

OFFICIAL STATEMENT

New Issue

This Official Statement provides information about the Bonds. Some of the information appears on this cover page for ready reference. A prospective investor should read the entire Official Statement to make an informed investment decision.

\$1,794,850,000

STATE OF WISCONSIN GENERAL FUND ANNUAL APPROPRIATION BONDS OF 2003, SERIES A (TAXABLE FIXED RATE) AND SERIES B (TAXABLE AUCTION RATE CERTIFICATES)

Dated: Date of Delivery

Due: May 1 as shown on the inside cover

Bond Ratings

Insured

Underlying

AAA	AA-	Fitch Ratings
Aaa	A1	Moody's Investors Service, Inc.
—	Aa1	Moody's Investors Service, Inc. (Corporate Equivalent for Series A Bonds)
AAA	A+	Standard & Poor's Ratings Services

Interest Payment Dates

Series A: May 1 and November 1, commencing May 1, 2004

Series B: The Business Day following the last day of each Auction Period

Redemption

Series A Bonds maturing in 2013 are not subject to redemption prior to maturity.

Series A Bonds maturing in 2018 and 2026 are subject to mandatory sinking fund redemption at par and are subject to optional redemption with a make-whole premium.—*See pages 4-5*

Series B Bonds are subject to optional redemption on any Interest Payment Date at par.—*See pages 7-8*

Source of Payment

Debt service on the Bonds is payable from the State's general fund, subject to annual appropriation.—*See pages 9-13*

Insurance

The scheduled payment of principal of and interest on the Series A Bonds will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series A Bonds by Financial Security Assurance Inc. The scheduled payment of principal of and interest on the Series B Bonds will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series B Bonds by XL Capital Assurance Inc.



Tax Matters

Interest on the Bonds is subject to federal income tax and State of Wisconsin income and franchise tax.

Purpose

The Bonds are being issued to provide funds to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits.—*See page 3*

Denominations

Series A: Multiples of \$5,000

Series B: Multiples of \$50,000

Closing

On or about December 18, 2003

Global Book-Entry System

Clearance is expected to be available through The Depository Trust Company (the depository for the Bonds), Clearstream, and Euroclear.

Global Offering

The Bonds are offered globally for sale in jurisdictions where it is lawful to make such offers.—*See page 17*

Stock Exchange Listing

The State has applied for the Bonds to be listed on the Luxembourg Stock Exchange.

Bond Counsel

Quarles & Brady LLP—*See page 18*

Trustee/Auction Agent

Deutsche Bank Trust Company Americas

Issuer Contact

Wisconsin Capital Finance Office; (608) 266-2305; capfin@doa.state.wi.us

Annual Report

This Official Statement incorporates by reference Part II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2002.—*See APPENDIX B*

UBS Financial Services Inc.

Joint Book-Running Managers

Citigroup

Bear, Stearns & Co. Inc.

Co-Senior Managers

JPMorgan

Co-Managers for Series A Bonds

Robert W. Baird & Co.
Loop Capital Markets, LLC

M. R. Beal & Company
Merrill Lynch & Co.
Siebert Brandford Shank & Co., LLC

Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated
Stifel, Nicolaus & Company, Incorporated

Lehman Brothers
Ramirez & Co., Inc.

A. G. Edwards & Sons, Inc. ABN AMRO Financial Services, Inc. Advest, Inc. Banc of America Securities LLC
Berean Capital, Inc. Cabrera Capital Markets, Inc. Capital Management Group Securities Edward D. Jones & Co., L.P. Melvin Securities L.L.C.
Mesirow Financial, Inc. Morgan Keegan & Company, Inc. Raymond James & Associates, Inc. SBK-Brooks Investment Corp.
U.S. Bancorp Piper Jaffray Wachovia Bank, National Association William Blair & Company

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND PRICES

\$1,794,850,000

**STATE OF WISCONSIN
GENERAL FUND ANNUAL APPROPRIATION BONDS OF 2003,
SERIES A (TAXABLE FIXED RATE) AND
SERIES B (TAXABLE AUCTION RATE CERTIFICATES)**

The prices and yields of the Series A Bonds were determined on December 10, 2003 at a negotiated sale. The Underwriters have agreed to purchase the Series A Bonds at an aggregate purchase price of \$842,503,346.

\$850,000,000 Series A Bonds

<u>CUSIP</u>	<u>ISIN</u>	<u>Euroclear and Clearstream Common Code</u>	<u>Year (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield at Issuance</u>	<u>Price at Issuance</u>
977100 AA4	US977100 AA4 8	182 74655	2013	\$ 250,000,000	4.80%	4.845%	99.658
977100 AB2	US977100 AB2 1	182 74698	2018	100,000,000	5.20	5.245	99.543
977100 AC0	US977100 AC0 4	182 74965	2026	500,000,000	5.70	5.724	99.691

The Series A Bonds maturing in 2018 and 2026 are term bonds. For a schedule of the mandatory sinking fund redemption payments, see [“THE BONDS; Series A Bonds; Mandatory Sinking Fund Redemption”](#).

UBS Financial Services Inc., Citigroup Global Markets Inc., Bear, Stearns & Co. Inc., and JPMorgan Securities Inc. have agreed to purchase the Series B Bonds at an aggregate purchase price of \$940,901,467.

\$944,850,000 Series B Bonds due May 1, 2032 @ par

<u>CUSIP</u>	<u>ISIN</u>	<u>Euroclear and Clearstream Common Code</u>	<u>Subseries</u>	<u>Principal Amount</u>
977100 AD8	US977100 AD8 6	182 75287	B-1	\$118,750,000
977100 AE6	US977100 AE6 9	182 75341	B-2	100,000,000
977100 AF3	US977100 AF3 5	182 75392	B-3	118,700,000
977100 AG1	US977100 AG1 8	182 75481	B-4	100,000,000
977100 AH9	US977100 AH9 0	182 75627	B-5	118,700,000
977100 AJ5	US977100 AJ5 6	182 75678	B-6	100,000,000
977100 AK2	US977100 AK2 0	182 75732	B-7	118,700,000
977100 AL0	US977100 AL0 3	182 75783	B-8	70,000,000
977100 AM8	US977100 AM8 5	182 75813	B-9	100,000,000

For more information about the Series B Bonds, see [APPENDIX C](#).

This document is the “official” statement—that is, it contains the only authorized information about the offering of the Bonds. This document is not an offer or solicitation for the Bonds, and no unlawful offer, solicitation, or sale may occur through the use of this document or otherwise. This document is not a contract, and it provides no investment advice. Prospective investors should consult their advisors and legal counsel with questions about this document, the Bonds, and anything else related to the offering.

This document provides prospective investors with information that may be important in making an investment decision. It may not be used for any other purpose without the State’s permission. The State is the author of this document and is responsible for its accuracy and completeness. The Underwriters are not the authors of this document. In accordance with their responsibilities under the securities laws of the United States of America, the Underwriters are required to review the information in this document and must have a reasonable basis for their belief in the accuracy and completeness of its key representations.

The estimates, forecasts, projections, and opinions in this document are not hard facts, and no one guarantees them. Some of the people who prepared, compiled, or reviewed this information had specific functions that covered some aspects of the offering but not others. For example, financial staff focused on quantitative financial information, and legal counsel focused on specific documents or legal issues assigned to them.

No dealer, broker, sales representative, or other person has been authorized to give any information or to make any representations about the Bonds other than what is in this document. The information and expressions of opinion in this document may change without notice. Neither the delivery of this document nor any sale of the Bonds implies that there has been no change in the other matters contained in this document since its date. Material referred to in this document is not part of this document unless expressly included.

Other than information concerning Financial Security Assurance Inc. contained in **APPENDIX E**, none of the information in this Official Statement has been supplied or verified by Financial Security Assurance Inc., and it makes no representation or warranty, express or implied, as to the accuracy or completeness of such information or the validity of the Bonds.

Other than information concerning XL Capital Assurance Inc. contained in the **APPENDIX F**, none of the information in this Official Statement has been supplied or verified by XL Capital Assurance Inc., and it makes no representation or warranty, express or implied, as to the accuracy or completeness of such information or the validity of the Bonds.

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**STATE OFFICIALS PARTICIPATING IN THE ISSUANCE
AND SALE OF THE BONDS**

GOVERNOR

Governor Jim Doyle
Term of office expires on January 8, 2007

SECRETARY OF ADMINISTRATION

Mr. Marc J. Marotta
Serves at the pleasure of the Governor

STATE ATTORNEY GENERAL

Ms. Peggy A. Lautenschlager
Term of office expires on January 8, 2007

DEBT MANAGEMENT AND DISCLOSURE

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Capital Finance Office
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Mr. Lawrence K. Dallia
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Mr. Michael D. Wolff
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Capital Finance Officer
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OFFICIAL STATEMENT
\$1,794,850,000
STATE OF WISCONSIN
GENERAL FUND ANNUAL APPROPRIATION BONDS OF 2003,
SERIES A (TAXABLE FIXED RATE) AND
SERIES B (TAXABLE AUCTION RATE CERTIFICATES)

INTRODUCTION

This Official Statement sets forth information concerning the \$1,794,850,000 State of Wisconsin General Fund Annual Appropriation Bonds of 2003, Series A (Taxable Fixed Rate) (**Series A Bonds**) and Series B (Taxable Auction Rate Certificates) (**Series B Bonds**) (collectively, **Bonds**) issued by the State of Wisconsin (**State**). This Official Statement includes by reference Part II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2002 (**2002 Annual Report**).

The Bonds are being issued to provide funds for payment to the Wisconsin Retirement System (**Retirement System**) for the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. The Bonds are issued pursuant to Section 16.527 of the Wisconsin Statutes, as amended (**Enabling Act**), an authorizing certification signed by or on behalf of the Secretary of Administration (**Secretary**), and a Trust Indenture, dated as of December 1, 2003 (**Indenture**), between the State, acting by and through its Department of Administration (**Department**), and Deutsche Bank Trust Company Americas, as trustee (**Trustee**). The terms and provisions of the Indenture are summarized in **APPENDIX A**.

Pursuant to the authorizing certification of the Secretary, the Department is empowered by law to authorize, issue, and sell the Bonds on the State's behalf. This Official Statement contains information furnished by the State or obtained from the sources indicated.

THE STATE

The State is a sovereign state of the United States of America and a frequent issuer of debt securities. The State's power and functions derive from the Wisconsin Constitution, which vests the legislative power in a senate and an assembly (**Legislature**). The State's power is limited by the Wisconsin Constitution and also by federal law and jurisdiction.

The State is located in the Midwest among the northernmost tier of the states of the United States. The State ranks 20th 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.

The State provides many essential services to its citizens, including, among others, education, health and human services, transportation, environmental protection, and public safety programs. The budget adopted by the Legislature for the current biennium, which began on July 1, 2003 and extends through June 30, 2005, anticipates total revenues in the State's general fund (**General Fund**) of over \$18.380 billion for the first fiscal year and \$20.719 billion for the second fiscal year. Information concerning the State and its financial condition is included as **APPENDIX B**, which includes by reference Part II of the 2002 Annual 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, 10th Floor
P.O. Box 7864
Madison, WI 53707-7864
E-mail: capfin@doa.state.wi.us
Web site: www.doa.wi.gov/capitalfinance

PLAN OF FINANCE

The State is issuing the Bonds to prepay its entire unfunded accrued prior service (pension) liability and to fund its entire unfunded accrued liability for sick leave conversion credits. Most of the proceeds from the sale of the Bonds will initially be placed in the General Fund, then paid to the Retirement System from that fund. Some of the proceeds will be deposited in the Debt Service Fund held under the Indenture, to provide for payment of interest on the Bonds and some of the proceeds will be deposited in the Stabilization Fund held under the Indenture. The State's financing plan includes an expectation that part of its variable-rate exposure on the Series B Bonds will be hedged through indexing agreements, interest rate exchange agreements, or similar agreements (**Swap Agreements**). The Bond proceeds deposited into the Debt Service Fund, together with payments required to be made by counterparties on Swap Agreements, are expected to be used to pay interest due on the Bonds through November 1, 2005.

Payment of Unfunded Liabilities

Pension

The Retirement System has been established pursuant to acts of the Legislature to provide pension and related benefits for employees of the State and nearly all governmental and quasi-governmental bodies within the State. The Retirement System is administered by the Department of Employee Trust Funds and is the system under which the Public Employee Trust Fund is managed for the benefit of participating employees. Pension payments are the primary benefit provided under the Retirement System. Although the Retirement System trust fund for pension payments had a balance of \$51,741,126,156 as of January 1, 2003, it also had an unfunded liability attributable to prior service of participating employees, determined by its actuaries to be \$1,727,623,184 as of that date. The unfunded liability is attributable primarily to retroactive changes in benefits, and the State is responsible for only the portion of that amount attributable to State employees.

Each participating employer (including the State) is required to make periodic payments to the Retirement System in respect of that employer's share of the unfunded prior service liability of the Retirement System. The statutorily required payments are based upon a percentage of compensation paid to participating employees and are designed to amortize the unfunded liability over a remaining period of approximately 27 years. Each employer's total obligation is increased each year by an amount of interest, currently equal to 8% of the amount of the unfunded liability. As part of its regular, periodic review of the actuarial assumptions it uses to administer the Wisconsin Retirement System, the Employee Trust Funds Board has been presented with recommendations that are expected to be considered on December 12, 2003. Those recommendations include a change in the interest rate from 8% to 7.8%. As of January 1, 2003, the State's remaining unfunded prior service liability was \$705,133,949. That liability may be prepaid in full, and further interest accrual avoided.

Sick Leave Conversion Credit

In addition to the unfunded prior service liability, the State has an unfunded accrued liability in respect of sick leave conversion credits. The Wisconsin Statutes provide that eligible State employees are entitled to convert sick leave that remains unused at the end of their employment into credits to be applied toward the purchase of health insurance. The unfunded liability for sick leave conversion credits is attributable to both costs before the program was operated on an actuarially sound basis and increases resulting from retroactive benefit enhancements. The State's unfunded accrued liability for sick leave conversion credits as of October 1, 2003 was determined by the Retirement System's actuaries to be \$782,440,304.

Statutory Authority for Issuance

The Enabling Act was included in the State's budget act for the 2003–2005 biennium, which became law on July 25, 2003, and was amended by a separate legislative act that became law on December 9, 2003. The Enabling Act contains a legislative finding that the State, by prepaying part or all of its unfunded prior service liability and its unfunded accrued liability for sick leave conversion credits, may reduce its costs and better ensure the timely and full payment of retirement benefits. The Department is authorized by the Enabling Act to issue bonds to provide up to \$1,500,000,000 of net proceeds to make payments to the Retirement System for the State's unfunded prior service liability and its unfunded accrued liability for sick leave conversion credits. The Department is also authorized to issue bonds without limit to pay issuance or administrative expenses, to make deposits to reserve funds, to pay accrued or funded interest, to pay costs of credit enhancement, to make payments on certain ancillary agreements, or to fund or refund outstanding bonds.

