STATE OF WISCONSIN

Notice of **Material Information** #2002-16
Dated March 6, 2002

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)

Summary: Moody's Ratings Service has revised the outlook on the State's general obligation bonds from "stable" to "negative". The bond rating is affirmed at Aa3. Attached is a report issued by Moody's Investors Service.

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

Global Credit Research
New Issue
4 MAR 2002

New Issue: Wisconsin (State of)

MOODY'S ASSIGNS Aa3 RATING TO WISCONSIN GOS

Outlook Revised to Negative

State
WI

Moody's Rating

ISSUE	**RATING**
General Obligation Refunding Bonds of 2002, Series 1	Aa3

Sale Amount	$75,000,000
Expected Sale Date	03/05/02
Rating Description	General Obligation Bonds

Opinion

NEW YORK, Mar 4, 2002 -- Moody's has assigned a Aa3 rating to the General Obligation Bonds of 2002, Series A for the State of Wisconsin. The proceeds of the bonds will be used to restructure the debt service on previously issued general obligation bonds in order to achieve general fund debt service relief in fiscal 2002. As a result of this restructuring of debt service payments the state general fund will reduce its debt service obligation in fiscal 2002 by $75 million but add additional debt service costs of $4.4 million to $8.8 million in subsequent years. This refunding is indicative of the current fiscal stress the state is experiencing.

The Aa3 rating reflects a weakened state financial condition due to persistent structural budget imbalance and disappointing revenue growth, a problem made more severe by the state's tradition of maintaining only narrow cash balances and reserves. The rating also incorporates the fundamental strength of Wisconsin's economy, as currently adversely affected by the national economic slowdown, and the state's medium, well-managed debt position. The rating outlook is negative.

TIGHT 2001-2003 BIENNIAL BUDGET RELIES ON TOBACCO BOND PROCEEDS AND OTHER ONE-SHOTS

The bienniel budget for fiscal 2001-03 is driven by significant spending pressures, 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 budget is balanced through a number of actions, the bulk of which produce non-recurring resources. The largest of these is the securitization of Wisconsin's share of the national tobacco settlement. The adopted budget calls for using $450 million to balance the 2002-03 budget and about $156 million of annual tobacco payments in each of fiscal 2002 and 2003.

The governor, who has significant veto power in the state of Wisconsin, vetoed certain items in the adopted budget that would have deepened the state's structural imbalance. The vetoes include eliminating the deferral of a $115 million school aid payment and eliminating $62 million of General Fund expenditures. These vetoes help to reduce the structural imbalance caused by the extensive use of one-time revenue and expenditure actions, but the resulting structural deficit is still significant, creating budget gaps that will need to be addressed in future years.

JANUARY BUDGET REVISIONS SHOW ADDITIONAL $1.1 BILLION BUDGET GAP

Revised revenues estimated for fiscal 2002 and 2003 show a combined revenue shortfall and spending gap of about $1.1 billion, mostly the result of weaker than budgeted personal income, sales and corporate taxes. The governor has proposed a series of actions to close this gap and balance the budget by the end of the biennium, including funding the required statutory ending balance of $132 million. These include 1) using $200 million of tobacco securitization proceeds to pay fiscal 2002 general fund debt service; 2) reducing state operating expenses by targeting percentage reductions averaging about 5%; and 3) reducing by $350 million per year in fiscal 2003 and 2004, shared revenues with county and municipal governments. In addition, the state would make use of increased tobacco securitization proceeds to offset a portion of the remaining general fund cost of the shared revenue payments, thereby reducing state general fund costs by $730 million for fiscal 2003 and $564 million in fiscal 2004. By fiscal 2005, the shared revenue payments would be eliminated saving the general fund over $1 billion annually.

The governor's plan is currently being considered by the legislature.

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

While many states with manufacturing-based economies have experienced recent revenue weakness, the situation in Wisconsin is more acute because of the state's traditional policies of maintaining minimal reserves and not fully funding recurring spending commitments. The current biennial budget requires Wisconsin to maintain a budget balance of 1.2% of appropriations a level that provides little fiscal cushion. Unlike other states, Wisconsin does not have a funded "Rainy Day" reserve to help weather various fiscal emergencies.

