bypass & Beloit Bypass in Rock Co...............................	23.9	2002
USH 12	USH 12/14 Interchange to STH 60 in Dane & Sauk Co.	69.4	2002
STH 13	USH 10 to Lincoln Ave., Marshfield in Wood & Marathon Co.........	31.8	2003
STH 64	Houlton to New Richmond in St. Croix Co.....................................	78.2	2005
USH 151	Fond du Lac Bypass in Fond du Lac Co.	46.4	2006
STH 57	I 43 to STH 57 in Ozaukee & Sheboygan Co.	14.5	2001
USH 151	Belmont to Dodgeville in Lafayette & Iowa Co.	65.3	2003
STH 16	Oconomowoc bypass in Jefferson & Waukesha Co.	44.4	2006
USH 53	Eau Claire freeway in Eau Claire & Chippewa Co.	95.3	2006
STH 11	Burlington Bypass in Racine & Walworth Co.	73.5	2008
USH 12	Ski Hi Road to I90/94 in Sauk Co	30.0	2005
USH 53	LaCrosse River Valley in LaCrosse Co...	73.8	2008
STH 57	Dyckesville to STH 42 in Door & Kewaunee Co	64.9	2008
USH 141	STH 22 to STH 64 in Marinette & Oconto Co................................	51.4	2006
USH 151	Dickeyville to Belmont in Grant & Lafayette Co	71.2	2005
	Total Cost of Completion...	$1,607.3	

Administrative Facilities Projects Expected to be Financed in Whole or in Part from Bond and Note Proceeds

	Estimated Cost of Completion (Amount in Millions)	Anticipated Year of Completion
DMV Beaver Dam Service Center	$0.1	1999
DSP Eden Communication Radio Tower and Building................	0.3	1999
DSP Waukesha Headquarters Expansion	2.0	1999
Waukesha Sign Shop Renovation	0.3	1999
Green Bay District Headquarters Renovation	0.4	1999
Wis. Rapids District Office Remodel..	0.9	2000
DOA - Hill Farms Telecommunications Cabling	1.2	1998
ECB - Lapham Peak Tower Relocation.......................................	0.2	1999
DMV Sheboygan Service Center Parking Lot	0.2	1998

	Estimated Cost of Completion (Amount in Millions)	Anticipated Year of Completion
DSP EVOC Overlay	0.1	1999
DMV Service Centers	0.2	1999
DSP Rib Mountain Radio Tower	0.1	2000
Eau Claire & Spooner Sign Shops	0.3	1999
DSP Meteor Radio Tower	0.2	1999
DSP Ashridge Radio Tower	0.2	1999
DSP Marinette Radio Tower	0.2	1999
Milwaukee SE DMV Center	0.1	1999
Truax Renovation	1.8	1999
West Allis District Facility	0.2	1998
La Crosse District Facility	0.2	1999
Total Cost of Completion	$9.2	

The Department currently has statutory authority to issue a total of $1.348 billion of Bonds excluding revenue bonds issued to refund outstanding revenue bonds or issued to fund commercial paper notes, to finance such Projects, bond reserves, and costs of issuance. To finance the costs of completion of all major highway Projects, the Department may use moneys from the following sources:

- existing and future Legislative authorization for the issuance of Bonds
- Federal aid
- moneys in the Transportation Fund which may be appropriated in the future for such purposes

Highway Projects are evaluated and recommended to the Transportation Projects Commission by the Department based on the following established criteria

- severity and extent of deficiencies relating to safety and traffic flow
- a benefit/cost analysis
- economic impact of the project on existing and projected new businesses
- environmental and social impact of the surrounding communities
- system continuity
- community impact as determined by public interest and local and regional support
- consistency with local and regional plans

The Department is responsible for managing the State highway program. In this capacity, the Department schedules all projects, completes environmental reviews, designs the projects, acquires right-of-way, determines the mix of fund sources for individual projects, lets and awards all contracts, supervises construction activities, and performs final inspections on all projects. These activities are either performed directly by the Division of Highways or by consultants working at the direction of Departmental staff.

The Department's transportation facilities building program is managed in conjunction with the Department of Administration and the Building Commission. To receive statutory authority to acquire and construct a transportation facility project, the Department sends a request for purchasing, improving or constructing facilities to the Department of Administration which analyzes the request in terms of need, cost estimates and consistency with Commission guidelines on such features as safety, structural soundness and energy impact. Its decision is forwarded to the Legislature. The Legislature determines whether such transportation facilities are to be financed from Bond proceeds, the proceeds of State general obligation debt or from the Transportation Fund and makes necessary statutory appropriations and authorizations.

The Legislature may in the future identify additional major highway and transportation facilities Projects and authorize the State and the Department to use Bond proceeds to finance the acquisition and construction of such additional Projects. The Department expects that it will periodically need Bond proceeds to improve the State's system of highways and transportation facilities.

Department Highway and Financing Plans

The Governor, Legislature, and the TPC have endorsed a "Corridors 2020" plan for a network of superior quality highways to foster economic development and to meet the State's mobility needs into the 21st Century. With subsequent revisions, this "Corridors 2020" plan will consist of approximately 3,650 miles and is composed of two elements:

- A 1,550-mile backbone network of highways to interconnect major cities and regions of Wisconsin and to tie them to national and world markets. While 1,260 miles of this system are already in place, work on 290 miles still remains.
- A 2,100-mile system of two- and four-lane connectors directly linking other significant economic and tourism centers to the backbone system. The plan calls for upgrading 565 miles of 2-lane connectors to four lanes. Of the 565 miles, 160 are now complete.

The Department currently has enumerated all but one backbone route and the enumerated projects are expected to be completed in 2008.

The specific 1991–93 transportation budget provisions recommended by the Governor for "Corridors 2020" were announced as a part of a larger package of transportation initiatives, called "Mobility 2000." This proposal outlined a strategic, long-term and diverse package of transportation programs and policies.

On November 17, 1994, the Department formally adopted a comprehensive, long-range intermodal transportation plan called Translinks 21. This plan, which is required by and fully complies with federal Intermodal Surface Transportation Efficiency Act requirements, is proposed to guide transportation policies, programs and investments through the year 2020.

Translinks 21 outlines a blueprint to invest $39 billion in transportation over 25 years – or about $8.9 billion over current spending levels extended. It provides the investments needed to maintain and improve highways as the backbone of the transportation system, while also making investments in alternatives to ensure mobility for people who cannot drive, or elderly and disabled persons, and for businesses.

In the first biennium since completion of Translinks (1995-97), the approved budget increased bonding authority by $132.8 million for major highway projects and directed the Department to accelerate completion of the major segment of a highway (State Highway 29 from Green Bay to Chippewa Falls by the year 2000) which is a backbone highway in the plan.

The 1997–99 transportation budget increases bonding authority for major highway projects by $22.4 million. Six major Corridors 2020 projects were enumerated; five projects were for connectors totaling 58 miles; and one project was a backbone route of 18 miles.

In terms of financing plans, the State has followed the policy since the mid–1980s that the major highway projects program should be financed through a combination of transportation revenue obligations and State and federal funds. The Department's long-term financing plans are premised on the continuation of this policy. It also should be noted that in the highway improvement program, transportation revenue bonds are used as a funding source only for major highway projects. The remaining nonmajor portion of the program is financed entirely from State, federal and local moneys.

Federal TEA 21

In 1998, the federal transportation programs and funding were reauthorized in the Transportation Equity Act for the 21st Century (**TEA 21**). This reauthorization replaced the Intermodal Surface Transportation Efficiency Act (**ISTEA**). While changes in the federal transportation program structure were modest, TEA 21 contained substantial funding increases over ISTEA levels. The Department anticipates federal funding levels for highway, transit, safety, and some rail programs to total approximately $1.02 billion in 1999-2001. Actual federal funding levels will depend on total highway trust fund contributions, Wisconsin share of those contributions and the annual appropriation process.

Department Finances

In addition to Bond financing, the funds used to build the State highway system generally come from two sources: the State Transportation Fund and the Federal Highway Trust Fund. The money in these funds comes primarily from the users of highways. The largest portion of this money is generated through the State and federal motor fuel taxes. Currently, the State has a use tax on motor fuel of 25.4 cents per gallon.

Effective April 1, 1998 and as a result of the 1997-99 biennial budget, the State motor fuel tax will be indexed using only an inflation-only factor based on the change in the Consumer Price Index. Previously, the State motor fuel tax was adjusted annually by the use of a two-factor index, which combined a Consumer Price Index-based inflation factor with a consumption factor to produce the overall percentage adjustment to the fuel tax. The reason for this two-factor indexing was to correct the two principal transportation finance problems; declining fuel consumption and inflationary pressures on transportation costs. Motor fuel consumption is expected to increase in the foreseeable future which, absent a change in methodology for calculating the motor fuel tax rate, would limit motor fuel tax revenues. Changing the indexing formula to an inflation-only calculation increases the ability of the Department to generate sufficient revenues to cover the increasing transportation infrastructure costs. Since its inception, the indexing formula has increased the State's fuel tax rate by 6.4 cents through thirteen annual adjustments in fourteen years.

State transportation revenues in the Transportation Fund in the 1997–99 biennium will provide approximately 67% of the Department's total budget. State transportation revenues are generated by the motor fuel tax, registration fees, license fees and motor carrier fees. The Department estimates that in the 1997–99 biennium 65% of its State transportation revenues will come from motor fuel taxes, 28% from registration fees (including Registration Fees deposited with the Trustee and pledged for repayment of the Bonds and Notes) and 7% from other fees and taxes.

Such revenues, including Registration Fees in excess of amounts required by the General Resolution to be held by the Trustee (see "SECURITY"), are deposited in the Transportation Fund and are used for any authorized purpose. These moneys are not pledged to or available for the payment of debt service on the Bonds and Notes. Registration Fees held by the Trustee in the Funds and Accounts created by the General Resolution are not available for the payment of the costs of any of the Department's other functions and programs except for the Program.

State transportation revenues are allocated to various transportation programs by the Legislature as a part of the biennial State budget. The following is the approximate allocation for the 1997–99 biennium:

- 42.2% went to local units of government
- 23% went to system improvements, with 20.4% to preserve existing highways and bridges and 2.6% to major projects
- 15.2% paid Departmental operations
- 12.3% went to system maintenance
- 7.4% paid debt service

Before 1987 the Department utilized State general obligation proceeds for the construction of State highways. The Department uses monies from the Transportation Fund to make its share of debt service payments on these general obligation bonds. As of December 1, 1998, the outstanding amount of general obligation bonds issued for this purpose was $13.3 million. In addition, there is also statutory authority for the Department to utilize State general obligation bond proceeds for other purposes as outlined below:

Purpose	Legislative Authorization (Amounts in Millions)	General Obligations Issued to Date (Amounts in Millions)
Harbor Improvement	$15.0	$11.8
Freight Rail	19.0	10.6
Passenger Rail	50.0	0.0

Debt service on general obligations issued for harbor improvement and freight rail is paid by the Transportation Fund. Registration Fees can be used to pay debt service on such State general obligation debt only after their deposit in the Transportation Fund, free and clear of the lien and pledge of the General Resolution.

Table V-8

OUTSTANDING TRANSPORTATION REVENUE OBLIGATIONS BY ISSUE

(As of December 1, 1998)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Long-Term Transportation Revenue Bonds				
1984, Series A	4/15/84	1985-2004	$	0 [a]
1986, Series A	6/15/86	1987-2007	139,055,000	0 [a]
1988, Series A	4/15/88	1989-2008	51,475,000	0 [a]
1989, Series A	4/15/89			

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Serial Bonds		1990-2004	31,165,000	0 [a]
Term Bonds		2009	20,135,000	0 [a]
1991, Series A	10/1/91	1992-2011	105,660,000	13,390,000 [a]
1992, Series A	7/1/92			
Serial Bonds		1999-2006	96,945,000	87,770,000 [a]
Term Bonds		2009	22,260,000	21,525,000 [a]
Term Bonds		2012	3,520,000	0 [a]
Term Bonds		2022	16,880,000	15,570,000 [a]
1992, Series B	7/1/92			
Serial Bonds		1993-2006	55,155,000	26,180,000 [a]
Term Bonds		2009	18,395,000	0 [a]
Term Bonds		2012	21,770,000	0 [a]
Term Bonds		2022	104,390,000	96,280,000 [a]
1993, Series A	9/1/93	1994-2012	116,450,000	100,735,000
1994, Series A	7/1/94			
Serial Bonds		1995-2012	84,320,000	34,165,000 [a]
Term Bonds		2014	15,680,000	15,680,000
1995, Series A	9/1/95	1996-2015	105,000,000	87,985,000 [a]
1996, Series A	5/15/96	1997-2016	115,000,000	60,140,000 [a]
1998, Series A	8/15/98	1999-2016	130,590,000	130,590,000
1998, Series B	10/1/98			
Serial Bonds		2000-2017	93,905,000	93,905,000
Term Bonds		2019		16,905,000
Total Long-Term Transportation Revenue Bonds			$1,428,845,000	$800,010,000
Short-Term Transportation Revenue Obligations				
1997, Commercial Paper Notes, Series A	5/7/97		$ 188,600,000	$157,188,000
Total Transportation Revenue Obligations			$1,617,445,000	$957,198,000

[a] Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table.

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The General Resolution contains various covenants and security provisions, certain of which are summarized below. In general, this Section does not summarize any provisions of the Series Resolutions. Reference should be made to the General Resolution for a full and complete statement of its provisions.

Resolution to Constitute Contract

The provisions of the General Resolution shall be a part of the contract of the State with the holders of Bonds and shall be deemed to be and shall constitute a contract among the State, the Trustee and the holders from time to time of the Bonds and shall be for the equal benefit, protection and security of the holders of any and all of such Bonds.

Provisions for Issuance of Bonds

The General Resolution authorizes Bonds of a Series to be issued from time to time in accordance with the terms of the General Resolution without limitation as to amount except as provided by law. Bonds shall be issued pursuant to authorization by a Series Resolution containing the provisions specified by the General Resolution. Following issuance of the initial Series of Bonds, the Commission must determine that the additional obligations test set forth in the General Resolution is met prior to adopting any Series Resolution for other than refunding purposes. The Bonds of a Series may be authenticated and delivered only upon receipt by the Trustee of, among other things:

(1) a Bond Counsel's opinion to the effect, among other things, that the Bonds of such Series have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State and in accordance with the General Resolution; and,

(2) the proceeds of the Bonds of such Series to be deposited with the Trustee pursuant to the General Resolution.

Additional Bonds

Following the initial issuance of Bonds, the State will not create or permit the creation of, or issue any obligations or create any indebtedness which shall be secured by a superior or equal charge and lien on the Program Income, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds on a parity with the Bonds of such initial Series of Bonds and secured by an equal charge and lien on the Program Income. However, no additional Series of Bonds shall be issued subsequent to the initial Series of Bonds unless:

(1) the principal amount of the additional Bonds together with the principal amount of the Outstanding Bonds will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) except in the case of refunding Bonds, there shall be filed with the Trustee a Certificate of an Authorized Officer of the Commission and the Department stating that Program Income, including interest earnings on amounts deposited in the Funds or Accounts held by the Trustee and available for debt service, for any twelve (12) consecutive calendar months of the preceding eighteen (18) calendar months, was equal to at least 1.75 times the maximum aggregate Principal Requirement and Interest Requirement for any Fiscal Year for all Outstanding Bonds (the General Resolution defines Outstanding Bonds to include the Bonds being issued upon the delivery of such Certificate);

(3) upon the issuance and delivery of the additional Bonds, the amount credited to the Reserve Fund shall be at least equal to the Debt Service Reserve Requirement immediately after issuance; and

(4) all requirements with respect to adoption of Series Resolutions have been complied with.

Refunding Bonds

The State may issue refunding Bonds of one or more Series to refund any Outstanding Bonds of one or more Series whether by payment at maturity or by redemption. Refunding Bonds shall be issued pursuant to and in accordance with the provisions of a Series Resolution authorizing such refunding Bonds.

Application of Bond Proceeds

The proceeds of sale of a Series of Bonds shall be deposited as follows:

(1) to the Principal and Interest Account of the Redemption Fund, the amount of any accrued interest on the Series of Bonds to their date of delivery;

(2) to the Principal and Interest Account of the Redemption Fund, the amount of any premium determined by the applicable Series Resolution;

(3) to the Principal and Interest Account of the Redemption Fund, the proceeds of any Series of refunding Bonds to the extent provided in the applicable Series Resolution;

(4) to the Reserve Fund, the amount specified in the Series Resolution as necessary to establish or increase the amount set aside therein to the Debt Service Reserve Requirement;

(5) to any other Fund or Account to the extent permitted by the Revenue Obligations Act provided for by Series Resolution; and

(6) to the Program Capital Fund, the balance of the proceeds of any Series of Bonds, which shall be allocated:

  (a) to the Capitalized Interest Account, the amount of capitalized interest, if any, determined by the applicable Series Resolution to be deposited; and

  (b) to the Program Account, the balance of the proceeds of any Series of Bonds.

Establishment of Funds

All Program Income and other moneys or securities held by the Trustee pursuant to the General Resolution are revenues of the Trustee and are revenues outside of the State Treasury which shall be held in trust and applied only in accordance with the provisions of the General Resolution. The General Resolution establishes and creates the following trust funds which are to be held by the Trustee:

(1) Program Capital Fund, which consists of a Capitalized Interest Account and a Program Account;

(2) Redemption Fund, which consists of a Principal and Interest Account and a Program Income Account;

(3) Reserve Fund; and

(4) Program Expense Fund.

The General Resolution authorizes the creation of other Funds and Accounts for a particular Series of Bonds by the applicable Series Resolution.

Capitalized Interest Account

Amounts in the Capitalized Interest Account, if any, shall be transferred to the Principal and Interest Account of the Redemption Fund to be used for payment of capitalized interest on the Bonds in accordance with the schedule set forth in a Series Resolution or in a Certificate of an Authorized Officer of the Building Commission delivered to the Trustee. Amounts in the Capitalized Interest Account shall also be transferred to the Principal and Interest Account of the Redemption Fund for redemption of Bonds (i) upon receipt by the Trustee of a Certificate of an Authorized Officer of the Building Commission stating that such redemption is necessary for compliance with the covenants contained in the General Resolution concerning tax exemption of the interest on certain of the Bonds, and (ii) in accordance with the provisions of the terms of a Series Resolution with respect to the Series of Bonds authorized by such Series Resolution.

Program Account

Amounts in the Program Account shall be used solely for the following purposes:

(1) paying the Costs of Issuance;

(2) financing Projects in accordance with the Act and the General Resolution; and

(3) transfers to the Principal and Interest Account of the Redemption Fund to pay interest on the principal of or Redemption Price of Outstanding Bonds (i) upon receipt by the

Trustee of a Certificate of an Authorized Officer of the Building Commission stating that such redemption is necessary for compliance with the covenants contained in the General Resolution concerning tax exemption of the interest on certain of the Bonds, (ii) in accordance with the provisions of the terms of a Series Resolution, and (iii) upon receipt by the Trustee of a Certificate of an Authorized Officer of the Building Commission stating that there are no further Projects to be funded from the Program Account.

Redemption Fund

There shall be deposited into the Principal and Interest Account of the Redemption Fund from the proceeds of the sale of the Bonds, immediately upon receipt thereof, an amount equal to the accrued interest and any premium paid upon the sale of the Bonds and the proceeds of any Series of refunding Bonds. All Program Income shall be deposited promptly with the Trustee (or with national banking associations, state banks or trust companies acting as agents of the Trustee for transfer daily to the Trustee) and such amounts shall be deposited in the Program Income Account of the Redemption Fund. There shall also be deposited in the Program Income Account of the Redemption Fund any other amounts required or permitted to be deposited therein pursuant to the General Resolution.

The amounts deposited in the Principal and Interest Account of the Redemption Fund from the proceeds of a Series of Bonds representing accrued interest and any premium shall be set aside and applied to the payment of interest on the next succeeding Interest Payment Date and any additional Interest Payment Dates specified in the Series Resolution or a Certificate of an Authorized Officer of the Building Commission.

The amounts deposited in the Principal and Interest Account of the Redemption Fund from the proceeds of a Series of refunding Bonds shall be applied to the payment or redemption of Bonds as provided in the Series Resolution.

Commencing on the date of issuance of the Bonds and continuing each succeeding business day until the amounts required in (1) through (4) of this paragraph are deposited and thereafter on each Redemption Fund Deposit Day (the first day of January, April, July, and October), and continuing each succeeding business day until the amounts required in (1) through (4) of this paragraph are deposited, the Trustee shall immediately transfer aside from the amounts deposited in the Program Income Account, in the following order of priority:

(1) to the Principal and Interest Account, after giving effect to:

- (a) amounts to be available from accrued interest and in the Capitalized Interest Account, and
- (b) any balance in the Principal and Interest Account on each Redemption Fund Deposit Day, and
- (c) amounts transferred from the Reserve Fund, and
- (d) amounts transferred from the Program Expense Fund, an amount equal to the Interest Requirement with respect to Outstanding Bonds, and

(2) to the Principal and Interest Account, after giving effect to any balance in the Principal and Interest Account in excess of the Interest Requirement an amount equal to the Principal Requirement on the Outstanding Bonds, and

(3) to the Reserve Fund, an amount equal to any deficiency in the Reserve Fund, and

(4) to the Program Expense Fund created in the General Resolution, an amount equal to any unfunded portion of the Program Expenses payable over the next three months according to the General Resolution.

Immediately upon meeting the requirements set forth above, amounts in the Program Income Account of the Redemption Fund, including any interest earned thereon, in excess of the amounts required to be set aside above, shall be paid by the Trustee to the State Treasury for deposit into the Transportation Fund free and clear of the lien of the General Resolution in accordance with the Revenue Obligations Act and the Act.

To the extent not otherwise provided for in the Series Resolution applicable to any Series of Bonds, on the first day of each Fiscal Year and prior to any of the transfers by the Trustee that day specified above, all amounts in the Principal and Interest Account shall be paid by the Trustee to the State Treasury for deposit into the Transportation Fund free and clear of the lien of the General Resolution in accordance with the Revenue Obligations Act and the Act.

Payment of Bonds

The Trustee is required to pay to the Registrar and Paying Agent for the Bonds on or before each Interest Payment Date, (i) the amount equal to interest due on the Outstanding Bonds on such date, (ii) the amount equal to the principal amount of Outstanding Bonds maturing on such date and (iii) the amount equal to the Redemption Price of any Outstanding Bonds to be redeemed on such date, and in each such case, such amounts shall be applied by such Registrar and Paying Agent to such payments.

There shall be deposited in the Principal and Interest Account of the Redemption Fund any amounts which are required to be deposited therein pursuant to the General Resolution, a Series Resolution and any other amounts available therefor and determined by the State to be deposited therein for the purpose of redeeming Bonds. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective resolutions authorizing the issuance thereof and authorizing the issuance of refunding Bonds, all amounts deposited in the Principal and Interest Account of the Redemption Fund in accordance with the provisions described in this paragraph shall be set aside and applied to the payment, purchase or redemption of Bonds.

Purchase of Bonds

Except as may be otherwise provided in connection with the issuance of refunding Bonds, at any time prior to the forty-fifth (45th) day upon which Bonds are to be paid or redeemed from the amounts described in the preceding paragraph, the Trustee may upon receipt of written instructions signed by an Authorized Officer of the Building Commission apply such amounts to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit in the Principal and Interest Account of the Redemption Fund. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as the Building Commission shall direct. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond or the Redemption Price of such Bond on the next Redemption Date for such Bonds.

Program Expense Fund

On the first day of January, April, July, and October, the Trustee shall immediately transfer amounts on deposit in the Program Income Account to the Program Expense Fund for the purpose of paying Program Expenses for the succeeding three months as set forth in the annual budget prepared by the Department, but only upon a Certificate of an Authorized Officer of the Department stating that the amounts are required and have been or will be expended for purposes for and to which the Program Expense Fund may be used and applied.

Reserve Fund

If on any Interest Payment Date, Principal Installment Date, or Redemption Date for the Bonds, the amount in the Principal and Interest Account of the Redemption Fund shall be less than the amount required for the payment of interest, principal or Redemption Price on Outstanding Bonds on such date, the Trustee shall apply assets in the Reserve Fund to the extent necessary to make good the deficiency.

In the event there is a deficiency in the Reserve Fund, it shall be made up from the Redemption Fund after both the Interest Requirement and the Principal Requirement with respect to Outstanding Bonds have been met. Monies flow to the Redemption Fund commencing on the date of issuance of a Series of Bonds or on a Redemption Fund Deposit Day, whichever is earlier.

On the first day of each Fiscal Year, income and earnings from Investment Obligations in the Reserve Fund shall be transferred to the Principal and Interest Account to the extent such transfer will not reduce the amount in the Reserve Fund below an amount equal to the Debt Service Reserve Requirement.

Investments and Deposits

Subject to instructions from time to time received from an Authorized Officer of the Building Commission and to the provisions of the General Resolution, moneys in any Fund or Account shall be continuously invested and reinvested or deposited and redeposited by the Trustee in the highest yield Investment Obligations that may be reasonably known to the Trustee to the extent the same are authorized by the applicable Series Resolution and at the time legal for investment of funds under the Act, the Revenue Obligations Act and other applicable law. Investments shall be made with a view toward maximizing yield (with proper preservation of principal) and minimizing the instances of uninvested funds.