Swap Agreements and Additional Bonds

The State expects to enter into Swap Agreements, at the time of issuance, relating to the Series B Bonds and may do so from time to time with respect to any Bonds. The State's obligation to make payments under the Swap Agreements will be payable from money held in the Debt Service Fund under the Indenture, that is, the same money that will be used to pay the principal of and premium, if any, and interest on the Bonds. Payments under a Swap Agreement may include net payments based on the interest rates exchanged. Should a Swap Agreement be terminated, under certain circumstances the State may be required to pay a termination payment. The Enabling Act provides authority for the State to issue additional bonds to make this payment. Money held in the Debt Service Fund may be applied to a termination payment under a Swap Agreement only if the termination payment was due on September 1 of the year before the first fiscal year in a biennium and a budget bill has been enacted for the biennium. Correspondingly, the budget request for the first fiscal year in any biennium is expected to include an amount to provide for any termination payment that was due on September 1 of the prior year. Termination payments, however, may be payable from money held in (or permitted to be transferred to) the Subordinated Payment Obligations Fund.

The State's financing plan also anticipates that the State will issue additional bonds under the Indenture (**Additional Bonds**) to refund all or part of the principal of the Series A Bonds coming due in 2013 and perhaps under other situations. The Indenture permits the issuance of Additional Bonds to pay the State's unfunded prior service liability or its unfunded accrued liability for sick leave conversion credits, to pay any cost of issuing bonds (including accrued or funded interest, issuance expenses, making deposits to reserve funds, paying administrative expenses, paying the costs of credit enhancement facilities, or making payments under any Swap Agreement or credit facility), or to refund the Bonds or Additional Bonds.

Sources and Uses of Funds

The proceeds from the sale of the Bonds are expected to be used as follows:

Sources

Principal Amount of Series A Bonds	\$ 850,000,000
Principal Amount of Series B Bonds.....	944,850,000
Original Issue Discount	(2,857,000)
TOTAL SOURCES	<u>\$1,791,993,000</u>

Uses

Accrued Prior Service Liability.....	\$ 705,133,949
Accrued Liability for Sick Leave Conversion Credits	782,440,304
Funded Interest and Capitalized Expenses	250,845,667
Deposit to Stabilization Fund	32,935,000
Premiums on Bond Insurance Policies	10,162,014
Underwriters' Discount	8,588,188
Costs of Issuance	1,887,878
TOTAL USES	<u>\$1,791,993,000</u>

THE BONDS

The Bonds are being issued in two series, the Series A Bonds and the Series B Bonds.

Series A Bonds

The Series A Bonds will be dated the date of their issuance. Each Series A Bond will bear interest from that date, payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1 until its maturity date. The Series A Bonds will bear interest at the rates shown on the inside front cover, computed on the basis of a 30-day month and a 360-day year. The Series A Bonds are issued as fully registered bonds, in principal denominations of \$5,000 or multiples thereof.

The Series A Bonds maturing in 2013 are not subject to redemption prior to maturity.

Mandatory Sinking Fund Redemption

The Series A Bonds due on May 1, 2018 (**Series A 2018 Term Bonds**) are subject to mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on May 1 of each of the years, and in the respective amounts, specified below, except that the principal amount of the Series A 2018 Term Bonds to be redeemed on each redemption date will be reduced by a *pro rata* portion of the principal amount of any Series A 2018 Term Bonds that have been purchased by the State or the Trustee and cancelled by the Trustee, or redeemed as described below under "**THE BONDS; Series A Bonds; Optional Redemption with Make-Whole Premium**", at least 45 days before the redemption date:

Redemption Date (May 1)	Principal Amount
2014	\$22,090,000
2015	9,260,000
2016	16,245,000
2017	24,235,000
2018 ^(a)	28,170,000

^(a) Stated Maturity

The Series A Bonds due on May 1, 2026 (**Series A 2026 Term Bonds**) are subject to mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on May 1 of each of the years, and in the respective amounts, specified below, except that the principal amount of the Series A 2026 Term Bonds to be redeemed on each redemption date will be reduced by a *pro rata* portion of the principal amount of any Series A 2026 Term Bonds that have been purchased by the State or the Trustee and cancelled by the Trustee, or redeemed as described below under “**THE BONDS; Series A Bonds; Optional Redemption with Make-Whole Premium**”, at least 45 days before the redemption date:

Redemption Date (May 1)	Principal Amount
2019	\$ 39,790,000
2020	50,585,000
2021	27,510,000
2022	32,565,000
2023	46,590,000
2024	89,580,000
2025	105,910,000
2026 ^(a)	107,470,000

^(a) Stated Maturity

Optional Redemption with Make-Whole Premium

The Series A Bonds maturing in 2018 and 2026 (**Series A Term Bonds**) are subject to optional redemption prior to their maturity, at the option of the State, in whole or in part (and if in part, as described below under “**THE BONDS; Series A Bonds; Selection of Bonds for Redemption**”) on any date, at a redemption price equal to the greater of:

- 100 percent of the principal amount of the Series A Term Bonds to be redeemed, or
- the sum of the present values of the remaining scheduled payments of principal and interest on the Series A Term Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 12.5 basis points,

plus in each case, accrued and unpaid interest on the Series A Term Bonds being redeemed to the date fixed for redemption.

For the purpose of determining the Treasury Rate, the following definitions apply:

Treasury Rate means, with respect to any redemption date for a particular Series A Term Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Comparable Treasury Issue means, with respect to any redemption date for a particular Series A Term Bond, the U.S. Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Series A Term Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series A Term Bond to be redeemed.

Comparable Treasury Price means, with respect to any redemption date for a particular Series A Term Bond, (1) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

Designated Investment Banker means one of the Reference Treasury Dealers designated by the State.

Reference Treasury Dealer means each of UBS Financial Services Inc. and Citigroup Global Markets Inc. and their respective successors and three other firms, specified by the State from time to time, that are primary U.S. Government securities dealers in the City of New York (each a **Primary Treasury Dealer**); *provided, however*, that if any of them ceases to be a Primary Treasury Dealer, the State will substitute another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series A Term Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

Selection of Bonds for Redemption

If some but less than all the Series A Term Bonds are to be redeemed on any date, the State may select the amounts of each maturity to be redeemed. Within a maturity, the particular Series A Term Bonds to be redeemed shall be redeemed *pro rata* as described below.

Redemption payments on the Series A Term Bonds being redeemed on a particular maturity in part will be made on a *pro rata* basis (as nearly as practicable) to each registered owner in whose name such Series A Term Bonds are registered at the close of business on the fifteenth day of the calendar month immediately preceding the redemption date (the securities depository so long as the book-entry-only system is in effect).

So long as the Series A Term Bonds are in the book-entry-only system, there will be only one registered owner, and neither the State nor the Trustee will have responsibility for prorating partial redemptions among beneficial owners of the Series A Term Bonds. See **“THE BONDS; Global Book-Entry System.”**

Notice of Redemption

The Trustee will mail a notice to the registered owner of each Series A Term Bond to be redeemed in whole or in part at the address for the registered owner shown in the registration books (the securities depository so long as the book-entry-only system is in effect). The notice will be mailed at least 30 days but not more than 60 days prior to the redemption date. Failure to give a notice of redemption or a defect

in it will not affect the validity of the proceedings for the redemption of any Series A Term Bonds for which proper notice was given.

Series B Bonds

The Series B Bonds are multi-modal bonds that are initially being issued, in multiple subseries, as Auction Rate Certificates. Interest on the Series B Bonds will be computed on the basis of a 360-day year and for the number of days actually elapsed. The Indenture provides that, at the option of the State, the interest rate on any subseries of the Series B Bonds may be converted from the auction rate mode described in this Official Statement to interest rates determined at different intervals and by different means. On the effective date of such a conversion, certain other terms of the Series B Bonds, including interest payment dates and redemption provisions, will be changed. In connection with any such conversion, however, all those Series B Bonds will be required to be tendered by the owners thereof for purchase. See “**THE BONDS; Series B Bonds; Mandatory Tender for Purchase.**” This Official Statement describes only the terms of the Series B Bonds that will be in effect prior to such a conversion.

The Series B Bonds are issued in principal denominations of \$50,000 or multiples thereof.

Optional Redemption

The Series B Bonds of any subseries are subject to redemption prior to maturity, at the option of the State, on any interest payment date for such subseries of Series B Bonds, in whole or in part, and if in part from the subseries selected by the State and within any subseries by lot or in any other manner as the Trustee in its discretion may deem proper, at a redemption price equal to the principal amount to be redeemed.

The Indenture provides that, on May 1 of each year, beginning in 2009, the State shall make a reasonable determination to what extent there is available money on deposit in the Appropriations Fund, the Debt Service Fund (excluding the Proceeds Account), and the Subordinated Payment Obligations Fund that will not be needed for the purposes thereof for the balance of the fiscal year. The State shall direct the Trustee to apply such money prior to the end of the fiscal year to redeem the Series B Bonds selected by the State, up to the amounts shown in the following schedule. Should any scheduled amount not be redeemed in any year, the amount not redeemed will be added, on a prorated basis, to the balance of the payments in the following schedule.

<u>Year</u>	<u>Principal Amount</u>
2009	\$ 6,100,000
2010	10,850,000
2011	16,050,000
2012	21,800,000
2013	28,050,000
2014	5,000,000
2015	5,000,000
2016	5,000,000
2017	5,000,000
2018	5,000,000
2019	5,000,000
2020	5,000,000
2021	40,050,000
2022	47,950,000
2023	47,950,000
2024	47,950,000
2025	47,950,000
2026	65,750,000

<u>Year</u>	<u>Principal Amount</u>
2027	125,800,000
2028	75,200,000
2029	83,550,000
2030	92,550,000
2031	102,250,000
2032 ^(a)	50,050,000

(a) Stated Maturity

Mandatory Tender for Purchase

The Indenture provides that, subject to the satisfaction of certain conditions, the interest rate on one or more subseries of the Series B Bonds may be converted from a rate determined through auctions as described in **APPENDIX C** to a rate determined in another manner. In connection with such a conversion, all Series B Bonds of such subseries will be required to be tendered for purchase on the interest payment date on which such conversion will become effective. If all of the conditions to such a conversion are not met, the purchase of Series B Bonds tendered for purchase will not be consummated, and the owners of the Series B Bonds will continue to own those Series B Bonds.

Continuing Disclosure

With respect to the Series B Bonds, which will be auctioned periodically, this Official Statement also includes by reference the annual report most recently published pursuant to the State’s continuing disclosure undertaking before any particular auction (starting with the annual report published in December 2003) and any notice provided pursuant to the undertaking. For more information about continuing disclosure, see **APPENDIX H**.

For more information about the Series B Bonds, see **APPENDIX C**.

Ratings

At the State’s request, several rating agencies have rated the Bonds with the understanding that, upon delivery of the Bonds, the insurance policies described under **“BOND INSURANCE”** will be issued.

<u>Rating</u>		<u>Rating Agency</u>
<u>Series A Bonds</u>	<u>Series B Bonds</u>	
AAA	AAA	Fitch Ratings
Aaa	Aaa	Moody’s Investors Service, Inc.
AAA	AAA	Standard & Poor’s Ratings Services

In addition, at the State’s request, several rating agencies have assigned an underlying rating to the Bonds (that is, the rating that would apply to the Bonds if the insurance policies were not issued).

<u>Underlying Rating</u>		<u>Rating Agency</u>
<u>Series A Bonds</u>	<u>Series B Bonds</u>	
AA-	AA-	Fitch Ratings
A1	A1	Moody’s Investors Service, Inc.
Aa1	—	Moody’s Investors Service, Inc. (Corporate Equivalent)
A+	A+	Standard & Poor’s Ratings Services

Any explanation of what a rating means may only be obtained from the rating service giving the rating. No one can offer any assurance that a rating given to the Bonds will be maintained for any period of time. A rating agency may lower or withdraw the rating it gives if, in its judgment, circumstances so warrant. Any downgrade or withdrawal of a rating may adversely affect the market price of the Bonds, particularly the Series A Bonds.

Global Book-Entry System

Payments of principal and interest for each Bond will be paid to the registered owner of the Bonds. The Bonds are being issued initially in book-entry-only form, so the registered owner will be a securities depository—a nominee of The Depository Trust Company (**DTC**). Clearance is expected to be available through DTC and also through Clearstream and Euroclear, which will hold omnibus positions on behalf of their participants in the books of their respective depositories. For more information about the global book-entry system, see **APPENDIX D**. Under certain conditions the Bonds may be issued in certificated form.

The Trustee serves as the registrar and paying agent for the Bonds. In addition to serving as Trustee, Deutsche Bank Trust Company Americas also serves as the auction agent (**Auction Agent**) for the Series B Bonds.

Contact: Deutsche Bank Trust Company Americas
Attn: Corporate Trust & Agency Services (Municipal Group)
Phone: (212) 250-7848
Mail: 60 Wall Street
27th Floor, MS NYC60-2715
New York, NY 10005

Registration and Payment of Bonds

How the Bonds are paid depends on whether or not they are in book-entry-only form.

While the Bonds are in book-entry-only form (as they are initially), payment of principal will be made by wire transfer to the securities depository or its nominee. Payment of interest will be made by wire transfer to the securities depository or its nominee on the payment date.

If the Bonds are not in book-entry-only form, payment of principal will be made by check or draft issued upon the presentation and surrender of the Bonds at the designated office of the Paying Agent. Payment of interest due on the Series A Bonds will be made by check or draft mailed to the registered owner shown in the registration book at the close of business on the 15th day (whether or not a business day) of the calendar month before the interest payment date. Payment of interest due on the Series B Bonds will be made as described in **APPENDIX C**.

PAYMENT FROM ANNUAL APPROPRIATIONS

The Bonds are not general obligations of the State, and the Bonds do not constitute “public debt” of the State as that term is used in the Constitution and in the Wisconsin Statutes. The payment of the principal of, and premium, if any, and interest on the Bonds is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service on the Bonds, and if it does not do so, it incurs no liability to the beneficial owners of the Bonds. Thus, payment of the Bonds is at the discretion of the Legislature.

General Fund

The Wisconsin Statutes establish the General Fund, into which are deposited income tax, sales tax, and other general tax revenues and other revenues not dedicated to a specific purpose. Out of the General

Fund the State pays its general operating expenses, shared revenues to local governmental units, aids to individuals and organizations, and many State program expenses. The budget adopted by the Legislature for the current biennium anticipates total General Fund revenues of over \$18.380 billion for the first fiscal year and over \$20.719 billion for the second fiscal year.

The State has chosen a name for the Bonds that includes the words “General Fund” because the Enabling Act reflects an expectation that appropriations to pay debt service will be made from the General Fund. In the Enabling Act, the Legislature expressed its expectation and intent (but not a binding obligation) that it would make timely appropriations from money in the General Fund that are sufficient to pay the principal and interest due in any year with respect to obligations such as the Bonds. No amount, however, has been appropriated for such purpose under the budget for the current biennium. A budget adopted for a future year may fail to make an appropriation or may change the source of the appropriation to a fund other than the General Fund (and thus a fund with substantially less annual revenues than the General Fund).

Budget Process

Annual appropriations are made through the enactment of the State budget. Most of the budget process derives from statutory laws or custom and practice, and thus the process is subject to change.

