STATE OF WISCONSIN

Notice of Listed **Material Information** #2001-02
Dated March 20, 2001

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 Event pursuant to the State's Master Agreement on Continuing Disclosure.

Issuer: State of Wisconsin General Obligation Bonds

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

Material Information: Attached is a rating update from Moody's Investors Service. The attached provides notification that Moody's Investors Service has changed the outlook for State of Wisconsin General Obligation Bonds from stable to negative. The bond rating is unchanged at Aa2.

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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Moody's Investors Service
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Moody's Rating

MOODY'S REVISES ITS OUTLOOK ON Aa2-RATED WISCONSIN GENERAL OBLIGATION BONDS FROM STABLE TO NEGATIVE

Opinion

Moody's has changed the outlook for the State of Wisconsin's general obligation bonds from stable to negative. The rating level is unchanged at Aa2. The Aa2 rating recognizes the fundamental strength of Wisconsin's economy, which although slowing with the national economy remains strong, and the state's moderate and well-managed debt position. The change in outlook stems from the deterioration of the state's financial condition due to emerging budget imbalances, growing recurring spending commitments and cooling revenue growth, against a backdrop of traditionally narrow general fund cash balances and reserves.

FISCAL 2001 STRUCTURAL DEFICIT OVER $500 MILLION

Wisconsin's estimates that it has a $557 million structural deficit for fiscal 2001, which represents 5.3% of revenue. Wisconsin has traditionally enacted biennial budgets with projected deficits in the second year with planned reserve drawdowns slated to fund the deficit. In recent biennia, better than expected revenue performance has replenished the balance. For fiscal 2001, the state will close the year and the biennium by drawing down the general fund balance to $159 million, from a high of $836 million at the beginning of the year. This drawdown of reserves was used to fund recurring expenditures, which together with recent expansions in school spending and tax relief, present a high threshold of recurring spending commitments for the upcoming biennium beginning July 1, 2001. Unlike past years, slowing revenues will produce a small June 30, 2001 closing fund balance, setting up the tightest budget environment for Wisconsin in 20 years.

TIGHT 2001-2003 BIENNIAL BUDGET TO BE BALANCED WITH TOBACCO BOND PROCEEDS

The largest spending pressures are primarily in three areas: the state's commitment to fund two-thirds of the cost of K-12 education (which absorbs 40% of the state's General Purpose Revenue spending), increased corrections costs, and the growing costs of the state's Medical Assistance program.

The Governor has sought to balance the budget through a number of proposals, the largest of which is securitizing Wisconsin's share of the national tobacco settlement. In doing this, the state would receive a $920 million payment up front in fiscal 2002, of which $350 million would be used to balance the 2002-03 budget. The remaining $570 million in tobacco bond proceeds would be used to create a permanent endowment fund that would generate revenue annually for the state's General Fund.

Other proposed cost-cutting actions include trimming most agency budgets by about 5% and freezing a statutory phased-in increase of the state's required budget balance at 1.2% of gross appropriations until 2004 (current law requires this balance to grow to 1.4% in 2003). As proposed, the structural deficit in 2003 is estimated to decline to $92 million, which is more in line with Wisconsin's historical norms for the second year of a biennium.

The tobacco securitization would generate significant needed cash up front. This one-time cash infusion could have the effect of merely deferring the budget problem to the next biennium. More optimistically, the tobacco bond proceeds could provide a bridge for the state to implement changes in spending levels to restore more of a balance between revenues and expenditures.

HISTORICAL BUDGET CHOICES MAKE WISCONSIN SITUATION MORE SEVERE THAN IN OTHER STATES

While many states have seen revenue softening in recent months, the situation in Wisconsin is more acute because it has had a traditional policy of maintaining minimal reserves, leaving it more vulnerable to economic fluctuations than other states. Under current law, Wisconsin is required only to maintain a budget balance of 1.2% of appropriations, a level that provides little fiscal cushion. In addition, most states have a funded "Rainy Day" reserve to help weather various fiscal emergencies, such as that currently confronted by Wisconsin.

Wisconsin's cash position reflects its reserve policies. Although seasonal borrowing was unnecessary in 1999 and 2000, it is expected to resume next year. Wisconsin is one of only a handful of states that remains dependent on operating notes to correct for timing imbalances in its cash receipts and disbursements (primarily to localities, which are due mostly in the beginning of the fiscal year). The strong cash position during 1999 and 2000 will be eroded with the planned drawdowns this year, and the proposed biennial budget contemplates operating notes of $700 million and $600 million in fiscal 2002 and 2003, respectively, the largest such note offerings the state has made. These swings in Wisconsin's cash needs demonstrate how the state's budgetary practices make it more vulnerable than most states to economic cycles.

Another indication of Wisconsin's relatively weak financial condition is its GAAP deficit, which at the end of fiscal 2000 stood at $830 million. Wisconsin has maintained a GAAP deficit ever since it converted to GAAP accounting in 1990. While the deficit had been trending down from a high of nearly $1.8 billion in 1997, it is projected to climb back to over $1.5 billion by 2003. While it is common for GAAP balances to decline in periods of revenue softening, at this point in the economic cycle, most states are starting from a strongly positive GAAP position.

GOVERNOR'S PROPOSED BUDGET AIMS TO RESTORE BALANCE

The Governor's proposed budget addresses many of these budgetary weaknesses. For example, the Governor's budget proposes funding a Budget Stabilization Reserve with half of any future unanticipated revenues until the fund reaches 5% of General Fund expenditures. Among other proposed changes are limiting state spending increases to increases in state personal income and providing an analysis of the proposed budget's impact on the state's GAAP position, as well as the impact on the outyears. If adopted, many of these proposals will improve Wisconsin's financial condition over the long term.

While it might take years before such changes started to show results, their adoption would indicate more attention to the state's long-term fiscal health than it has received in the past.

Outlook

The outlook for the state of Wisconsin's General Obligation bonds is negative. Future rating actions will hinge on how state policymakers address the very tight budget situation in adopting a 2001-03 biennial budget, and the likelihood that the resulting cash infusion will provide a brief financial respite during which the state can realign its revenues and expenditures or merely postpone a more severe budget crisis to the future.