Investment Obligations purchased as an investment of moneys in any Fund or Account held by the Trustee under the provisions of the General Resolution shall be deemed at all times to be part of such Fund or Account but the income or interest earned and gains realized from Investment Obligations held by the Reserve Fund and Program Expense Fund in excess of the requirements of said Funds shall be transferred to the Principal and Interest Account on the first day of each Fiscal Year.

The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Obligations purchased by it pursuant to the General Resolution whenever it shall be necessary in order to provide moneys to meet any payments or transfers from the Fund or Account for which such investment was made.

In computing the amount in the Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at par if purchased at par value or at amortized value if purchased at other than par value. Valuation shall be made on the 20th day of each March, June, September and December and as otherwise required under the General Resolution and on any particular date shall not include the amount of interest then earned or accrued to such date on any deposit or investment.

The Trustee shall invest and reinvest the moneys in any Fund or Account in available Investment Obligations so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which monies are needed to be so expended.

Investment Obligations means any of the investments described under "GLOSSARY".

Powers as to Bonds and Pledge

The State covenants that it is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the General Resolution and to pledge the Program Income purported to be pledged by the General Resolution in the manner and to the extent provided in the General Resolution.

Payment Covenant

The State covenants that it will duly and punctually pay or cause to be paid, but solely from sources as provided in the General Resolution, the principal and Redemption Price of every Bond and the interest thereon, on the dates and at the places and in the manner stated in the Bonds according to the true intent and meaning thereof.

Tax Covenants

The State and the Trustee shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

The State and the Trustee shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the State to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148 of the Code.

The State and the Trustee shall not permit at any time or times any proceeds of any Bonds or any other funds of the State to be used, directly or indirectly, in a manner which would result in the exclusion of any Bond from the treatment afforded by Section 103 of the Code, as from time to time amended, by reason of the classification of such Bond as a "private activity bond" within the meaning of Section 141 of the Code.

The State reserves the right to elect to issue Bonds, the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants as to tax exemption shall not apply to such Bonds.

Funds and Reports

The Department covenants that it will keep, or cause to be kept and maintained proper books of account relating to the Program and within 120 days after the end of each Fiscal Year shall cause such books of account to be audited by an Accountant. A copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of the Program (including a schedule of monthly Program Income) as of the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for such year, including the transaction relating to the Funds, shall be filed promptly with the Trustee and shall be available for inspection by any Bondholder.

Budgets

The Department must file an annual budget broken down on a quarterly basis covering the fiscal operations of the Program for the succeeding Fiscal Year not later than the first day of each Fiscal Year with the Trustee. Such budget need not be the budget prepared by the Department for the Department's budgeting purposes. The annual budget shall at least set forth for such Fiscal Year the estimated Program Income, the debt service due and payable or estimated to become due and payable during such Fiscal Year and estimated Program Expenses. The Department may at any time file with the Trustee an amended annual budget for the remainder of the then current Fiscal Year in the manner provided for the filing of the annual budget. Copies of the annual budget as then amended and in effect shall be made available by the Trustee during normal business hours in the Trustee's office for inspection by any Bondholder.

The Program

The State covenants from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the Revenue Obligations Act, the provisions of the General Resolution and sound banking practices and principles, (i) to use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program, to finance Projects, pursuant to the Act, the Revenue Obligations Act and the General Resolution and (ii) to do all such acts and things as shall be necessary to charge and cause to be deposited with the Trustee Program Income sufficient to pay interest and principal and redemption premium on all Outstanding Bonds, to maintain the Debt Service Reserve Requirement in the Reserve Fund, to maintain any Credit Support and Liquidity Fund Requirement provided for in a Series Resolution, to pay Program Expenses, and to maintain any Subordinated Debt Service Fund Requirement provided for in a Series Resolution.

Power of Amendment

The Building Commission may, from time to time and without the consent and concurrence of any holder of any Bond, adopt a Supplemental Resolution modifying or amending the General Resolution if the modification or amendment does not adversely affect the holders of the Outstanding Bonds.

Any modification of or amendment to the General Resolution which does affect the rights and obligations of the State and of the holders of the Bonds, in any particular, may be made by a Supplemental Resolution with the written consent given as provided in the General Resolution, (i) of the holders of at least two-thirds in principal amount of the Outstanding Bonds at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the General Resolution or Series Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment.

Events of Default

It is an Event of Default if (i) payment of any installment of interest on the Outstanding Bonds shall not be made after the same shall become due, (ii) payment of the principal of, Redemption Price or any Sinking Fund Installment on any Bond when and as the same shall become due and payable, whether at maturity or upon call for redemption or otherwise, shall not be made when and as the same shall become due, or (iii) the State shall fail or refuse to comply with the provisions of the General Resolution including replenishment of the Reserve Fund, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained in the General Resolution or in any Supplemental or Series Resolution or the Bonds, and such failure, refusal or default shall continue for a period of thirty (30) days after written notice thereof by the Trustee or the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds.

Remedies

Upon the happening and continuance of any Event of Default specified in clauses (i) and (ii) under Events of Default above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in clause (iii) under Events of Default above, the Trustee may proceed and, upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, shall proceed, in its own name, subject to the General Resolution, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel shall deem most effectual to protect and enforce such rights: (a) by mandamus or other suit, action, or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require the State to charge and cause to be deposited with the Trustee sufficient Program Income and to require the State to carry out the covenants and agreements with Bondholders and to perform its duties under the Act, the Revenue Obligations Act and the General Resolution; (b) by bringing suit upon the Bonds, by action or suit in equity, to require the State to account as if it were the trustee of an express trust for the holders of the Bonds; (d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds; (e) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with written consent of the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or (f) in the event that all Bonds are declared due and payable, by selling Investment Obligations.

Before declaring the principal of Bonds due and payable upon an Event of Default, the Trustee shall first give thirty (30) days' notice in writing to the Governor and Attorney General of the State.

Priority of Bonds After Default

In the event that upon the happening and continuance of an Event of Default, the Funds or Accounts held by the Trustee, Registrar and Paying Agent are insufficient for the payment of interest, principal or Redemption Price then due on the Bonds, such Funds or Accounts (other than portions of Funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the Act, the Revenue Obligations Act and the General Resolution, after making provisions for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or the Registrar and Paying Agent in the performance of their respective duties under the General Resolution, are to be applied as follows:

(1) If the principal of all of the Bonds has not become or been declared due and payable:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order or maturity of such installments, and, if the amount available is not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference.

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds has become or been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

Limitation on Rights of Bondholders

No individual Bondholder shall have any right to initiate legal proceedings to enforce rights under the General Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Outstanding Bonds have made written request of the Trustee after the right to exercise such right of action has occurred, and shall have afforded the Trustee a reasonable opportunity either to exercise the powers granted to it under the General Resolution or to institute such proceedings in its name and unless, also, there has been offered to the Trustee reasonable security and indemnity against costs, expenses and liabilities and the Trustee has refused or neglected to comply with such request within a reasonable time. No provision in the General Resolution on defaults and remedies affects or impairs the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of the State to pay the same from the source, at the time and place specified in said Bond.

Compensation of Fiduciaries

Each Fiduciary is entitled to such fees and reimbursement as shall be established in an agreement between the Commission and such Fiduciary by the Trustee from the Program Expense Fund (except that the agreement for Registrar shall be between the State Treasurer and the Registrar). Each Fiduciary shall have a lien for such fees and reimbursement on any and all Funds at any time held by it under the General Resolution.

Removal of Trustee

The Trustee is required to be removed if so requested by the holders of a majority in principal amount of the Outstanding Bonds excluding any Bonds held by or for the account of the State. The State may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as the State may determine in its sole discretion. In either such event, a successor is required to be appointed.

Defeasance

If the State shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then the pledge of Program Income and other monies, securities and funds thereby pledged and all other rights granted thereby shall be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which monies have been set aside and shall be held in trust by Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) shall, at the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in the above paragraph. Any Bonds shall, prior to maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect so expressed if (i) in case any of the Bonds to be redeemed on any date prior to their maturity, the State has given to the Trustee in form satisfactory to it, irrevocable instructions to publish, as provided in the General Resolution, notice of redemption on said date of such Bonds, (ii) there has been deposited with the Trustee either monies in an amount which are sufficient, or Investment Obligations which are direct obligations of or obligations guaranteed by the United States of America or other obligations, the payment of which is provided for by an irrevocable escrow deposit invested in direct obligations of the United States of America, the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal or Redemption Price and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the State has given the Trustee, in form satisfactory to it, irrevocable instructions to publish, as soon as practicable, at least once in an Authorized Newspaper a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or Redemption Date upon which monies are to be available for the payment of the principal of and Redemption Price on said Bonds. Neither the Investment Obligations nor the monies so deposited with the Trustee nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than (and shall be held in trust for) the payment of the principal of, Redemption Price and interest on said Bonds, but any cash received from such principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose may, to the extent practicable and legally permitted, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal of, Redemption Price and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments may be paid over to the State, as received by the Trustee, free and clear of any trust, lien or pledge.

GLOSSARY

This Glossary includes definitions from the General Resolution and the Series Resolutions.

Accountant means such reputable and experienced independent certified public accountant or firm of independent certified public accountants of nationally recognized standing as may be selected by the Department and be satisfactory to the Trustee which may be the accountant or firm of accountants who regularly audit the books and accounts of the Department.

Act means Section 84.59 of the Statutes.

Authorized Newspaper means either The Wall Street Journal or The Bond Buyer, or such other financial newspaper or financial journal of general circulation, printed in the English language and customarily published (except in the case of legal holidays) at least once a day for at least five days in each calendar week, in the Borough of Manhattan, City and State of New York.

Authorized Officer when used with reference to the Department means the Secretary or other person designated from time to time by the Secretary, and when used with reference to the Commission, means the Chairperson of the Commission or other person designated from time to time by the Chairperson of the Commission and, in the case of any act to be performed or duty to be discharged, any other member, staff, officer or employee of the foregoing Department or Commission then authorized to perform such act or discharge such duty.

Bond or **Bonds** means any bond or any other evidence of revenue obligation authorized under the General Resolution and issued pursuant to a Series Resolution.

Bond Counsel's Opinion means an opinion executed by the Attorney General of Wisconsin or an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the State.

Bondholder and the term **Holder** or **holder** means the registered owner of any Outstanding Bond or Bonds, if registered to a particular person or persons, or the holder of any Outstanding Bond or Bonds in bearer form or registered as to principal only, or his duly authorized attorney in fact, representative or assigns.

1984 Bonds means the State of Wisconsin Transportation Revenue Bonds, 1984 Series A, issued on May 15, 1984.

1986 Bonds means the State of Wisconsin Transportation Revenue Bonds, 1986 Series A, issued on July 17, 1986.

1988 Bonds means the State of Wisconsin Transportation Revenue Bonds, 1988 Series A issued on April 12, 1988.

1989 Bonds means the State of Wisconsin Transportation Revenue Bonds,1989, Series A, issued on April 19, 1989.

1991 Bonds means the State of Wisconsin Transportation Revenue Bonds,1991, Series A, issued on October 3, 1991.

1992 Series A Bonds means the State of Wisconsin Transportation Revenue Bonds, 1992 Series A, issued on August 20, 1992.

1992 Series B Bonds means the State of Wisconsin Transportation Revenue Bonds, 1992 Series B, issued on August 20, 1992.

1993 Bonds means the State of Wisconsin Transportation Revenue Bonds, 1993 Series A, issued on September 29, 1993.

1994 Bonds means the State of Wisconsin Transportation Revenue Bonds, 1994 Series A, issued on July 13, 1994.

1995 Bonds means the State of Wisconsin Transportation Revenue Bonds, 1995 Series A, issued on September 28, 1995.

1996 Bonds means the State of Wisconsin Transportation Revenue Bonds, 1996 Series A, issued on June 13, 1996.

1998 Series A Bonds means the State of Wisconsin Transportation Revenue Bonds, 1998 Series A, issued on September 17, 1998.

1998 Series B Bonds means the State of Wisconsin Transportation Revenue Bonds, 1998 Series B, issued on October 29, 1998.

Capitalized Interest Account shall mean the account established by Section 402 of the General Resolution.

Certificate means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the General Resolution, or (ii) the report of an Accountant as to audit or other procedures called for by the General Resolution.

Commercial Paper Notes or Notes means the State of Wisconsin Transportation Revenue Commercial Paper Notes, 1997 Series A.

Commission means the State of Wisconsin Building Commission established and existing pursuant to Section 13.48 of the Statutes and any successor thereto to whom the powers and duties granted to or imposed by the General Resolution shall be given by law.

Costs of Issuance means all items of expense, directly or indirectly payable or reimbursable by or to the State which are related to the authorization, sale, credit support, liquidity or issuance of Bonds.

Credit Support and Liquidity Fund means an account established pursuant to Section 511 of the General Resolution.

Credit Support and Liquidity Fund Requirement means as of any date of calculation, an amount equal to the aggregate Credit Support and Liquidity Fund Requirements for each Series of Outstanding Bonds as specified with respect to each such Series in the applicable Series Resolution.

Debt Service Requirement means as of any particular date of calculation, the aggregate Interest Requirement and Principal Requirement for Outstanding Bonds as specified in each Series Resolution authorizing the issuance of a Series of Bonds.

Debt Service Reserve Requirement means, as of any particular date of computation, an amount equal to the aggregate of the amounts specified in each Series Resolution authorizing the issuance of a Series of Bonds (any of which are Outstanding on the date of computation) as the amount to be the Debt Service Reserve Requirement, provided that, with respect to any Series of Bonds, in lieu of a deposit to the Reserve Fund of an amount equal to the applicable Series 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 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 Series 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.

Department means the State of Wisconsin Department of Transportation established and existing pursuant to Section 15.46 of the Statutes and any successor thereto to which the powers and duties granted to or imposed by the General Resolution shall be given by law.

Fiduciary means the Trustee, the Registrar and any Paying Agent, or any or all of them as may be appropriate.

Fiscal Year means the fiscal year of the State as established from time to time.

Fund means one or more, as the case may be, of the funds or accounts created and established pursuant to the General Resolution.

General Resolution means the General Resolution as the same may from time to time be amended, modified or supplemented by a Supplemental Resolution.

Interest Payment Dates means any date on which is due the payment of interest on any Series of Bonds as specified in each Series Resolution authorizing the issuance of the Series of Bonds.

Interest Requirement means as of any particular date of calculation, the amount equal to any unpaid interest then due, plus an amount to the interest accruing or payable during the period between the date of calculation and the next Redemption Fund Deposit Day with respect to each Series of Outstanding Bonds.

Investment Obligations means and includes any of the following obligations to the extent the same are at the time legal for investment of funds of the State under the Act, the Revenue Obligations Act, or under other applicable law:

1. direct obligations of or obligations guaranteed by the United States of America;
2. obligations the payment of principal and interest on which, by act of Congress or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the United States of America;
3. bonds, debentures, notes, participation certificates or other similar evidences of indebtedness issued by any of the following: Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, the Federal Financing Bank, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Export Import Bank of the United States, Student Loan Marketing Association, Farmer’s Home Administration, Government National Mortgage Association, Small Business Administration, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of Congress of the United States as an agency or instrumentality thereof or sponsored thereby (including but not limited to the fully guaranteed portion of an obligation partially guaranteed by any of the foregoing, if the State’s ownership of such portion is acknowledged in writing by an officer of the guaranteeing agency or instrumentality);
4. Public Housing Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
5. obligations of any state within the United States or of any political subdivision of any state, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency;
6. bankers acceptances drawn on and accepted by banks (including the Trustee and Paying Agent) and certificates of deposit by banks (including the Trustee and Paying Agent), with a combined capital and surplus aggregating at least $100,000,000 and securities of

which are currently rated within the two highest rating categories assigned by a nationally recognized rating agency, or the international branches or banking subsidiaries thereof;

7. interest-bearing time deposits, or certificates of deposit of a bank (including the Trustee and Paying Agent) or trust company, continuously secured and collateralized by obligations of the type described in paragraphs (1), (2), (3) and (4) hereof, having a market value at least equal at all times to the amount of such deposit or certificate, to the extent such deposit or certificate is not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or any successors thereto;
8. commercial paper given the highest rating by Standard & Poor's Corporation and Moody's Investors Service at the time of such investments;
9. investment agreements with banks or bank holding companies the senior long-term debt securities of which are rated within the two highest categories by a nationally recognized rating agency and which have a capital and surplus of at least $100,000,000;
10. repurchase agreements, with banks or other financial institutions (including the Trustee and Paying Agent) (**Repurchaser**) provided that each such repurchase agreement (a) is in a commercially reasonable form and is for a commercially reasonable period, and (b) result in transfer to the Trustee of legal and equitable title to, or the granting to the Trustee of a prior perfected security interest in, identified obligations referred to in paragraphs (1), (2), (3) and (4) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held either by the Trustee or by a third party (other than the Repurchaser) as the agency solely of, or in trust solely for the benefit of the Trustee, provided that obligations acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such obligations or the repurchase prices thereof set forth in the applicable repurchase agreement, such investments shall be made so as to mature on or prior to the date or dates that the Trustee anticipates that moneys therefrom be required;
11. shares of beneficial interests in an investment fund or trust substantially all of whose assets consist of those identified obligations referred to in paragraphs (1) and (2) above; and
12. any short term government fund whose assets consist of those identified obligations referred to in paragraphs (1), (2), (3), (4) and (10) above.

Notes or Commercial Paper Notes means the State of Wisconsin Transportation Revenue Commercial Paper Notes, 1997 Series A.

Outstanding, when used with reference to Bonds and as of any particular date, describes all Bonds that have been delivered and are expected to be delivered except (a) any Bond cancelled by the Trustee, or proven to the satisfaction of the Trustee to have been cancelled by the Registrar, at or before said date, (b) any Bond deemed to have been paid in accordance with the provisions of Section 1201 of the General Resolution, and (c) 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.

Paying Agent for the payment of the principal of, Redemption Price and interest on the Bonds of a particular Series means the Treasurer or any bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the General Resolution.

Principal and Interest Account means the account established by Section 502 of the General Resolution.

Principal Installment means (a) the principal amount of Outstanding Bonds which mature on a single future date, and (b) the amount of any Sinking Fund Installment required to be paid on a single future date.

Principal Installment Dates means any dates designated in a Series Resolution as a day a Principal Installment is to be paid.

Principal Office, when used with respect to a Fiduciary, means the principal, or corporate trust, or head, or principal trust office of such Fiduciary situated in the city in which such Fiduciary is described as being located.

Principal Requirement means, as of any particular date of calculation, the amount of money equal to any unpaid Principal Installment then due with respect to each Series of Outstanding Bonds and the amount of the next succeeding Principal Installment divided by the number of Redemption Fund Deposit Days prior to the next Principal Installment Date with respect to each Series of Outstanding Bonds.

Program means the State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations Program financed under the Act, the Revenue Obligations Act and the General Resolution in accordance with any other enactment of the State which may hereafter specify an extension, expansion, addition or improvement of and for said Program pursuant to the Act, the Revenue Obligations Act and the General Resolution but not financed under the provisions of any other bond resolution or indenture of trust.

Program Account means the account so designated by Section 402 of the General Resolution.

Program Capital Fund means the Fund which is established and created by Section 402 of the General Resolution and pursuant to Section 18.57 of the Revenue Obligations Act.

Program Expense Fund means the Fund which is established and created by Section 514 of the General Resolution.

Program Expenses means the reasonable and proper costs and expenses of the Department for the operation and maintenance of the Program, including, without limitation, the administrative expenses allocable to the Program and the fees and expenses of the Trustee and the Paying Agents and Registrars of the Bonds.

Program Income means moneys derived under Section 341.25 of the Statutes or any other moneys that the State is authorized to pledge, which is to be deposited by the Department under Section 18.56(5) and (9)(j) of the Revenue Obligations Act in a separate and distinct fund outside of the State Treasury in an account maintained by the Trustee as the Redemption Fund and all interest earned or gain realized from the investment of amounts in said fund.

Program Income Account means the account established by Section 502 of the General Resolution.

Projects means the projects authorized under the Act and funded with proceeds of Bonds authorized by one or more Series Resolutions.

Record Date means with respect to any Series of Bonds, the Record Date established for such Series of Bonds under each Series Resolution pursuant to which such Series is issued (which, with respect to the 1996 Series B Bonds, means the fifteenth day of the month preceding an Interest Payment Date on the Bonds).

Redemption Date means the date upon which Bonds are to be called for redemption.

Redemption Fund means the Fund which is established and created by Section 502 of the General Resolution pursuant to Section 18.56(5) of the Revenue Obligations Act.

Redemption Fund Deposit Day means January 1, April 1, July 1 and October 1 of each Fiscal Year.

Redemption Price when used with respect to a Bond or portion thereof, means the principal amount of such Bond or portion plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms pursuant to the General Resolution and to the Series Resolution.

Registrar means, with respect to Bonds of a particular Series, the Treasurer or any person with whom he has contracted with for the performance of any of his functions under Section 18.10(5) and (7) of the Statutes.

Reserve Fund means the Fund which is established and created by Section 508 of the General Resolution pursuant to Section 18.56(4) of the Revenue Obligations Act.

Revenue Obligations Act means Subchapter II of Chapter 18 of the Statutes.

Secretary means the Secretary of the Department or any other officer, board, body, commission or agency succeeding to the powers, duties and functions thereof.

Serial Bonds means the Bonds so designated in a Series Resolution.

Series, when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the General Resolution or a Series Resolution.

Series Resolution means any resolution adopted by the Commission pursuant to and in accordance with the terms of Article II of the General Resolution, providing for the issuance of a particular Series of Bonds.

Sinking Fund Installment means the amount of money unconditionally required by or pursuant to a Series Resolution to be paid toward the retirement of any particular Term Bonds prior to their respective stated maturities.

State means the State of Wisconsin, including the Commission, or Department, as the case may be, acting on behalf of the State pursuant to the Act or the Revenue Obligations Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of any of the foregoing.

Statutes means the Wisconsin Statutes.

Subordinated Debt Service Fund means an account established in Section 5.1 of 1997 State of Wisconsin Building Commission Resolution 7, adopted by the Commission on April 23, 1997, pursuant to Section 714(C) of the General Resolution, and pledged to the payment of the Commercial Paper Notes.

Subordinated Debt Service Fund Requirement means, as of any date of calculation, an amount equal to the aggregate Subordinated Debt Service Fund Requirements for each Subordinated Indebtedness Series of Outstanding Bonds (or Commercial Paper Notes) as specified with respect to each such Series in the applicable Series Resolution, and as of the date of this Official

Statement, is the amount specified in 1997 State of Wisconsin Building Commission Resolution 8, adopted by the Commission on April 23, 1997.

Subordinated Indebtedness means a Series of Bonds issued pursuant to Section 714 of the General Resolution, and includes the Commercial Paper Notes.

Supplemental Resolution means any resolution adopted by the Commission pursuant to and in accordance with the terms of Article VIII of the General Resolution amending or supplementing the provisions of the General Resolution as originally adopted or as amended or supplemented prior to the amending or supplementing effected by the particular Supplemental Resolution.

Term Bonds means the Bonds so designated in a Series Resolution.

Transportation Fund means the fund established in Section 25.40 of the Statutes.

Treasurer means the State Treasurer or any other officer, board, body, commission or agency succeeding to any of the powers, duties and functions thereof.

Trustee means the trustee appointed by or pursuant to Section 1101 of the General Resolution, and its successor or successors and any other corporation or association which may at any time be substituted in its place pursuant to the General Resolution.

APPENDIX A

AUDITED FINANCIAL STATEMENTS

The following material for the year ended June 30, 1998 includes, for the Transportation Revenue Bond Program, the Report of Independent Certified Public Accountants, dated September 15, 1998, pages 5 through 24 and supplemental information pertaining to Program Revenues, and for the Transportation Commercial Paper Program, the Report of Independent Certified Public Accountants, dated September 15, 1998, and pages 4 through 10.

{NOTE: Appendix A is not yet available for distribution on the world wide web. Please contact the Capital Finance Office at (608) 266-5355, or e-mail at capfin@doa.state.wi.us, if you would like to receive a copy of this Appendix A.}

{This page number is the last sequential page number of the Annual Report to be used in this part of the Annual Report. The following uses page numbers from the audited financial statements and Reports of Independent Certified Public Accountants. The sequential page numbers for the Annual Report will continue in Part VI}

PART VI

CLEAN WATER REVENUE BONDS

This part provides information about clean water revenue bonds issued by the State of Wisconsin. APPENDIX A includes the financial statements and independent public accountant's report on the financial statements for the Environmental Improvement Fund as of June 30, 1998. The Wisconsin Statutes provide that the State of Wisconsin Building Commission (**Commission**) has supervision over all matters relating to the issuance by the State of revenue bonds. Employees of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's revenue bond programs.

Clean water revenue bonds are issued pursuant to the Clean Water Revenue Bond General Resolution, dated March 7, 1991 (**Program Resolution**). Firstar Trust Company, now known as Firstar Bank Milwaukee, N.A. serves as Trustee for the clean water fund program (**Trustee**) as well as registrar and paying agent. The law firm of Michael, Best & Friedrich LLP provides bond counsel services to the State for issuance of clean water revenue bonds. The State employs First Albany Corporation as financial advisor for the issuance of clean water revenue bonds.

Requests for additional information about clean water revenue bonds 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:	capfin@doa.state.wi.us

This Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part. Material referred to in this Annual Report, including information available on the world wide web, is not part of this Annual Report unless expressly included by reference. See "GLOSSARY" for the definition of capitalized terms used in this part of the Annual Report.