The State budget is the legislative document that sets the level of authorized state expenditures for the two fiscal years in a biennium and the corresponding level of revenues (primarily taxes) projected to be available to finance those expenditures. A biennium begins on July 1 of each odd-numbered year and ends on June 30 of the subsequent odd-numbered year. The requirement for a state budget is linked directly to the Wisconsin Constitution, which provides that “No money shall be paid out of the treasury except in pursuance of an appropriation by law.” The Wisconsin Constitution requires a balanced budget. It also requires that, if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take actions to pay the deficiency in the succeeding fiscal year.

Budget Requests from Agencies

The formal budget process begins when the State Budget Office in the Department issues instructions to State agencies for submission of their budget requests for the next biennium. Most larger agencies actually begin their internal processes for development of their budget requests several months prior to the issuance of these instructions.

By statute, agency budget requests are to be submitted no later than September 15 of each even-numbered year. Agencies are required, by statute, to submit copies of their budget requests to the Legislative Fiscal Bureau at the same time that copies are delivered to the State Budget Office.

Executive Budget

The Secretary of Administration is required, by statute, to provide to the Governor or Governor-Elect and to each member of the next Legislature, by November 20 of each even-numbered year, a compilation of the total amount of each agency’s biennial budget request. The statutes require that summary information be compiled on the actual and estimated revenues for the current and forthcoming biennium. These revenue estimates are used by the Governor as the basis on which total General Fund biennial budget spending levels are recommended. The State Budget Director (who is an appointee of the Secretary of Administration) is involved in the review of agency requests and the development of the Governor’s budget recommendations for appropriations. In addition, the Governor’s budget recommendations include any statutory language changes needed to accomplish the policy initiatives and program or appropriation changes that are part of the Governor’s recommendations. A draft bill is prepared by the Legislative Reference Bureau incorporating the Governor’s fiscal and statutory recommendations.

Under state law, the Governor is required to deliver the biennial budget message and executive budget bill or bills to the Legislature on or before the last Tuesday in January of the odd-numbered year. However, upon request of the Governor, a later submission date may be allowed by the Legislature upon passage of

a joint resolution. For 9 of the last 10 biennial budgets, a delayed submission date, averaging 15 days, has been requested by the Governor.

The statutes provide that immediately after delivery of the Governor's budget message, the executive budget bill or bills must be introduced by the Joint Committee on Finance, without change, into one of the two houses of the Legislature. Upon introduction, the bill or bills must be referred to that committee for review. Committee review is usually the first step in the legislative processing of any proposed statutory enactment. However, because of both the complexity of the budget and its significance, committee review of the budget bill is the most extensive and involved review given to any bill in a legislative session.

Legislative Consideration

The Legislative Fiscal Bureau usually provides initial overview briefings on the budget for the Joint Finance Committee. The committee holds public hearings on the proposed budget, including both hearings at which agencies present informational briefings and hearings to allow public comment. Other legislative committees may hold meetings, at the discretion of the committee chairperson, to inform committee members of particular aspects of the budget that may affect the substantive interests of the committee.

Upon conclusion of the public hearings, the Joint Committee on Finance commences executive sessions of the Governor's recommended budget. The committee invariably adopts a budget that contains numerous changes to the Governor's recommendations. The form of the committee's budget is usually a substitute amendment to the Governor's budget bill rather than being a separately identified new bill.

The two houses of the Legislature rarely pass identical versions of the budget in their first consideration. There are alternative methods available for achieving resolution of the differences between the two houses on bills. A common method is for one house to seek a committee of conference on the bill wherein a specified number of members from each house are delegated to meet as a bargaining committee with the goal of producing a report reconciling the differences. Another method that has been used from time to time has been to successively pass, between the houses, narrowing amendments dealing only with the points of difference between the respective budgets as initially recommended by the two houses.

Governor's Partial Veto Power

The Wisconsin Constitution grants the Governor the power of partial veto for any appropriation bill. This means that rather than having to approve or reject the budget bill in its entirety, the Governor may selectively delete portions of the budget bill. Thus, both language and dollar amounts in a budget bill may be eliminated by the Governor's veto, and dollar amounts may be reduced. The budget bill (less any items deleted or reduced by the Governor's partial veto) then becomes the State's fiscal policy document for the next two years.

Just as it may do with a Governor's veto of a bill in its entirety, the Legislature may, with a two-thirds vote by each house, override a partial veto and enact the vetoed portion into law. This action may be taken before or after the budget becomes effective.

Annual Appropriations and Continuing Authority

Although the Wisconsin Statutes provide for other types of appropriations, any appropriation made to pay debt service on the Bonds as anticipated by the Enabling Act would be an annual appropriation. That is, the amount appropriated would be separately stated for each of the two fiscal years that the biennium comprises, and any unused amount would lapse at the end of the fiscal year. The State's fiscal year begins July 1, and an annual appropriation is effective on the later of that date or (in the case of the first year of a biennium) the effective date of the new biennial budget.

The failure of the Legislature to adopt a new budget before the commencement of a biennium does not result in a lack of spending authority. The Wisconsin Statutes provide that if an existing appropriation for

the second year of a biennium is not amended or repealed, it continues in effect for all subsequent fiscal years. Thus, until the adoption of a new budget, or some other legislative action to amend or repeal an appropriation, an existing appropriation will provide authority for expenditures in future fiscal years. Once a newly adopted budget becomes effective, the continuing authority is terminated.

The continuing authority of existing appropriations until a new budget is adopted helps to protect against the effect of a delay in the adoption of a budget. If an amount has been appropriated for the second fiscal year in one biennium, there will be continuing authority in the same amount for the first fiscal year in the next biennium, until a new budget is enacted or some other legislative action is taken to amend or repeal the appropriation. Since 1967, the latest that a budget has been adopted is just over four months into the first fiscal year of the biennium.

Enabling Act Provisions

The Enabling Act contains a statement to the effect that the Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on obligations such as the Bonds, expresses its expectation and aspiration that it will do so. The Legislature's recognition of a moral obligation, however, does not create a legally enforceable obligation.

The Enabling Act also contains a legislative finding that the State, by prepaying part or all of its unfunded prior service liability and its unfunded liability for sick leave conversion credits, may reduce its costs and better ensure the timely and full payment of retirement benefits. As a practical matter, it is expected that amounts that otherwise would have been expended for the annual payments of the unfunded liabilities (based on amounts currently scheduled for payments from the General Fund and other funds for that purpose) will be sufficient to offset the expenditures from the General Fund necessary to pay the Bonds. The debt service payments are intended to replace payments the State would otherwise make to amortize the prior service and sick leave conversion credit liabilities.

The Enabling Act also added a new subsection to the Wisconsin Statutes, which includes, in the schedule of annual appropriations, an appropriation from the General Fund to make debt service costs due in the current fiscal year on appropriation obligations (such as the Bonds) issued under the Enabling Act, to make payments under ancillary agreements, to make deposits into reserve funds, and to pay related issuance or administrative costs. Though the Enabling Act was enacted, and became effective, during the current biennium, no amount was actually appropriated pursuant to the subsection for the current biennium, consistent with a financing plan to fund interest due on the Bonds during that period with proceeds from the sale of the Bonds. All interest due on the Bonds through at least November 1, 2005 will be funded with proceeds from the sale of the Bonds deposited into the Debt Service Fund and from payments required to be made by counterparties under Swap Agreements. No principal payments are scheduled during that period.

Indenture Provisions Regarding Annual Appropriations

The Indenture contains several provisions regarding the budget process and the resulting appropriations. In the Indenture, the State directs officers of the Department to take actions to facilitate the appropriation for each fiscal year of a specified amount (**Annual Appropriation Amount**). The Annual Appropriation Amount equals the sum of the following amounts (except that, for the second fiscal year in a biennium, the Annual Appropriation Amount equals the sum of the following determined for such second fiscal year or the immediately succeeding fiscal year, whichever is greater):

- The amount of principal of Bonds and Additional Bonds coming due during the fiscal year.
- The amount of principal of Bonds and Additional Bonds to be redeemed during the fiscal year, including a scheduled amount to be redeemed pursuant to optional redemption.
- Interest to be paid during the fiscal year on Bonds and Additional Bonds bearing interest at a fixed rate.

- Interest that would be payable during the fiscal year on Bonds and Additional Bonds bearing interest at a variable rate, assuming they bore interest at the maximum permitted rate.
- The maximum amount of any payment obligations (other than termination payments) that would be payable during the fiscal year under Swap Agreements that provide for a variable rate or rates to be paid by the State to the counterparty, with any payment that is determined without limit as to amount to be determined at a rate that would result if the index provided in such Swap Agreement were at 15% per annum.
- The maximum amount of payments due during the fiscal year with respect to credit facilities, to the extent not included in the amounts described above.
- Estimated administrative expenses payable from the Operating Expense Fund during the fiscal year.
- The amount of all termination payments with respect to Swap Agreements that are unpaid as of the September 1 immediately preceding the commencement of the biennium that includes the fiscal year, plus interest to accrue on the payments to the date on which they are reasonably expected to be made.

The Indenture defines **Event of Nonappropriation** to mean an insufficiency of appropriated funds in any fiscal year to pay when due all debt service on the Bonds and Additional Bonds and payment obligations under Swap Agreements, other than termination payments under Swap Agreements that were not included in the determination for that fiscal year of the Annual Appropriation Amount (**Subordinated Swap Payment Obligations**). Upon an Event of Nonappropriation, the Secretary will promptly provide a written notice thereof to the Trustee.

The Indenture provides that, in the event an executive budget bill, as introduced, or a budget bill adopted by either house of the Legislature fails to include the Annual Appropriation Amount, the Secretary will provide a written notice to the Governor and the presiding officer of each house of the Legislature, requesting action to ensure the satisfaction of the State's moral obligation and will promptly provide a written notice to the Trustee, stating the nature of the deficiency. Similarly, in the event a budget bill that fails to include the Annual Appropriation Amount is signed into law by the Governor, the Secretary will send a letter to the Governor and the presiding officer of each house of the legislature seeking the introduction of a separate bill authorizing the appropriation that would be needed.

Funds Established by Indenture

The Indenture establishes an Appropriations Fund, an Operating Expense Fund, a Debt Service Fund, a Subordinated Payment Obligations Fund, and a Stabilization Fund.

On the first business day of each fiscal year, the State shall pay to the Trustee from appropriated funds, for deposit in the Appropriations Fund, an amount certified by the Secretary as the net amount reasonably expected to be needed during that fiscal year to pay principal of Bonds and Additional Bonds (including the scheduled amount to be redeemed by optional redemption), interest on the Bonds and Additional Bonds, and any payment obligations (other than Subordinated Swap Payment Obligations) with respect to Swap Agreements, and to pay administrative expenses. The amount of the deposit is expected to be less than the Annual Appropriation Amount.

The Indenture requires the Trustee, upon receipt of the deposit, to transfer from the Appropriations Fund an amount designated by the State (and consistent with its determination of the amount required to be deposited in that fund) to the Operating Expense Fund and then transfer the balance into the Debt Service Fund.

The Indenture requires the Trustee to apply money in the Debt Service Fund to pay:

- The unpaid interest due on the Bonds and Additional Bonds on each payment date.
- The amount due on Swap Agreements (other than Subordinated Swap Payment Obligations).

- The principal installment of Bonds and Additional Bonds due on each payment date.
- The principal due upon optional redemption of Bonds and Additional Bonds.

On any payment date on which the amount on deposit in the Debt Service Fund is insufficient for the purposes thereof, the Indenture requires the Trustee to withdraw from the Subordinated Payment Obligations Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall, and thereafter (if a shortfall still exists) to withdraw from the Stabilization Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall.

The State may at any time, at its option, transfer to the Trustee for deposit in the Appropriations Fund, for further distribution into any of the funds and accounts, appropriated funds in addition to the amounts specifically required by the Indenture. A portion of the proceeds from the sale of the Bonds will be deposited in the Debt Service Fund and the Stabilization Fund. The State is permitted, but not required, to put additional amounts in the Stabilization Fund from time to time.

See “**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; Appropriated Funds and Funds and Accounts**” in **APPENDIX A** for a more detailed description of the provisions summarized above.

BOND INSURANCE

The scheduled payment of principal of and interest on the Series A Bonds will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series A Bonds by Financial Security Assurance Inc. (**Financial Security**). Information provided by Financial Security about its operations and financial condition is included as **APPENDIX E**, as is the form of its insurance policy.

The scheduled payment of principal of and interest on the Series B Bonds will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series B Bonds by XL Capital Assurance Inc. (**XLCA**). Information provided by XLCA about its operations and financial condition is included as **APPENDIX F**, as is the form of its insurance policy. In addition, XLCA is expected to provide an insurance policy that covers payments required to be made by the State under the Swap Agreements that the State expects to enter into at the time it issues the Series B Bonds.

RISK FACTORS

Dependence Upon Annual Appropriations

The State’s obligation to make payments of the principal of and interest on the Bonds is not a general obligation of the State and is not supported by the full faith and credit of the State. The State’s obligation to make those payments is subject to annual appropriation of the necessary funds by the Legislature. No assurance is given that sufficient funds will be appropriated or otherwise available to make those payments.

The beneficial owners of Bonds could suffer a loss or fail to obtain payment on a timely basis if no appropriation were made or if an insufficient appropriation were made. This could occur either through the direct action of the Legislature or the Governor or through a failure to act. The Governor may include or exclude the annual appropriations in the executive budget bill, and similarly, the Legislature may include or exclude the annual appropriations in the budget it adopts. Moreover, even if the annual appropriations are included in the budget the Legislature adopts, the Governor has the power to veto the appropriations.

No amount is appropriated under the biennial budget for 2003-05 for payment of interest on the Bonds. The adequacy of proceeds from the sale of the Bonds deposited in the Debt Service Fund to provide for payment of interest through at least November 1, 2005 may depend on performance by counterparties on Swap Agreements. In the event of a failure by the counterparty to perform, the deposit may not be adequate.

No Collateral

Other than granting a security interest in money held in funds under the Indenture, the State has not pledged any collateral or other security to support payment of the principal of or interest on the Bonds. If the State were to fail to appropriate sufficient funds for that payment, the beneficial owners of the Bonds would not have any recourse against any other property of the State.

Nature of Moral Obligation

The Legislature has recognized a moral obligation to appropriate money; however, the recognition of a moral obligation does not create a legally enforceable obligation. The Legislature's recognition of a moral obligation would provide strong but not conclusive evidence in support of a judicial determination that a payment made by the State serves a public purpose and thus should not be enjoined if a lawsuit challenged the payment as not legally required.

Legislative Decision-Making

Legislative decisions, such as making appropriations through the adoption of a budget, may be influenced by many factors. The Secretary believes that failure to make payments of the principal of, and premium, if any, and interest on, the Bonds might hinder the State's subsequent access to the capital markets; however, it should not be assumed that the Legislature would regard that possible consequence to be a compelling reason to appropriate the money needed for those payments.

The State has not previously issued obligations that are payable solely from annual appropriations, without providing collateral security. Future occurrences could adversely affect legislative support for appropriating the money needed for those payments. For example, the State is issuing the Bonds with the expectation that it will thereby save money, as compared to the payments it would otherwise have had to make, but may fail to realize these expectations.

