



STATE OF WISCONSIN

Notice of Listed **Material Information** #99-03
Dated July 14, 1999

The bonds listed in this Notice (the "Bonds") are not subject to the requirements of SEC Rule 15c2-12(b)(5) regarding an agreement to provide continuing disclosure. If the Bonds were subject to those requirements the following would constitute a listed material event as defined by the rule.

Issuer: State of Wisconsin

CUSIP Numbers: 977053, 977055 and 977056 Prefix (All)
977087 Prefix (All)
977092 Prefix (All)
977123 Prefix (All)

Material Information: The **attached letter, dated July 12, 1999 from the Director of the Legislative Fiscal Bureau** to the members of the legislative Committee of Conference, provides new information on general fund tax collections and revised estimated general fund tax collections for the State of Wisconsin.

- For fiscal year 1999, increases the estimate of collected general fund taxes to \$9,959.4 million, which is \$189.0 million over the amount estimated in January 1999.
- For fiscal year 2000, increases the estimated general fund tax collections to \$10,314.6 million, which is \$195.5 million over the amount estimated in January 1999
- For fiscal year 2001, increases the estimated general fund tax collections to \$10,694.5 million, which is \$183.6 million over the amount estimated in January 1999.

This document provides information which may be material to financial evaluation of the State of Wisconsin, however neither the preparation nor submission of this document constitutes a Listed Material Event pursuant to the State's Master Agreement on Continuing Disclosure.

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing Annual Reports and giving notice of Listed Material Events when notice is required by the State's Master Agreement on Continuing Disclosure.

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July 12, 1999

TO: Members
Committee of Conference
1999 Assembly Bill 133

FROM: Bob Lang, Director

SUBJECT: Revised General Fund Tax Estimates

In January, 1999, this office prepared estimates of general fund tax collections for 1998-99 and the two years of the 1999-01 biennium. The administration incorporated those projections into the Governor's 1999-01 budget bill. At the end of April, 1999, we reviewed tax collection data through that month and informed the Joint Committee on Finance that we did not believe that, at that time, there was sufficient additional information that would prompt a revision of the January projections. That conclusion was reached because collections for most general fund taxes were tracking consistent with the estimates and economic forecasts had not appreciably changed. As indicated at that time, one uncertainty was the projection of the individual income tax. Beginning in tax year 1998, tax rates were reduced and other changes were made to the individual income tax. Also, for that year, the Legislature and Governor enacted a \$125 million, one-time increase in the property tax/rent credit. Although these actions reduced income tax liabilities, the withholding tables were not adjusted. Thus, the benefits of these changes would be realized through reduced tax liabilities or increased refunds following tax filings. Because of delays in tax processing this year, a reestimate of net, individual income tax collections could not be made with certainty until processing was nearing completion. As of mid-June, the Department of Revenue indicated that almost 500,000 returns had not yet been processed.

Last week, tax collection data through June became available. Based upon our review of that report, we now believe that general fund tax collections for 1998-99 will exceed the January projections by \$189 million. This is approximately 1.9% more than was previously estimated. Although there is still a lag with some tax processing, indications are that the individual income tax will generate \$130 million more than anticipated. In addition, the corporate income tax

showed particular strength at the end of the fiscal year with May/June collections approximately \$30 million higher than those of the same period in 1998.

In addition to increased collection activity, recent national economic forecasts are more favorable than those indicated at the end of 1998. Given the strength of this year's collections and forecast projections, the estimates for 1999-00 and 2000-01 also require revision. We believe that the January estimates for 1999-00 should be increased by \$195.5 million and the projection for 2000-01 should be increased by \$183.6 million.

In total, for the three years, the January, 1999, estimates should be increased by \$568.1 million through the end of the biennium (1998-99, \$189.0 million; 1999-00, \$195.5 million; 2000-01, \$183.6 million). For the three-year period, the \$568.1 million exceeds the previous estimates by approximately 1.8%.

Table 1 presents the revised tax revenue estimates and Table 2 outlines the June, 1999, national economic forecast by Standard and Poor's Data Resources, Inc. The section following these tables provides additional detail on the new estimates. The final section of this memorandum presents information regarding the impact of the revised estimates on the estimated costs of the income and property tax proposals adopted by the Assembly and Senate in the 1999-01 budget legislation.