ENVIRONMENTAL IMPROVEMENT FUND

The Environmental Improvement Fund provides for three separate environmental financing programs. The three programs are the Clean Water Fund Program, the Safe Drinking Water Loan Program, and the Land Recycling Loan Program. The Clean Water Fund Program has been in existence since 1990, while the 1997-99 biennial budget created the Safe Drinking Water Loan Program and the Land Recycling Program. The Safe Drinking Water Loan Program will include the State's implementation of the federal Safe Drinking Water Act Amendments of 1996. The Land Recycling Loan Program is a municipal loan program for remediation of contaminated lands. Under current law the State is authorized to issue revenue obligations only to fund financial assistance under the Clean Water Fund Program. Security for Bonds issued under the Program Resolution is not affected by these changes in the structure. Bondholders are advised that the State believes the Program Resolution allows, if legislatively authorized, making Loans from Bonds for either or both the Safe Drinking Water Loan Program and the Land Recycling Loan Program.

CLEAN WATER FUND PROGRAM

Overview

The Federal Water Quality Act of 1987 (**Water Quality Act**) established a joint federal and state program commonly referred to as the State Revolving Fund (**Federal SRF**) Program. Under the Federal SRF Program, the United States Environmental Protection Agency (**EPA**) is authorized to make grants (**Capitalization Grants**) to states to assist in providing financial assistance to municipalities within the state for governmentally-owned wastewater projects and other water pollution abatement projects. As a condition to receipt of a Capitalization Grant, a state is required to establish a perpetual Federal SRF into which the Capitalization Grant must be deposited, and to provide state matching funds equal to 20% of the Capitalization Grant (**State Match**) for deposit in the Federal SRF. Funds in a Federal SRF are permitted to be applied to provide financial assistance to municipalities for governmentally-owned wastewater projects and other water pollution abatement projects in a number of ways, provided that such assistance is not in the form of a grant.

Pursuant to the Act, the State has created the Clean Water Fund Program (which was subsequently placed within the Environmental Improvement Fund) for purposes of providing financial assistance to Municipalities for constructing or improving municipal wastewater facilities. Loans funded through the Federal SRF are referred to as Direct Loans and are segregated in a portfolio referred to as the Direct Loan Portfolio. The Act further represents a major commitment of the State to use State funds to assist Municipalities in improving the water quality of the State. The State has elected to supplement the funding available through the Federal SRF by using proceeds from the issuance of Bonds and its general obligation bonds in order to fund additional loans outside of the Direct Loan Portfolio. Other sources of funding, such as investment earnings or money contributed from other State sources, may be used to fund loans in any of the loan portfolios.

Direct Loan Portfolio

Loans funded through the Federal SRF are referred to as Direct Loans and are segregated in a portfolio referred to as the Direct Loan Portfolio. Federal SRF funds, when available, are deposited in a separate account within the Clean Water Fund Program. Such funds are loaned to Municipalities pursuant to terms set forth in the Financial Assistance Agreements. Loans in the Direct Loan Portfolio are required to comply with EPA eligibility and reporting requirements, as well as applicable State requirements. Payments of principal of and interest on Direct Loans are either deposited in the Federal SRF to fund additional Direct Loans or are used to pay debt service on the State general obligation bonds issued to provide the State Match. No proceeds of the Bonds will be applied to make Direct Loans, and payments of principal of and interest on Direct Loans are not pledged as security for the Bonds.

Leveraged Loan Portfolio

Loans funded with proceeds of the Bonds are referred to as Leveraged Loans, or Loans, and are segregated in a portfolio referred to as the Leveraged Loan Portfolio. Bond proceeds, when available in the Loan Fund established by the General Resolution, are loaned to Municipalities pursuant to terms set forth in the Financial Assistance Agreements. Loans in the Leveraged Loan Portfolio must meet applicable State requirements. Payments of principal of and interest on Leveraged Loans (**Leveraged Loan Repayments** or **Loan Repayments**) are pledged to the

Trustee to secure the Bonds. The EPA Capitalization Grants, the State Match and payments of principal of and interest on loans in the Direct Loan and Proprietary Loan Portfolios are not pledged to secure the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS" for a further description of the Leveraged Loan Portfolio.

Proprietary Loan Portfolio

Loans funded primarily by proceeds of State general obligation bonds are referred to as Proprietary Loans and are segregated in a portfolio referred to as the Proprietary Loan Portfolio. Such funds, when available, are deposited in a separate account within the Clean Water Fund Program and are loaned or granted to Municipalities pursuant to terms set forth in the Financial Assistance Agreements. Loans in the Proprietary Loan Portfolio must meet applicable State requirements. Payments of principal of and interest on Proprietary Loans are deposited in the same account for further loans or grants under the Proprietary Loan Portfolio. No proceeds of the Bonds will be applied to make Proprietary Loans, and payments of principal of and interest on Proprietary Loans are not pledged as security for the Bonds.

Interest Subsidy

In addition to lending money to directly fund project costs, the Clean Water Fund Program is authorized to subsidize the interest cost on loans made by the State Board of Commissioners of Public Lands' Trust Lands and Investments to municipalities for construction or improvement of their wastewater facilities. This subsidy is only available on loans of $750,000 or less. The Clean Water Fund Program makes payments to municipalities in March of each year to reduce the municipalities' interest cost on their loans. As of December 1, 1998 the Clean Water Fund Program has agreements with 28 municipalities to provide an annual interest subsidy. Proceeds of the Bonds are not used for this purpose.

Plan of Finance

Under a Financial Assistance Agreement, a Municipality may receive one or more of the following: a Leveraged Loan, a Direct Loan, or a Proprietary Loan. A separate accounting of the loan balances in each portfolio is maintained for each project. The receipts relating to Leveraged Loan Repayments are pledged as security for the Bonds. In any situation where an applicant qualifies for a loan through the Leveraged Loan Portfolio, the Direct Loan Portfolio, or the Proprietary Loan Portfolio, the State may choose whether and to what extent the loan is made through the Leveraged Loan Portfolio. The same general loan underwriting standards are applied to all loans regardless of the portfolio to which they will be assigned.

The State expects to continue to make most of the Direct Loans, Proprietary Loans, and Leveraged Loans to Municipalities at interest rates that are below market rates. As a consequence, Leveraged Loan Repayments are not expected to be sufficient to pay principal of, interest on, or redemption price of the Bonds as they become due. The State has provided additional funds, and expects to continue to provide additional funds, some of which will be used to purchase the State's general obligation bonds for deposit in the Subsidy Fund, to provide sufficient revenues to fund the difference between debt service payments due on the Bonds and revenues to be derived from Leveraged Loan Repayments. As additional security for the Bonds, the State has funded and expects to continue to fund a Loan Credit Reserve Fund that will provide funds in the event of a default on a Loan payment. For further information about the Subsidy Fund and the Loan Credit Reserve Fund, see "SECURITY AND SOURCE OF PAYMENT FOR BONDS".

Financial Assistance

Direct Loans, Leveraged Loans, and Proprietary Loans are each made at varying interest rates determined by project type. Currently, projects are segregated into five different project-type categories. The interest rate for each type of project is determined by statute and, except for Transition Projects, is based on the Clean Water Fund Program's cost of borrowing, as determined by reference to a particular Series of Bonds. Setting interest rates by type of project is designed to provide greater incentives for compliance with environmental requirements than for new sewer systems or correcting discharge permit violations.

- *Transition Projects*–Projects that would have otherwise qualified for grants under prior EPA or State grant programs but were unable to receive grant funding because of unavailability of grant funds or failure to adhere to a schedule approved by DNR. The Act authorizes Transition Projects to receive loans that will bear interest at a statutorily designated rate of 2 ½% per annum.
- *Compliance Maintenance Projects*–Projects that are necessary to maintain compliance with permit requirements or to implement new or changed effluent limits required by Department of Natural Resources (**DNR**). These projects may receive loans that bear interest at a per annum rate equal to 55% of the Clean Water Fund Program's cost of borrowing.
- *Stormwater & Nonpoint Projects*–Projects pertaining to urban stormwater and nonpoint pollution sources. These projects may receive loans that bear interest at a per annum rate equal to 65% of the Clean Water Fund Program's cost of borrowing.
- *Unsewered Projects*–Projects involving unsewered areas within Municipalities. These projects may receive loans that bear interest at a per annum rate equal to 70% of the Clean Water Fund Program's cost of borrowing. More than two-thirds of the initial flow must be from wastewater originating from residences in existence before October 17, 1972 in order to qualify for this type of project.
- *Industrial, Violator, & New Growth Projects*–Projects that address violations of a DNR discharge permit or that provide industrial or reserve capacity, or that involve certain other capital costs attributed to industrial or commercial needs, or involve unsewered areas where residences were not in existence before October 17, 1972. These projects may receive loans that bear interest at a per annum rate equal to 100% of the Clean Water Fund Program's cost of borrowing.

In the event a Municipality proposes a project that includes more than one of the above categories, the respective portions of the project may be allocated accordingly, resulting in a loan with a blended interest rate.

In a limited number of cases, the Clean Water Fund Program may provide additional financial assistance in the form of grants or loans with interest rates lower than those indicated above for qualifying projects. Under current law, the maximum amount of financial assistance that any Municipality may receive is a grant equal to 70% of project costs and an interest-free loan for the remaining 30% of project costs. State law allows that, during each biennium, 15% of the present value of all Clean Water Fund Program subsidies may be awarded as grants or further subsidized loans. Between 1989 and September 30, 1998, agreements to fund $151.8 million in project costs with such grants or further subsidized loans have been entered into.

The majority of Loans made from proceeds of previously issued Bonds were for Transition and Compliance Maintenance Projects.

Funding Levels

For the period from the commencement of the Clean Water Fund Program through June 30, 2001, the State has identified $1.739 billion of projects likely to receive funding. The Legislature has authorized $1.298 billion of revenue bonds (other than revenue bonds issued for refunding purposes) and $552.7 million of general obligations for the Clean Water Fund Program through fiscal year 1999.

As of September 30, 1998, the State had closed Leveraged, Direct, and Proprietary Loans totaling $1.08 billion. Of this amount a total of $957.2 million had been disbursed. Of the amounts disbursed, $490.8 million were for Leveraged Loans. The amount remaining to be disbursed, $122.9 million, will be disbursed from either the Leveraged Loan, Direct Loan, or Proprietary Loan Portfolios.

Management of Clean Water Fund Program

Management responsibilities for the Clean Water Fund Program are shared between two State agencies. DNR is responsible for the environmental and programmatic management of the Clean Water Fund Program. DOA is responsible for the financial management of the Clean Water Fund Program. DNR and DOA have agreed upon the division of responsibilities and joined in a memorandum of understanding that detail their respective roles.

The Act gives DNR certain statutory responsibilities with respect to the Clean Water Fund Program. Under the Act, DNR has primary responsibility for dealing with EPA in connection with the Clean Water Fund Program. DNR additionally has substantial responsibility under the Act for developing and administering the Clean Water Fund Program. Responsibilities of DNR include: providing Municipalities with information on the Clean Water Fund Program; preparing the biennial needs lists of wastewater projects that DNR expects to commit to finance; preparing and managing environmental priority lists ranking projects in accordance with specified criteria. Other responsibilities of DNR include providing technical assistance on the environmental aspects of projects to communities; reviewing and approving projects for eligibility for financial assistance; and reviewing facility plans, design and engineering to ensure compliance with federal requirements and State laws and regulations.

Under the Act, DOA is responsible for the financial management of the Clean Water Fund Program. DOA is also responsible for managing the investments of the Environmental Improvement Fund and Clean Water Fund Program, including the portfolios of loans to Municipalities.

DOA, in cooperation with DNR, provides the funds to finance eligible projects under the Clean Water Fund Program. Joint responsibilities between DNR and DOA include issuing Notices of Financial Assistance Commitment (**Commitments**) and entering into Financial Assistance Agreements with Municipalities to finance eligible wastewater projects. DOA and DNR also jointly prepare biennial finance plans which include the estimated wastewater facility needs of municipalities in the State, the amount of financial assistance projected to be provided, the sources of the funding projected to be provided, and the estimated present value of subsidies for all Clean Water Fund Program financial assistance expected to be provided.

Capitalization Grants

The federal government has authorized appropriations for Capitalization Grants for federal fiscal years 1989 through 1998. As of September 30, 1998, the State has been awarded Capitalization Grants from EPA aggregating $385.4 million for federal fiscal years 1989 through 1998. The amount of federal funding available in the future may affect the amount of Leveraged Loans, Direct Loans or Proprietary Loans to be made by the Clean Water Fund Program and the amount of Bonds to be issued by the State. As of September 30, 1998, the State had issued $72 million in general obligation bonds for the State Match with respect to the Capitalization Grants received as of such date.

Reauthorization of the Water Quality Act of 1987 was taken up by Congress during 1995 and 1996, but no bill passed as of September 30, 1998. Budget appropriations for federal fiscal year 1998 for the SRF Program are set at $1.35 billion, which should result in receipt of approximately $36.4 million by the State.

Operating Agreement with EPA

In connection with receipt of Capitalization Grants, the State, acting through DNR, has entered into an Operating Agreement with EPA. The Operating Agreement sets forth the objectives and structure, as designed to meet the objectives, of the Clean Water Fund Program and sets forth the responsibilities of DNR and DOA. Among these responsibilities are:

- financial management
- management of the environmental and project construction aspects
- preparation of an intended use plan, setting forth the projects the State expects to finance under the Clean Water Fund Program

SECURITY AND SOURCE OF PAYMENT FOR BONDS

Revenue Obligations

Each Series of Bonds are issued on a parity with all other Bonds previously issued or to be issued from time to time under the General Resolution. The Bonds are special obligations of the State, payable solely from the revenues, receipts, funds, and moneys pledged therefor under the General Resolution. The State is not obligated to pay the principal of, interest on, or redemption price of the Bonds from any funds of the State other than those pledged pursuant to the General Resolution, and neither the faith and credit nor the taxing power of the State or any agency, instrumentality, or political subdivision thereof is pledged to the payment of the principal of, interest on, or redemption price of the Bonds.

Pledge of Revenues

Pursuant to the General Resolution, the State has pledged to the Trustee for the benefit of the Bondowners and any owner of a Parity Reimbursement Obligation for the payment of the principal of, interest on, and redemption price of the Bonds in accordance with the terms and provisions of the General Resolution and the payment of any Parity Reimbursement Obligation, (i) all Pledged Receipts, which are defined in the General Resolution as follows:

- all Leveraged Loan Repayments, including both timely and delinquent payments
- Fees and Charges held or collected by the State
- any State payments intercepted by DOA and taxes collected by county treasurers, upon a default under a Municipal Obligation
- any moneys made available to the Leveraged Loan Portfolio pursuant to a State "moral obligation" for individual Loans
- any moneys collected by recourse to collateral and security devices under the Municipal Obligations

- any other moneys held or received by the State or the Trustee relating to the Municipal Obligations; and

(ii) and all funds and accounts established in connection with the issuance of the Bonds including the Loan Fund, the Subsidy Fund and the Loan Credit Reserve Fund (but not including the Rebate Fund or the State Equity Fund).

For a detailed description of the various funds, accounts and revenues securing the Bonds, see "SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION". For further discussion of State payments to Municipalities intercepted by DOA, the taxes collected by county treasurers and the State "moral obligation" on individual Loans, see "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers".

Loans

The proceeds of Bonds and other amounts deposited into the Loan Fund are used for the purpose of making Loans to Municipalities. Each Loan must meet the criteria described under "LOANS; Lending Criteria" and must be evidenced by a Municipal Obligation. As of September 30, 1998, $490.8 million of Bond proceeds have been disbursed for Loans and $413.4 million is the principal balance of these Loans. In addition, $62.7 million remain in the Loan Fund.

Table VI-1 identifies the Municipalities that have entered into Financial Assistance Agreements under the Clean Water Fund Program, the amount that has been disbursed to each Municipality as of September 30, 1998, and the amount that remains to be disbursed pursuant to its Financial Assistance Agreement. Table VI-1 also provides information as to the principal balance outstanding under the Financial Assistance Agreement for each Municipality that has received a Leveraged Loan from Bond proceeds. Table VI-1 presents the Municipalities in order of the amount of their Leveraged Loans outstanding as of September 30, 1998. Municipalities which do not have Leveraged Loans are listed at the end of Table VI-1. This order will change as Leveraged Loans are disbursed and new Leveraged Loans are originated or as loans are transferred into the Leveraged Loan Portfolio, or as Loans are transferred out of the Leveraged Loan Portfolio. Table VI-1 also provides information as to each Municipality's total debt service (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) as a percentage of the total debt service on the previously issued and Outstanding Bonds. These percentages will vary after the disbursement of any remaining proceeds of previously issued Outstanding Bonds.

As used in this table, "SD" refers to a sanitary district, "SC" to sewerage commission, "MSD" to a metropolitan sewerage district, "TPC" to a treatment plant commission, "RD" to a rehabilitation district, "CWC" to a clean water commission "WPCC" to a water pollution control center, and "MD" to a management district. Due to rounding, rows and columns may not add to the totals shown.

Leveraged Loan Repayments are the majority of the revenues available to pay debt service on the Bonds. To the extent that one Municipality's Leveraged Loan Repayments represent a greater or lesser percentage of the debt service than another Municipality's, the failure of such Municipality to make its Leveraged Loan Repayments will have a greater or lesser impact on the Clean Water Fund Program's ability to pay debt service on the Bonds than the failure of such other Municipality. The State believes that the security provisions of the Financial Assistance Agreements, as well as the amounts available from the Loan Credit Reserve Fund and the Subsidy Fund, will limit the effect on Bondowners of a failure by one or more Municipalities to pay debt service on their Loans. Revenues available from amounts in the Subsidy Fund will not be directly affected by the failure of any Municipality to pay debt service on its Loan. However, a persistent failure by one or more Municipalities to pay debt service on Leveraged Loans may adversely affect the ability of the Clean Water Fund Program to pay debt service on the Bonds.

The Milwaukee Metropolitan Sewerage District (**MMSD**) is currently the largest borrower in the Leveraged Loan Portfolio with $111.2 million in principal amount of loans outstanding as of September 30, 1998. Other Municipalities had Leveraged Loans in outstanding principal amounts ranging from $2.4 thousand to $33.2 million as of the same date. For a discussion regarding the information that is available on the Municipalities, see "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Additional Information".

MMSD Management Contract

MMSD has entered into an agreement with United Water Services Milwaukee LLC for the operation of MMSD's two wastewater treatment plants, biosolids management and field operations. The State does not anticipate that such an arrangement affectS the security or the tax-exempt status of Municipal Obligations issued by MMSD, which are also general obligations of MMSD.

Table VI-1
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
OUTSTANDING LOANS
September 30, 1998
(Amount in Thousands)

Municipality	Financial Assistance Loan Amount [b]	Total Disbursed	Leveraged Loan Balance	Direct & Proprietary Loan Balance	Total Outstanding Balance [c]	Loan Amount Remaining to Fund [d]	Leveraged Loans Percent of Revenue Bond Payment [e]
Leveraged Loans [a]							
Milwaukee MSD	263,498	256,084	111,227	90,238	201,465	7,414	17.09%
Madison MSD	48,231	44,134	33,201	5,660	38,861	4,096	5.63%
Fort Atkinson	14,594	14,266	11,044		11,044	328	1.92%
Stevens Point	13,560	13,117	10,974		10,974	443	1.85%
Green Bay MSD	41,303	38,706	8,801	22,175	30,977	2,597	1.42%
Waupaca	9,637	8,957	8,283		8,283	680	1.42%
Sussex	11,029	10,605	8,065		8,065	423	1.32%
Sparta	10,726	10,043	7,487		7,487	683	1.26%
Green Lake SD	8,674	8,388	7,193		7,193	286	1.13%
Menomonie	7,443	6,909	6,729		6,729	534	1.27%
Bloomer	6,694	6,354	6,354		6,354	339	1.08%
Marshall	6,559	5,318	5,318		5,318	1,241	0.91%
Brodhead	6,021	5,289	5,289		5,289	732	0.90%
Oconomowoc	5,449	5,167	5,167		5,167	283	0.87%
Chippewa Falls	5,335	4,879	4,688		4,688	456	0.80%
Stoughton	5,590	5,217	4,391	194	4,586	373	0.72%
Racine	5,331	4,672	4,183		4,183	659	0.69%
Rhinelander	5,136	5,123	4,171		4,171	13	0.71%
Black Creek	4,332	4,228	4,066		4,066	104	0.69%
Antigo	4,317	4,202	3,975		3,975	114	0.68%
Richland Center	4,998	4,750	3,924		3,924	248	0.68%
Salem	4,345	4,258	3,801		3,801	86	0.62%
Lodi	4,050	3,895	3,749		3,749	154	0.64%
Bristol	4,211	3,971	3,405		3,405	240	0.58%
Neillsville	3,238	3,208	3,084		3,084	30	0.53%
South Milwaukee	3,410	3,410	3,017		3,017		0.51%
Sheboygan	7,626	7,379	2,983	3,952	6,936	247	0.51%
Merrill	4,044	4,033	2,969		2,969	11	0.50%
Black Wolf SD #1	4,327	4,065	2,865		2,865	262	0.44%
Wautoma	3,234	3,234	2,856		2,856		0.42%
New Glarus	3,503	3,404	2,816		2,816	99	0.47%
Allouez	3,072	2,873	2,763		2,763	199	0.47%
Tomahawk	3,026	2,864	2,743		2,743	162	0.46%
Reedsville	2,768	2,755	2,573		2,573	13	0.44%
Freedom SD #1	2,748	2,507	2,411		2,411	242	0.41%
Beloit	2,927	2,610	2,409		2,409	318	0.37%
Weyauwega	3,285	3,108	2,340		2,340	176	0.40%
Colby	2,837	2,647	2,339		2,339	190	0.39%
Belleville	2,563	2,409	2,315		2,315	155	0.39%
Amery	2,431	2,359	2,174		2,174	72	0.37%
Kenosha	31,513	27,840	2,173	21,140	23,313	3,673	0.37%
Hudson	2,760	2,755	2,046		2,046	5	0.33%
Poynette	2,288	2,112	1,949		1,949	175	0.33%
Monticello	2,345	2,319	1,936		1,936	26	0.27%
Chain O'Lakes SD #1	2,082	2,063	1,918		1,918	19	0.35%
Union Grove	2,192	2,149	1,906		1,906	44	0.34%
Edgerton	3,693	1,938	1,888		1,888	1,756	0.32%
Pewaukee	8,191	6,297	1,812	4,417	6,229	1,894	0.31%
Fremont	1,867	1,815	1,747		1,747	51	0.30%
Jackson	6,130	1,723	1,723		1,723	4,407	0.29%
New Richmond	3,320	1,718	1,681		1,681	1,602	0.28%
Mount Horeb	3,436	3,338	1,636	845	2,482	97	0.26%
Janesville	2,066	1,635	1,525		1,525	431	0.25%
Trempealeau	1,559	1,544	1,442		1,442	14	0.25%
Whitewater	1,564	1,482	1,423		1,423	82	0.24%
Lancaster	1,688	1,601	1,416		1,416	88	0.24%
Menasha SD #4	1,659	1,642	1,398		1,398	17	0.23%
Crandon	1,537	1,454	1,397		1,397	83	0.24%
Newburg	1,549	1,424	1,377		1,377	125	0.24%
Shorewood	2,512	1,364	1,364		1,364	1,148	0.23%
Wrightstown	1,427	1,355	1,355		1,355	71	0.23%
Lake Nebagamon	1,539	1,352	1,303		1,303	187	0.22%
Potosi/Tennyson SC	1,543	1,543	1,300		1,300		0.21%
Fond du Lac	2,022	1,732	1,294		1,294	291	0.21%
Manawa	1,408	1,391	1,285		1,285	17	0.22%
Saukville	1,578	1,554	1,274		1,274	24	0.22%

Table VI-1 – Continued
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
OUTSTANDING LOANS
September 30, 1998
(Amount in Thousands)