Moreover, certain events could result in the need for an appropriation that is larger than originally expected. For example, the State could be required to pay a substantial termination payment upon the termination of a Swap Agreement, including a termination outside the State's control. In addition, the State intends to pay nearly all the principal of the Series B Bonds before the stated maturity date but may not be required to make those payments under certain circumstances. Similarly, the State intends to refund the principal amount of the Series A Bonds maturing in 2013 so that the principal will be repaid in smaller annual amounts over the following years. Were payment of all or a large portion of the principal of the Series B Bonds deferred until the stated maturity date, or were the Series A Bonds maturing in 2013 not so refunded, a large payment would be required.

Investment Loss

In the event a loss was incurred on appropriated funds held in funds or accounts under the Indenture, no assurance can be given that additional amounts could be withdrawn from the General Fund pursuant to the appropriation to replenish the loss. See "Definition of Certain Terms" in APPENDIX A for a description of qualified investments.

Defeasance

A defeasance of the Series A Bonds may cause the recognition of a gain or loss, for federal tax purposes, at the time of the defeasance. See "UNITED STATES TAX CONSEQUENCES; Purchase, Sale, Exchange and Retirement of the Bonds."

Additional Bonds

The Indenture does not preclude the issuance of Additional Bonds under circumstances in which the resulting debt service might exceed the amount appropriated for the biennium during which the Additional Bonds are issued. The Indenture does, however, require the State to provide the Trustee with a

letter from each of at least two of the rating agencies then rating the Bonds that the issuance of the Additional Bonds would not adversely affect the ratings assigned to the Bonds by that rating agency.

OTHER INFORMATION

Recent and Planned Borrowings

Appropriation Obligations

The State has no current plans to issue Additional Bonds under the Indenture. Also, other than the possible issuance of master lease certificates of participation pursuant to the State's existing master lease program, the State has no current plans to issue other obligations for which payment is subject to annual appropriation.

General Obligations

Since the State released its 2002 Annual Report, it has undertaken additional general obligation borrowings and expects to undertake other general obligation borrowings in the near future.

The State has issued seven series of general obligation bonds in this calendar year. More specifically, the State issued \$89 million of general obligation bonds to refund general obligations previously issued for the veterans housing loan program, \$30 million of taxable general obligation bonds for the veterans housing loan program, \$459 million of general obligation bonds for general governmental purposes, and \$10 million of general obligation subsidy bonds for the Clean Water Fund Program.

The State of Wisconsin Building Commission has also authorized the following general obligations:

- Up to \$20 million of taxable general obligation bonds for the veterans housing loan program. The amount and timing of any taxable general obligation bonds depend on activity of the veterans housing loan program.
- Up to \$444 million of general obligation bonds to refund general obligation bonds previously issued for general governmental purposes. The amount and timing of any general obligation refunding bonds depend on market conditions.
- Up to \$112 million of general obligation bonds to refund general obligation bonds previously issued for the veterans housing loan program. The amount and timing of any general obligation refunding bonds depend on market conditions.
- Up to \$20 million of general obligation subsidy bonds to be purchased by the Environmental Improvement Fund for the Clean Water Fund Program. The amount and timing of general obligation subsidy bonds for this purpose depend on loan disbursements from the Clean Water Fund Program.
- Up to \$100 million of general obligations to fund general governmental purposes.

Underwriting

The Series A Bonds are being purchased by the underwriters (**Underwriters**), and UBS Financial Services Inc. is serving as representative for the Underwriters. The Underwriters have agreed, subject to certain conditions, to purchase from the State the Series A Bonds, at an aggregate purchase price of \$842,503,346 (reflecting an original issue discount of \$2,857,000 and underwriters' discount of \$4,639,654). The Series B Bonds are being purchased by UBS Financial Services Inc., Citigroup Global Markets Inc., Bear, Stearns & Co. Inc., and JPMorgan Securities Inc. (**Senior Managers**), and UBS Financial Services Inc. is serving as representative for the Senior Managers. The Senior Managers have agreed, subject to certain conditions, to purchase from the State the Series B Bonds, at an aggregate purchase price of \$940,901,467 (reflecting an underwriter's discount of \$3,948,533).

The Underwriters have agreed to reoffer the Series A Bonds and the Senior Managers have agreed to reoffer the Series B Bonds at the public offering prices or yields set forth on the inside front cover of this

Official Statement. The Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than such public offering prices, and such prices may be changed, from time to time, by the Underwriters. The Underwriters' obligations are subject to certain conditions, and they will be obligated to purchase all the Series A Bonds if any Series A Bonds are purchased. The Senior Managers' obligations are subject to certain conditions, and they will be obligated to purchase all of the Series B Bonds if any Series B Bonds are purchased.

The Underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions, and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specific maximum. Syndicate covering transactions involve purchases of the Bonds in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit an Underwriter to reclaim a selling concession from a syndicate member when the Bonds originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Such stabilizing transactions, syndicate covering transactions, and penalty bids may cause the price of the Bonds to be higher than it would otherwise be in the absence of such transactions. Such transactions, if commenced, may be discontinued at any time.

Affiliates of one or more of the Underwriters may also be counterparties in Swap Agreements entered into by the State in connection with the Bonds.

Certain legal matters will be passed upon for the Underwriters by their counsel, Foley & Lardner. Foley & Lardner also serves as counsel to the State with respect to proposed Swap Agreements.

Global Plan of Distribution

The Bonds are offered by the Underwriters for sale in those jurisdictions in the United States, Europe, Asia, and elsewhere where it is lawful to make such offers. Each Underwriter has undertaken that it will not offer, sell, or deliver, directly or indirectly, any of the Bonds or distribute this Official Statement or any other material relating to the Bonds, in or from any jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with the applicable laws and regulations thereof and not impose any obligations on the State except as contained in the purchase contract between the State and the Underwriters. Persons who receive this Official Statement are required to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell, or deliver the Bonds or have in their possession, distribute, or publish any offering material relating to the Bonds, in all cases at their own expense.

Reference Information About the Bonds

The table on the inside front cover provides information about the Bonds. The CUSIP number for each maturity has been obtained from sources the State believes to be reliable, but the State is not responsible for the correctness of the CUSIP numbers or other identifying numbers assigned to the Bonds. The Underwriters have provided the reoffering yields and prices. The yield at issuance is the yield to maturity.

Financial Advisors

First Albany Capital Inc. and Public Financial Management, Inc. have each been employed by the State to perform professional services in the capacity of financial advisor. Each financial advisor has provided advice on the plan of finance and the structure of the Bonds, reviewed certain legal and disclosure documents, including this Official Statement, for financial matters, and reviewed the pricing of the Bonds by the Underwriters.

Legal Opinion

Legal matters incident to the authorization, issuance, and sale of the Bonds are subject to the approval of Quarles & Brady LLP, Bond Counsel, whose approving opinion, substantially in the form shown in **APPENDIX G**, will be delivered on the date of issue of the Bonds. In the event certificated Bonds are issued, the opinion will be printed on the reverse side of each Bond.

Litigation

There is no action, suit, or proceeding, either pending or threatened in writing, known to the State Attorney General, restraining the issuance, sale, execution, or delivery of the Bonds or in any way contesting or affecting the titles to their respective offices of any of the State officers involved in the issuance of the Bonds or the validity of the Bonds or any proceedings of the State taken with respect to the issuance or sale of the Bonds or the appropriation of any money provided for payment of the Bonds. The State Attorney General will render an opinion to this effect when the Bonds are delivered.

UNITED STATES TAX CONSEQUENCES

The following is a summary of the principal United States federal income tax consequences resulting from the beneficial ownership of Bonds by certain persons. This summary does not consider all the possible federal income tax consequences of the purchase, ownership, or disposition of the Bonds and is not intended to reflect the individual tax position of any beneficial owner. Moreover, except as expressly indicated, this summary is limited to those persons who purchase a Bond at its issue price, which is the first price at which a substantial amount of the Bonds is sold to the public, and who hold Bonds as “capital assets” within the meaning of section 1221 of the Internal Revenue Code. This summary does not address beneficial owners that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, purchasers that hold Bonds as a hedge against currency risks or as part of a straddle with other investments or as part of a “synthetic security” or other integrated investment (including a “conversion transaction”) comprised of a Bond and one or more other investments, or United States Owners (as defined below) that have a “functional currency” other than the United States dollar. Except to the extent discussed below under “**UNITED STATES TAX CONSEQUENCES; Non-United States Owners**,” this summary is applicable only to a person who or which is (1) a citizen or resident of the United States, (2) a corporation created or organized under the laws of the United States or any State (including the District of Columbia), or (3) a person otherwise subject to federal income taxation on its worldwide income (**United States person**). This summary is based upon the United States tax laws and regulations currently in effect and as currently interpreted and does not take into account possible changes in the tax laws or the interpretations, any of which may be applied retroactively. It does not discuss the tax laws of any state, local, or foreign governments.

Persons considering the purchase of Bonds should consult their own tax advisors concerning the United States federal income tax consequences to them in light of their particular situations as well as any consequences to them under the laws of any other taxing jurisdiction.

United States Owners

Payments of Stated Interest

In general, for a beneficial owner who or which is a United States person (**United States Owner**), interest on a Bond will be taxable as ordinary income at the time it is received or accrued, depending on the beneficial owner’s method of accounting for tax purposes. If a partnership is the beneficial owner of Bonds, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships owning Bonds should consult their tax advisors.

Original Issue Discount

If the excess of the stated redemption price at maturity of a Bond over its “issue price” exceeds a specified *de minimis* amount (generally equal to 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity), the excess is treated as original issue discount (**OID**). The issue price of the Bonds is the first price at which a substantial amount of the Bonds is sold to the public. The issue price of the Bonds is expected to be the amount set forth on the inside cover page of this Official Statement but is subject to change based on actual sales.

With respect to a United States Owner that purchases in the initial offering a Bond issued with OID, the amount of OID that accrues during any accrual period equals (i) the “adjusted issue price” of the Bond at the beginning of the accrual period (which price equals the issue price of such Bond plus the amount of OID that has accrued on a constant-yield basis in all prior accrual periods minus the amount of any payments, other than “qualified stated interest,” received on the Bond in prior accrual periods) multiplied by (ii) the yield to maturity of such Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of each accrual period), less (iii) any qualified stated interest payable on the Bond during such accrual period. The amount of OID so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period.

A United States Owner of a Bond issued with OID must include in gross income for federal income tax purposes the amount of OID accrued with respect to each day during the taxable year that the United States Owner owns the Bond. Such an inclusion in advance of receipt of the cash attributable to the income is required even if the United States Owner is on the cash method of accounting for United States federal income tax purposes. The amount of OID that is includible in a United States Owner’s gross income will increase the United States Owner’s tax basis in the Bond. The adjusted tax basis in a Bond will be used to determine taxable gain or loss upon a disposition (for example, upon a sale or retirement) of the Bond.

If a Bond issued with OID is purchased by a United States Owner for a cost that exceeds the adjusted issue price as of the purchase date and that is less than the stated redemption price at maturity of the Bond, the amount of OID that is deemed to accrue thereafter to the United States Owner will be reduced to reflect the amortization of such excess (**acquisition premium**) over the remaining life of the Bond.

Bonds Purchased at a Premium

Under the Internal Revenue Code, a United States Owner that purchases a Bond for an amount in excess of its stated redemption price at maturity may elect to treat such excess as “amortizable bond premium,” in which case the amount of interest required to be included in the United States Owner’s income each year with respect to interest on the Bond will be reduced by the amount of amortizable bond premium allocable (based on the Bond’s yield to maturity) to that year. If such an election is made, the amount of each such reduction in interest income will result in a corresponding reduction in the United States Owner’s tax basis in the Bond. Any election to amortize bond premium is applicable to all taxable debt instruments held by the United States Owner at the beginning of the first taxable year to which the election applies or thereafter acquired by the United States Owner and may not be revoked without the consent of the Internal Revenue Service.

Bonds Purchased at a Market Discount

A Bond will be treated as acquired at a market discount (**market discount Bond**) if the amount for which a United States Owner purchased the Bond is less than the Bond’s adjusted issue price, unless such difference is less than a specified *de minimis* amount.

In general, any payment of principal or any gain recognized on the maturity or disposition of a market discount Bond will be treated as ordinary income to the extent that such gain does not exceed the accrued market discount on the Bond. Alternatively, a United States Owner of a market discount Bond may elect

to include market discount in income currently over the life of the market discount Bond. That election applies to all debt instruments with market discount acquired by the electing United States Owner on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the Internal Revenue Service. If an election is made to include market discount in income currently, the tax basis of the Bond in the hands of the United States Owner will be increased by the market discount thereon as such discount is included in income.

Market discount generally accrues on a straight-line basis unless the United States Owner elects to accrue such discount on a constant yield to maturity basis. That election is applicable only to the market discount Bond with respect to which it is made and is irrevocable. A United States Owner of a market discount Bond that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings allocable to the Bond in an amount not exceeding the accrued market discount on such Bond until the maturity or disposition of the Bond.

Election to Treat All Interest as OID

A United States Owner may elect in the year of acquisition of a Bond to account for all interest (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, and *de minimis* market discount, as adjusted by any amortizable bond premium or acquisition premium) that accrues on the Bond by using the constant yield method applicable to OID. Any such election may not be revoked without the consent of the Internal Revenue Service.

Purchase, Sale, Exchange, and Retirement of the Bonds

A United States Owner's tax basis in a Bond generally will equal its cost, increased by any market discount and original issue discount included in the United States Owner's income with respect to the Bond, and reduced by the amount of any amortizable bond premium applied to reduce interest on the Bond. A United States Owner generally will recognize gain or loss on the sale, exchange, or retirement of a Bond equal to the difference between the amount realized on the sale or retirement (not including any amount attributable to accrued but unpaid interest) and the United States Owner's tax basis in the Bond. Except to the extent described above under "**UNITED STATES TAX CONSEQUENCES; Bonds Purchased at a Market Discount,**" gain or loss recognized on the sale, exchange, or retirement of a Bond will be capital gain or loss and will be long-term capital gain or loss if the Bond was held for more than one year.

The Indenture permits the State to defease the Series A Bonds, in whole or in part. For federal income tax purposes, the Series A Bonds that are the subject of such defeasance may be deemed to be retired and "reissued" as a result of the defeasance. In that event, a United States Owner who or which owns such a Series A Bond would recognize gain or loss on the Series A Bond at the time of the defeasance. For periods after the date of defeasance, the amounts of income recognized with respect to such a Series A Bond by the United States Owner, and the times at which such income is recognized, might be different from the respective amounts and times that would have applied in the absence of a defeasance.

Non-United States Owners

The following is a general discussion of certain United States federal income and estate tax consequences resulting from the beneficial ownership of Bonds by a person other than a United States Owner or a former United States citizen or resident (**Non-United States Owner**).

Interest earned on a Bond by a Non-United States Owner will be considered "portfolio interest," and will not be subject to United States federal income tax or withholding, if:

- the Non-United States Owner is neither (a) a "controlled foreign corporation" that is related to the State as described in Section 881(c)(3)(C) of the Internal Revenue Code, nor (b) a bank receiving the interest on a loan made in the ordinary course of its business;
- the certification requirements described below are satisfied; and

- the interest is not effectively connected with the conduct of a trade or business within the United States by the Non-United States Owner.