TABLE 1
Projected General Fund Tax Collections
(\$ in Millions)

<u>Source of Tax Revenue</u>	<u>1997-99 Biennium</u>		<u>1999-01 Biennium</u>	
	<u>1997-98</u> <u>Actual</u>	<u>1998-99</u> <u>Estimated</u>	<u>1999-00</u> <u>Estimated</u>	<u>2000-01</u> <u>Estimated</u>
Individual Income	\$5,047.5	\$5,200.0	\$5,475.0	\$5,730.0
General Sales and Use	3,047.4	3,270.0	3,440.0	3,610.0
Corporate Income & Franchise	627.0	635.0	635.0	635.0
Public Utility	288.4	287.0	245.0	220.0
Excise				
Cigarette	247.7	253.0	238.0	233.0
Liquor and Wine	32.7	32.5	33.0	33.5
Beer	9.3	9.3	9.3	9.3
Tobacco Products	9.4	9.3	9.2	9.1
Insurance Company	88.1	90.0	84.0	86.0
Estate	80.1	117.0	90.0	70.0
Miscellaneous	<u>50.9</u>	<u>56.3</u>	<u>56.1</u>	<u>58.6</u>
TOTAL	\$9,528.5	\$9,959.4	\$10,314.6	\$10,694.5
Increase Over Prior Year		\$430.9	\$355.2	\$379.9
Percent Increase		4.5%	3.6%	3.7%

TABLE 2
Summary of National Economic Indicators
Standard & Poor's Data Resources, Inc., June, 1999
(\$ in Billions)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Nominal Gross Domestic Product	\$8,511.0	\$8,946.6	\$9,245.9	\$9,605.1
Percent Change	4.9%	5.1%	3.3%	3.9%
Real Gross Domestic Product	\$7,551.9	\$7,844.7	\$7,998.5	\$8,169.7
Percent Change	3.9%	3.9%	2.0%	2.1%
Consumer Price Index	1.6%	2.1%	2.3%	2.5%
Personal Income	\$7,126.1	\$7,481.7	\$7,806.3	\$8,124.8
Percent Change	5.0%	5.0%	4.3%	4.1%
Personal Consumption	\$5,807.9	\$6,153.8	\$6,402.8	\$6,669.2
Percent Change	5.7%	6.0%	4.0%	4.2%
Corporate Profits Before Tax	\$717.8	\$757.1	\$735.2	\$740.9
Percent Change	-2.3%	5.5%	-2.9%	0.8%
Unemployment Rate	4.5%	4.2%	4.3%	4.6%

Revised General Fund Tax Estimates

Individual Income Tax

Most of the increase in general fund tax collections is from the individual income tax, which is expected to exceed the January projections by \$130 million in 1998-99, \$135 million in 1999-00 and \$140 million in 2000-01. The revised figures are \$5,200 million in 1998-99, \$5,475 million in 1999-00 and \$5,730 million in 2000-01.

In January, we estimated that income tax collections would grow by 0.4% in 1998-99 over the 1997-98 amount. The relatively flat level of projected revenue growth for the fiscal year was due to the income tax reductions enacted during the 1997-99 legislative session. A one-time increase in the property tax/rent credit, a reduction in the income tax rates of approximately 2.5%, the creation of the working families tax credit, a deduction for higher education tuition expenses and an increase in the married couple credit were among the changes that took effect with the

1998 tax year, which are primarily reflected in 1998-99 revenues. In January, these law changes were estimated to cost \$330.0 million in 1998-99; if these modifications had not been enacted, estimated revenue growth would be 7.0% rather than 0.4%.

Year-to-date revenue growth has been 3.4% as of June (this growth rate includes approximately \$30 million in declaration payments that were processed in early July that should have been processed in June). Specifically, withholding collections are higher by 8.2% and declaration payments are higher by 6.2% (this percentage reflects that same adjustment noted above). On the other hand, payments with returns are lower by 7.6% as compared to the same time last year and refunds are higher by 27.2%. The reduction in payments with returns and the increase in the amount of refunds are attributable to the fact that the withholding tables for 1998 were not adjusted to reflect the income tax reductions adopted in the 1997-99 biennium. The collections from withholding made through August 15, 1999, that are attributable to the 1998-99 fiscal year will be accounted for as 1998-99 revenues, as will refunds made through that date. Because the Department of Revenue has experienced a delay in the processing of tax returns, it is expected that more refunds will be made over this period than last year. The reestimate of \$5,200 million for 1998-99 reflects growth of 3.0% over 1997-98.