The state has enacted a new Budget Stabilization Fund that would allocate half of any future unanticipated revenues to the fund until it reached 5% of General Fund expenditures. However, no funds are currently appropriated to the fund and, given the current condition of the state's General Fund, are not likely to be allocated in the current biennium.

LARGE SEASONAL BORROWING REFLECTS BUDGET STRESS AND NARROW RESERVES

Although seasonal borrowings were unnecessary in 1999 and 2000, the state issued an $800 million operating note this year. The state's strong cash position during 1999 and 2000 has been eroded by revenue weakness and the budgeted use of non-recurring revenue. 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 $800 million operating note issuance was the largest such note offering the state has made in absolute terms, although relative to general fund spending, several issues in the 1980s were proportionately larger. These swings in Wisconsin's cash needs demonstrate how the state's budgetary practices make it more vulnerable than most states to economic cycles.

GAAP DEFICIT LIKELY TO INCREASE

Another indication of Wisconsin's relatively weak financial condition is its GAAP deficit, which at the end of fiscal 2001 stood at $1.2 billion. Wisconsin has maintained a GAAP deficit 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 grew in fiscal 2001 and is likely to grow substantially again as a result of the current budget actions.

The establishment of a permanent endowment fund for future tobacco settlement revenues provides some additional future fiscal flexibility. The endowment fund will provide an annual source of revenue to the general fund (8.5% of market value of the fund) but the corpus also could be made available to meet future budgetary needs.

DEBT POSITION MODERATE

Wisconsin's tax-supported debt, comprised of general obligations, two dedicated revenue bond programs (transportation and PECFA), and some lease debt, poses a medium burden. Moody's 2001 State Debt Medians report shows Wisconsin ranked 13th among states, with a tax-supported debt per capita of $859, compared to the state median of $541. Debt service as a percent of general fund revenue is a moderate 3.4% and is expected to remain in that range.

WISCONSIN ECONOMY SLOWING WITH THE NATION'S

Wisconsin's economy, which outpaced the national economy during the 1990s, has slowed with the national economy. Indications of the slowdown are apparent both in unemployment rates and employment levels. The rising state unemployment rate is a reversal from previous concerns about labor shortages as a growth constraint. The Wisconsin annual rate in 2001 rose to 4.3%, still lower than the national rate of 4.8%, but higher than the 2000 rate of 3.5%. More recently, Wisconsin's December 2001 rate was 4.2%, down from the February rate of 5.1% and lower than the U.S. rate of 5.8%.

Non-farm employment grew at a slightly slower rate than the nation in 2000, continuing a pattern present since 1996. With employment growing 1.8% in 2000, Wisconsin's slowdown in employment growth seems to be approximating the national slowdown (U.S. nonfarm employment grew 2.0% in 2000). Most recently, as of December employment was essentially flat over the past 12 months.

The healthy economic growth that Wisconsin experienced in the 1990s, despite labor constraints, reflected the restructuring and productivity improvement of manufacturing that began in the 1980s, along with a resumption of population growth bolstered by modest net migration from other states. Wisconsin employment grew 26.7% from 1990-00, compared to 21.8% growth nationally, although growth slowed in the second half of the decade. Unlike many states and the U.S. overall, total manufacturing jobs actually grew in Wisconsin during the 1990s, although declined slightly in 1999 and 2000.

While not keeping pace with the state's total job growth (manufacturing was 22.1% of the state's job base in 2000 compared to nearly 25% when the decade began), the percentage of manufacturing jobs is still far above the national average of 14.0%. The national economic slowdown has primarily affected manufacturing dependent states and explains much of the revenue weakness that the state has experienced.

Outlook

The outlook for the state of Wisconsin's General Obligation bonds is negative. Together with certain other one-shot items, the cash infusion of tobacco securitization receipts is expected to provide short-term financial resources during which the state can realign its revenues and expenditures. Steps towards this restructuring are called for in the enacted budget and in new budget proposals currently being considered. However, structural problems are likely to persist into the next biennium, beginning July 1, 2003, and these could be compounded if economic weakness is more pronounced or prolonged than expected. In the longer term, financial reforms included in the enacted 2002-03 budget offer the prospects for building a firmer fiscal footing once stronger economic growth resumes.

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