The certification requirements will be satisfied if either (i) the beneficial owner of the Bond timely certifies, under penalties of perjury, to the State or to the person who otherwise would be required to withhold United States tax that such owner is a Non-United States Owner and provides its name and address, or (ii) a custodian, broker, nominee, or other intermediary acting as an agent for the beneficial owner (such as a securities clearing organization, bank, or other financial institution that holds customers' securities in the ordinary course of its trade or business) that holds the Bond in such capacity timely certifies, under penalties of perjury, to the State or to the person who otherwise would be required to withhold United States tax that such statement has been received from the beneficial owner of the Bond by such intermediary, or by any other financial institution between such intermediary and the beneficial owner, and furnishes to the State or to the person who otherwise would be required to withhold United States tax a copy thereof. The foregoing certification may be provided on a properly completed IRS Form W-8BEN or W-8IMY, as applicable, or any successor forms, duly executed under penalties of perjury. With respect to the certification requirement for Bonds that are held by an entity that is classified for United States federal income tax purposes as a foreign partnership, the applicable Treasury Regulations provide that, unless the foreign partnership has entered into a withholding agreement with the Internal Revenue Service, the foreign partnership will be required, in addition to providing an intermediary Form W-8IMY, to attach an appropriate certification by each partner, and to attach a statement allocating payments on such Bonds to the various partners.

If a Non-United States Owner is engaged in a trade or business in the United States and interest on the Bond is effectively connected with the conduct of such trade or business, the Non-United States Owner, although exempt from the withholding tax discussed above (provided that such beneficial owner timely furnishes the required certification to claim such exemption), may be subject to United States Federal income tax on such interest (and on any gain realized on a sale or other disposition of the Bond) in the same manner as if it were a United States Owner. If the non-United States Owner is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a Bond will be included in the earnings and profits of the beneficial owner if the interest is effectively connected with the conduct by the beneficial owner of a trade or business in the United States. Such a beneficial owner must provide the payor with a properly executed IRS Form W-8ECI (or successor form) to claim an exemption from United States Federal withholding tax.

Any payments to a Non-United States Owner of interest that do not qualify for the "portfolio interest" exemption and that are not effectively connected with the conduct of a trade or business within the United States by the Non-United States Owner will be subject to United States Federal income tax and withholding at a rate of 30% (or at a lower rate under an applicable tax treaty).

Any capital gain or market discount realized on the sale, exchange, retirement, or other disposition of a Bond by a Non-United States Owner will not be subject to United States federal income or withholding taxes if (a) the gain is not effectively connected with a United States trade or business of the Non-United States Owner and (b) in the case of an individual, the Non-United States Owner is not present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement, or other disposition and certain other conditions are met.

Bonds owned by an individual who is neither a citizen nor a resident of the United States for United States Federal estate tax purposes at the time of the individual's death will not be subject to United States Federal estate tax, provided that at the time of the individual's death the income from the Bonds was not or would not have been effectively connected with a United States trade or business of the individual and

that the individual qualified for the exemption from United States Federal withholding tax (without regard to the certification requirements) described above.

Purchasers of Bonds that are Non-United States Owners should consult their own tax advisors with respect to the possible applicability of United States withholding and other taxes upon income realized in respect of the Bonds.

Information Reporting and Back-up Withholding

In general, information reporting requirements will apply with respect to payments to a United States Owner of principal and interest (and with respect to annual accruals of OID) on the Bonds, and with respect to payments to a United States Owner of any proceeds from a disposition of the Bonds. This information reporting obligation, however, does not apply with respect to certain United States Owners including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. In the event that a United States Owner subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or is notified by the Internal Revenue Service that it has failed to properly report payments of interest and dividends, a backup withholding tax at a rate of 28% generally will be imposed on the amount of any interest and principal and the amount of any sales proceeds received by the United States Owner on or with respect to the Bonds.

Any payments of interest and OID on the Bonds to a Non-United States Owner generally will be reported to the Internal Revenue Service and to the Non-United States Owner, whether or not such interest or OID is exempt from United States withholding tax pursuant to a tax treaty or the “portfolio interest” exemption. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the payee resides.

Any payments of interest and OID on the Bonds to a Non-United States Owner generally will not be subject to backup withholding and additional information reporting, provided that (i) the Non-United States Owner certifies, under penalties of perjury, on IRS Form W-8BEN (or a suitable substitute form) that it is not a United States person and certain other conditions are met, or (ii) the Non-United States Owner otherwise establishes an exemption.

The payment to a Non-United States Owner of the proceeds of a disposition of a Bond by or through the United States office of a broker generally will not be subject to information reporting or backup withholding if the Non-United States Owner either certifies, under penalties of perjury, on IRS Form W-8BEN (or a suitable substitute form) that it is not a United States person and certain other conditions are met, or the Non-United States Owner otherwise establishes an exemption. Information reporting and backup withholding generally will not apply to the payment of the proceeds of a disposition of a Bond by or through the foreign office of a foreign broker (as defined in applicable Treasury regulations). Information reporting requirements (but not backup withholding) will apply, however, to a payment of the proceeds of the disposition of a Bond by or through (a) a foreign office of a custodian, nominee, other agent, or broker that is a United States person, (b) a foreign custodian, nominee, other agent, or broker that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (c) a foreign custodian, nominee, other agent, or broker that is a controlled foreign corporation for United States federal income tax purposes, or (d) a foreign partnership if at any time during its tax year one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a trade or business within the United States, unless the custodian, nominee, other agent, broker, or foreign partnership has documentary evidence in its records that the beneficial owner is not a United States person and certain other conditions are met, or the beneficial owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding provisions may be credited against the United States federal income tax liability of the beneficial owner, and may entitle the beneficial owner to a refund, provided that the required information is furnished to the Internal Revenue Service.

The federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a beneficial owner's particular situation. Beneficial owners should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership, and disposition of the Bonds, including the tax consequences under state, local, foreign, and other tax laws and the possible effects of changes in federal or other tax laws.

State Tax Considerations

In addition to the federal income tax consequences described above, potential investors should consider the state income tax consequences of the acquisition, ownership, and disposition of the Bonds. State income tax law may differ substantially from the corresponding federal law, and this discussion does not purport to describe any aspect of the income tax laws of any state. Therefore, potential investors should consult their own tax advisors with respect to the various state tax consequences of an investment in the Bonds.

ERISA Considerations

The Employee Retirement Income Security Act of 1974, as amended (**ERISA**), imposes certain fiduciary and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA (**ERISA Plans**). Section 4975 of the Internal Revenue Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) of the Internal Revenue Code (**Qualified Retirement Plans**) and on Individual Retirement Accounts described in Section 408(b) of the Internal Revenue Code (collectively, **Tax-Favored Plans**). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA) and, if no election has been made under Section 410(d) of the Internal Revenue Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Accordingly, assets of such plans may be invested in Bonds without regard to the ERISA considerations described below, subject to the provisions of applicable federal and state law. Any such plan which is a Qualified Retirement Plan and exempt from taxation under Sections 401(a) and 501(a) of the Internal Revenue Code, however, is subject to the prohibited transaction rules set forth in the Internal Revenue Code.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, **Benefit Plans**) and persons who have certain specified relationships to the Benefit Plans (**Parties in Interest** or **Disqualified Persons**), unless a statutory or administrative exemption is available. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Internal Revenue Code) unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding, or transfer of Bonds might be deemed to constitute prohibited transactions under ERISA and the Internal Revenue Code if assets of the State were deemed to be assets of a Benefit Plan. Under a regulation issued by the United States Department of Labor (**Plan Assets Regulation**), the assets of the State would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Internal Revenue Code only if the Benefit Plan acquires an "equity interest" in the State and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features.

Although there can be no assurances in this regard, it appears that the Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation. However, without regard to whether the Bonds are treated as an equity interest for such purposes, the acquisition or holding of Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the State, or any of its affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan. A prohibited transaction could also occur in the event that a Benefit Plan transfers a Bond to a Party in Interest or Disqualified Person. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond. Included among these exemptions are: Prohibited Transaction Class Exemption (PTCE) 96-23, regarding transactions effected by “in-house asset managers;” PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by “insurance company general accounts;” PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by “qualified professional assets managers.”

Any ERISA Plan fiduciary considering whether to purchase Bonds on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Internal Revenue Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Internal Revenue Code.

CONTINUING DISCLOSURE

The State will undertake, for the benefit of the beneficial owners of the Bonds, to provide an annual report presenting certain financial information and operating data about the State (**Annual Report**). By about December 27 of each year, the State will send the Annual Report to each nationally recognized municipal securities information repository (NRMSIR) and to any state information depository (SID). The State will also provide notices of the occurrence of certain events specified in the undertaking to each NRMSIR, or the Municipal Securities Rulemaking Board (MSRB), and to any SID. As of the date of this Official Statement, no SID has been established. A copy of the undertaking is set forth in **APPENDIX H**.

Copies of the notices may be obtained from:

<i>Mail:</i>	Capital Finance Office
<i>Attn:</i>	Capital Finance Director
<i>Phone:</i>	(608) 266-2305
<i>Mail:</i>	101 East Wilson Street, 10 th Floor P.O. Box 7864 Madison, WI 53707-7864
<i>E-mail:</i>	capfin@doa.state.wi.us
<i>Web site:</i>	www.doa.wi.gov\capitalfinance

The undertaking also describes the consequences if the State fails to provide any required information. The State must report the failure to the NRMSIRS, or the MSRB, and to any SID. In the last five years, the State has not failed to comply in any material respect with this or any similar undertaking.

Dated: December 10, 2003

STATE OF WISCONSIN

/S/ JIM DOYLE
Jim Doyle
Governor

/S/ MARC J. MAROTTA
Marc J. Marotta
Secretary of Administration

APPENDIX A SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture, including certain defined terms used therein. The summary does not purport to be complete, and reference is made to the full text of the Indenture for a complete recital of its terms, including the defined terms used therein.

CERTAIN RIGHTS OF THE BOND INSURERS

The scheduled payment of principal of and interest on the Series A Bonds will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series A Bonds by Financial Security Assurance Inc.. The scheduled payment of principal of and interest on the Series B Bonds will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series B Bonds by XL Capital Assurance Inc. The Indenture provides that, so long as the respective Bond Insurer is not in default under its Bond Insurance Policy, the Bond Insurer shall have certain rights, including, without limitation, the rights: (i) to consent to certain amendments to the Indenture and (ii) to direct the Trustee, and to consent to the direction of the Trustee by the Bondowners, to undertake or refrain from taking certain actions, including the exercise of remedies under the Indenture with respect to the Bonds of the Series insured by that Bond Insurer. The Indenture further conditions the exercise by the State of a number of rights described herein with respect to the Bonds, and with respect to fiduciaries, upon the consent of the Bond Insurers. The Indenture also restricts the investment of monies in the funds and accounts established under the Indenture to a certain subset of the Qualified Investments described below.

DEFINITIONS OF CERTAIN TERMS

2003 Bonds means the State of Wisconsin General Fund Annual Appropriation Bonds of 2003, of the State contracted by the Department pursuant to the Act and an Authorizing Certification in the aggregate principal amount of \$1,794,850,000 and which is divided into two Series designated Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates).

Accrued Interest means interest accrued on any Series of Bonds from their dated date to the date of their issuance and delivery.

Accumulated Unused Sick Leave Liability means the State's unfunded liability under sections 40.05(4)(b), (bc), and (bw) and subchapter IX of chapter 40, Wisconsin Statutes as certified by the Secretary of the Wisconsin Department of Employee Trust Funds.

Act means section 16.527 of the Wisconsin Statutes, as from time to time amended.

Additional Bonds means any Bonds authenticated and delivered upon original issuance in addition to the 2003 Bonds as authorized pursuant to the Indenture and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

Annual Appropriation Amount means, for any Fiscal Year which is the first Fiscal Year of a Biennium, an amount equal to the sum of the amounts in the following clauses (a) through (g) for such Fiscal Year, plus the amount in the following clause (h), and for any Fiscal Year which is the second Fiscal Year of a Biennium, an amount equal to the sum of the amounts in the following clauses (a) through (g) for such Fiscal Year or for the immediately succeeding Fiscal Year, whichever is greater, plus the amount in the following clause (h):

- (a) the amount of principal of Bonds Outstanding coming due during the Fiscal Year;
- (b) the amount of principal of Bonds Outstanding to be redeemed (whether pursuant to mandatory or optional redemption provisions) during the Fiscal Year, with the amount to be redeemed pursuant to optional redemption determined based on the amount set forth in: (i) with respect to the 2003

Bonds, the Schedule attached to the Indenture, as modified pursuant to the Indenture, and (ii) with respect to any Additional Bonds, the schedule or formula, if any, set forth in the Supplemental Indenture pursuant to which the Additional Bonds are issued, for the Fiscal Year;

(c) interest to be paid during the Fiscal Year with respect to Fixed Rate Bonds Outstanding;

(d) interest that would be payable during the Fiscal Year with respect to Variable Rate Bonds Outstanding, determined at the maximum rate specified with respect thereto;

(e) the maximum amount of any Swap Payment Obligations (other than Swap Termination Payments) that would be payable during the Fiscal Year under Swap Agreements that provide for a variable rate or rates to be paid by the State to the Swap Provider; provided, that any payment that is determined without limit as to amount shall be determined at a rate equal to the rate that would result if the index provided in such Swap Agreement were at 15% per annum;

(f) the maximum amount of Credit Facility Payment Obligations due during the Fiscal Year except to the extent included in (a) through (e) above;

(g) estimated administrative expenses, if they will be payable from the Operating Expense Fund during the Fiscal Year; and

(h) the amount of all Swap Termination Payments which are unpaid and owing as of the September 1 immediately preceding the commencement of the Biennium which includes the Fiscal Year with respect to which the Annual Appropriation Amount is being determined, plus interest to accrue on such Swap Termination Payments to the date on which they are reasonably expected to be made, provided that for interest determined based on a variable rate, interest shall be calculated at the maximum rate permitted in the Swap Agreement and if no maximum rate is specified, a rate of 15% per annum.

Appropriated Funds means (a) all amounts appropriated by law pursuant to section 20.505(1)(br), Wisconsin Statutes, or any successor provision, Section 20.505(1)(it), Wisconsin Statutes, or any successor provision, and Section 20.505(1)(iq), Wisconsin Statutes, or any successor provision from year to year with respect to the Bonds, Swap Payment Obligations and Credit Facility Payment Obligations; and (b) any other amounts appropriated by law for payment of the Bonds, Swap Payment Obligations and Credit Facility Payment Obligations.

Appropriations Fund means the fund by that name established pursuant to the Indenture.

Authorized Denomination or **Authorized Denominations** means (a) with respect to the Series A Bonds, \$5,000 or any multiple thereof and (b) with respect to the Series B Bonds, \$50,000 or any multiple thereof.