Municipality	Financial Assistance Loan Amount [(b)]	Total Disbursed	Leveraged Loan Balance	Direct & Proprietary Loan Balance	Total Outstanding Balance [(c)]	Loan Amount Remaining to Fund [(d)]	Leveraged Loans Percent of Revenue Bond Payment [(e)]
Black River Falls	1,894	1,767	1,251		1,251	127	0.19%
Valders	1,538	1,538	1,244	109	1,353		0.21%
De Pere	1,973	1,743	1,241		1,241	230	0.20%
Mount Calvary	1,430	1,430	1,220		1,220		0.16%
Monroe	1,580	1,527	1,186		1,186	53	0.20%
Tomah	13,298	2,931	1,152	1,780	2,931	10,367	0.19%
Mosinee	1,383	1,297	1,143		1,143	85	0.19%
Columbus	1,235	1,235	1,138		1,138		0.19%
Bay City	1,224	1,200	1,105		1,105	24	0.20%
Viroqua	1,353	1,314	1,102		1,102	39	0.18%
West Salem	4,990	1,102	1,102		1,102	3,888	0.18%
Wisconsin Dells - Lake Delton SC	1,486	1,476	1,081		1,081	10	0.18%
Baraboo	1,402	1,385	1,080		1,080	18	0.17%
Hewitt	1,467	1,298	1,070		1,070	169	0.16%
Watertown	1,141	1,101	1,063		1,063	40	0.18%
Marshfield	24,170	1,680	1,049	630	1,680	22,490	0.17%
Blue Mounds	1,152	1,054	1,013		1,013	98	0.17%
Argyle	1,467	1,380	1,007		1,007	87	0.15%
Dodgeville	4,995	1,006	1,006		1,006	3,989	0.17%
Wolf TPC	1,274	1,274	968		968		0.16%
River Falls	1,009	1,009	934		934		0.16%
Wrightstown SD #1	1,081	1,036	912		912	45	0.15%
Kewaunee	1,017	1,017	894		894		0.15%
Galesville	1,143	1,111	863		863	32	0.15%
Spring Green	950	920	855		855	30	0.14%
Silver Lake SD - WASHINGTON CO.	1,063	1,063	807		807		0.11%
Rockland	967	832	802		802	135	0.14%
Redgranite	997	997	788		788		0.11%
Fontana	1,060	743	743		743	317	0.13%
Brazeau SD #1	793	758	730		730	35	0.12%
Mercer SD #1	787	787	711		711		0.14%
Montfort	779	756	698		698	23	0.12%
Neenah SD #2	1,057	1,057	694		694		0.09%
Highland	825	716	691		691	109	0.12%
Cudahy	886	839	687		687	47	0.12%
Iron River SD #1	717	710	645		645	6	0.11%
Plymouth	4,586	4,308	643	3,005	3,648	278	0.12%
North Fond du Lac	1,741	640	640		640	1,101	0.11%
Rosholt	662	629	629		629	33	0.11%
Beaver Dam	819	798	622		622	21	0.11%
Abbotsford	722	660	613		613	62	0.11%
Shullsburg	687	599	599		599	88	0.10%
Laona SD #1	746	746	563		563		0.09%
Silver Lake SD - WAUSHARA CO.	722	722	531		531		0.07%
Sextonville SD	589	537	520		520	53	0.09%
Hartford-Town	742	742	519		519		0.07%
Two Rivers	733	603	503		503	130	0.08%
Sunset Point SD	686	655	497		497	31	0.09%
New Lisbon	1,053	777	489	162	651	276	0.08%
Boscobel	639	590	475		475	49	0.08%
Prescott	5,349	4,956	456	3,927	4,384	393	0.08%
Muscoda	898	439	439		439	459	0.07%
Chetek	528	432	432		432	96	0.07%
Almond	530	504	427		427	27	0.07%
Prentice	544	447	413		413	97	0.07%
Pulaski	483	483	403		403		0.07%
North Freedom	498	473	402		402	25	0.07%
Slinger	480	480	393		393		0.07%
Iowa County	486	486	381		381		0.06%
Adams	457	390	377		377	67	0.06%
Belmont	458	416	370		370	42	0.06%
Random Lake	464	441	369		369	23	0.06%
Goodman SD #1	463	463	367		367		0.05%
Knapp	669	359	359		359	310	0.06%
Ellsworth	373	373	345		345		0.06%
Dane	1,228	332	332		332	896	0.06%
Coleman	507	449	332		332	58	0.06%
Cassville	442	401	327		327	41	0.06%
Prairie du Chien	4,106	4,050	326	3,150	3,477	55	0.05%

Table VI-1 – Continued
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
OUTSTANDING LOANS
September 30, 1998
(Amount in Thousands)

Municipality	Financial Assistance Loan Amount [b]	Total Disbursed	Leveraged Loan Balance	Direct & Proprietary Loan Balance	Total Outstanding Balance [c]	Loan Amount Remaining to Fund [d]	Leveraged Loans Percent of Revenue Bond Payment [e]
Walworth	332	277	277		277	55	0.05%
Osceola	298	298	277		277		0.05%
Pepin	363	266	258		258	97	0.04%
Potosi	291	255	248		248	36	0.04%
Baldwin	262	262	244		244		0.04%
Hustisford	446	395	238	51	290	50	0.04%
Grand Chute - Manasha West SC	11,835	11,227	231	9,263	9,494	608	0.04%
Blue River	281	270	217		217	11	0.04%
Plum City	249	249	213		213		0.04%
Prairie du Sac	205	183	176		176	23	0.03%
Cottage Grove	506	169	169		169	337	0.03%
Gays Mills	180	173	167		167	7	0.03%
Little Elkhart Lake Rehab District	217	217	152		152		0.02%
Brownsville	588	146	146		146	442	0.02%
Webster	204	194	142		142	10	0.02%
Brokaw	197	190	135		135	7	0.02%
Hillsboro	160	129	125		125	31	0.02%
Linden	165	153	124		124	12	0.02%
Spring Valley	120	120	112		112		0.02%
Roberts	81	81	76		76		0.01%
Bowler	115	107	75		75	8	0.01%
Cross Plains	896	73	73		73	822	0.01%
Oneida Tribe of Indians	1,210	1,210		828	828		
Denmark	2,241	2,223		1,821	1,821	18	
Burlington	18,488	17,855		13,054	13,054	633	
Wheeler	37	37					
Nekoosa	2,435	2,314		2,132	2,132	122	
Aurora SD #1	15	15		8	8		
Oshkosh	21,383	20,311		18,990	18,990	1,072	
Oregon	6,785	6,641		6,159	6,159	143	
Royal Scot SD	510	510					
Winneconne	25	24				1	
Eagle River	3,563	3,401		3,119	3,119	162	
Lisbon SD #1	2,849	2,706		1,942	1,942	142	
Hilbert	1,955	1,955		1,732	1,732		
Blue Spring Lake Mgmt Dist	380	361				19	
Walworth County MSD	19,994	18,877		16,537	16,537	1,117	
Ashland	9,013	8,855		5,993	5,993	157	
Cleveland	3,610	3,452		3,177	3,177	158	
Waukesha	42,072	39,968		31,434	31,434	2,104	
Subtotal	923,794	827,155	413,356	277,626	690,982	96,639	67.73%
Direct and Proprietary Loans							
Brookfield-Fox River WPCC	23,195	17,916		17,916	17,916	5,280	
Appleton	16,474	13,989		11,195	11,195	2,485	
Hartford	13,168	8,626		8,174	8,174	4,543	
Wisconsin Rapids	11,670	11,348		8,717	8,717	322	
Pewaukee SD #3-Fox River WPCC	8,049	6,140		6,140	6,140	1,909	
Bohners Lake SD #1	8,007	7,829		6,405	6,405	178	
Pell Lake SD #1	5,829	3,355		3,355	3,355	2,474	
Brookfield SD #4-Fox River WPCC	5,750	4,334		4,334	4,334	1,416	
Algoma	5,547	5,432		4,080	4,080	115	
Lake Como Beach SD	4,459	3,575		3,575	3,575	884	
Portage	4,341	283		283	283	4,058	
Oconto	3,844	3,725		3,280	3,280	119	
Lannon	3,824	3,326		3,066	3,066	498	
Dyckesville SD	3,127	3,127		1,675	1,675		
Island View SD	2,764	2,317		2,232	2,232	448	
Orihula SD	2,522	2,485		2,300	2,300	37	
Kiel	2,470	2,445		2,362	2,362	25	
Butte des Morts Consolidated SD #1	2,144	2,144		1,266	1,266		
Lomira	1,932	1,784		1,573	1,573	148	
Crivitz	1,725	1,725		1,322	1,322		
Wausaukee	1,662	1,662		1,387	1,387		
Sherwood (g)	1,500	1,425		1,425	1,425	75	
South Wayne	1,388	1,189		1,122	1,122	199	
Pensaukee SD #1	1,279	1,279		1,212	1,212		
Hatfield SD #1	1,135	1,135		902	902		

Table VI-1 – Continued
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
OUTSTANDING LOANS
September 30, 1998
(Amount in Thousands)

Municipality	Financial Assistance Loan Amount [b]	Total Disbursed	Leveraged Loan Balance	Direct & Proprietary Loan Balance	Total Outstanding Balance [c]	Loan Amount Remaining to Fund [d]	Leveraged Loans Percent of Revenue Bond Payment [e]
Pleasant Springs SD #1	1,029	923		825	825	106	
Cloverleaf Lakes SD #1	1,022	977		783	783	45	
Edgewood-Shangri La SD	1,011	529		529	529	482	
Omro SD #1	992	992		892	892		
Bayshore SD	947	899				47	
Menomonee Falls-Fox River WPCC	887	709		709	709	178	
Valley Ridge Clean Water Comm.	749	749		542	542		
Little Suamico SD #1	728	688		503	503	40	
Onion River Sewage Commission/Adell	721	721		509	509		
Norway SD #1	680	672		229	229	8	
North Hudson	641	620		157	157	21	
Nelson	640	640		576	576		
Oliver	588	588		552	552		
Fairchild	575	575		575	575		
Adell	566	566		400	400		
Egg Harbor	508	476		476	476	32	
Calumet SD #1	505	505		426	426		
Hub-Rock SD #1	494	494		494	494		
Bear Creek	432	387		359	359	44	
Elk Mound	419	418		310	310	1	
Ithaca SD #1	412	412		409	409		
Gordon SD #1	395	395		291	291		
Avoca	359	336		309	309	23	
Milltown	337	302		295	295	34	
Eastman	323	323		227	227		
Morrison SD #1	294	294		128	128		
Juneau	271	237		229	229	34	
Morrisonville SD #1	252	252		252	252		
Onion River Sewage Commission/Hingham	227	227		164	164		
Rockland SD #1	222	222		145	145		
Ogema SD #1	190	181		142	142	10	
Green Valley SD #1	188	183		167	167	5	
Niagara	181	181		127	127		
Consolidated S.D. #1 Town of Friendship	155	155		110	110		
Wauzeka	128	107		99	99	21	
Ironton	107	107		61	61		
Boaz	106	106		74	74		
Caroline SD	83	83		58	58		
Washington	60	60					
Westboro SD #1	51	51		48	48		
Oakdale	45	45		29	29		
Germantown SD	34	34		24	24		
Subtotal	156,356	130,013		112,532	112,532	26,344	
Total	1,080,151	957,168	413,356	390,158	803,514	122,983	67.73%

(a) Municipalities which have received Financial Assistance Agreements that are funded with both Leveraged Loans and Direct or Proprietary Loans are included in their entirety within the group of Leveraged Loans.

(b) The amount of financial assistance depicts only loans. Grants awarded in the aggregate amount of $94,255,570 are not included.

(c) The principal balance may be less than the total amount disbursed due to repayment of loans.

(d) Total loan repayments of outstanding Leveraged Loans (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) are shown as a percentage of total 1991 Series 1 Bonds, 1993 Series 1 and 2 Bonds, 1995 Series 1 Bonds, 1997 Series 1 Bonds, 1998 Series 1 Bonds and 1998 Series 2 Bonds, less those Bonds that are defeased. Loans with amortization periods of shorter duration than the Bonds will reflect a lower comparative percentage of the Bonds' debt service. Other revenues expected to be available for payment of the Bonds consist of Subsidy Fund transfers and repayments on Loans to be originated in the future from the remaining undisbursed 1998 Series 1 Bond proceeds.

Subsidy Fund

Loans are made pursuant to the Clean Water Fund Program to certain Municipalities at interest rates below the Clean Water Fund Program's cost of borrowing. To supplement revenues produced by Leveraged Loan Repayments, the General Resolution creates a Subsidy Fund, a Subsidy Fund Requirement and a Subsidy Fund Transfer Amount.

The Subsidy Fund Requirement is that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing after an interest payment date and ending on the next interest payment date (**Period**) which is at least equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of:

- scheduled disbursements from the Capitalized Interest Account, and
- Leveraged Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund

In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if:

- such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds
- such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Leveraged Loan Repayments; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement

The Subsidy Fund Transfer Amount is that amount equal to the amount by which Aggregate Debt Service payable during a Period exceeds the sum of:

- Leveraged Loan Repayments scheduled to be received and delinquent Leveraged Loan Repayments actually received during the Period
- earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period
- any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period
- any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and
- amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period

On the business day preceding each interest payment date, the Trustee shall transfer the Subsidy Fund Transfer Amount from the Subsidy Fund to the Debt Service Fund.

Whenever the money in the Debt Service Fund and money available in the Loan Credit Reserve Fund are insufficient to pay the principal of and interest on the Bonds, the Trustee shall transfer amounts from the Subsidy Fund to the Debt Service Fund to the extent necessary to cure the deficiency.

The General Resolution permits the issuance of a Series of Bonds only if, upon such issuance, an Authorized Officer certifies to the Trustee that upon delivery of such Bonds there will be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement. In addition, except in the case of a default in payment of the Bonds, the General Resolution permits disbursements from the Loan Fund only upon receipt of a certificate from an Authorized Officer stating that after taking into account the disbursement there is on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement.

As of September 30, 1998, the Subsidy Fund held $93.9 million, which were invested in general obligations issued by the State. The amount required as of that date was $90.1 million.

Loan Credit Reserve Fund

As additional security for the Bonds there has been established a Loan Credit Reserve Fund which will, upon the issuance of any Series of Bonds, be funded in an amount at least equal to the Loan Credit Reserve Fund Requirement. The Loan Credit Reserve Fund Requirement means and is calculated as follows:

- Upon the issuance of the first Series of Bonds or disbursements of funds for Loans from the Loan Fund, an Authorized Officer delivered to the Trustee a schedule of credit quality categories and loan credit reserve fund requirements for each Rating Agency (**Schedule**) approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency. For a description of the Schedules currently in effect, see "LOAN CREDIT RESERVE FUND SCHEDULES".
- The amount required in the Schedules for each disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the **Contribution Amount**.
- The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

The Trustee may not disburse moneys from the Loan Fund unless, prior to such disbursement, there is deposited in the Loan Credit Reserve Fund concurrently with the disbursement an amount equal to the Contribution Amount, provided, however, that if the amount on deposit would be in excess of the Loan Credit Reserve Fund Requirement, the Contribution Amount may be reduced in an amount equal to such excess. If upon the issuance of a Series of Bonds, there is on deposit in the Loan Credit Reserve Fund an amount in excess of the Loan Credit Reserve Fund Requirement (such excess being the **Funded Amount**), any Contribution Amount required to be deposited into the Loan Credit Reserve Fund upon a disbursement from the Loan Fund shall be deemed to be made from such Funded Amount until the Funded Amount is exhausted. Any

Funded Amount shall be available until issuance of a subsequent Series of Bonds, whereupon a new Funded Amount is calculated. The Loan Credit Reserve Fund Requirement is calculated based on disbursements from the Loan Fund. Upon issuance of an additional Series of Bonds, additions to the Loan Credit Reserve Fund Requirement will be zero prior to any additional Loan disbursement. Failure to make deposits in the Loan Credit Reserve Fund (including deemed deposits from the Funded Amount) would consequently preclude making any subsequent disbursements from the Loan Fund.

Whenever moneys in the Debt Service Fund are insufficient to pay the principal of or interest on the Bonds, the Trustee will apply amounts from the Loan Credit Reserve Fund to the extent necessary to cure the deficiency. Except in the event of the issuance of additional Bonds, the State is not required to replenish the Loan Credit Reserve Fund following creation of a deficiency therein, except from surpluses in the Subsidy Fund being transferred to the State Equity Fund.

Whenever moneys and securities in the Loan Credit Reserve Fund (excluding earnings required to be transferred to the Revenue Fund) shall exceed the Loan Credit Reserve Fund Requirement, the Trustee is required, at the written direction of an Authorized Officer, subject to certain conditions, to transfer all or any portion of such surplus from the Federal SRF Account to any account within the Clean Water Fund Program or from the Non-SRF Account to the Revenue Fund. Any withdrawal of surpluses from the Loan Credit Reserve Fund shall reduce the Funded Amount by an amount equal to the amount of such withdrawal.

As of September 30, 1998, the Loan Credit Reserve Fund balance was approximately $51.9 million. This amount exceeded the Loan Credit Reserve Fund Requirement as of that date, which was $42.1 million.

As of September 30, 1998, the Loan Credit Reserve Fund was invested as follows:

- $24 million were invested in an investment agreement with AIG Matched Funding Corp. (**AIGMFC**) with the payment obligations of AIGMFC guaranteed by American International Group, Inc., which policy does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State
- $6.3 million were invested in an investment agreement with MBIA Investment Management Corp. (**IMC**) with the payment obligations of IMC guaranteed by the MBIA Insurance Corporation, which policy does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State
- $7.6 million were invested in a collateralized investment repurchase agreement with Bayerische Landesbank Girozentrale (**Bayerische**), with the collateral held by Norwest Bank Minnesota, National Association as custodian; and
- $14 million were invested in direct obligations of the United States under two forward delivery agreements with First Union National Bank of North Carolina (**First Union**).

The investment agreement with AIGMFC, the investment agreement with IMC, the investment repurchase agreement with Bayerische, and the forward delivery agreements with First Union each provide for liquidation of the investments if and when required by the terms of the General Resolution.

If one or more Municipalities fail to make their Leveraged Loan Repayments, and the amount of the delinquent payments is in excess of the amount available from the Loan Credit Reserve Fund, this may adversely affect the ability of the Clean Water Fund Program to make timely payments of the principal of, interest on, or redemption price of the Bonds.

Statutory Powers

The Act includes several provisions that may provide additional security for payment of the principal of, interest on, or redemption price of the Bonds.

State Aid Intercept

The Act confers an "intercept power" upon DOA. If a Municipal Obligation to the State is in default, DOA, which is the paying agent for State moneys payable to Wisconsin municipalities, is required to place on file a certified statement of all amounts due under the loan. Thereafter, DOA is authorized to collect all amounts due under the loan by deducting those amounts from any State payments due the Municipality. The State has covenanted in the General Resolution to exercise this intercept power to the extent State payments are available. Certain Municipalities, including town sanitary districts, public inland lake protection rehabilitation districts, metropolitan sewage districts, and intergovernmental cooperation commissions do not receive such State payments. The amount of money realized by the Clean Water Fund Program from the exercise of the intercept power will depend on the level of State payments to the Municipality in relation to the size of the loan. The level of State payments to Municipalities may vary in the future. Although State payments can be intercepted by the State for certain other purposes, current administrative rules require DOA to exercise the Clean Water Fund Program intercept as a first charge against State payments due a particular Municipality.

Collection Through County Treasurers

If a Municipal Obligation to the State is in default, the Act gives DOA the authority, after placing on file the certified statement of amounts due under a loan, to add the amount due on the loan as a special charge to the amount of taxes levied upon the county in which the defaulting Municipality is located. In turn, the county treasurer is required to apportion the amount of such special charges to "any town, city, or village," and the special charges are then collected with the annual property tax. The word "town" in a statute may be construed as including cities, villages, wards and districts, although metropolitan sewerage districts and town sanitary districts are not specifically mentioned. The enforceability of this procedure for collection of special charges has not been tested in court. Accordingly, no assurance can be given as to the enforceability of this procedure.

State Moral Obligation

At the time a loan is made, the Commission may by resolution designate the loan as one to which the State "moral obligation" applies. If such "moral obligation" applies, the Act provides that, if at any time the payments received or expected to be received from a Municipality on any loan are insufficient to pay when due the principal of and interest on such loan, DOA shall certify the amount of such insufficiency to the Secretary of Administration, the Governor, and the Joint Committee on Finance. Thereupon the Joint Committee on Finance is required to introduce a bill appropriating the amount so requested for the purpose of payment of the Municipal Obligation secured thereby. Recognizing its "moral obligation" to do so, the Legislature has expressed its expectation and aspiration that, if ever called upon to do so, it would make the appropriation. The "moral obligation" applies to individual loans and not to the Bonds. In addition, the loans to which a "moral obligation" applies must be specifically designated by the Commission at the time the loan is made. No loan currently financed or expected to be financed from proceeds of the Bonds is expected to be designated as a "moral obligation" Loan. In the opinion of Bond Counsel, the provisions of the Act relating to the State's "moral obligation" do not violate the constitution of the State or any other law of the State, but such provisions do not constitute a legally enforceable obligation or create a debt on behalf of the State.

State Financial Participation

The State has funded and intends to continue to fund all or a substantial portion of the Subsidy Fund through the issuance of State general obligation bonds. Such State general obligation bonds will be sold to the Clean Water Fund Program for deposit in the Subsidy Fund as and when required to meet the Subsidy Fund Requirement. The State general obligation bonds are issued such that the principal and interest will be due and payable on such bonds at the times and in the amounts as are required to satisfy the Subsidy Fund Requirement. The State has authorized the issuance of additional general obligation bonds in an amount expected to exceed the Subsidy Fund Requirement necessary to disburse all Bond proceeds. However, failure of the State to fund the Subsidy Fund at the Subsidy Fund Requirement will preclude the disbursement of Bond proceeds from the Loan Fund (except to pay interest on the Bonds) and preclude the issuance of additional Bonds. Such a failure could adversely affect the ability of the Clean Water Fund Program to make timely payments of the principal of, interest on, or redemption price of the Bonds.

Although the State has no present intent to cause this to happen, State general obligation bonds may also be sold to the Clean Water Fund Program for deposit in the Loan Credit Reserve Fund to meet the Loan Credit Reserve Fund Requirement.

Additional Information

There is one entity that, as of September 30, 1998, is expected to be the source of 20 percent or more of the gross cash flow servicing the Bonds. This entity is the State, which has issued its general obligation bonds that are currently held in the Subsidy Fund, which is expected to provide approximately 21 percent of the gross cash flow servicing the Bonds.

The ability of this entity to make timely payments on its obligations is an important consideration in evaluating the security of the Bonds. Information about the State, including its financial statements, is included in Part II of this Annual Report.

Information about Municipalities, other than the amounts of their loans and annual repayments, is not made part of this Annual Report, however, financial statements are required to be provided to the Clean Water Fund Program by any Municipality which has received a Direct Loan, Proprietary Loan or Leveraged Loan.

A copy of any financial statements provided to the Clean Water Fund Program by any Municipality is available upon submitting a request through DOA, Clean Water Fund Program Office, Box 7864, Madison, Wisconsin 53707-7864, phone (608) 267-1836.

Additional Bonds

The General Resolution permits the issuance of additional Bonds, without limitation as to amount (except for any statutory limitations on the aggregate authorized amount of revenue bonds, currently $1.298 billion, other than revenue bonds issued for refunding purposes) to provide funds for Clean Water Fund Program purposes, including making Loans. As a condition to the issuance of additional Bonds, the General Resolution requires that there will be delivered to the Trustee a certificate of an Authorized Officer that, upon the issuance of such Bonds, there will be in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement and that there will be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement.

Any additional Bonds issued under the General Resolution will be on a parity with any other Bonds previously issued, and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the State set forth in the General Resolution (except for funds pledged to defease any specific Bonds).

Disposition of Loans

DOA may sell, assign, transfer, or otherwise dispose of any loan and the Municipal Obligations evidencing such loan (free and clear of the pledge of the General Resolution or subject to the lien of the General Resolution, at the discretion of the State) and at such price as the Commission shall determine, provided that prior to any such sale, assignment, transfer, or disposition the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such sale, assignment, transfer, or disposition, there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there will be on deposit in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State may sell, assign, transfer, or otherwise dispose of any loan and the Municipal Obligation evidencing such loan (but not free and clear of the General Resolution), at such price as the Commission shall determine provided that prior to such sale, assignment, transfer, or disposition the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such sale, assignment, transfer or disposition and the deposit of the proceeds thereof in the applicable account, there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there will be on deposit in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State may sell, assign, transfer, or otherwise dispose of any loan and the Municipal Obligation evidencing such loan (but not free and clear of the General Resolution) and deposit the proceeds thereof in the applicable account if such Loan and such Municipal Obligation is delinquent in payments of principal or interest and if, in the reasonable opinion of the State, as evidenced by a certificate of an Authorized Officer, the proceeds of such sale, assignment, transfer, or disposition are not less than the fair market value of such delinquent Loan or Municipal Obligation.

The State may consent to prepayment of any Loan and the Municipal Obligation evidencing such Loan provided that, prior to such prepayment, the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such prepayment and deposit of the proceeds thereof to the applicable fund or account, the Subsidy Fund Requirement has not been increased.

LOAN CREDIT RESERVE FUND SCHEDULES

Introduction

The General Resolution establishes the amount and timing of funds and securities required to be deposited or on deposit in the Loan Credit Reserve Fund, based on Schedules reviewed by no less than two Rating Agencies. The State, with the consent of a Rating Agency, may from time to time change the Schedule previously approved by such Rating Agency so long as the change does not adversely affect the then-current rating on the Bonds. To the extent the amount of the deposit or amount on deposit required by the Schedule approved by one Rating Agency differs from the amount required by the Schedule approved by another Rating Agency, the larger amount is required. As of September 30, 1998 the amount held in the Loan Credit Reserve Fund was $51.9 million, and the amount required on such date was $42.1 million.

Current Schedules

The Bonds are currently rated AA+ by Fitch IBCA, Inc. (**Fitch IBCA**), Aa2 by Moody's Investors Service, Inc. (**Moody's**) and AA+ by Standard & Poor's Ratings Group (**S&P**). Each of the following Schedules has been approved by the respective Rating Agency indicated.

Moody's Investors Service, Inc.

As part of the Schedule submitted to Moody's, the State has indicated that it will maintain the Loan Credit Reserve Requirement at a level that corresponds to certain Loan portfolio credit characteristics. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund is the product of the average annual debt service of the outstanding, disbursed Loans times a factor of 120%, and is based on an evaluation of the Loans shown in Table VI-1. A different factor may be applied if Loan portfolio credit characteristics change.

Standard & Poor's Ratings Group

Based on certain credit characteristics, each Loan will be assigned one of five categories, which are explained below. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular disbursement from the Loan Fund is the product of the maximum annual debt service payment on the Loan attributable to the disbursement times the factor assigned to that particular category.

The following chart shows the current factor assigned to each of the five categories by S&P. Following the chart is an explanation of the characteristics of each category.