At this time, it is expected that the additional collections will be ongoing. In addition, the forecast of personal income has improved slightly compared to the figures that were used for the January estimates. Therefore, we believe that the income tax estimates for the 1999-01 biennium should also be adjusted upward.

Sales Tax

Through April, total sales tax collections had grown over the amount for the previous year by 6.6%, which was slightly lower than our estimate of 6.7%. However, monthly collections in May and June increased by 10.4% and 14.5%, respectively, over the same periods in the previous year. At this time, based on the overall year-to-date increases and economic forecasts, we believe that sales tax collections will be greater than our January estimates by \$20 million in 1998-99 and \$10 million per year in the 1999-01 biennium.

Corporate Income and Franchise Tax

Corporate income and franchise tax collections are projected to exceed current estimates by \$35 million in 1998-99 and by \$15 million in 1999-00 and 2000-01. As a result, corporate income and franchise tax collections are estimated to be \$635 million in each year from 1998-99 through 2000-01. These revisions reflect stronger than anticipated corporate collections in 1999. Through April, 1999, corporate collections were about \$13 million less than the previous fiscal year. However, preliminary collections for May and June, 1999 are about \$30 million higher than collections for May and June, 1998. Economic growth and corporate profits are forecast to moderate in 2000 and 2001. As a consequence, corporate income and franchise tax revenues are estimated to remain unchanged. Corporate income and franchise tax revenues were \$627 million in 1997-98. In January, we estimated corporate income and franchise tax collections to be \$600 million in 1998-99 and \$620 million in 1999-00 and 2000-01.

Utility Taxes

Based on May collections, utility taxes for 1998-99 will be \$17 million greater than estimated in January, due in part to the strength of the telecommunications industry. We currently project utility taxes to be \$5 million greater in 1999-00 and \$10 million greater in 2000-01 than the January estimates.

Insurance Premiums Tax

Insurance premiums taxes are projected to increase by \$10 million in 1998-99 because of large, one-time premiums tax payments for company-wide life insurance policies instituted by a few major corporations. As a result, insurance premiums tax collections are estimated to be \$90 million in 1998-99, \$84 million in 1999-00 and \$86 million in 2000-01.

Estate Tax

The January estimate assumed that estate tax collections, which were exceptionally strong in the first half of the year, would moderate over the remaining six months of 1998-99. However, receipts remained at higher than expected levels for several months in the second half of the year. As a result, estate tax collections are estimated at \$117.0 million in 1998-99, or \$12 million over the January estimate. We currently anticipate collections of \$90.0 million in 1999-00 and \$70.0 million in 2000-01. These amounts exceed the January figures by \$33 million in the first year and \$11 million in the second year.

Other General Fund Taxes

No changes are estimated over the three-year period for any of the state's excise or miscellaneous taxes. Collections in these taxes are consistent with the January projections.

Impact on the Income and Property Tax Proposals in the 1999-01 Budget Bills

Two other points should be noted. First, the revised revenue estimates outlined above are compared to current law. The budget bills adopted by each house of the Legislature include modifications to the individual income tax. The Assembly version of the bill would make broad-based changes to tax deductions, rates and credits and the Senate version would increase the property tax/rent credit for renters. Due to the revised baseline estimates for the individual income tax, it is projected that the cost of these provisions would also be higher. Specifically, the estimated cost of the Assembly provisions would increase by \$8 million and the projected cost of the Senate proposal would be \$1 million higher in 2000-01.

Second, the estimated costs of the property tax proposals adopted by each house should be adjusted to account for anticipated savings in the property tax/rent credit, homestead credit and farmland preservation credit due to property tax reductions that would occur. Under the Assembly provisions, these savings would be \$5.5 million in 1999-00 and \$2.5 million in 2000-01.

Savings under the Senate proposal are estimated at \$5.1 million in 1999-00 and \$18.9 million in 2000-01.

The net impact of both of these adjustments is savings of \$5.5 million in 1999-00 and cost increases of \$5.5 million in 2000-01 under the Assembly budget. Under the Senate package, net savings of \$5.1 million in 1999-00 and \$17.9 million in 2000-01 would be realized. These figures would have to be adjusted if the Conference Committee adopts different property and income tax provisions.

BL/dls

cc: Members, Wisconsin Legislature