Authorized Department Representative means the person identified in a written certificate which is signed by the Secretary, which contains a specimen of the Authorized Department Representative's signature and which has been delivered to the Trustee. Authorized Department Representative includes any alternate or alternates designated in the certificate in the same manner. An Authorized Department Representative or alternate may be an employee of the Department.

Authorizing Certification means a written certification of the Department pursuant to section (5)(a) of the Act, as it may be amended in accordance with the terms of the Indenture, executed by the Secretary or his or her designee and delivered to the Governor, authorizing the execution and delivery of the Indenture and the 2003 Bonds, or authorizing the execution and delivery of a Supplemental Indenture and one or more Series of Additional Bonds.

Beneficial Owner means the owner of a beneficial interest in Bonds.

Biennium means the two-Fiscal Year period beginning July 1 of each odd-numbered year.

Bond Counsel means Counsel whose legal opinions on municipal bond issues are nationally recognized.

Bond Insurance Policies means, collectively, the policies of municipal bond insurance issued by the Bond Insurers insuring the 2003 Bonds.

Bond Insurers means Financial Security Assurance Inc., with respect to the Series A Bonds, and XL Capital Assurance Inc., with respect to the Series B Bonds, or any successors thereto or assignees thereof.

Bonds means the bonds of the State, including the 2003 Bonds and any Additional Bonds, issued, authenticated and delivered pursuant to the Indenture.

Book Entry Form or **Book Entry System** means, with respect to the Bonds, a form or system, as applicable, under which (i) the ownership of beneficial interests in the Bonds may be transferred only through a book entry system and (ii) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Registered Owner, with the physical bond certificates immobilized in the custody of the Depository.

Budget Bill means, for the Biennia commencing July 1, 2005 and thereafter, (i) the executive budget bill or bills described under section 16.47, Wisconsin Statutes, or any successor provision thereto, introduced into either house of the legislature of the State, as introduced, (ii) the budget bill as adopted by either house of the legislature of the State, and (iii) the budget bill as approved in whole or in part by the Governor and enacted into law.

Business Day means a day which is not (a) a Saturday, Sunday or legal holiday, (b) a day on which commercial banks are required or authorized by law to be closed in the State or in the city of the Designated Trust Office or (c) a day on which The New York Stock Exchange is closed for the entire day or federal reserve banks are closed.

Closing Statement means the certificate signed by an Authorized Department Representative required by the Indenture.

Counsel means an attorney admitted to practice before the highest court of any state.

Credit Facility or **Credit Facilities** means the Bond Insurance Policies and any standby or direct pay letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or other agreement or ancillary arrangement (other than a Swap Agreement), satisfactory to the State, that is provided by a commercial bank, insurance company or other entity to pay or further secure payment of debt service on Bonds or the purchase of Bonds upon tender.

Credit Facility Payment Obligations means all payment and reimbursement obligations of the State to a Credit Issuer in connection with any Credit Facility securing all or a portion of any Bonds.

Credit Issuer means the issuer of a Credit Facility, including Bond Insurers.

DTC means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York.

Debt Service Account means each Debt Service Account of the Debt Service Fund established pursuant to the Indenture.

Debt Service Fund means the fund by that name established pursuant to the Indenture.

Default means the occurrence of an event which, with the lapse of time or the giving of notice or both, is an Event of Default.

Defeasance Obligations means noncallable U.S. Government Obligations or obligations issued by one of the agencies of the United States of America not redeemable at the option of the State or anyone acting on its behalf prior to maturity.

Department means the Department of Administration of the State.

Deposit Amount means the amount certified by the Secretary as the net amount reasonably expected to be needed during the applicable Fiscal Year to pay principal of Bonds (whether at maturity or by redemption prior to maturity and including the amount set forth in: (i) with respect to the 2003 Bonds, the schedule attached to the Indenture as modified as described under “*SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; Appropriated Funds and Funds and Accounts; Deposits into and Use of Monies in the Appropriations Fund,*” and (ii) with respect to Additional Bonds, the schedule or formula, if any, set forth in the Supplemental Indenture pursuant to which the Additional Bonds are issued), interest on Bonds, and any Swap Payment Obligations (other than Swap Termination Payments), and to pay administrative expenses. The amount certified shall take into account amounts held by the Trustee in the Proceeds Account, but shall not take into account amounts held by the Trustee in the Stabilization Fund, that may be applied to such payments. The amount certified shall also take into account the effect of any reasonably expected refunding of Bonds.

Depository means any securities depository that is a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934, operating and maintaining, with its Participants or otherwise, a Book Entry System to record ownership of beneficial interests in the Bonds and to effect transfers of the beneficial ownership in the Bonds in Book Entry Form.

Designated Trust Office means the corporate trust office designated by the Trustee.

Event of Default as used in or with reference to the Indenture has the meaning attributed to it under “*SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; Defaults and Remedies; Events of Default.*”

Event of Nonappropriation means the insufficiency of Appropriated Funds in any Fiscal Year to pay when due all principal, redemption premium and interest on the Bonds and all Parity Swap Payment Obligations.

Fiscal Year means the 12-month fiscal period commencing on July 1 of each year and ending on June 30 of the succeeding year.

Fitch shall mean Fitch Ratings and its successors and assigns.

Fixed Rate Bonds means any Bonds, the interest rate on which is established (with no right to vary) at a single numerical rate for the remaining term of such Bonds.

Funded Interest means proceeds of the Bonds deposited with the Trustee to pay interest on Bonds or any Parity Swap Payment Obligations.

Governor means the governor of the State.

Immediate Notice means notice by telephone, telex or telecopier to such address as the addressee shall have directed in writing, promptly followed by written notice by hand delivery, by first-class mail, postage prepaid, or by nationally recognized overnight commercial carrier, airbill prepaid; provided, however, that if any Person required to give an Immediate Notice shall not have been provided with the necessary information as to the telephone, telex or telecopier number of an addressee, Immediate Notice shall mean written notice by hand delivery or by nationally recognized overnight commercial carrier, airbill prepaid.

Indenture means the Trust Indenture, dated as of December 1, 2003, between the State, acting by and through the Department, under the authority of the Act, and the Trustee, as trustee.

Indenture Funds means the funds created under of the Indenture and described under “*SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; Appropriated Funds and Funds and Accounts; Establishment of Funds and Certain Accounts.*”

Interest Payment Date means any date specified in the Indenture or a Supplemental Indenture for the payment of interest of Bonds.

Issuance Expenses means fees and expenses incurred or to be incurred by or on behalf of the State, the Trustee, or Bond Counsel for the Bonds in connection with the issuance and sale of the Bonds including, but not limited to, underwriting costs (whether in the form of discount in the purchase of the Bonds or otherwise), fees and expenses of legal counsel (including Bond Counsel, counsel to the Trustee and counsel to the Purchaser), fees and expenses of financial advisors, feasibility consultants and accountants, rating agency fees, fees of the Trustee, printing costs, and recording expenses, fees and expenses related to any Credit Facility or Swap Agreement in connection with the Bonds, fees and costs related to exchange listings, and costs associated with the acquisition of securities for any defeasance escrow and for verifying the sufficiency of any defeasance escrow and any other fees, costs or expenses in connection with the Indenture or the Bonds as determined by an Authorized Department Representative.

Letter of Representations means the Letter of Representations dated December 12, 2003 between the State and the Depository Trust Company, relating to the 2003 Bonds.

Maximum Rate means the lesser of (a) 15% per annum or such higher rate as the State may establish with a Rating Confirmation or (b) the maximum rate of interest permitted by the laws of the State.

Moody's means Moody's Investors Service, Inc. and its successors and assigns.

Operating Expense Fund means the fund by that name established pursuant to the Indenture.

Opinion of Bond Counsel means an opinion in writing signed by legal counsel who shall be nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers.

Opinion of Counsel means an opinion in writing signed by legal counsel who may be an employee of or counsel to the State and who shall be satisfactory to the Trustee.

Outstanding when used with reference to Bonds means all Bonds which have been authenticated and delivered by the Trustee under the Indenture except:

(a) Bonds or portions of Bonds after (i) payment at maturity or redemption prior to maturity or (ii) delivery to the Trustee by the State for cancellation pursuant to the Indenture,

(b) Bonds for the payment or redemption of which there has been irrevocably deposited with the Secretary or Trustee, in trust, cash or Defeasance Obligations in accordance with the requirements of the Indenture and the Act.

(c) Bonds in lieu of which other Bonds have been authenticated upon transfer, exchange or replacement as provided in the Indenture, and

(d) for purposes of any agreement, acceptance, approval, waiver, consent, request or other action to be taken under the Indenture by the Registered Owners of a specified percentage of principal amount of Bonds, Bonds held by or for the account of the State.

Owner, Bondowner or Registered Owner when used with reference to a Bond means the person who is the registered owner of a Bond.

Parity Swap Payment Obligations means Swap Payment Obligations exclusive of all Swap Termination Payments, except for Swap Termination Payments the amount of which was included in the calculation of Annual Appropriation Amount for a Fiscal Year for which a Budget Bill has been enacted (but not including appropriations continued from the prior Fiscal Year pursuant to section 20.002(1), Wisconsin Statutes).

Participant means a broker-dealer, bank or other financial institution for which DTC or a successor Depository holds Bonds from time to time as a securities depository.

Payment means the payment of part or all of the Unfunded Prior Service Liability and Accumulated Unused Sick Leave Liability.

Payment Cost means any cost of the Payment and the issuance of the Bonds, including but not limited to paying accrued or Funded Interest, Issuance Expenses, making deposits to reserve funds, paying administrative expenses, paying the costs of credit enhancement or making payments under any Swap Agreement or Credit Facility.

Payment Date means a date on which payment of a Principal Installment or Redemption Price or interest with respect to any Bonds or payment of any Swap Payment Obligations or Credit Facility Payment Obligations shall be due and payable.

Person means an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, or a government or any agency or political subdivision thereof.

Principal Installment means, as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no sinking fund installments have been established, or (ii) the unsatisfied balance of any sinking fund installments due on a certain future date for Bonds of such Series, or (iii) if such future dates coincide as to different Series of Bonds, the sum of such principal amount of Bonds and of such unsatisfied balance of sinking fund installments due on such future date.

Purchaser means the initial purchaser of Bonds, whether one or more.

Qualified Investments means 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 or under other applicable law: (a) direct obligations maturing within ten years or less from the date of settlement, of the United States or its agencies, corporations wholly owned by the United States, the international bank for reconstruction and development, the international finance corporation, the inter-American development bank, the African development bank, the Asian development bank, the federal national mortgage association or any corporation chartered by an act of Congress, (b) securities maturing within ten years or less from the date of settlement, guaranteed by the United States or, where the full faith and credit of the United States is pledged or, where securities are collateralized by government-insured investments or, where the securities are issued by a corporation created by act of Congress and related by such act, (c) unsecured notes of financial and industrial issuers maturing within five years or less from the date of settlement and having one of the two highest ratings given by a nationally recognized rating service, but if the corporation issuing such notes has any long-term senior debt issues outstanding which also have been rated, the rating must be one of the three highest ratings so given, (d) certificates of deposit issued by banks located in the United States and by savings and loan associations, savings banks and credit unions located in the State, (e) banker's acceptances accepted by banks located in the United States, (f) commercial paper maturing within one year or less from the date of investment and rated prime by the national credit office, if the issuing corporation has one or more long-term senior debt issues outstanding, each of which has one of the three highest ratings issued by Moody's or S&P and (g) any other obligation or security which constitutes a permitted investment for money of the State under the Act or other applicable law.

Rating means one of the rating categories of a Rating Agency then rating the Bonds.

Rating Agencies or **Rating Agency** means Moody's, Fitch, S&P or any other rating agency requested by the State to maintain a Rating on any of the Bonds.

Rating Confirmation means a letter from each of at least two Rating Agencies then providing a Rating for the Bonds confirming that the action proposed to be taken by the State will not, in and of itself, have the effect of reducing the underlying Rating then applicable to the Bonds or of causing any such Rating Agency to suspend or withdraw the underlying Rating then applicable to the Bonds.

Redemption Notice Information means information in a written and dated notice from the Trustee which (a) identifies the Bonds to be redeemed by the name of the issue (including the name of the State

and any Series designation), CUSIP number, if any, date of issue, interest rate (for Fixed Rate Bonds), maturity date and any other descriptive information the Trustee deems desirable to accurately identify the Bonds to be redeemed and, if only a portion of some Bonds will be redeemed, the certificate numbers and the principal amount of those Bonds to be redeemed, (b) identifies the date on which the notice is published and the date on which the Bonds will be redeemed, (c) states the price at which the Bonds will be redeemed, (d) states that interest on the Bonds or the portions of them called for redemption will stop accruing from the redemption date if funds sufficient for their redemption and available for that purpose are on deposit with the Trustee on the redemption date, (e) states that payment for the Bonds will be made on the redemption date at the Designated Trust Office of the Trustee during normal business hours upon the surrender of the Bonds to be redeemed in whole or in part and (f) identifies by name and phone number a representative of the Trustee who may be contacted for more information. For so long as the Bonds are in a Book Entry System, Redemption Notice Information also includes the information and procedures described in the Letter of Representations.

Redemption Price means with respect to any Bond, 100% of the principal amount thereof plus the applicable redemption premium, if any, payable upon redemption thereof.

Registered Owner's Address means the address, which a Registered Owner may change upon written request to the Trustee, of the Registered Owner of any Bond as it appears in the Registration Books.

Registration Books means books maintained by the Trustee on behalf of the State at the Designated Trust Office of the Trustee for the purpose of recording the registration, transfer, exchange or replacement of any of the Bonds.

S&P means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors and assigns.

Secretary means the Secretary of the Department.

Series means all Bonds authenticated and delivered on original issuance in a simultaneous transaction and designated as a Series in an Authorizing Certification, and any Bonds thereafter authenticated and delivered in lieu of or in substitution of such Bonds.

Series A Bonds means the \$850,000,000 State of Wisconsin General Fund Annual Appropriation Bonds of 2003, Series A (Taxable Fixed Rate).

Series B Bonds means the \$944,850,000 State of Wisconsin General Fund Annual Appropriation Bonds of 2003, Series B (Taxable Auction Rate Certificates).

Stabilization Fund means the reserve fund by that name established pursuant to the Indenture.

Stabilization Fund Amount means the amount deposited in the Stabilization Fund as provided in the Closing Statement, or such greater amount deemed reasonable and designated in writing by an Authorized Department Representative.

State means the State of Wisconsin.

Subordinated Payment Obligations Fund means the fund by that name established pursuant to the Indenture.

Subordinated Swap Payment Obligations means all Swap Payment Obligations payable by the State except Parity Swap Payment Obligations.

Supplemental Indenture means any trust indenture which has been duly executed and delivered by the State and the Trustee amendatory of the Indenture or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is authorized under the Indenture.

Swap Agreement or **Swap** means any agreement or ancillary arrangement between the State and a Swap Provider relating to the Bonds and identified by the Department pursuant to the Indenture, including indexing agreements, interest exchange agreements or any other similar transaction.

Swap Payment Obligations means, for any period of time, all net amounts payable by the State (including Swap Termination Payments payable by the State) under any Swap Agreement.