Category	Factor
Higher Investment Grade Rating	0%
Medium Investment Grade Rating	40
Lower Investment Grade Rating	64
Not Rated; Greater State Aids	40
Not Rated; Lesser State Aids	140

Loans are categorized based on two characteristics:

- the rating given to the Municipal Obligation (or its lack of a rating)
- the anticipated amount of annual State payments that can potentially be intercepted by DOA

The intercept power is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Aid Intercept". If the Municipal Obligation is not rated by S&P, the State may request permission from S&P to assign the Municipal Obligation to a particular category.

The anticipated amount of annual State payments that can potentially be intercepted by DOA is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality–State shared revenue.

Higher Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in either of the two highest rating categories (AAA;AA).

Medium Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the third highest rating category (A). S&P may also permit a Loan to be assigned to this category, regardless of whether or not the Municipal Obligation is rated, in the event the State designates the Loan as one to which the State "moral obligation" applies. The State "moral obligation" is described in "SECURITY AND SOURCE OF PAYMENT FOR BONDS".

Lower Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the minimum investment grade rating category (BBB).

Not Rated; Greater State Aids. A Loan is assigned to this category if the Municipal Obligation: (i) either is not rated or is rated below investment grade and (ii) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Lesser State Aids. A Loan is assigned to this category if the Municipal Obligation (i) either is not rated or is rated below investment grade and (ii) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The State recognizes that the rating maintained by S&P is based in part upon the level of funds available in the Loan Credit Reserve Fund. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the Clean Water Fund Program, and the State recognizes that the rating maintained by S&P may be based on the maintenance of amounts greater than the amounts required under this Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same rating category as the Bonds. The State further agrees that, if practicable, it will provide S&P with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

The State agrees that if the rating on or ratability of an investment in the Loan Credit Reserve Fund is based on either a credit enhancement policy or financial guarantee, the State will notify S&P not less than 30 days prior to the expiration of such policy and indicate what action, if any, is expected to be taken with respect to the credit quality of the investment.

Fitch IBCA, Inc.

Based on certain credit characteristics, each Loan will be assigned to one of six credit categories, which are explained below. Any assignment of a Loan to a credit category other than "Not Rated; Interceptable State Aid Factor 2.0 or Greater" or "Not Rated; Interceptable State Aid Factor Less Than 2.0" is subject to review by Fitch IBCA. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular Loan and any amounts disbursed under that Loan differs, depending on the borrower. The Municipality with total outstanding General Resolution Leveraged Loans in a credit category below that of the Bonds, such that the Municipality's outstanding Loan amount is larger than that of any other Municipality with outstanding Loans in credit categories below that of the Bonds, is the "Largest Borrower Below Bond Credit Quality". The required deposit attributable to the Largest Borrower Below Bond Credit Quality shall equal the total of all debt service payments attributable to the Loan or Loans to that Borrower over the four-year period in which such debt service payments are the greatest. For any Loans to borrowers other than the Largest Borrower Below Bond Credit Quality, the required deposit shall equal the product of the total of all debt service payments attributable to such Loans over the four-year period in which such debt service payments are the greatest times the factor, described below, assigned to Loans of the applicable credit category.

Loans are currently assigned to credit categories based on one or more of the following characteristics:

- the Fitch IBCA rating given to the Municipal Obligation (or its lack of a Fitch IBCA rating)
- the credit quality estimate for the Municipal Obligation based on information available to Fitch IBCA from sources it believes to be reliable
- the anticipated amount of annual State payments that can potentially be intercepted by DOA

The State recognizes that the credit quality estimate, or "shadow rating", is not necessarily the official or public Fitch IBCA ratings for the Municipal Obligation and are used solely for purposes of analyzing the credit quality of the Bonds. The intercept power is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Aid Intercept". If the Municipal Obligation is not rated by Fitch IBCA, the State may request that Fitch IBCA assign a credit quality estimate, or "shadow rating", for the Municipal Obligation.

Credit categories to which Loans may be assigned by Fitch IBCA currently include the following:

"AAA" Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of the highest credit quality, denoting the lowest expectation of credit risk. Assignments to this category are made only in cases of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

"AA" Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of very high credit quality, denoting a very low expectation of credit risk. Assignments to this category are made in cases of very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

"A" Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of high credit quality, denoting a low expectation of credit risk. Assignments to this category are made in cases of strong capacity for timely payment of financial commitments. Nevertheless, this capacity may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher credit quality categories.

"BBB" Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of good credit quality, denoting a currently low expectation of credit risk. Assignments to this category are made in cases of adequate capacity for timely payment of financial commitments. Adverse changes in circumstances and in economic conditions are more likely to impair this capacity than is the case for higher credit quality categories.

Not Rated; Interceptable State Aid Factor 2.0 or Greater. The anticipated amount of annual State payments that can potentially be intercepted by the State is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality: State shared revenue. A Loan is currently assigned to this category if its related Municipal Obligation is (i) not rated by Fitch IBCA or categorized as being of speculative grade credit quality by Fitch IBCA and (ii) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the maximum annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Interceptable State Aid Factor Less Than 2.0. A Loan is currently assigned to this category if its related Municipal Obligation is (i) not rated by Fitch IBCA or categorized as being of speculative grade credit quality and (ii) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the maximum annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The following chart shows the current factor assigned to each of the six credit categories by Fitch IBCA.

Category	Factor
'AAA' Credit Quality Category	0%
'AA' Credit Quality Category	0
'A' Credit Quality Category	8
'BBB' Credit Quality Category	14
Not Rated; Interceptable State Aid Factor 2.0 or Greater	8
Not Rated; Interceptable State Aid Factor Less Than 2.0	36

The State recognizes that lower factors may be assigned to Loans related to Municipal Obligations that are deemed by Fitch IBCA to be general obligations secured by the Municipality's full faith and credit, based on Fitch IBCA's current rating guidelines for leveraged municipal loan pools. However, the State does not currently opt to assign such lower factors to such Loans, since the above factors result in a more conservative level of funding for the Loan Credit Reserve Fund.

The State recognizes that Fitch IBCA's rating on the Bonds is based only in part upon the level of funding in the Loan Credit Reserve Fund and the credit quality of borrowers from Bond funds. Other factors upon which the Bonds' rating is based currently include, but are not limited to, Fitch IBCA's general obligation bond rating for the State of Wisconsin, as well as structural and legal characteristics of the Clean Water Fund Program, Clean Water Fund Program management, Clean Water Fund Program loan underwriting practices, Clean Water Fund Program loan monitoring practices, and permitted Clean Water Fund Program investments. The State recognizes that factors upon which the Bonds' rating is based may change in the future. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the Clean Water Fund Program, and the State recognizes that the rating maintained by Fitch IBCA may be based on the maintenance of amounts greater than the amounts required under this particular Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same credit rating category as the Bonds. The State further agrees that, if practicable, it will provide Fitch IBCA with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

Ratings on Municipal Obligations

Any explanation of the significance of a rating with respect to a Municipal Obligation may only be obtained from the Rating Agency furnishing the rating. There is no assurance that the rating given to a Municipal Obligation will be maintained for any period of time; a rating may be lowered or withdrawn entirely by the Rating Agency if in its judgment circumstances warrant.

MUNICIPALITIES

Pursuant to the Act, the Clean Water Fund Program is authorized to provide financial assistance in the form of loans to any Municipality. a Municipality may be any city, town, village, county, town sanitary district, public inland lake protection and rehabilitation district, metropolitan sewerage district, or federally recognized American Indian tribe or band located in the State. Due to the diversity of the types of potential recipients of financial assistance, the manner in which the Municipalities raise revenues and issue and secure debt will vary.

Loans may be made to any Municipality, which is defined in the Act as any city, town, village, county, town sanitary district, public inland lake protection and lake rehabilitation district, metropolitan sewage district, or federally recognized American Indian tribe or band in the State.

Prospective municipal borrowers fall into three general categories

- *General purpose Municipalities*, such as counties, cities, villages, towns and Indian tribes and bands. General purpose Municipalities may borrow for a variety of public purposes, including the construction or improvement of wastewater facilities. Such general purpose Municipalities may incur long-term obligations in the form of general obligation debt secured by property tax levies, revenue obligations secured by user fees and special assessments, and installment lease contracts.
- *Special purpose Municipalities*, such as town sanitary districts, public inland lake protection rehabilitation districts and metropolitan sewage districts. Special purpose Municipalities may borrow for the purpose for which they are created, primarily wastewater facilities. Debt may be incurred by special purpose Municipalities in generally the same forms as may be incurred by general purpose Municipalities. Town utility districts may be utilized by towns to allocate tax levies, but the town is the actual borrower; and any general obligation issued by a town utility district is secured by the full faith and credit of the entire town.
- *Intergovernmental Cooperation Commissions*, which are special purpose intergovernmental bodies formed by agreements authorized under State law between two or more Municipalities. Intergovernmental Cooperation Commissions differ from general purpose Municipalities and special purpose Municipalities in that joint utility systems do not have general taxing powers and typically depend upon their contracting members to collect revenues via user fees or tax levies from individual users of wastewater facilities. Loans in this case will be made to the individual Municipalities that the Intergovernmental Cooperation Commission is composed of.

Constitutional and Statutory Requirements

Municipal powers are derived in some instances from the State Constitution and from a variety of sources within the Wisconsin Statutes. To the extent not inconsistent with the State Constitution and State law, Municipalities may adopt and amend local laws and ordinances relating to their property, affairs or government.

In general, the State Constitution and State law limit the power of Municipalities to issue Municipal Obligations and to otherwise contract indebtedness. As a condition for making a Loan, the State will require an opinion of counsel to the effect that (subject to certain exceptions for bankruptcy, insolvency and similar laws affecting creditors' rights or remedies and equitable principles) the Financial Assistance Agreement and the Municipal Obligation evidencing the Loan constitute legal, valid and binding obligations of the Municipality enforceable against the Municipality in accordance with their respective terms.

Limitations on Indebtedness

Generally, the aggregate general obligation debt that may be incurred by a Municipality may not exceed 5% of the equalized value of all real estate in the Municipality. Municipalities are not limited as to the amount of revenue obligations that they may incur. However, as described under LOANS; Lending Criteria", the Act requires that a Municipality must comply with a number of requirements, including but not limited to establishing a dedicated source of revenue for the repayment of financial assistance and developing and adopting a system of equitable user charges.

Revenues

Revenues of counties, cities, villages, and towns are principally derived from property taxes, state and federal aids and fees and charges. Counties may levy a sales tax of up to a 0.5% rate. See "Collection of Real Property Taxes and Assessments" below for a discussion of real property taxes and special assessments.

Counties, cities, villages and towns receive financial assistance from the State (**State Aid**). The State is not constitutionally obligated to maintain or continue State Aid. Accordingly, no assurance can be given that present State Aid levels will be maintained in the future. The payment of State Aid by the State is subject to appropriations being made by the State Legislature. As discussed in more detail under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers", DOA may intercept State Aid payable to certain types of Municipalities if such a Municipality defaults on a Loan.

Certain Municipalities receive financial assistance from the federal government and have in the past received directly or indirectly significant federal aid for the construction of sewer and water improvements. However, other than as discussed under "CLEAN WATER FUND PROGRAM; Overview", significant federal aid is not expected to be available to Municipalities for the purpose of repaying Loans.

A Municipal Obligation to the State may take several forms. See "LOANS; Lending Criteria".

Collection of Real Property Taxes and Assessments

Real property taxes, special assessments, and special charges are collected by the county treasurer and remitted to the proper taxing authority. Special assessments may be levied generally by a taxing authority as an assessment against property to compensate for all or part of the costs of a public work or improvement which benefits the property. The right to levy special assessments may be made under the taxing power of the Municipality or the police power of the Municipality. The clearest difference between the two types of special assessments are that under the taxing power, the amount of the special assessment may not exceed the benefit conferred on the property, while under the police power, the amount of the special assessment need only be determined upon a reasonable basis as determined by the governing body of the Municipality. Costs of any work or improvements that may be reflected in whole or in part by special assessments may include the direct and indirect costs thereof and the anticipated interest on a Municipal Obligation issued in anticipation of the collection of the assessments. Special assessments are collected by county treasurers along with general property taxes.

Although general property taxes may be paid in installments in the year following the levy thereof (so long as all installments are paid no later than July 31), special assessments and special charges that are included in the tax roll must be paid in full on or before January 31, and even though a person elects to pay general property taxes in installments, if any special assessment or special charge entered on the tax roll is delinquent because it is not paid by January 31, the entire annual amount of real property taxes on that parcel that is unpaid becomes delinquent as of February 1. If the county treasurer receives a payment that is not sufficient to pay all general property taxes, special assessment and special charges, the county treasurer applies the payments to the amounts due, including interest and penalties, in the following order:

- special charges
- special assessments
- special taxes
- general property taxes

The county treasurer settles with the appropriate taxation district on January 15 of each year for all payments received through the previous December 31, and on February 15 for all payments received through January 31, including all special assessments and special charges received.

Counties are authorized, but not required, to settle in full with all taxing jurisdictions for special assessments and special charges, and if so directed by the County Board, August 15 would be the date upon which the Municipality would receive the cash in settlement of unpaid special assessments and special charges.

As discussed under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers", if a Municipality is in default of payment on its Municipal Obligation, the State may, pursuant to the Act, add a special charge to the amount of State taxes levied upon the county. The enforceability of such a procedure has not been tested in court. Therefore, no assurance can be given as to the enforceability of this procedure.

A Municipality issuing a general obligation to the State must levy sufficient taxes, upon the adoption of the resolution authorizing the Municipal Obligation, to pay debt service on the Municipal Obligation, which tax levy will be collected along with other real estate taxes as discussed above. A Municipality may abate such levy, however, to the extent it deposits amounts in its statutorily required debt service fund before the date it carries the levy unto the tax roll. A Municipality issuing a revenue obligation may rely entirely upon user charges to pay the Municipal Obligation or, alternately, may in addition levy special assessments upon property within the boundaries of the Municipality in an amount sufficient to pay all or part of the Municipal Obligation.

LOANS

Requirements Under the Act

The Act sets forth certain requirements for eligibility of a Municipality to receive financial assistance from the Clean Water Fund Program. Each Municipality must be one of the types of governments specified by the Act. The Act further requires that the Municipality comply with a number of other requirements, including, but not limited to, establishing a dedicated source of revenue for the repayment of the financial assistance, complying with the requirements of the Water Quality Act, developing a program of water conservation as required by DNR, and developing and adopting a system of equitable user charges. While the Act permits financial assistance to take forms other than loans, such as guaranteeing or purchasing insurance for Municipal Obligations, awarding grants to certain hardship Municipalities, or subsidizing the interest cost on certain other loans, the State currently makes financial assistance available from the Clean Water Fund Program primarily by making loans to Municipalities at interest rates which are at or below market rates as specified in the Act. For a summary of permissible interest rates, see "CLEAN WATER FUND PROGRAM; Financial Assistance". Although the requirements set forth in the Act and the application process developed by DOA and DNR apply to all loans made under the Clean Water Fund Program, only repayments from Leveraged Loans are pledged to secure the Bonds, and hence the following discussion focuses on Loans.

DNR is responsible for establishing eligibility criteria for determining which applicants and which projects are eligible to receive financial assistance. Among the criteria DNR considers are water quality and public health. A Municipality is eligible for financial assistance from the Clean Water Fund Program for a wastewater project that corrects a DNR discharge violation.

Loan Application Process

DOA and DNR have developed an application form for Municipalities to apply for financial assistance from the Clean Water Fund Program. The application form requires the Municipality to provide technical information regarding the proposed project and the existing wastewater system, a project schedule, financial information relating to the project, and financial and other information relating to the Municipality. The application is reviewed by DNR for items pertaining to technical, administrative and environmental matters, including project eligibility and determination of the interest rate category for which the project is eligible. The application is reviewed by DOA to determine, among other things:

- the financial capability of the applicant to repay its Loan
- the financial terms and conditions of the Loan
- the security that will be required to be pledged by the Municipality for the Loan, and
- such other special financial conditions as DOA may require

No Loans are made if DOA determines that the Municipality is unlikely to be able to repay the Loan.

Lending Criteria

DOA, in consultation with DNR, has the statutory responsibility to establish the financial terms and conditions of Loans, including what type of Municipal Obligation is required. In establishing these terms and conditions, DOA may consider factors that it finds relevant, including the type of Municipal Obligation or the Municipality’s creditworthiness. DOA must be satisfied that the Municipality has the financial capacity to assure sufficient revenues to operate and maintain the project for its useful life and to pay debt service on the Loan according to its terms.

The following is a summary of the current lending criteria of DOA. DOA may change its lending criteria from time to time.

DOA requires each Loan to be evidenced by one of three types of Municipal Obligations:

- a revenue obligation secured by a covenant to assess user fees and a pledge of the utility’s revenues
- a revenue obligation secured by special assessments and other utility revenue and a pledge of the utility’s revenues, or
- a general obligation secured by a tax levy and a pledge of all available financial resources of the Municipality

Some Loans may be evidenced by more than one type of Municipal Obligations.

Revenue Obligations

Background

When a local government issues a revenue obligation, the obligation is a limited obligation of the government. Only revenues that are specifically pledged are available to pay the principal of and interest on the revenue obligation.

Revenue Pledge Policy

So long as the following criteria can be met, DOA will accept revenue obligations from all types of Municipalities (except counties and metropolitan sewerage districts). Under the State constitution a county's issuance of revenue obligations is treated as public debt. A metropolitan sewerage district will be required to provide general obligations unless the rating from each Rating Agency on its revenue obligations is equal to or greater than the current rating on the Bonds.

Coverage Ratio

For a revenue obligation, DOA will require the Municipality to covenant to generate "net revenues" each year, that is utility revenues after deducting operating and maintenance expenses (but not deducting depreciation, debt service, tax equivalents, and capital expenditures), equal to at least 110% of the annual principal of and interest on the Loan and other obligations on a parity with or senior to the Loan (**110% Coverage**). The "net revenues" may be established by the "net revenues" from the existing utility revenues or projected "net revenues" from a newly imposed user fee rate structure. If the Municipality does not have outstanding any other obligations with a lien on pledged revenues, DOA will require the Municipality to covenant to generate "net revenues" sufficient to provide 110% Coverage. In the event the Municipality has other obligations outstanding with a lien on pledged revenues, DOA will require that the Municipality covenant to generate "net revenues" at least equal to the highest level of debt service coverage (but not less than 110% Coverage) then in effect. In the event an outstanding obligation requires a debt service reserve fund for a parity obligation or requires payment dates that do not match the Loan payment dates, or requires other conditions which prevent the Loan from being a parity obligation, DOA will accept a subordinate obligation but will normally require any additional revenue obligations (whether superior, subordinate or on a parity) to meet a coverage test equal to the highest ratio then in effect on any other obligations (including the Loan). During construction periods when the annual principal and semiannual interest payments are based on cumulative amounts drawn under the Financial Assistance Agreement, user fees may be assessed such that the level of coverage available is estimated based on debt service projections.

In the event a Municipality breaches any of the covenants described above, it would be subject to a suit for mandamus to compel performance of such covenants. However, enforcement of the covenants through a suit for mandamus would likely be subject to the delays and costs inherent in litigation.

Collection of Delinquent Sewer User Charges

The Clean Water Fund Program loan documents require that the Municipality take all actions permitted by law to certify any delinquent user fees to the County Treasurer in order that such unpaid user fees will be added as a special charge to the property tax bill of the user.

Senior Revenue Bonds

In most instances the Clean Water Fund Program loan documents limit a Municipality's ability to issue additional bonds payable out of the revenues of the wastewater system that have payment priority over the bonds sold to the Clean Water Fund Program. In some situations this provision has been modified by the Clean Water Fund Program to allow additional senior bonds if the Municipality can demonstrate to the satisfaction of DOA that, following the issuance of the senior bonds, the rating of the Municipality's senior revenue obligations will be no lower than one letter grade below the ratings on the Bonds.

Service Contract

DOA will also require the Municipality to agree to pay for the value of sewerage services provided to it and to stipulate that the value equals any unpaid debt service on the Loan or debt coverage short fall. Although such provisions are often used in revenue obligations from Wisconsin local governments, their enforceability has not been tested in court. Accordingly, no assurance can be given as to the enforceability of such a service contract. Moreover, the value of the sewerage service may be limited by law and, unless the Municipality has already appropriated money for such payment, it would be necessary for the Municipality to levy and collect a tax, which could result in some delay in payment. In addition, a levy limit applicable to counties may diminish the ability of a county to levy taxes for this purpose.

No Debt Service Reserve Fund or Mortgage

Although Wisconsin municipalities issuing revenue obligations typically establish a debt service reserve fund and often pledge a mortgage to secure the revenue obligations, the current policy of DOA does not permit a debt service reserve fund to be established and DOA will not require a mortgage on the property the Municipality uses to operate its wastewater facilities.

Special Assessment-Secured Revenue Obligations

Background

Special assessments may be levied by a Municipality to pay the costs of a public improvement. Payments to the Municipality of such special assessments may be used to repay a revenue obligation. The special assessments are paid in annual installments as established by the Municipality. Because special assessments under State law may not exceed the cost of the project, the regularly scheduled special assessment revenue alone will typically not meet the 110% Coverage test. In the event the Municipality receives prepayments of its special assessment installments, or the term of the Clean Water Fund Program loan exceeds the term of the special assessments, or the interest rate on the special assessment exceeds the interest rate on the Clean Water Fund Program loan, the Municipality may have more special assessment revenue in a year than required for debt service on its Clean Water Fund Program loan. In general, excess special assessment revenue collected by the Municipality will be applied to reduce debt incurred for the public improvement project. If special assessments are levied to secure revenue obligations, payments on the special assessments are deposited in the funds and accounts of the revenue-generating enterprise.

Collection of Delinquent Special Assessments

When it secures a revenue obligation, a special assessment constitutes a lien on the property against which it is levied on behalf of the local government that levies it. Delinquent special assessment payments are entered on the tax roll as a delinquent tax on the property against which they are levied and are subject to the same proceedings for collection, return and sale of property that apply to delinquent real estate taxes.

General Obligations

Background

When a local government issues a general obligation, its full faith and credit are pledged to secure payment when due of the principal of and interest on the obligation. State law requires the local government to levy taxes that will be collected in amounts and at times sufficient to make these payments (or to appropriate available funds for payments that are required to be made before taxes can be levied and collected). If the government fails to make a payment when due, the owner of a general obligation can bring a suit for mandamus to require the tax levy to be collected and applied to debt service. A suit for mandamus would likely be subject to the delays and costs inherent in litigation.

Tax Levy

With respect to general obligations:

- The amount of the general obligation may not exceed the constitutional or statutory limits. For an American Indian tribe or band, the amount of the general obligation may not exceed the amount that would be permitted if the constitutional and statutory limits were to apply to the tribe or band.
- The Municipality must levy taxes sufficient to pay when due the principal of and interest on the Loan.

A levy limit applicable to counties may affect the ability of a county to issue general obligations.

Intergovernmental Cooperation Commissions

Wisconsin law permits the creation of a commission by contract pursuant to an intergovernmental cooperation agreement. The Clean Water Fund Program does not make loans to such commissions. Instead, DOA will analyze each member's credit, and the Loan will be apportioned among its members according to their participation in the project.

Loan Terms

Loan Size

The size of each Loan is determined as follows:

- The principal amount of the Loan will not exceed 100% of the estimated project costs, plus a contingency of up to 10% where applicable, plus any allowable amount of capitalized interest on the Loan.
- A contingency may be allowed only if the project has not been completed.
- For a general obligation, capitalized interest may be permitted in an amount equal to debt service payments that are due before the tax levied in support of debt service payments will be collected.
- For a revenue obligation including those with a special assessment pledge, capitalized interest may be permitted to cover Loan debt service payments that will accrue until the expected date of project completion.

Final Maturity and Amortization

The final maturity on a Loan may not exceed 20 years from the date of its origination. DOA requires principal amortization on a level-debt-service basis or, in certain cases, on a level-principal basis, with principal amortization beginning not later than 12 months (except in the case of a refinancing) after the expected date of substantial completion of the Project.

Debt Service Payment Dates

Principal payments are required on May 1 and interest payments on May 1 and November 1. For Loans secured primarily by special assessments, an annual principal and interest payment may be required to match the Municipality's collection of the special assessments and deposit into its debt service fund.

Special Provisions

DOA requires that the Financial Assistance Agreement include certain provisions that apply if there is an event of default. These provisions permit the State to intercept any State aids to the Municipality, appoint a receiver to manage the Municipality's utility operations, and require the Municipality, to the extent it has taxing power, to add delinquent user charges to the tax bill of the respective property.

Levy Limit for Counties

Counties are subject to a tax rate limit. The tax levy of each county is limited, generally to the rate at which taxes were levied in 1992 or a higher rate approved by the voters at referendum. The tax rate limit excludes taxes levied for debt service on general obligations approved by the voters at a referendum or by a three-quarters vote of the county board of supervisors. Further, the tax rate limit excludes taxes levied for debt service on general obligations issued or authorized before the effective date of the legislation. As of September 30, 1998, only a small principal amount $380,723 is outstanding from the one Loan previously made to a county, and no significant amount of additional Loans to counties is anticipated.

Commitments

Upon approval of an application by DNR and DOA, and satisfaction by DOA that the Municipality meets the financial criteria established by DOA, DNR and DOA may issue a Commitment to the Municipality to finance all or part of the project. The Commitment will include an estimated Loan repayment schedule and other terms of the financial assistance. The Commitment may contain certain conditions that the Municipality must meet to secure a Financial Assistance Agreement.