Swap Provider means the State's counterparty under a Swap Agreement, which shall have a rating of at least "AA" (without regard to any qualifier), or its equivalent, from any Rating Agency at the time of execution of the Swap Agreement, except the State's counterparty or counterparties under a Swap Agreement or Swap Agreements having an aggregate notional amount equal to no greater than 33% of the principal amount of the Bonds then Outstanding may have a rating of "A" (without regard to any qualifier), or its equivalent, from any Rating Agency at the time of execution of the Swap Agreement.

Swap Revenues means all amounts received by the State or the Trustee pursuant to any Swap Agreement, including without limitation, any Swap Termination Payment.

Swap Termination Payment means, with respect to any Swap Agreement, any settlement amount payable by the applicable Swap Provider or the State by reason or on account of the early termination of such Swap Agreement, together with any interest thereon. The term Swap Termination Payment shall not include net unpaid amounts up to the Swap Agreement termination date which would have been payable by the Swap Provider or the State, as the case may be, pursuant to the terms of the applicable Swap Agreement irrespective of the early termination of such Swap Agreement.

Trust Estate means the property conveyed to the Trustee pursuant to the Granting Clauses of the Indenture.

Trustee's Consent means the prior written consent of the Trustee.

Trustee's Expenses means the reasonable and necessary fees and expenses of the Trustee with respect to the Indenture or the Bonds and those for any legal, accounting, financial or other experts reasonably retained by the Trustee. Trustee's Expenses also include the fees, charges and expenses of any additional paying agent for the Bonds.

Unfunded Prior Service Liability means the State's unfunded prior service liability under section 40.05(2)(b), Wisconsin Statutes as certified by the Secretary of the Wisconsin Department of Employee Trust Funds.

U.S. Government Obligations means obligations which are direct, full faith and credit obligations of the United States of America or are obligations with respect to which the United States of America has unconditionally guaranteed the timely payment of all principal or interest or both, but only to the extent of the principal or interest so guaranteed.

Variable Rate Bonds means any Bonds which bear a variable interest rate or rates which rate is not established at the time of calculation at a single numerical rate for the remaining term of such Bonds.

Written Request means a request in writing signed by an Authorized Department Representative.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Bonds

Limitation

The sum of the aggregate principal amount of Bonds issued under the Indenture may not exceed the limit set forth in the Act.

Deposit of Bond Proceeds to Funds and Accounts

Initial deposits will be made from proceeds of the Bonds into the funds and accounts created under the Indenture as provided in a Closing Statement executed by an Authorized Department Representative and furnished to the Trustee. The Closing Statement shall specify the purchase price of the Bonds, and shall further specify, with respect to that amount:

- (a) the amount representing Accrued Interest, if any, to be deposited in the Proceeds Account of the Debt Service Fund for the Bonds;
- (b) the amount representing Funded Interest to be deposited in the Proceeds Account within the Debt Service Fund for the Bonds; and
- (c) the amount, if any, to be deposited in any other fund or account as provided in the Closing Statement.

The Closing Statement shall further specify the application of such monies.

Issuance of Additional Bonds

The State reserves the right to issue one or more Series of Additional Bonds under the Indenture from time to time, with a charge or lien equal to the charge and lien applicable with respect to the 2003 Bonds, provided that:

- (i) the aggregate amount of Bonds issued may not exceed the amount authorized by the Act, and
- (ii) the proceeds of such Additional Bonds may be used only to pay the Payment or Payment Costs or to fund or refund Bonds issued for that purpose.

For each Series of Additional Bonds, the Department shall provide a separate Authorizing Certification authorizing a Supplemental Indenture and setting forth the aggregate principal amount of Additional Bonds authorized thereby, the manner of their sale, and the form and other terms thereof.

Prior to the delivery by the State of any of the Additional Bonds there must be filed with the Trustee: (i) a Supplemental Indenture executed on behalf of the State by the Department and the Trustee creating the Additional Bonds, specifying their terms and providing for the disposition of the proceeds of their sale; (ii) a copy of the Authorizing Certification executed by the Secretary of the Department or his or her designee authorizing the execution and delivery of the Supplemental Indenture and the issuance of the Additional Bonds, (iii) a request and authorization to the Trustee by the Department on behalf of the State and signed by an Authorized Department Representative requesting the Trustee to authenticate and deliver the Additional Bonds and (iv) evidence of a Rating Confirmation.

Redemption of Bonds

Redemption Payments

If the Bonds are to be called for redemption, and if sufficient monies are on deposit with the Trustee in the Debt Service Fund on the applicable redemption date to redeem the Bonds to be redeemed and to pay any interest due thereon and premium, if any, the Trustee is authorized and directed to apply those funds to the payment of the Bonds to be redeemed. Interest on any Bonds or portions of them called for redemption stops accruing on the date the notice of redemption fixes for their redemption if (a) notice of their redemption has been given as provided in the Indenture and (b) money sufficient for their payment is on deposit with the Trustee as required by the Indenture.

Mode Conversion

The Indenture provides that any of the subseries of the Series B Bonds may be converted to another of the modes described in the Indenture, including a weekly mode, a commercial paper mode, an extendible commercial paper mode, an adjustable long made and a fixed mode, on any Interest Payment Date for

such subseries. On such an Interest Payment Date, such subseries of Series B Bonds shall be purchased at a price of 100% of the principal amount of such Bonds pursuant to the Indenture. The owner of such a Bond may not elect to retain its Bond. The Indenture provides that the Series B Bonds may operate in more than one mode at the same time, provided, however, that all of the Series B Bonds of each subseries must operate in the same mode at the same time.

General Terms and Provisions of Bonds

Liability of the State Subject to Annual Appropriation

The Bonds, Swap Payment Obligations and Credit Facility Payment Obligations together with any interest thereon, shall be special and limited obligations of the State, payable solely out of the Appropriated Funds. The Appropriated Funds consist principally of amounts which are subject to annual appropriation by the legislature of the State. The Bonds, Swap Payment Obligations and Credit Facility Payment Obligations are a valid claim of the Registered Owners, Swap Providers, and Credit Issuers, respectively, only against the Trust Estate and other Appropriated Funds. The Trustee agrees to hold the Trust Estate and apply the Appropriated Funds only as provided in the Indenture, except to the extent otherwise specified by law in an appropriation. The State is not generally liable on the Bonds. Neither the general credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the Bonds. The Bonds do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Registration, Transfer and Exchange of Bonds

The Bonds will be issued only in Book Entry Form unless and until the Book Entry System is discontinued. In such event, the following provisions would apply.

The Trustee is appointed, and accepts its appointment as, (a) the bond registrar of the State for the purpose of registering, transferring, exchanging and replacing Bonds and (b) the paying agent for all Bonds. The Trustee agrees to keep the Registration Books. At reasonable times and under reasonable regulations established by the Trustee, the Registration Books may be inspected and copied by the State or the Registered Owner(s) of 25% or more in principal amount of the Bonds then Outstanding or a designated representative of any of them, the ownership and the authority of any designated representative to be evidenced to the satisfaction of the Trustee.

Any Bond may be transferred upon its presentation at the Designated Trust Office of the Trustee if it has been duly endorsed for transfer or is accompanied by a written instrument of transfer satisfactory to the Trustee which has been executed by the Registered Owner. The Trustee will transfer any Bond so presented by making an appropriate entry in the Registration Books and delivering to the transferee(s) one or more new Bonds which have been executed by the State, have been authenticated by the Trustee, are in an Authorized Denomination and have the same form, terms, interest rate, maturity and aggregate principal amount and are of the same Series (and, if applicable, subseries) as the Bond being transferred.

Bonds of a Series (and, if applicable, subseries) may be exchanged for Bonds of the same Series (and, if applicable, subseries) by surrendering the Bonds to be exchanged at the Designated Trust Office of the Trustee. The Trustee will exchange any Bond so presented by making an appropriate entry in the Registration Books and delivering to the Registered Owner presenting the Bonds for exchange one or more new Bonds which have been executed by the State, have been authenticated by the Trustee, are in an Authorized Denomination and have the same form, terms, interest rate, maturity and aggregate principal amount as the Bond being exchanged.

The Registered Owner requesting any transfer or exchange of any Bonds must pay, as a condition to the transfer or exchange, any resulting tax or other governmental charge but may not otherwise be charged for an exchange or transfer.

Except in connection with a tender of Bonds as described above under “**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; Mode Conversion,**” the Trustee is not required to register, transfer, exchange or replace any Bonds (a) during the 10-day period immediately preceding the first mailing or publication of a notice of redemption with respect to any Bonds of such maturity and Series (and, if applicable, subseries) or (b) after a Bond has been called for redemption.

Registered Owners Treated as Owners

The State and the Trustee may treat the Registered Owner of any 2003 Bond as its absolute owner (whether or not the 2003 Bond is overdue) for all purposes. Neither the State nor the Trustee is affected by any notice to the contrary.

General Covenants

Payment of Principal and Interest, Swap Payment Obligations and Credit Facility Payment Obligations

The State represents, warrants and covenants that so long as any of the Bonds are Outstanding or any Swap Payment Obligations or any Credit Facility Payment Obligations exist, it will deposit, or cause to be paid to the Trustee for deposit in the Appropriations Fund, but solely from the Appropriated Funds, amounts sufficient to promptly pay the principal of, premium, if any, and interest on the Outstanding Bonds and the Swap Payment Obligations and Credit Facility Payment Obligations as the same become due and payable.

Performance of Duties under the Indenture and the Bonds

The State represents, warrants and covenants that it will perform its obligations under the Indenture, any Bonds executed, authenticated and delivered under the Indenture and all of its proceedings relating to the issuance of the Bonds. The State further represents, warrants and covenants that it is duly authorized under the Constitution and laws of the State, including without limitation the Act, by and through the Department, to issue the Bonds, to execute the Indenture and to pledge and assign the property described in the Indenture in the manner and to the extent set forth in the Indenture. The State represents that all action on the part of the State and the Department for the issuance of the Bonds and the execution and delivery of the Indenture have been effectively taken and the Bonds in the hands of the Registered Owners, the Swap Payment Obligations and Credit Facility Payment Obligations are and will be valid and enforceable obligations of the State contracted by the Department according to the terms of the Indenture, the Bonds (where applicable) and the Act.

Nonimpairment

Subject to the right of nonappropriation and the right to rescind, repeal, or amend an appropriation by the legislature of the State, the State represents, warrants and covenants that it will not enter into any contract or take any action impairing the rights of the Trustee, the Bondowners, any Swap Provider or any Credit Issuer under the Indenture, the Bonds, a Swap Agreement or any agreement relating to a Credit Facility. Subject to the right of nonappropriation and the right to rescind, repeal, or amend an appropriation by the legislature of the State, the State will not limit or alter its powers to fulfill the terms of any agreements made with Bondowners or in any way impair the rights and remedies of Bondowners until the Bonds, together with interest and all costs and expenses in connection with any action or proceeding on behalf of the Bondowners are fully met and discharged.

Budget Process and Appropriations

The State directs the appropriate officers or directors of the Department to take all appropriate actions within their power to assure that the Annual Appropriation Amounts with respect to the Bonds, Swap Payment Obligations and Credit Facility Payment Obligations are annually appropriated. The Secretary or his designee shall:

(a) while any Bonds are Outstanding or Swap Agreements or Credit Facilities are in effect, ensure that the budget request prepared under section 16.42, Wisconsin Statutes, for each Fiscal Year (beginning with 2006) includes the Annual Appropriation Amount relating to such Bonds, Swap Payment Obligations and Credit Facility Payment Obligations in that Fiscal Year;

(b) in the event a Budget Bill fails to include the Annual Appropriation Amount, promptly provide a written notice to the Governor and the presiding officer of each house of the legislature of the State, stating the nature of the deficiency and requesting action to ensure the satisfaction of the State's moral obligation;

(c) in the event a Budget Bill fails to include the Annual Appropriation Amount, promptly provide a written notice to the Trustee, the Purchaser, each Rating Agency, each Swap Provider and each Credit Issuer stating the nature of the deficiency;

(d) in the event a Budget Bill fails to include the Annual Appropriation Amount, promptly send a letter to the Governor and the presiding officer of each house of the legislature of the State seeking an amendment to such Budget Bill or, if such a Budget Bill is signed into law by the Governor, promptly send a letter to the Governor and the presiding officer of each house of the legislature of the State seeking the introduction of a separate bill authorizing the necessary or additional appropriation required;

(e) upon an Event of Nonappropriation, promptly provide a written notice thereof to the Trustee, the Purchaser, each Rating Agency, each Swap Provider and each Credit Issuer; and

(f) in the event a Swap Termination Payment becomes due, and there are insufficient funds available from Appropriated Funds under the Indenture or from other legal sources provided by the State to pay the Swap Termination Payment, promptly send a letter to the Governor and the presiding officer of each house of the legislature of the State seeking the introduction of a separate bill authorizing an additional appropriation.

In the event the Secretary exercises his authority under Section 16.53(10)(a), Wisconsin Statutes, whereby the Secretary establishes a priority schedule for payments, the Secretary covenants to give payment of the Outstanding Bonds, the Swap Payment Obligations and the Credit Facility Payment Obligations the highest possible priority permitted by law.

Trustee Notices Regarding Budget Process and Appropriations

The Trustee may at any time request that the Secretary of Administration certify that the Secretary has performed his obligations under the Indenture described above under **clause (a) of "General Covenants – Budget Process and Appropriations"** and that no event described above in **clause (b), (c) or (e) under "General Covenants – Budget Process and Appropriations"** has occurred, and the Secretary shall promptly provide such certification. The Trustee shall promptly provide written notice to the following parties of the occurrence of certain events, as follows:

(a) Upon failure to receive the certification requested by the Trustee with regard to compliance with clause (a) above **under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; General Covenants; Budget Process and Appropriations,"** to the Governor and the presiding officer of each house of the legislature of the State, with a copy to the Secretary, the Purchaser, each Rating Agency, each Swap Provider and each Credit Issuer, in the event that the Secretary fails to include in the budget requests prepared under section 16.42, Wisconsin Statutes, for any Fiscal Year, the Annual Appropriation Amount relating to the Bonds, Swap Payment Obligations and Credit Facility Payment Obligations in that Fiscal Year;

(b) Upon receipt of the notice described in **clause (c) above under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; General Covenants; Budget Process and Appropriations"** or failure to receive a certification requested by the Trustee that no event described in that clause has occurred, to the Governor and the presiding officer of each house of the legislature of the State, with a copy to the

Secretary, the Purchaser, each Rating Agency, each Swap Provider and each Credit Issuer, in the event that a Budget Bill at any time fails to include the Annual Appropriation Amount; or

(c) Upon receipt of the notice described in **clause (e) above under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; General Covenants; Budget Process and Appropriations”** or failure to receive a certification requested by the Trustee that no event described in that clause has occurred, to the Governor and the presiding officer of each house of the legislature of the State, with a copy to the Secretary, the Purchaser, each Rating Agency, each Swap Provider and each Credit Issuer, in the event of an Event of Nonappropriation.

Event of Default

The State covenants that should there be a Default or an Event of Default, the State will fully cooperate with the Trustee, with the Registered Owners, with the Swap Providers and with the Credit Issuers to the end of fully protecting the rights and security of the Registered Owners, the Swap Providers and the Credit Issuers.