Financial Assistance Agreements

The Financial Assistance Agreement constitutes the agreement by which the Loan is made and is, in effect, a loan agreement. The Financial Assistance Agreement contains the terms and conditions of the Loan, including the final maturity, maximum principal amount, interest rate, procedures for disbursement of funds to the Municipality, agreements of the Municipality to construct the project, and covenants of the Municipality regarding proper use of Loan proceeds and compliance with Clean Water Fund Program requirements.

Certain Provisions of Financial Assistance Agreements

Prior to Loan disbursements, proceeds expected to be loaned to Municipalities are held by the Trustee in the Loan Fund. Interest earnings on proceeds held in the Loan Fund shall be for the benefit of the Clean Water Fund Program. As proceeds are disbursed from the Loan Fund pursuant to a Municipality's Financial Assistance Agreement, interest on the respective Loan shall accrue and be payable on the amount disbursed from the date of disbursement until the date such amount is repaid.

In most instances, the repayment schedule of each loan disbursed is structured to provide level annual debt service from the disbursement date until the final maturity date specified in the respective Municipality's Financial Assistance Agreement. Upon project completion, a

Municipality's Loan repayment schedule under its respective Financial Assistance Agreement will reflect the principal amortization of the cumulative disbursements to the Municipality.

If the final audit of the project reveals that the eligible project costs are less than the amount disbursed to the Municipality, the Municipality agrees to reimburse the State within 60 days after DNR or DOA provides a notice of overpayment.

If the Municipality fails to make any payment when due on the Municipal Obligation or fails to observe or perform any other covenant, condition, or agreement on its part under the Financial Assistance Agreement for a period of 30 days after written notice specifying the default and requesting that it be remedied has been given to the Municipality by DNR, the State shall, to the extent permitted by law, have all remedies provided by law and the Financial Assistance Agreement.

The Financial Assistance Agreement may be modified or amended upon a written agreement between the State and the Municipality.

Loans and Municipal Obligations

Upon execution of a Financial Assistance Agreement, each Municipality is required to issue and deliver to the State a Municipal Obligation evidencing the obligation of the Municipality to repay the Loan. The Municipal Obligation will reflect the terms of the Financial Assistance Agreement. Upon execution of a Financial Assistance Agreement and issuance of a Municipal Obligation, a Municipality will be required to deliver an opinion of counsel as more fully described under "OTHER MATTERS; Certain Legal Matters".

Table VI-2

OUTSTANDING CLEAN WATER REVENUE BONDS BY ISSUE

(As of December 1, 1998)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
1991, Series 1	3/1/91			0
Serial Bonds		1994-2008	$167,555,000	$ 41,600,000 [a]
Term Bonds		2011	57,445,000	57,445,000
1993, Series 1	8/15/93	1996-2013	84,345,000	44,330,000 [a]
1993, Series 2	8/15/93	1994-2008	81,950,000	78,570,000
1995, Series 1	7/1/95	1997-2015	80,000,000	40,545,000 [a]
1997, Series 1	1/15/97	1999-2017	80,000,000	56,505,000 [a]
1998, Series 1	1/15/98	1999-2018	90,000,000	90,000,000
1998, Series 2	8/15/1998	1999, 2003		
		2009-2017	104,360,000	104,360,000
Total Clean Water Revenue Bonds			$745,655,000	$513,355,000

[a] Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table.

SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION

The General Resolution contains various covenants and security provisions, certain of which are summarized below. Various words or terms used in the following summary are defined in the General Resolution and reference thereto is made for full understanding of their import. See also "GLOSSARY" for definitions of certain capitalized terms.

Resolution to Constitute a Contract

In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of the General Resolution shall be a part of the contract of the State with the Bondowners and shall be deemed to be and shall constitute a contract among the State, the Trustee, and the owners from time to time of the Bonds, and such provisions are covenants and agreements with such Bondowners which the State under the General Resolution determines to be necessary and desirable for the security and payment thereof. The provisions, covenants and agreements set forth in the General Resolution (except for those relating to funds pledged to defease any specific Bonds) to be performed by or on behalf of the State shall be for the equal benefit, protection, and security of the owners of any and all of the Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority, or distinction of any of the Bonds over any other thereof except as expressly provided in the General Resolution.

Pledge

The State pledges under the General Resolution to the Trustee for the benefit of all current and future Bondowners with respect to all Bonds and any owner of a Parity Reimbursement Obligation, the Pledged Receipts, all funds and accounts established in connection with the issuance of such Bonds (but not including the Rebate Fund or the State Equity Fund), the investments thereof and the proceeds of such investments, if any, for the payment of the principal and redemption price of and interest on the Bonds in accordance with the terms and provisions of the General Resolution and the payment of any Parity Reimbursement Obligation, subject only to the provisions of the General Resolution permitting or further limiting the application thereof for the purposes and on the terms and conditions set forth in the General Resolution. Subject to the provisions of the General Resolution providing for defeasance of Bonds, the pledge shall be valid and binding from and after the date of adoption of the General Resolution, and the Pledged Receipts and all other moneys and securities in the pledged funds and accounts established by the General Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and such lien shall be a just lien and shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the State, irrespective of whether such parties have notice thereof.

Establishment of Funds and Accounts

The following funds and accounts are established and required to be maintained pursuant to the provisions of the General Resolution:

(1) Loan Fund

(2) Revenue Fund

(3) Debt Service Fund

- (a) Interest Account
- (b) Principal Account

(c) Redemption Account

(d) Capitalized Interest Account

(4) Loan Credit Reserve Fund

(a) SRF Account

(b) Non-SRF Account

(5) Subsidy Fund

(6) Administrative Fund

(a) Costs of Issuance Account

(b) Expense Account

(7) State Equity Fund

(8) Rebate Fund

Each of the above funds shall be deposited with and held by a Depository and maintained by the Trustee pursuant to the provisions of the General Resolution, except for the State Equity Fund, which shall be held and maintained by the State.

Loan Fund

There shall be deposited into the Loan Fund the amount of the proceeds of the Bonds of any Series required to be deposited therein and such other State moneys as shall be specified and determined by the Series Resolution authorizing such Series of Bonds. Moneys in the Loan Fund shall be expended only for the Clean Water Fund Program subject to the provisions and restrictions of the General Resolution. Amounts in the Loan Fund shall be expended and applied by the State from time to time as follows:

(1) for financing Loans to Municipalities under the Clean Water Fund Program, including transfers of Loan capitalized interest to the Revenue Fund;

(2) as directed in a certificate of an Authorized Officer, for deposit into the Revenue Fund; and

(3) to the extent that other moneys are not available, for deposit into the Debt Service Fund.

Moneys may be withdrawn from the Loan Fund for financing a Loan upon a requisition of an Authorized Officer certifying: (i) that the aggregate amount of the requisition is equal to the sum of amounts disbursable to Municipalities pursuant to properly submitted and approved requisitions of such Municipalities; (ii) that the amount requisitioned for each Municipality does not exceed the amount available to be disbursed pursuant to that Municipality's Financial Assistance Agreement and Municipal Obligation; (iii) the identity of the Municipalities receiving disbursements from the requisition, the amount of the requisition allocable to each such Municipality, and the designation of the Municipal Obligations evidencing the applicable Loan; (iv) that there is on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement; and (v) that the Contribution Amount has been transferred or deemed transferred to the Loan Credit Reserve Fund. Prior to the initial transfer of amounts to a Municipality with respect to a Loan, the State shall deliver to the Trustee: (i) a copy of the original executed Financial Assistance Agreement evidencing the Loan to be so made, and (ii) a copy of the original executed Municipal Obligation evidencing or securing such Loan in an aggregate principal amount equal to the maximum permissible Loan amount.

In addition, money and earnings in the Loan Fund may be transferred to the Revenue Fund, provided that the amount in the Subsidy Fund is at least equal to the Subsidy Fund Requirement.

Revenue Fund

The Trustee shall promptly deposit the following into the Revenue Fund:

(1) Transfers of Loan capitalized interest from the Loan Fund (which shall be deemed to be Loan disbursements), as directed in a certificate of an Authorized Officer;

(2) Other transfers of moneys from the Loan Fund;

(3) All Loan Repayments (excluding prepayments of Loans, which shall be deposited in the Redemption Account of the Debt Service Fund) received by the Trustee; and

(4) On the business day preceding an interest payment date, interest earned on Investment Obligations in the Loan Credit Reserve Fund (less amounts required to be transferred to the Rebate Fund).

The Revenue Fund shall be applied as follows:

(1) First, to the Interest Account of the Debt Service Fund for the payment of interest due or to become due on the next succeeding interest payment date;

(2) Second, to the Principal Account of the Debt Service Fund for the payment of principal and sinking fund installments, if any, on the next succeeding interest payment date; and

(3) Third, to the Rebate Fund so that the balance in the Fund shall equal the amount required to be deposited therein.

Debt Service Fund

The Trustee shall promptly deposit the following receipts in the Debt Service Fund:

(1) Any accrued interest received as proceeds of a Series of Bonds as set forth in the applicable Series Resolution, which shall be deposited in the Interest Account;

(2) All amounts required to be transferred from the Revenue Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(3) The Subsidy Fund Transfer Amount transferred from the Subsidy Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(4) All amounts required to be transferred from the Loan Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the

amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(5) Any amounts directed by the State to be transferred from the Administrative Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(6) Any amounts received by the Trustee for the purpose of redeeming Bonds, which shall be deposited in the Redemption Account; and

(7) Any portion of Bond proceeds designated by a Series Resolution as capitalized interest on the Bonds, which shall be deposited into the Capitalized Interest Account.

The Trustee shall transfer from the Capitalized Interest Account to the Interest Account on the business day preceding the interest payment date the amount required for the payment of capitalized interest on such Bonds due on such interest payment date.

The Trustee shall pay out of the Interest Account of the Debt Service Fund (i) on each interest payment date, the amount required for the payment of interest on Bonds due on such interest payment date and (ii) on any redemption date, the amount required for the payment of accrued interest on Bonds redeemed, unless the payment of such accrued interest shall be otherwise provided for.

The Trustee shall pay out of the Principal Account on each principal payment date or sinking fund redemption date, as applicable (as set forth in a Series Resolution), the amounts required for the payment of such principal on such date or such sinking fund redemption price on such date, as applicable.

The amount accumulated in the Principal Account for each sinking fund redemption may, and if so directed by the State shall, be applied (together with amounts accumulated in the Interest Account of the Debt Service Fund with respect to interest on the Bonds subject to sinking fund redemption) by the Trustee prior to the 45th day preceding the sinking fund redemption date, or such shorter period as shall be acceptable to the Trustee, to:

(1) the purchase of Bonds of the Series and maturity of such Bonds subject to such sinking fund redemption, at prices (including any brokerage and other charges) not exceeding the redemption price payable for such Bonds pursuant to such sinking fund redemption plus unpaid interest accrued to the date of purchase, such purchases to be made as the Trustee shall determine, or

(2) the redemption of such Bonds if then redeemable by their terms, at the redemption price referred to in paragraph (1) above.

Upon any such purchase or redemption of Bonds of any Series and maturity, for which sinking fund installments shall have been established, an amount equal to the applicable redemption prices thereof shall be credited toward any one or more of such sinking fund installments, as directed by the State in an Authorized Officer’s certificate, or failing such direction by the 45th day preceding such sinking fund redemption date, toward such sinking fund installments in inverse order of their due dates. The portion of any such sinking fund installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such sinking fund installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such sinking fund installment for the purpose of the calculation of principal installments due on a future date.

Whenever, after all transfers provided for above have been made, the moneys in the Debt Service Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall apply amounts from the following funds to the extent necessary to cure the deficiency in the order of priority as provided below:

(1) First, from the Loan Credit Reserve Fund;

(2) Second, from the Subsidy Fund;

(3) Third, from the Loan Fund, which transfers shall not be deemed to be a Loan disbursement subject to the requirements applicable to Loan disbursements; and

(4) Fourth, from any other fund or account (except the Rebate Fund and the State Equity Fund).

As soon as practicable after the 45th day preceding the date of any sinking fund redemption, the Trustee shall proceed to call for redemption on such redemption date Bonds of the Series and maturity for which such sinking fund redemption was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such sinking fund redemption. The State may designate in an Authorized Officer's certificate the amounts, from the SRF Account and Non-SRF Account, respectively, to be applied by the Trustee for such redemption.

The Trustee shall pay out of the Redemption Account of the Debt Service Fund to Paying Agents on each redemption date (as set forth in a Series Resolution) for any such Bonds for which there has not been made sinking fund installments, the amounts required for the payment of such redemption price on the redemption date and such amounts shall be applied by the Paying Agents to such payments.

Loan Credit Reserve Fund

"Loan Credit Reserve Fund Requirement" means and is calculated as follows:

(1) Upon the issuance of the initial Series of Bonds, an Authorized Officer delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (each a "Schedule") approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule alone will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the "Contribution Amount".

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total

Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

Whenever the moneys in the Debt Service Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall apply amounts from the Loan Credit Reserve Fund to the extent necessary to cure the deficiency as provided in the provisions of the General Resolution concerning the Debt Service Fund.

Whenever moneys and securities in the Loan Credit Reserve Fund (excluding earnings required to be transferred to the Revenue Fund) shall exceed the Loan Credit Reserve Fund Requirement, the Trustee may, at the direction of an Authorized Officer, subject to the conditions stated below, transfer all or any portion of such surplus from the SRF Account to any account within the Clean Water Fund or from the Non-SRF Account to the State Equity Fund; provided, however:

(1) If there shall be existing and continuing a default by any Municipality with respect to Loan Repayments, the transfer permitted by this provision shall not be made to the extent it would cause the balance in the Loan Credit Reserve Fund to be less than the sum of the Loan Credit Reserve Fund Requirement plus the amount of Loan Repayments then in default and not otherwise provided for.

(2) Once such defaulting Municipality has cured such default and has fully resumed its payment obligations under the Financial Assistance Agreement, such surplus amounts may be withdrawn from the Loan Credit Reserve Fund.

Subsidy Fund

The Subsidy Fund Requirement is that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing after an interest payment date and ending on the next interest payment date (a "Period") which is at least equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (i) scheduled disbursements from the Capitalized Interest Account and (ii) Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund pursuant to the General Resolution. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (ii) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

The Subsidy Fund Transfer Amount is that amount equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (a) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (b) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (c) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (d) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (e) amounts scheduled to be transferred from the Capitalized Interest

Account to the Interest Account during such Period. On the business day preceding each interest payment date, the Trustee shall transfer the Subsidy Fund Transfer Amount from the Subsidy Fund to the Debt Service Fund.

Whenever the money in the Debt Service Fund and money available in the Loan Credit Reserve Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall transfer amounts from the Subsidy Fund to the Debt Service Fund to the extent necessary to cure the deficiency.

The Trustee shall transfer any amount in the Subsidy Fund above the Subsidy Fund Requirement upon the direction of an Authorized Officer:

(1) First, to the Loan Credit Reserve Fund to replenish the Loan Credit Reserve Fund to the then-current Loan Credit Reserve Fund Requirement; and

(2) Second, to the State Equity Fund or for any Program purpose.

Notes

Whenever the Commission shall authorize the issuance of a Series of Bonds, the Commission is authorized to issue Notes (and renewals thereof) in anticipation of such Series. The principal of and interest on such Notes and renewals thereof shall be payable solely from the proceeds of such Notes or renewals thereof or from the proceeds of the sale of the Series of Bonds in anticipation of which such Notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such Notes, and any such pledge shall have a priority over any other pledge of such proceeds created by the General Resolution. Notes shall not be secured by any fund or account established under the General Resolution.

Issuance of Additional Bonds Other Than Refunding Bonds

The State shall not create or permit the creation of or issue any obligations, other than the initial Series of Bonds or Refunding Bonds, which will be secured by a charge and lien on the Pledged Receipts and any other security pledged under the General Resolution, except that additional Series of Bonds may be issued from time to time on a parity with all other Bonds issued pursuant to the General Resolution and secured by an equal charge and lien on the Pledged Receipts and any other security pledged under the General Resolution.

No additional Series of Bonds shall be issued unless:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law; and

(2) All other requirements applicable to the issuance of Bonds are met including, without limitation, the requirement that there be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there be in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State expressly reserves the right to adopt one or more other general resolutions and reserves the right to issue bonds and notes and any other obligations so long as the same are not a charge or lien on the Pledged Receipts or payable from any fund or account (except for the State Equity Fund or the Rebate Fund) established under the General Resolution.

Refunding Bonds

The General Resolution authorizes the Commission to issue one or more Series of Refunding Bonds to refund all or any part of one or more Series of outstanding Bonds. Refunding Bonds may be issued only upon receipt by the Trustee (in addition to the other requirements applicable to the issuance of Bonds) of:

(1) Irrevocable instructions to the Trustee to give due notice of redemption of all the Bonds which are to be redeemed prior to maturity on the redemption date specified in such instructions;

(2) Irrevocable instructions to the Trustee to give due notice of redemption to the owners of the Bonds being refunded; and

(3) Either (i) obligations described under "Defeasance" in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, or (ii) any moneys, as shall be necessary to comply with the defeasance provisions of the General Resolution.

Payment of Bonds

The State shall duly and punctually pay or cause to be paid the principal or redemption price of and interest on the Bonds, but only from the Pledged Receipts and other revenues or receipts, funds or moneys pledged therefor as provided in the Act and the General Resolution, at the dates and places and in the manner provided in the Bonds according to the true intent and meaning thereof, and shall duly and punctually satisfy all sinking fund installments becoming payable with respect to any Series of Bonds.

Power to Issue Bonds and Make Pledges

The State is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the General Resolution and to pledge the Pledged Receipts and other revenues, receipts, funds, or moneys purported to be pledged by the General Resolution in the manner and to the extent provided in the General Resolution. The Pledged Receipts and other revenues, receipts, funds, and moneys so pledged are and will be free and clear of any pledge, lien, charge, or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the General Resolution, and all action on the part of the State to that end has been duly and validly taken. The Bonds and the provisions of the General Resolution are and will be the valid and legally enforceable obligations of the State in accordance with their terms and the terms of the General Resolution. The State shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Receipts and revenues, receipts, funds, or moneys pledged under the General Resolution and all the rights of the Bondowners under the General Resolution against all claims and demands of all persons whomsoever.

Agreement of the State

The State pledges and agrees with the Bondowners that the State will not limit or alter the terms of any agreements made with Bondowners or in any way impair the rights and remedies of the Bondowners until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondowners, are fully met and discharged.

Federal Tax Covenant

The State shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excluded from the gross income of the recipients thereof.

The State shall not permit at any time any of the proceeds of the Bonds or other funds of the State to be used, directly or indirectly, to acquire any asset or obligation the acquisition of which would cause any Note or Bond to be an “arbitrage bond” for the purposes of Section 148 of the Internal Revenue Code of 1986, as amended.

Notwithstanding the foregoing, the State reserves the right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the federal tax covenants contained in the General Resolution shall not apply to such Bonds.

Accounts and Reports

The State shall keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Loan Repayments, Municipal Obligations, the Fees and Charges, if any, and all funds and accounts established by the General Resolution.

The State shall annually, on or before January 1 in each year, file with the Trustee and with the Rating Agencies a copy of the audited financial statement for the preceding Fiscal Year with respect to the Leveraged Loan Program, accompanied by an Accountant’s Certificate, setting forth in complete and reasonable detail: (i) its receipts and expenditures during such Fiscal Year in accordance with the categories or classifications established by the State for its operating and capital outlay purposes; (ii) its assets and liabilities at the end of such Fiscal Year, including a schedule of its Loan Repayments, Municipal Obligations, Fees and Charges, a list of Municipalities in default and the status of the funds and accounts established by the General Resolution; and (iii) a schedule of its Bond and Notes outstanding and other obligations outstanding at the end of such Fiscal Year, together with a statement of the amounts paid, redeemed and issued during such Fiscal Year. A copy of the independent public accountant’s report and financial statements for the Environmental Improvement Fund as of June 30, 1998 and 1997 is set forth in APPENDIX A.

Clean Water Revenue Bond Program

In order to provide sufficient moneys with which to pay the principal and interest and sinking fund installments when due and payable on its Bonds, the State shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act and the Water Quality Act as then amended and as interpreted in regulations adopted by the EPA and DNR and in effect and with the provisions of the General Resolution, use and apply the proceeds of the Bonds for the Leveraged Loan Program, to finance Loans pursuant to such Act as so amended and the General Resolution, to earn sufficient interest on its funds and accounts established within the General Resolution to generate income which when combined with moneys received with respect to the Municipal Obligations shall at least equal the principal and interest and sinking fund installments on the Bonds and shall do all such acts and things necessary to receive and collect the Loan Repayments and the interest on all funds and accounts established within the General Resolution and shall diligently enforce, and take all steps, actions, and proceedings for the enforcement of all terms, covenants, and conditions of the Loans for the enforcement of all terms, covenants and conditions of the Loans.

Events of Default

Each of the following events constitutes an “Event of Default”:

(1) the State shall default in the payment of the principal or redemption price of any Bond when and as the same shall become due whether at maturity or upon call for redemption; or

(2) the State shall default in the payment of any installment of interest on any Bonds; or

(3) the State shall fail or refuse to comply with the provisions of the Act or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the General Resolution, any Series Resolution, any Supplemental Resolution, or in the Bonds contained, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by the Trustee or the owners of not less than 25% in principal amount of Bonds outstanding.

Remedies

Upon the occurrence and continuance of any Event of Default specified in paragraphs (1) and (2) immediately above, the Trustee shall proceed, or upon the occurrence and continuance of any Event of Default specified in paragraph (3) immediately above, the Trustee may proceed, and upon the written request of the owners of not less than 25% in principal amount of the outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action, or proceeding at law or in equity, enforce all rights of the Bondowners, including the right to require the State to collect Loan Repayments adequate to carry out the covenants and agreements as to, and pledge of, such Loan Repayments, and other properties and to require the State to carry out any other covenant or agreement with Bondowners and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, require the State to account as if it were the trustee of any express trust for the owners of the Bonds; or

(4) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Bonds.

In the enforcement of any remedy under the General Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the State for principal, redemption price, interest or otherwise, under any provision of the General Resolution or a Series Resolution or of the Bonds, and unpaid, with interest, if any, on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgment or decree against the State for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Program Expenses

The State covenants to pay all program expenses when due and payable, but only from the sources provided in the General Resolution.

The State covenants pay to the Fiduciaries from time to time reasonable compensation for all services rendered under the General Resolution, and also all reasonable expenses, charges, counsel fees, and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the General Resolution.

The State further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its willful misconduct, negligence, or bad faith.

Defeasance

If the State shall pay or cause to be paid to the owners of all Bonds then outstanding, the principal or redemption price and interest to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then, at the option of the State, expressed in an instrument in writing signed by an Authorized Officer and delivered to the Trustee, the covenants, agreements, and other obligations of the State to the Bondowners shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the State, execute and deliver to the State all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the State all money, securities, and funds held by them pursuant to the General Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Bonds or interest installments for the payment or redemption of which moneys or securities shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with effect expressed in the immediately preceding paragraph. All outstanding Bonds of any Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the immediately preceding paragraph if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the State shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to give notice of redemption of such Bonds on said date as provided in the General Resolution, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Obligations, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or redemption price and interest on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the State shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in Authorized Newspapers a notice to the owners of such Bonds that the deposit required by clause (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price on said Bonds. Neither Investment Obligations nor moneys deposited with the Trustee nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal or redemption price and interest die and to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the State, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of the defeasance provisions of the General Resolution, Investment Obligations shall mean and include direct general obligations of the United States of

America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this paragraph.

Anything in the General Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the State, be repaid by the Fiduciary to the State, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the State for the payment of such Bonds; provided, however, that before being required to make any such payment to the State, the Fiduciary shall, at the expense of the State, cause to be published at least once in Authorized Newspapers, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the State.

GLOSSARY The following definitions apply to capitalized terms used in this Official Statement.

Accreted Value means, with respect to any Capital Appreciation Bond, the initial principal amount at which such Capital Appreciation Bond is sold to the initial purchaser by the State without reduction to reflect underwriter’s discount, compounded from the date of delivery of such Bonds semiannually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation shall be an interest payment date) at the original issue yield to maturity less, with respect to Bonds with interest payable on a current basis, interest paid and payable during such period plus, if such date of calculation shall not be an interest payment date, a portion of the difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semiannual period in equal daily amounts (based on a 360-day year of twelve 30-day months); provided, however, that the calculation of Accreted Value for purposes of determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution shall be based upon the Accreted Value calculated as of the interest payment date immediately preceding such date of calculation (unless such date of calculation shall be an interest payment date, in which case shall be calculated as of the date of calculation).

Act means Sections 281.58 and 281.59 of the Wisconsin Statutes, as amended.

Administrative Fund means the fund of that name established by the General Resolution.

Aggregate Debt Service for any period means, with respect to the Bonds, as of any date of calculation, the sum of the amounts of Debt Service for such period.

Authorized Newspapers means not less than two newspapers, customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language, one of which is the newspaper published in Wisconsin and designated as the newspaper in which official notices of the State are to be published, and the other of which is a financial newspaper circulated in the Borough of Manhattan, City and State of New York.

Authorized Officer means the Capital Finance Director of the State and any other person designated in writing to the Trustee by the Capital Finance Director or by the Commission as an Authorized Officer.

Bond or **Bonds** means any bond or bonds, as the case may be, authenticated and delivered under the General Resolution pursuant to a Series Resolution.

Bond Depository means, initially, The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York or any other bond depository appointed by the Commission to act as bond depository for the Bonds in connection with a book-entry-only system of distributing Bonds.

Bondowners or **Owner of Bonds** or **Owner** (when used with reference to Bonds) or any term of similar import means the person or party in whose name the Bond is registered.

Business Day means any day other than a Saturday or Sunday or other day on which commercial banks in the city in which the principal office of the Trustee is located are not open for business, except as may be provided in a Series or Supplemental Resolution.

Capital Appreciation Bond means Bonds which provide for the addition of all or any part of accrued and unpaid interest thereon to the principal due thereon upon such terms and for such periods of time as may be determined by the applicable Series Resolution.

Capitalized Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Clean Water Fund Program means the program established pursuant to the Act and operated and administered as part of the Environmental Improvement Fund.

Code means the Internal Revenue Code of 1986, as amended from time to time, and all regulations promulgated thereunder to the extent applicable to any Bonds, Loans or Municipal Obligations, as the case may be.

Commission means the State of Wisconsin Building Commission or any successor body having the power under the Subchapter II of Chapter 18 of the Statutes to authorize and direct the issuance of Bonds.

Commitment means a notice of financial assistance commitment entered into between DNR, DOA and a Municipality.

Contribution Amount has the meaning set forth in the definition of "Loan Credit Reserve Fund Requirement."

Costs of Issuance means, except as limited in any Series Resolution, any items of expense directly or indirectly payable by or reimbursable to the State and related to the authorization, sale and issuance of Bonds or Notes and the investment of the proceeds thereof, including, but not limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of Fiduciaries, legal fees and charges, professional consultants' fees, costs of credit ratings, premiums for insurance of the payment of Bonds or Notes, or any fees and expenses payable in connection with any entity insuring the State, the Trustee or the owners of the Bonds or Notes against loss on Loans or Municipal Obligations, fees and charges for execution, transportation and safekeeping of Bonds or Notes, costs and expenses of refunding of Bonds or Notes, fees and expenses payable in connection with any Credit Facility, remarketing agreements, tender agent agreements or interest rate indexing agreements, and other costs, charges and fees in connection with the original issuance of Bonds or Notes.

Costs of Issuance Account means the account of that name established within the Administrative Fund by the General Resolution.

Counsel's Opinion means an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the State (who may be counsel to the State); provided, however, that for the purposes of Article II of the General Resolution (addressing authorization and issuance of Bonds) such term means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds selected by the State and provided, further, that for the purposes of Section 8.08 of the General Resolution (addressing conditions for delivery of Municipal Obligations), such term means an opinion signed by an attorney or firm of attorneys selected by the Municipality and approved by the State.

Credit Facility means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy, guaranty or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution or the federal government or an agency thereof which (i) provides for payment of all or a portion of the principal of, Redemption Price of, or interest on any Series of Bonds, (ii) provides funds for the purchase of such Bonds or portions thereof, (iii) provides deposits for a fund or account under the General Resolution, or (iv) provides for or further secures payment of Loans or Municipal Obligations, provided that with respect to (iii) above, the issuer of which Credit Facility is rated, or the effect of which Credit Facility would cause bonds insured or secured thereby to be rated, in a rating category by each Rating Agency no lower than the then current rating on the Bonds (without such Credit Facility).

Debt Service for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest payable during such period on Bonds of such Series, (ii) that portion of the Principal Installments for such Series which are payable during such period, and (iii) any "Reimbursement Obligation" or "Parity Reimbursement Obligation" as defined in the General Resolution. Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Debt Service Fund means the fund of that name established by the General Resolution.

Depository means any bank, trust company, or national banking association, which may be the Trustee, selected by the Commission and approved by the Trustee as a depository of moneys and securities held under the provisions of the General Resolution and its successor or successors.

Direct Loan means loans made primarily from the proceeds of federal Capitalization Grants, the State Match, or repayments of Direct Loans, and excludes any Leveraged Loan.

DNR means the State of Wisconsin Department of Natural Resources.

DOA means the State of Wisconsin Department of Administration.

DTC means The Depository Trust Company, New York, New York.

Environmental Improvement Fund means the nonlapsible trust fund of that name created by Section 25.43 of the Statutes.

EPA means the United States Environmental Protection Agency.

Expense Account means the account of that name established within the Administrative Fund established by the General Resolution.

Fees and Charges means all fees and charges, if any, charged by the State to Municipalities pursuant to the terms and provisions of Loans or Municipal Obligations but does not include principal of and interest on such Municipal Obligations.

Fiduciary or **Fiduciaries** means the Trustee, any Paying Agent, any Depository or any or all of them, as may be appropriate.

Financial Assistance Agreement means any agreement entered into between DNR, DOA, and a Municipality for financial assistance.

Fiscal Year means any 12 consecutive calendar months commencing with the second day of June and ending on the first day of the following June.

General Resolution means the Clean Water Revenue Bond General Resolution adopted by the Building Commission on March 7, 1991, as the same may be amended and supplemented from time to time.

Information Services means an institution or other service providing information with respect to called bonds, which shall include but not be limited to: Financial Information, Inc.'s "Daily Called Bond Service", 30 Montgomery Street, 20th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service", 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government", 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Report; and Standard and Poor's "Called Bond Record", 25 Broadway, 3rd Floor, New York, New York 10004. In accordance with then current guidelines of the Securities and Exchange Commission or other appropriate regulatory body, the State shall designate in a certificate of an Authorized Officer delivered to the Trustee such other addresses and/or such other services providing information with respect to called bonds, or no such service.

Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Investment Obligation means any of the following which at the time are legal investments for moneys of the State:

> (1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as at the time of their purchase such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (1);

(2) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (1) hereof which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (1) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this clause (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (2), as appropriate, and (d) which at the time of their purchase under the General Resolution bear the highest rating available from each Rating Agency;

(3) bonds, debentures, participation certificates (representing a timely guaranty of principal and interest), notes, or similar evidences of indebtedness of any of the following: Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association (excluding “stripped” securities), Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association, or Tennessee Valley Authority;

(4) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes, or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided, however, that any investment purchased pursuant to this clause shall be rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(5) obligations of any state of the United States of America or of any political subdivision or public agency or instrumentality thereof, including the State, provided that at the time of their purchase under the General Resolution such obligations are rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(6) direct obligations of the State or obligations guaranteed by the State that have the same rating as direct obligations of the State;

(7) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase under the General Resolution the highest rating available from each Rating Agency;

(8) interest-bearing time deposits, certificates of deposit or other similar banking arrangements with banks (which may include any Fiduciary), provided such deposits are

made with banks rated by each Rating Agency at the time the deposit is made no lower than the rating assigned to the Bonds by such Rating Agency;

(9) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which are rated at the time of their purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(10) repurchase agreements for obligations of the type specified in clauses (1) and (3) above, provided either (a) the repurchase agreement is an unconditional obligation of the counterparty and such counterparty is rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or (b) the repurchase agreement is an obligation of a counterparty that is rated at the time of its purchase by each Rating Agency in an investment grade category and is collateralized by obligations which are marked to market daily and have a value equal to not less than the percentage of the amount thereby secured specified by each Rating Agency, taking into account the maturity of such obligations;

(11) any investment obligation or deposit the investment in which will not, at the time such investment is made, adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency;

(12) any investment agreement with a bank, bank holding company, insurance company, or other financial institution rated at the time such investment is made by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or guaranteed by an entity rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency; and

(13) the Local government pooled–investment fund of the State established under Chapter 25 of the Wisconsin Statutes.

Leveraged Loan means a Loan.

Leveraged Loan Repayments means a Loan Repayment.

Loan or Leveraged Loan means a loan heretofore or hereafter made by the State to a Municipality from the Loan Fund pursuant to a Financial Assistance Agreement and the Act and funded from the Loan Fund.

Loan Credit Reserve Fund means the fund of that name established by the General Resolution.

Loan Credit Reserve Fund Requirement means and is calculated as follows:

(1) Upon the issuance of the initial Series of Bonds, an Authorized Officer delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (a "Schedule") approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each Loan disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the "Contribution Amount".

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

Loan Fund means the fund of that name established by the General Resolution.

Loan Repayments or Leveraged Loan Repayments means any payment on a Loan pursuant to a Financial Assistance Agreement, or on the Municipal Obligations evidencing and securing the same, on account of the principal, interest, and premium, if any, due on such Loan, including without limitation scheduled payments of principal and interest on such Loan or Municipal Obligation, any payment made to cure a default, prepayments of principal or interest, and any additional amounts payable upon prepayment of such Loan or Municipal Obligations, and any amounts paid with respect to such Loan or Municipal Obligation on account of (i) acceleration of the due date of such Loan or such Municipal Obligation, (ii) the sale or other disposition of such Loan or the Municipal Obligations and other collateral securing such Loan, (iii) the receipt of proceeds of any insurance or guaranty of such Loan or Municipal Obligations or any Credit Facility applicable to such Loan or Municipal Obligations, and (iv) the exercise of any right or remedy granted to the State and available under law or the applicable Financial Assistance Agreement upon default on such Loan or Municipal Obligations but specifically excluding Fees and Charges.

MMSD means the Milwaukee Metropolitan Sewerage District.

Municipal Obligations means the bonds, notes, or other evidence of debt issued by any Municipality and authorized by law and which have heretofore been or will hereafter be acquired by the State as evidence of indebtedness of a Loan, Direct Loan, or Proprietary Loan to the Municipality pursuant to the Act.

Municipality means a political subdivision of the State constituting a "municipality" within the meaning of the Act, duly organized and existing under the laws of the State and any successor entity or a Federally recognized American Indian tribe or band in the State.

Non-SRF Account means account of that name established within the Loan Credit Reserve Fund.

Notes means any bond anticipation notes issued by the State pursuant to the Act.

NRMSIR means nationally recognized municipal securities information repository.

Outstanding, when used with reference to Bonds, other than Bonds referred to in Section 10.05 of the General Resolution (addressing Bonds owned or held by or for the account of the State), means, as of any date, Bonds theretofore or then being delivered under the provisions of the General Resolution, except: (i) any bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (ii) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in Trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the General Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Resolution, and (iv) Bonds deemed to have been paid as provided in Article 12 of the General Resolution (addressing defeasance). In determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution, the principal amount of a Capital Appreciation Bond that shall be deemed Outstanding for such purposes shall be the Accreted Value thereof.

Parity Reimbursement Obligation means the obligation of the State described in the General Resolution to directly reimburse the issuer of a Credit Facility for amounts paid by such issuer thereunder, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument, which obligation shall be secured on a parity with the lien created by the General Resolution.

Paying Agent for the Bonds of any Series means the bank, trust company, or national banking association, which may be the Trustee, and its successor or successors, appointed pursuant to the provisions of the General Resolution and a Series Resolution or any other resolution of the Commission adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

Pledged Receipts means (i) all Loan Repayments, including both timely and delinquent payments, (ii) Fees and Charges held or collected by the State, (iii) any moneys received by the State under Section 281.59 (11)(b) of the Wisconsin Statutes (that is, State payments intercepted by DOA, and taxes collected by county treasurers) upon a default under a Municipal Obligation, (iv) any moneys made available to the Clean Water Fund Program pursuant to Section 281.59 (13m) of the Wisconsin Statutes (that is, the State "moral obligation" for individual Loans), (v) any moneys collected by recourse to collateral and security devices under the Municipal Obligations, and (vi) any other moneys held or received by the State or the Trustee relating to the Municipal Obligations.

Principal Account means the account of that name established within the Debt Service Fund by the General Resolution.

Principal Installment means, as of any date of calculation and with respect to any Series of Bonds Outstanding, (i) the principal amount or Accreted Value of Bonds of such Series due on any payment date for which no Sinking Fund Installments have been established, or (ii) the Sinking Fund Installment due on a date for Bonds of such Series, or (iii) if such dates coincide, the sum of such principal amount or Accreted Value of Bonds and of such Sinking Fund Installment(s) due on such future date; in each case in the amounts and on the dates as provided in the Series Resolution authorizing such Series of Bonds; provided, however, that Principal Installments shall not include the principal of Notes.

Project means any municipal project for the design, acquisition, construction, improvement, repair, reconstruction, renovation, or expansion of any municipal wastewater collection or treatment system or water supply system that is eligible for financing by the State pursuant to the Act.

Proprietary Loan means financial assistance made primarily from the proceeds of State general obligation bonds or repayment of Proprietary Loans, and excludes any Direct Loan or Leveraged Loan.

Rating Agency means a credit rating agency which is nationally recognized for skill and expertise in rating the credit of obligations similar to the Bonds and which has assigned and currently maintains a rating on any Outstanding Bonds at the request of the State (which request may be withdrawn by the State so long as following such withdrawal of request, the Bonds are rated by at least two Rating Agencies), and any successor to any such agency by merger, consolidation or otherwise.

Rebate Fund means the fund of that name established by the General Resolution.

Record Date means, unless otherwise determined by a Series Resolution for a Series of Bonds, the close of business on the 15th day proceeding a payment date or, if such day shall not be a business day, the immediately preceding business day.

Redemption Account means the account of that name established within the Debt Service Fund by the General Resolution.

Redemption Price, when used with respect to a Bond other than a Capital Appreciation Bond, or a portion thereof to be redeemed, means the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof, plus interest to the redemption date, pursuant to the General Resolution and the applicable Series Resolution, but, when used with respect to a Capital Appreciation Bond, "Redemption Price" means the Accreted Value on the date of redemption of such Bond or portion thereof plus the applicable premium, if any.

Refunding Bonds means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance to refund other Bonds.

Reimbursement Obligation means the obligation of the State described in the General Resolution to directly reimburse the issuer of a Credit Facility for amounts paid by the issuer of the Credit Facility thereunder, whether or not such obligation so to reimburse is evidenced by a promissory note or other similar instrument.

Revenue Fund means the fund of that name established by the General Resolution.

Series of Bonds or Bonds of a Series or words of similar meaning means the series of Bonds authorized by a Series Resolution.

Series Resolution means a resolution of the Building Commission authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution.

Sinking Fund Installment means, as of any particular date of calculation, (i) the amount required by the General Resolution and a Series Resolution to be deposited by the State for the retirement of Bonds which are stated to mature subsequent to such date or (ii) the amount required by the General Resolution and a Series Resolution to be deposited by the State on a date for the payment of Bonds at maturity on a subsequent date.

SRF Account means the account of that name established within the Loan Credit Reserve Fund by the General Resolution.

State means the State of Wisconsin.

State Equity Fund means the fund of that name established by the General Resolution.

Subsidy Fund means the fund of that name established by the General Resolution.

Subsidy Fund Requirement means that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing immediately following the dated date of the initial Series of Bonds and thereafter an interest payment date and ending on the next interest payment date (a

“Period”) which is at least equal to the amount by which Aggregate Debt Service payable during the period exceeds the sum of (i) scheduled disbursements from the Capitalized Interest Account and (ii) Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (ii) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

Subsidy Fund Transfer Amount means that amount equal to the amount by which Aggregate Debt Service payable during the Period (as such term is used in the definition of Subsidy Fund Requirement) exceeds the sum of (i) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (ii) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (iii) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (iv) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (v) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period.

Supplemental Resolution means a resolution supplemental to or amendatory of the General Resolution, adopted by the Commission in accordance with the General Resolution.

Trustee means Firstar Trust Company, now known as Firstar Bank Milwaukee, N.A. and its successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the General Resolution.

APPENDIX A

AUDITED FINANCIAL STATEMENTS

The following are the independent public accountant's report and financial statements for the Environmental Improvement Fund as of June 30, 1998 and 1997.

Financial statements present the financial position of an entity at a specific point in time. These financial statements are not intended to predict future cash flows that will be available for the benefit of bondholders pursuant to the bond resolutions.

{This page number is the last sequential page number of the Annual Report. The following uses page numbers from the financial statements and independent public accountant's report}

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

FINANCIAL STATEMENTS

AS OF JUNE 30, 1998 AND 1997

TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Secretary of the Department of Administration
and the Secretary of the Department of Natural Resources
of the State of Wisconsin:

We have audited the accompanying balance sheets of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin, consisting of the State of Wisconsin Clean Water Fund Program for years ended prior to June 30, 1998) as of June 30, 1998 and 1997, and the related statements of revenues and expenses, changes in fund equity and cash flows for the years then ended. These financial statements and the supplementary information referred to below are the responsibility of management. Our responsibility is to express an opinion on these financial statements and supplementary information based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards** (1994 Revisions), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement Fund as of June 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

During fiscal 1998, the State of Wisconsin Environmental Improvement Fund retroactively adopted Statement No. 31 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", as discussed in Note 1 to the financial statements.

In accordance with **Government Auditing Standards**, we have also issued our report, dated October 6, 1998, on our consideration of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin,
October 6, 1998.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Secretary of the Department of Administration
and the Secretary of the Department of Natural Resources
of the State of Wisconsin:

We have audited the accompanying balance sheets of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin, consisting of the State of Wisconsin Clean Water Fund Program for years ended prior to June 30, 1998) as of June 30, 1998 and 1997, and the related statements of revenues and expenses, changes in fund equity and cash flows for the years then ended and have issued our report thereon dated October 6, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards** (1994 Revision), issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Wisconsin Environmental Improvement Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Wisconsin Environmental Improvement Fund's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A **material weakness** is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the State of Wisconsin Environmental Improvement Fund's management and the State of Wisconsin Legislative Audit Bureau.

Arthur Andersen LLP
ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
October 6, 1998

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

BALANCE SHEETS

AS OF JUNE 30, 1998 AND 1997

ASSETS	1998	1997
CASH AND CASH EQUIVALENTS	$212,506,457	$178,011,117
UNITED STATES TREASURY NOTES	13,997,014	6,991,853
INVESTMENTS, State of Wisconsin General Obligation Clean Water Bonds, at fair value	106,708,460	95,115,349
RECEIVABLES:		
Loans to Wisconsin municipalities	771,469,000	697,194,310
Due from State of Wisconsin	16,171	38,700
Due from other governmental entities	4,992,194	3,687,079
Accrued investment income	676,522	555,773
RESTRICTED ASSETS	40,755,073	34,605,879
DEFERRED DEBT EXPENSE	3,178,745	3,013,744
OTHER ASSETS	41,721	80,022
Total assets	$1,154,341,357	$1,019,293,826
LIABILITIES AND FUND EQUITY		
REVENUE OBLIGATION BONDS, net (including deferred charge)	$509,027,495	$431,974,004
ACCRUED INTEREST ON BONDS	2,338,041	2,051,018
DUE TO OTHER FUNDS	471,584	594,364
DUE TO OTHER GOVERNMENTAL ENTITIES	467,465	-
ACCRUED EXPENSES	210,749	175,041
Total liabilities	512,515,334	434,794,427
FUND EQUITY:		
Contributed capital	641,122,431	598,235,516
Retained earnings(deficit)	703,592	(13,736,117)
Total fund equity	641,826,023	584,499,399
Total liabilities and fund equity	$1,154,341,357	$1,019,293,826

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF REVENUES AND EXPENSES

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
OPERATING REVENUES:		
Loan interest	$23,642,901	$20,952,692
OPERATING EXPENSES:		
Interest	27,005,143	23,573,310
Salaries and benefits	2,739,883	2,670,405
Contractual services and other	614,610	585,872
Depreciation	20,054	37,747
Total operating expenses	30,379,690	26,867,334
Net operating (loss)	(6,736,789)	(5,914,642)
OTHER INCOME (EXPENSE):		
Investment income	24,208,945	21,645,881
Operating grants received	1,577,807	1,054,019
Hardship grants awarded and other expenditures	(4,610,254)	(10,631,761)
Total other income	21,176,498	12,068,139
Operating transfer in	-	16,264
Net income	$14,439,709	$6,169,761

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF CHANGES IN FUND EQUITY

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	Contributed Capital	Retained (Deficit) Earnings	Total Fund Equity
FUND EQUITY, June 30, 1996	$517,555,314	$(19,905,878)	$497,649,436
NET INCOME	-	6,169,761	6,169,761
CAPITAL CONTRIBUTIONS:			
State of Wisconsin	37,000,000	-	37,000,000
U.S. Environmental Protection Agency	43,680,202	-	43,680,202
FUND EQUITY, June 30, 1997	598,235,516	(13,736,117)	584,499,399
NET INCOME	-	14,439,709	14,439,709
CAPITAL CONTRIBUTIONS:			
State of Wisconsin	24,000,000	-	24,000,000
U.S. Environmental Protection Agency	18,886,915	-	18,886,915
FUND EQUITY, June 30, 1998	$641,122,431	$703,592	$641,826,023

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments to employees for services	$(2,802,135)	$(2,474,166)
Payments to suppliers and change in receivables	(762,490)	(747,782)
Net cash (used in) operations	(3,564,625)	(3,221,948)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	691,345	1,799,689
Grants paid	(4,118,306)	(10,609,448)
Contributed capital—State of Wisconsin	28,000,000	41,000,000
Return of contributed capital—State of Wisconsin	(4,000,000)	(4,000,000)
Contributed capital—U.S. Environmental Protection Agency	18,886,915	45,567,941
Proceeds from issuance of long-term debt	90,819,085	80,093,217
Retirement of long-term debt	(14,270,000)	(13,560,000)
Interest payments	(26,201,523)	(22,691,379)
Operating transfers in/(out)	-	16,264
Net cash provided by noncapital financing activities	89,807,516	117,616,284
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	(7,075)	-
Net cash used in capital and related financing activities	(7,075)	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Origination of loans	(112,656,898)	(122,331,525)
Collection of loans	38,382,208	31,208,336
Interest on loans	23,224,249	20,511,597
Purchase of investments	(30,990,819)	(23,845,177)
Liquidation of investments	16,743,318	9,992,132
(Increase) in restricted assets	(6,149,194)	(5,133,888)
Investment income receipts	19,706,660	18,020,105
Net cash used in investing activities	(51,740,476)	(71,578,420)
Net increase in cash and cash equivalents	34,495,340	42,815,916
CASH AND CASH EQUIVALENTS, at beginning of year	178,011,117	135,195,201
CASH AND CASH EQUIVALENTS, at end of year	$212,506,457	$178,011,117

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

(Continued)

	1998	1997
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATIONS:		
Operating (loss)	$(6,736,789)	$(5,914,642)
ADJUSTMENTS TO RECONCILE OPERATING (LOSS) TO NET CASH (USED IN) OPERATIONS:		
Depreciation	20,054	37,747
Amortization	654,927	964,718
Interest income classified as investing activity	(23,642,903)	(20,952,692)
Interest expense classified as noncapital financing activity	25,886,000	22,054,380
Changes in assets and liabilities-		
Decrease in prepaid items	776	601
Decrease/(increase) in receivables	64	(64)
(Increase) in due from other funds	(1,780,971)	(726,691)
Increase/(decrease) in accounts payable	29,468	3,621
Increase in interest payable	287,023	292,616
(Decrease)/increase in compensated absences	6,240	(37,130)
Increase in due to other funds	1,711,486	1,057,088
(Decrease)/increase in due to other governments	-	(1,500)
Total adjustments	3,172,164	2,692,694
Net cash (used in) operations	$(3,564,625)	$(3,221,948)

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

(1) Nature of Operations and Summary of Significant Accounting Policies-

(a) Reporting entity-

The State of Wisconsin Environmental Improvement Fund (the "Fund") is an enterprise fund of the State of Wisconsin (the "State") administered by the State of Wisconsin Department of Natural Resources (the "DNR") and the State of Wisconsin Department of Administration (the "DOA").

The Fund was established with the adoption of the 1997-1999 State of Wisconsin budget. The Fund replaced and expanded the Clean Water Fund Program. The financial statements of all periods presented prior to the adoption of the 1997-1999 budget are those of the Clean Water Fund Program. The Fund provides for three separate environmental financing programs; the Clean Water Fund Program, the Safe Drinking Water Loan Program, and the Land Recycling Loan Program.

The Clean Water Fund Program was established in 1990 and provides financial assistance to municipalities at subsidized interest rates for the purpose of constructing or improving municipal wastewater facilities. The following three subprograms comprise the Clean Water Fund Program.

- Leveraged Loan Program--This program is funded by proceeds of revenue obligation bonds and capital contributions from the State. Assets in this program are used for loans to Wisconsin municipal waste water projects that meet applicable State eligibility and reporting requirements.

- Direct Loan Program--This program is funded by the U.S. Environmental Protection Agency (the "EPA") capitalization grants and capital contributions from the State (i.e., a minimum 20% match of EPA capitalization grant). Loans in this program are made for waste water projects that comply with EPA eligibility and reporting requirements.

- Proprietary Program--This program is funded by capital contributions from the State. Assets of this program are used for other various waste water projects including both loans and hardship grants.

The Safe Drinking Water Loan Program was established in 1997 and provides municipal loans for the construction or repair of drinking water facilities. This program was in the developmental stage during the current year. Management expects to issue loans during the next fiscal year.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. This program had no activity during the current year and management does not anticipate significant activity in this program during the next fiscal year.

(b) Net operating losses-

The Fund incurred net operating losses in 1998 and 1997 of approximately $6.7 million and $5.9 million. Management expects the Fund will generally incur net operating losses for the foreseeable future. As explained in Note 2, these losses result from the Fund's statutory mission to provide loans to municipalities at interest rates below the Fund's own cost of funds. The losses have historically been funded by capital contributions. Capital contributions were approximately $43 million and $81 million in 1998 and 1997, respectively. Management expects capital contributions will continue for the foreseeable future sufficient to fund both the future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

(c) Interest on loans receivable-

Interest on loans receivable is recognized on an accrual basis and recorded within due from other governmental entities on the balance sheet.

(d) United States Treasury Notes-

The Fund holds United States Treasury Notes as investments at June 30, 1998. The carrying value of the Notes was $13,997,014 with a fair market value of $14,295,847. The Notes bear interest at 5.625% and mature on December 1, 1998. By the GASB Statement No. 3 definition, these securities are classified as category one investments. The Fund holds these securities through the Forward Delivery Agreement (see Note 4).

(e) Investments-

Investments are stated at fair value (see Note 1(j)). The Fund has received fair value information for securities from external sources. Changes in the fair value of investments are included in investment income. Accrued interest on investments is recorded as earned. Investment transactions are recorded on the trade date.

(f) Deferred debt expense-

Issuance costs relating to the revenue obligation bonds were capitalized and are being amortized using the effective rate method.

(g) Revenue obligation bonds-

Interest on revenue obligation bonds is recognized on an accrual basis.

(h) Deferred charge-

The Fund defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a reduction of revenue obligation bonds.

(i) Cash equivalents-

The Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Fund also considers as cash equivalents guaranteed investment contracts or repurchase agreements permitting withdrawals required by the bond resolution to meet insufficiencies in debt service payments. Repurchase agreements and guaranteed investment contracts are valued at cost because they are nonparticipating contracts due to the non-negotiability of these investments and because the amount of any withdrawals made do not consider market interest rates.

(j) Accounting changes-

During fiscal year 1998, the Fund implemented Statement No. 31 of the Governmental Accounting Standards Board "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This standard requires that governmental entities report investments at fair value in their balance sheets. Fiscal year 1997 financial statements have been restated to conform to this pronouncement. The retained deficit at June 30, 1996 of $19,905,878 has been reduced by $2,251,012 from the amount previously reported, based on the unrealized appreciation on investments at that date.

(2) Loans to Wisconsin Municipalities-

Loans to Wisconsin municipalities at June 30, 1998 and 1997, represent loans for waste water treatment projects and are for terms of up to 20 years. These loans are made at a number of prescribed interest rates based on project type categories. In order to effectuate statutory policy, a majority of the loans issued by the Clean Water Fund Program are at interest rates that are below the State's cost of borrowing. The net loss and retained deficits that can result from this negative interest margin is funded by State contributions. Interest rates ranged from 0% to 5.8% in both 1998 and 1997. The weighted average interest rate was 3.15% and 3.17% at June 30, 1998 and 1997, respectively. The loans contractually are revenue obligations or general obligations of the municipalities, or both. Additionally, various statutory provisions exist which provide further security for payment. In the event of a default, the State can intercept State aid payments due to the applicable municipality, induce an additional charge to the amount of property taxes levied by the county in which the applicable municipality is located, or both. Accordingly, no reserve for loan loss is deemed necessary.

Of the loans outstanding at June 30, 1998 and 1997, $200,279,771 and $197,716,719 (26% and 28%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program has made additional financial assistance commitments of $115,390,103 as of June 30, 1998. From July 1, 1998 to September 24, 1998, the Fund made loan disbursements of $33,171,542 from these additional commitments. These loan commitments are generally met through the proceeds from additional Federal grants and from the issuance of additional revenue obligation bonds. (See Note 5.)

(3) Cash and Cash Equivalents-

As of June 30, 1998 and 1997, cash and cash equivalents consisted of the following:

	1998	1997
State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP"), at fair value	$215,387,039	$122,345,678
Investments reported at cost:		
MBIA guaranteed investment agreement	6,250,292	6,250,292
Repurchase agreement with Bayerische Landesbank	7,597,910	7,597,910
American International Group Matched Funding Corp. (AIG) guaranteed investment agreement	24,026,289	24,026,289
Trinity Funding Company municipal investment contract	-	52,396,827
	253,261,530	212,616,996
Less- Amounts classified as restricted assets (see Note 5)	(40,755,073)	(34,605,879)
Total cash and cash equivalents	$212,506,457	$178,011,117

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a SEC registered investment, the LGIP is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 1998, the current yield on the LGIP was 5.20%. The LGIP is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 30, 1998, the agreement was accruing interest at the rate of 6.2%. The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 30, 1998, the agreement was accruing interest at the rate of 8.10%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures with a market value of $9,680,752 at June 30, 1998. The collateral is held by Norwest Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement along with the MBIA and AIG investment agreements provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

The investment with Trinity is a municipal investment account with a fixed yield of 5.72%. The investment is supported by an irrevocable letter of credit and liquidity facility from GE Capital Corporation. This investment matured during 1998.

(4) Forward Delivery Agreement-

The Fund has entered into two agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the revenue bonds. The agreements are with First Union National Bank and each provides for the delivery to, and purchase by, the Fund, securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreement. The agreements were entered into in conjunction with the 1997 series 1 and 1998 series 1 revenue bonds. The notional amounts and annual earnings rate for the contracts are as follows:

1997 series 1	$6,992,075	5.582%
1998 series 1	$7,292,832	5.013%

Every six months during the term of the agreements, First Union National Bank is required to deliver United States Treasury securities to the Fund for purchase. The Treasury securities are held as investments by the Fund. The price paid by the Fund for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. These agreements may be terminated at the option of the Fund and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination. If the agreement is terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is no compensating payment between the parties.

GASB Statement No. 31 (GASB 31) states that interest-earning investment contracts that meet certain criteria must be reported at fair value. Management is uncertain as to whether the two agreements described above meet the definition of investment contracts under GASB 31. At June 30, 1998, management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost. Had the agreements been accounted for as interest-earning investment contracts, management would have reported the investment contracts (at fair value) as an asset on the Fund's balance sheet, rather than the cost of the treasury securities that the Fund owns at June 30, 1998. Management estimates that at June 30, 1998, the fair value of its interest in the agreement exceeds the cost of the treasury securities owned by approximately $500,000. Management believes that the determination as to whether the agreement should be accounted for as an investment contract or as short-term treasury securities does not have a material impact on the financial statements.

(5) Revenue Obligation Bonds and Restricted Assets-

Revenue obligation serial and term bonds as of June 30, 1998 and 1997, consisted of the following:

	1998	1997
1991 Series 1:		
Serial Bonds, optional redemption for bonds at 102% of par, June 1, 2001, declining to 100% of par, June 1, 2003	$53,720,000	$62,660,000
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	57,445,000	57,445,000
	111,165,000	120,105,000
Unamortized discount on bonds	(312,955)	(339,231)
	110,852,045	119,765,769
1993 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	$75,925,000	$79,395,000
Unamortized discount on bonds	(603,608)	(671,565)
	75,321,392	78,723,435

	1998	1997
1993 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	$78,570,000	$79,120,000
Unamortized premium on bonds	1,685,322	1,834,987
	80,255,322	80,954,987
1995 Series 1		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2006	$77,440,000	$78,750,000
Unamortized premium on bonds	802,361	968,091
	78,242,361	79,718,091
1997 Series 1		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	$80,000,000	$80,000,000
Unamortized premium on bonds	203,158	254,146
	80,203,158	80,254,146
1998 Series 1		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	$90,000,000	-
Unamortized premium on bonds	746,484	-
	90,746,484	-
Total of all series	515,620,761	439,416,428
Unamortized deferred charge related to debt defeasance (Note 6)	(6,593,266)	(7,442,424)
Revenue obligation bonds, net of deferred charge	$509,027,495	$431,974,004

The original issue discount or premium and weighted average interest rate on the following bonds were:

Series	Original Issue Discount/(Premium)	Weighted Average Interest Rate
1991 Series 1	$1,366,407	6.65%
1993 Series 1	907,852	5.06%
1993 Series 2	(2,349,252)	5.01%
1995 Series 1	(1,253,936)	5.33%
1997 Series 1	(288,312)	5.18%
1998 Series 1	(811,362)	4.50%

Interest rates range from 4.00% to 6.88% on the bonds.

Maturities of the bonds, net of advance refundings, as of June 30, 1998, are as follows:

Years Ending	1991 Series	1993 Series 1	1993 Series 2	1995 Series 1	1997 Series 1	1998 Series 1	Total
1999	$9,470,000	$3,610,000	$575,000	$3,165,000	$2,640,000	$2,940,000	$22,400,000
2000	10,060,000	3,765,000	600,000	3,300,000	2,760,000	3,045,000	23,530,000
2001	10,695,000	3,925,000	625,000	3,450,000	2,880,000	3,165,000	24,740,000
2002	11,375,000	4,095,000	650,000	3,640,000	3,010,000	3,285,000	26,055,000
2003	12,120,000	4,280,000	680,000	3,870,000	3,150,000	3,415,000	27,515,000
2004-2018	57,445,000	56,250,000	75,440,000	60,015,000	65,560,000	74,150,000	388,860,000
	$111,165,000	$75,925,000	$78,570,000	$77,440,000	$80,000,000	$90,000,000	$513,100,000

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Program. At June 30, 1998 and 1997, the total assets of the Leveraged Loan Program were $646,580,505 and $548,440,821, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest rate disparity.

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheet, which consists substantially all of the MBIA, AIG, and Bayerische Landesbank investments (Note 3), represent the amounts restricted under the agreements and an equal amount, as defined, to maintain a prescribed minimum credit quality rating for the loans outstanding.

(6) Advance Refunding-

In 1993, the Fund defeased a portion of the 1991 Series 1 Revenue Obligation Bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. On June 30, 1998, $73,765,000 of bonds outstanding were considered defeased.

(7) Contributed Capital-

State of Wisconsin--For fiscal year 1998, Capital Contributions from the State consisted of $28,000,000 in cash reduced by the return of capital of $4,000,000 (all of which was statutorily mandated). The statutorily mandated return of capital is based on amounts the State general fund requires for debt service payments on obligations the State incurred to fund certain capital contributions to the fund. The Fund will be required to return capital to the State in fiscal 1998 and 1999 of $4,000,000 each year. Using cash contributed by the State, the Fund owned $93,879,018 (par value) of State of Wisconsin General Obligation Bonds ($55,000,000 of Clean Water Fund Series 1 Bonds of 1991, $5,000,000 of Clean Water Fund Series A Bonds of 1993, $20,000,000 of Clean Water Fund Series 1 Bonds of 1994, $5,000,000 of Clean Water Fund Series 1 Bonds of 1995 and $5,000,000 of Clean Water Fund Series A Bonds of 1996, $10,000,000 of Clean Water Fund Series A Bonds of 1997, and $5,000,000 of Clean Water Fund Series A Bonds of 1998) as of June 30, 1998. The full faith, credit and taxing power of the State are irrevocably pledged for payment of the principal of and interest on the General Obligation Bonds. Although the intent of the Fund is to hold the Bonds to maturity, the Bonds can be sold without restriction. The estimated market value and the stated weighted average interest rate of the State of Wisconsin General Obligation Bonds-Clean Water Fund Series are as follows:

	Fair Value		Weighted Average Interest Rate	
	1998	1997	1998	1997
1991 Series 1	$57,093,684	$56,805,443	9.4%	9.4%
1993 Series A	4,809,919	4,758,092	8.0%	8.0%
1994 Series 1	19,437,048	18,870,469	6.6%	6.6%
1995 Series 1	4,830,769	4,740,700	7.3%	7.3%
1996 Series A	4,728,940	4,801,912	7.4%	7.4%
1997 Series A	10,840,470	5,138,733	7.4%	7.4%
1998 Series A	4,967,630	-	6.1%	-
Total	$106,708,460	$95,115,349		

The Bonds are registered in the name of the Fund and held by an independent trustee. By the GASB Statement No. 3 definition these securities are classified as category one (insured or registered with securities held by the Fund's agent in the Fund's name).

Maturities of the Bonds as of June 30, 1998, are as follows:

Years Ending June 30,	1991 Series 1	1993 Series A	1994 Series 1	1995 Series 1	1996 Series A	1997 Series A	1998 Series A	Total
1999	$2,026,223	$179,976	$590,720	$159,640	$ -	$543,094	$12,542	$3,512,195
2000	2,206,073	194,837	630,157	167,902	-	571,670	197,067	3,967,706
2001	2,409,495	206,860	660,100	180,055	-	595,634	205,467	4,257,611
2002	2,624,301	222,391	691,928	192,571	346,889	351,552	181,742	4,611,374
2003	2,866,085	254,008	1,029,652	184,185	333,141	374,683	181,646	5,223,400
2004-2018	34,921,660	3,159,384	14,854,047	3,585,205	4,003,115	7,561,785	4,221,536	72,306,732
	$47,053,837	$4,217,456	$18,456,604	$4,469,558	$4,683,145	$9,998,418	$5,000,000	$93,879,018

U.S. Environmental Protection Agency--The Federal Water Quality Act of 1987 (the "Water Quality Act") established a joint Federal and State program to assist in providing financial assistance to municipalities within the states for governmentally owned waste water treatment projects. Reauthorization of the Water Quality Act of 1987 is not expected to be acted upon by the present Congress of the United States, although the allocation of capitalization grants to states are expected to result in a grant to Wisconsin of approximately $35 million for federal fiscal year 1999. Authorization levels for years after 1999 are unknown at this time. $20,464,722 was received in fiscal year 1998 through this grant, of which $18,886,915 was reflected as contributed capital and $1,577,807 as operating grants. In fiscal year 1997, $44,734,221 was received, of which $43,680,202 was reflected as contributed capital, and $1,054,019 as operating grants. Under the terms of the EPA grant, the State was required (1) to establish the Clean Water Fund Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmentally owned waste water treatment projects in a number of ways, provided that such assistance is not in the form of a grant.

(8) Transactions with Related Parties-

The DNR and DOA have statutory duties to manage the Fund. All expenses relating to the management of the Fund are allocated to and paid by the Fund. Total allocated expenses from DNR and DOA which are reflected in the statement of revenues and expenses for the years ended June 30, 1998 and 1997, were $2,678,818 and $2,628,582, respectively. The Fund charges all DNR and DOA expenses to the Direct Loan Program and Proprietary Program. Thus, certain expenses have been allocated to the Leveraged Loan Program to more accurately reflect the expenses incurred by each program.

(9) Hardship and Other Grants-

Wisconsin statutes require that the Fund provide financial hardship assistance for those communities that qualify under Wisconsin Statute 281.58(13). This assistance may come in the form of reduced interest rates (as low as 0%) or grants subject to limitations prescribed by the statute. In 1998, the fund expended hardship grants of $3,594,134. At fiscal year end, the Fund had committed to award $6,497,127 of additional hardship grants. In addition, the Fund expended $516,082 of other grants.

(10) Subsequent Event-

On September 2, 1998, the Fund issued Clean Water Fund Revenue Refunding Bonds in the amount of $104,360,000. The proceeds from these bonds were used to fund an escrow account which will defease certain maturities of bonds previously issued by the Fund.

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

BALANCE SHEET BY PROGRAM

AS OF JUNE 30, 1998

	Clean Water Fund Program					
	Direct Loan Program	Proprietary Program	Leveraged Loan Program	Safe Drinking Water Loan Program	Eliminations	Total
CASH AND CASH EQUIVALENTS	$111,399,565	$20,286,648	$80,820,244	$ -	$ -	$212,506,457
UNITED STATES TREASURY NOTE	-	-	13,997,014	-	-	13,997,014
INVESTMENTS, State of Wisconsin General Obligation Clean Water Bonds	-	-	106,708,460	-	-	106,708,460
RECEIVABLES:						
Loans to Wisconsin municipalities	351,308,192	21,754,862	398,405,946	-	-	771,469,000
Due from other funds and the State of Wisconsin	-	4,516,618	-	-	(4,500,447)	16,171
Due from other governmental entities	2,737,899	72,064	2,038,501	143,730	-	4,992,194
Accrued investment income	-	-	676,522	-	-	676,522
RESTRICTED ASSETS	-	-	40,755,073	-	-	40,755,073
DEFERRED DEBT EXPENSE	-	-	3,178,745	-	-	3,178,745
OTHER ASSETS	-	41,721	-	-	-	41,721
Total assets	$465,445,656	$46,671,913	$646,580,505	$143,730	$(4,500,447)	$1,154,341,357
REVENUE OBLIGATION BONDS, net (including deferred charge)	$ -	$ -	$509,027,495	$ -	$ -	$509,027,495
ACCRUED INTEREST ON BONDS	-	-	2,338,041	-	-	2,338,041
DUE TO OTHER FUNDS	1,481,980	416,917	2,909,993	163,141	(4,500,447)	471,584
DUE TO OTHER GOVERNMENTAL ENTITIES	-	-	467,465	-	-	467,465
ACCRUED EXPENSES	-	210,749	-	-	-	210,749
Total liabilities	1,481,980	627,666	514,742,994	163,141	(4,500,447)	512,515,334
FUND EQUITY	463,963,676	46,044,247	131,837,511	(19,411)	-	641,826,023
Total liabilities and fund equity	$465,445,656	$46,671,913	$646,580,505	$143,730	$(4,500,447)	$1,154,341,357

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY BY PROGRAM

FOR THE YEAR ENDED JUNE 30, 1998

	Clean Water Fund Program					
	Direct Loan Program	Proprietary Program	Leveraged Loan Program	Safe Drinking Water Loan Program	Eliminations	Total
OPERATING REVENUES:						
Loan interest	$11,408,795	$450,668	$11,783,438	$ -	$ -	$23,642,901
OPERATING EXPENSES:						
Interest	-	-	27,005,143	-	-	27,005,143
Salaries and benefits	1,514,347	106,279	956,116	163,141	-	2,739,883
Contractual services and other	36,605	54,024	523,981	-	-	614,610
Depreciation	-	20,054	-	-	-	20,054
Total operating expenses	1,550,952	180,357	28,485,240	163,141	-	30,379,690
Net operating income (loss)	9,857,843	270,311	(16,701,802)	(163,141)	-	(6,736,789)
OTHER INCOME (EXPENSE):						
Investment income	5,681,038	446,332	18,081,575	-	-	24,208,945
Operating grants	1,434,077	-	-	143,730	-	1,577,807
Hardship grants and other expenditures	-	(4,142,789)	(467,465)	-	-	(4,610,254)
Total other income (expense)	7,115,115	(3,696,457)	17,614,110	143,730	-	21,176,498
Net income (loss) before operating transfers	16,972,958	(3,426,146)	912,308	(19,411)	-	14,439,709
Operating transfers in (out)	-	(3,260,695)	3,260,695	-	-	-
Net income (loss)	16,972,958	(6,686,841)	4,173,003	(19,411)	-	14,439,709
FUND EQUITY, beginning of year	428,187,211	43,386,984	112,925,204	-	-	584,499,399
CAPITAL CONTRIBUTIONS:						
State of Wisconsin	(83,408)	9,344,104	14,739,304	-	-	24,000,000
U.S. Environmental Protection Agency	18,886,915	-	-	-	-	18,886,915
FUND EQUITY, end of year	$463,963,676	$46,044,247	$131,837,511	$(19,411)	$ -	$641,826,023

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF CASH FLOWS BY PROGRAM

FOR THE YEAR ENDED JUNE 30, 1998

	Clean Water Fund Program					
	Direct Loan Program	Proprietary Program	Leveraged Loan Program	Safe Drinking Water Loan Program	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Payments to employees for services	$(1,216,274)	$(1,585,861)	$ -	$ -	$ -	$(2,802,135)
Payments to suppliers and other	(90,685)	(464,678)	(207,127)	-	-	(762,490)
Net cash (used in) operations	(1,306,959)	(2,050,539)	(207,127)	-	-	(3,564,625)
CASH FLOWS FROM NONCAPITAL FINANCING:						
Operating grants received	691,345	-	-	-	-	691,345
Grants paid	-	(4,118,306)	-	-	-	(4,118,306)
Contributed capital--State of Wisconsin	3,916,592	9,344,104	14,739,304	-	-	28,000,000
Return of contributed capital--State of Wisconsin	(4,000,000)	-	-	-	-	(4,000,000)
Contributed capital--U.S. Environmental Protection Agency	18,886,915	-	-	-	-	18,886,915
Proceeds from issuance of long term debt	-	-	90,819,085	-	-	90,819,085
Retirement of long-term debt	-	-	(14,270,000)	-	-	(14,270,000)
Interest payments	-	-	(26,201,523)	-	-	(26,201,523)
Operating transfers in/(out)	-	(3,260,695)	3,260,695	-	-	-
Net cash provided by noncapital financing activities	19,494,852	1,965,103	68,347,561	-	-	89,807,516
CASH FLOW FROM CAPITAL AND RELATED FINANCING:						
Purchase of fixed assets	-	(7,075)	-	-	-	(7,075)
Net cash used in capital and related financing activities	-	(7,075)	-	-	-	(7,075)
CASH FLOWS FROM INVESTING:						
Loans originated	(38,855,273)	(2,338,968)	(71,462,657)	-	-	(112,656,898)
Collection of loans	17,846,999	1,431,892	19,103,317	-	-	38,382,208
Interest on loans	11,294,300	447,432	11,482,517	-	-	23,224,249
Purchase of investments	-	-	(30,990,819)	-	-	(30,990,819)
Liquidation of investments	-	-	16,743,318	-	-	16,743,318
Increase in restricted assets	-	-	(6,149,194)	-	-	(6,149,194)
Investment income received	5,681,039	446,332	13,579,289	-	-	19,706,660
Net cash provided by (used in) investing activities	(4,032,935)	(13,312)	(47,694,229)	-	-	(51,740,476)
Net increase in cash and cash equivalents	14,154,959	(105,824)	20,446,203	-	-	34,495,340
CASH AND CASH EQUIVALENTS, at beginning of year	97,244,606	20,392,472	60,374,039	-	-	178,011,117
CASH AND CASH EQUIVALENTS, at end of year	$111,399,565	$20,286,648	$80,820,244	$ -	$ -	$212,506,457

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF CASH FLOWS BY PROGRAM

FOR THE YEAR ENDED JUNE 30, 1998

	Clean Water Fund Program					
	Direct Loan Program	Proprietary Program	Leveraged Loan Program	Safe Drinking Water Loan Program	Eliminations	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATIONS:						
Operating income (loss)	$9,857,843	$270,311	$(16,701,802)	$(163,141)	$ -	$(6,736,789)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATIONS:						
Depreciation	-	20,054	-	-	-	20,054
Amortization	-	-	654,927	-	-	654,927
Interest income classified as investing activity	(11,408,796)	(450,667)	(11,783,440)	-	-	(23,642,903)
Interest expense classified as noncapital financing activity	-	-	25,886,000	-	-	25,886,000
Changes in assets and liabilities-						
Decrease in prepaid items	-	776	-	-	-	776
Decrease in receivables	-	64	-	-	-	64
(Increase) in due from other funds	-	(1,780,971)	-	-	-	(1,780,971)
Increase in accounts payable	-	29,468	-	-	-	29,468
Increase in interest payable	-	-	287,023	-	-	287,023
Increase in compensated absences	-	6,240	-	-	-	6,240
Increase (decrease) in due to other funds	243,994	(145,814)	1,450,165	163,141	-	1,711,486
Total adjustments	(11,164,802)	(2,320,850)	16,494,675	163,141	-	3,172,164
Net cash (used in) operations	$(1,306,959)	$(2,050,539)	$(207,127)	$ -	$ -	$(3,564,625)

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

LEVERAGED LOAN PROGRAM

BALANCE SHEET

AS OF JUNE 1, 1998

ASSETS

CASH AND CASH EQUIVALENTS	$85,145,253
UNITED STATES TREASURY NOTES	13,997,014
INVESTMENTS—State of Wisconsin General Obligation Clean Water Bonds	105,735,227
RECEIVABLES:	
Loans to Wisconsin municipalities	394,369,196
Due from other governmental entities	1,048,149
Accrued investment income	2,194
RESTRICTED ASSETS	40,435,813
DEFERRED DEBT EXPENSE	3,206,456
Total assets	$643,939,302

LIABILITIES AND FUND EQUITY

REVENUE OBLIGATION BONDS, net (including deferred charge)	$508,990,480
DUE TO OTHER FUNDS	2,789,800
DUE TO OTHER GOVERNMENTAL ENTITIES	450,133
Total liabilities	512,230,413
FUND EQUITY:	
Contributed capital	133,195,268
Retained (deficit)	(1,486,379)
Total fund equity	131,708,889
Total liabilities and fund equity	$643,939,302

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

LEVERAGED LOAN PROGRAM

STATEMENT OF REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 1, 1998

OPERATING REVENUES:	
Loan interest	$11,652,394
OPERATING EXPENSES:	
Interest, including discount amortization	26,726,795
Salaries and benefits	972,242
Contractual services and other	509,313
Total operating expenses	28,208,350
Operating (loss)	(16,555,956)
OTHER INCOME (EXPENSE):	
Investment income	18,379,188
Other expenditures	(450,133)
Total other income	17,929,055
Operating transfer in	3,260,695
Net income	$4,633,794

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

LEVERAGED LOAN PROGRAM

CHANGES IN LOANS RECEIVABLE

FOR THE YEAR ENDED JUNE 1, 1998

LOANS RECEIVABLE, June 1, 1997	$338,351,390
Loans disbursed	75,121,123
Loan principal payments received	(19,103,317)
LOANS RECEIVABLE, June 1, 1998	$394,369,196

There were no fees or charges during the period from June 2, 1997 through June 1, 1998. As of June 1, 1998, no loans receivable were in default status.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

LEVERAGED LOAN PROGRAM

CHANGES IN REVENUE BONDS

FOR THE YEAR ENDED JUNE 1, 1998

REVENUE BONDS AT JUNE 1, 1997	$450,930,000
Revenue bonds issued	90,000,000
Principal payments	(27,830,000)
REVENUE BONDS AT JUNE 1, 1998	$513,100,000