Appropriated Funds and Funds and Accounts

Establishment of Funds and Certain Accounts

There are created by the Indenture and established with the Trustee the following funds for purposes of the Indenture:

- (1) the Appropriations Fund,
- (2) the Operating Expense Fund,
- (3) the Debt Service Fund,
- (4) the Subordinated Payment Obligations Fund, and
- (5) the Stabilization Fund.

There is established in the Debt Service Fund a Debt Service Account for each Series of Bonds issued and each Swap Agreement entered into under the Indenture, and a Proceeds Account. Sinking fund accounts for any Series of Bonds having sinking fund installments may be established within the Debt Service Account for such Series in any schedule to the Indenture or in a Supplemental Indenture.

Notwithstanding anything in the Indenture to the contrary, any monies derived from an appropriation of the State legislature may only be applied in a manner consistent with its appropriation.

On the last Business Day of each Fiscal Year, the Trustee shall transfer all monies remaining in the Appropriations Fund, the Operating Expense Fund (except for amounts therein funded from proceeds of Bonds), the Debt Service Accounts and the Subordinated Payment Obligations Fund (i) to the Stabilization Fund, or (ii) to the State, as directed in writing by an Authorized Department Representative.

Deposits into and Use of Monies in the Appropriations Fund

On the first Business Day of each Fiscal Year for which a Budget Bill has been enacted, the State shall pay the Deposit Amount to the Trustee for deposit in the Appropriations Fund, from amounts appropriated pursuant to section 20.505(1)(br), Wisconsin Statutes, or any successor provision thereto. On the first Business Day of each Fiscal Year, in the event a Budget Bill for that Fiscal Year has not yet been enacted, the State shall pay to the Trustee the full amount up to the Deposit Amount that is available pursuant to the carry-over of existing appropriations from the prior Fiscal Year pursuant to section 20.002(1), Wisconsin Statutes, and on the Business Day following the subsequent enactment of such a Budget Bill creating additional Appropriated Funds, the State shall pay to the Trustee, for deposit in the Appropriations Fund, the amount if any, by which amounts appropriated thereby exceed amounts

previously paid to the Trustee in such Fiscal Year for deposit therein, provided that the total paid to the Trustee shall not exceed the Deposit Amount.

No later than thirty days following the enactment of any separate bill or bills providing for an appropriation available for the payment of the Bonds, Swap Payment Obligations and/or Credit Facility Obligations, for payment of issuance or administrative expenses or for funding a deposit to the Stabilization Fund in that Fiscal Year, the State shall pay to the Trustee for deposit in the Appropriations Fund amounts appropriated thereby.

No later than thirty days following the enactment of a Budget Bill, the State shall pay to the Trustee the amount of any Swap Termination Payment which is a Parity Swap Payment Obligation and which was included in the calculation of Annual Appropriation Amount for that Fiscal Year, to the extent that Appropriated Funds are available.

Any amounts appropriated pursuant to section 20.505(1)(it), Wisconsin Statutes, or any successor provision, not otherwise deposited into the Indenture Funds under the terms of a Swap Agreement shall be transferred, immediately upon receipt by the State, to the Trustee for deposit in the Appropriations Fund.

At any time during each Fiscal Year that any Appropriated Funds previously transferred to the Trustee are insufficient for the requirements of the Indenture Funds, the Trustee shall notify the State of such insufficiency and the State shall promptly pay such amount to the Trustee, but solely from Appropriated Funds, for deposit in the Appropriations Fund.

The State may, at any time, at its option, transfer to the Trustee for deposit in the Appropriations Fund for further distribution into any of the funds and accounts described below, Appropriated Funds in addition to the Deposit Amount or other amounts required above.

The Trustee shall receive for immediate deposit into the Appropriations Fund the Deposit Amount and any additional Appropriated Funds transferred by the State or by any Swap Provider pursuant to the terms of a Swap Agreement to the Trustee. The Trustee, promptly after receipt of the Deposit Amount in the Appropriations Fund, shall transfer an amount thereof designated in writing by an Authorized Department Representative, consistent with the amount used in the computation of the Deposit Amount, to the Operating Expense Fund and shall transfer the balance into the Debt Service Fund for distribution into the Debt Service Accounts as designated in writing by an Authorized Department Representative. The Trustee, promptly after receipt of any other monies in the Appropriations Fund, and at any time thereafter as needed to fund the following Indenture Funds, shall make payments into the following Indenture Funds, but as to each Indenture Fund only within the limitations in the Indenture below indicated with respect thereto:

- FIRST: Into the Operating Expense Fund, the amounts designated in writing by an Authorized Department Representative to be deposited in the Operating Expense Fund;
- SECOND: Into each Debt Service Account in the Debt Service Fund, to the extent, if any, needed to increase the amount in such Account of the Debt Service Fund so that it equals the interest and principal (whether at maturity or upon mandatory redemption) for such Series of Bonds due on each Payment Date and the amount of any Parity Swap Payment Obligations, if any, due on each Payment Date, after taking into account amounts available for that purpose in the Proceeds Account;
- THIRD: Into the Subordinated Payment Obligations Fund, the amount of any Subordinated Swap Payment Obligations and Credit Facility Payment Obligations due on each Payment Date; and
- FOURTH: Into the Stabilization Fund, the amount designated in writing by an Authorized Department Representative to be deposited for such Fiscal Year into the Stabilization Fund.

Any remaining Appropriated Funds shall remain in the Appropriations Fund until June 30 of each Fiscal Year. On May 1 of each year, beginning May 1, 2009, the State shall determine the extent to which there are available monies on deposit in the Appropriations Fund, the Debt Service Accounts and the Subordinated Payment Obligations Fund which will not be needed for the purposes thereof for the balance of that Fiscal Year as reasonably determined by the State, and the State shall direct the Trustee to apply such monies prior to the end of the Fiscal Year in an amount up to the amount set forth in: (i) with respect to the 2003 Bonds, the schedule set forth in the Indenture, to the optional redemption of the Series B Bonds and (ii) with respect to any Additional Bonds, the schedule or formula, if any, set forth in the Supplemental Indenture pursuant to which the Additional Bonds are issued, to the optional redemption of the Additional Bonds. To the extent that the scheduled amount of optional redemption is not achieved in any Fiscal Year, the shortfall shall be added to the remaining scheduled amounts of optional redemptions on a prorated basis rounded to the nearest Authorized Denomination of the applicable Series of Bonds, and the schedule for Series B Bonds set forth in the Indenture or the schedule or formula for Additional Bonds set forth in the Supplemental Indenture, as applicable, shall be modified accordingly.

Use of Monies in the Debt Service Fund

The Trustee shall withdraw from the applicable Debt Service Account of the Debt Service Fund and the Proceeds Account on or prior to each Payment Date an amount equal to:

- (a) The unpaid interest due on the Bonds on each such Payment Date, and shall cause the same to be applied to the payment of said interest when due.
- (b) The amount of each Parity Swap Payment Obligation due on such Payment Date and shall cause the same to be paid to the applicable Swap Provider (provided that any Swap Termination Payment which is a Parity Swap Payment Obligation will be paid no later than thirty days after enactment of the Budget Bill or other bill providing an appropriation available for its payment).
- (c) The Principal Installment of such Bonds due on such Payment Date and shall cause the same to be applied to the payment of the Principal Installment of such Bonds when due.
- (d) The principal due upon optional redemption of such Bonds on such Payment Date and shall cause the same to be applied to the payment of such principal when due, provided that, prior to distributing notice of any such optional redemption (other than scheduled optional redemption described in **“Appropriated Funds and Funds and Accounts – Deposits into and Use of Monies in Appropriations Fund”**), an Authorized Department Representative has certified that the total of (i) amounts remaining on

deposit in the Debt Service Fund (other than amounts on deposit in the Proceeds Account which are expected to be needed in future Fiscal Years) and (ii) amounts remaining under the appropriation made for that Fiscal Year pursuant to Section 20.505(1)(br), Wisconsin Statutes, or any successor provision, are sufficient to meet the requirements of the Debt Service Fund for the balance of the Fiscal Year, assuming, for purposes of said certification, that the interest on any Variable Rate Bonds for the balance of the Fiscal Year shall be calculated at the Maximum Rate and the amount of any Parity Swap Payment Obligations that would be payable under Swap Agreements that provide for a variable rate to be paid by the State shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, shall be determined at a rate equal to the rate that would result if the index provided in such Swap Agreement were at 15% per annum) and that interest accruing on any overdue Parity Swap Payment Obligation at a variable rate shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, a rate of 15% per annum on the amount of the overdue Parity Swap Payment Obligation).

Prior to the Payment Date of a Principal Installment, any amounts then on deposit in a Debt Service Account of the Debt Service Fund shall, if so directed in writing by an Authorized Department Representative, be applied by the Trustee to another Debt Service Account to the extent not needed for purposes of the Debt Service Account in which it was originally deposited or to the purchase of Bonds of the Series and maturity for which such Principal Installment was established in an amount not exceeding that necessary to complete the payment of the unsatisfied balance of such Principal Installment. All purchases of Bonds pursuant to this paragraph of the Indenture shall be made at prices not exceeding the applicable sinking fund Redemption Price or principal amount of such Bonds plus accrued interest.

If for any reason a Debt Service Account of the Debt Service Fund shall contain excess monies after a Payment Date, such excess may be held in the Account as a credit against the requirements of such Account for the balance of that Fiscal Year, transferred to another Debt Service Account or returned to the Appropriations Fund, as the State shall direct.

Subsequent to November 1, 2005, the Trustee shall, if the State so directs, transfer monies in the Proceeds Account to the Operating Expense Fund or to the Stabilization Fund to increase or replenish the Stabilization Fund Amount therein, provided that any such direction shall be accompanied by a certificate of an Authorized Department Representative to the effect that such monies will not be needed to pay interest on the Bonds and that any increase in the Stabilization Fund Amount is reasonable.

On a refunding of any Bonds, the Trustee shall, if the State so directs, withdraw from the Debt Service Fund all, or any portion of, the amounts accumulated therein with respect to Debt Service on Bonds being refunded and deposit such amounts in escrow to be held for the payment of the Principal Amount or Redemption Price, if applicable, and interest on the Bonds being refunded; *provided* that such withdrawal shall not be made unless immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the Indenture.

Except to the extent that such application would be inconsistent with the appropriation of said amounts by the legislature of the State, and except as described under “**Defaults and Remedies – Application of Funds**” below, payments from the Debt Service Fund shall be made ratably by the Trustee according to amounts due in respect of each Bond and Parity Swap Payment Obligation without preference of one Bond or Parity Swap Payment Obligation over another (and without regard to the deposit of amounts in a particular Debt Service Account). Notwithstanding anything in the Indenture to the contrary, any monies derived from an appropriation of the State legislature may only be applied in a manner consistent with its appropriation.

Use of Monies in the Subordinated Payment Obligations Fund

Throughout each Fiscal Year on any Payment Date that the amount on deposit in the Debt Service Fund is insufficient for the purposes thereof, the Trustee shall withdraw from the Subordinated Payment

Obligations Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall. On (a) June 10 (or if June 10 is not a Business Day, the Business Day next succeeding June 10) of each Fiscal Year (but only if the amounts on deposit in the Debt Service Fund are sufficient to meet the requirements thereof for the balance of the Fiscal Year), or (b) such earlier date on which an Authorized Department Representative, at the State's option, certifies that the total of (i) the monies on deposit in the Debt Service Fund and (ii) the amounts remaining under the appropriation made for that Fiscal Year pursuant to section 20.505(1)(br), Wisconsin Statutes, or any successor provision, are sufficient to meet the requirements of the Debt Service Fund for the balance of the Fiscal Year, assuming, for purposes of said certification, that the interest on any Variable Rate Bonds for the balance of the Fiscal Year shall be calculated at the Maximum Rate and the amount of any Parity Swap Payment Obligations that would be payable under Swap Agreements that provide for a variable rate to be paid by the State shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, shall be determined at a rate equal to the rate that would result if the index provided in such Swap Agreement were at 15% per annum) and that interest accruing on any overdue Parity Swap Payment Obligation at a variable rate shall be calculated at an annual rate equal to the maximum rate provided for therein (or if no maximum is provided for, a rate of 15% per annum on the amount of the overdue Parity Swap Payment Obligation), then (c) the Trustee shall withdraw from the Subordinated Payment Obligations Fund the amount of any Subordinated Swap Payment Obligations or Credit Facility Payment Obligations which are due and owing on such date and shall cause the same to be paid to the applicable Swap Provider or Credit Issuer.

Except to the extent that such application would be inconsistent with the appropriation of said amounts by the legislature of the State, payments from the Subordinated Payment Obligations Fund shall be made ratably by the Trustee according to the amounts due in respect of each Subordinated Swap Payment Obligation and Credit Facility Payment Obligation without priority or preference of one Subordinated Swap Payment Obligation or Credit Facility Payment Obligation over another.

Use of Monies and Earnings in the Stabilization Fund

Throughout each Fiscal Year on any Payment Date that the amount on deposit in the Debt Service Fund is insufficient for the purposes thereof and amounts drawn from the Subordinate Payment Obligations Fund are not sufficient to make up the shortfall, the Trustee shall withdraw from the Stabilization Fund and transfer to the Debt Service Fund the amount needed to make up the shortfall. Throughout each Fiscal Year until June 10 (or if June 10 is not a Business Day, the Business Day next succeeding June 10) of the Fiscal Year, the State may, at its option, but is not required to, direct the Trustee to withdraw from the Stabilization Fund and transfer to the Subordinated Payment Obligations Fund the amount needed to make up any shortfall in such Fund for the purposes thereof. On June 10 (or if June 10 is not a Business Day, the Business Day next succeeding June 10) of each Fiscal Year, the Trustee shall withdraw from the Stabilization Fund and transfer to the Subordinated Payment Obligations Fund the amount needed to make up any shortfall in such Fund for the purposes thereof, provided that amounts in the Stabilization Fund will not be required to be used to fund the Debt Service Fund to meet the requirements thereof for the balance of the Fiscal Year. Earnings on amounts on deposit in the Stabilization Fund shall be applied to restore the Stabilization Fund to the Stabilization Fund Amount. On the first Business Day of each Fiscal Year, the State may direct the Trustee to transfer amounts in the Stabilization Fund in excess of the Stabilization Fund Amount from earnings thereon to the Appropriations Fund for further distribution to the Indenture Funds described above as directed by the State.

Use of Monies in the Operating Expense Fund

The Trustee shall withdraw from the Operating Expense Fund the amounts, and pay to the parties, designated in writing by an Authorized Department Representative for the payment of issuance and administrative expenses related to the Bonds, Swap Payment Obligations and Credit Facility Payment Obligations.

Payments to the State

Any amounts remaining in the Appropriations Fund or any other funds or accounts established under the Indenture after payment of all Bonds, Swap Payment Obligations and Credit Facility Payment Obligations shall be paid to the State.

Funds Held in Trust

All money held in any of the Indenture Funds are held in trust in the custody of the Trustee subject to the provisions of the Indenture which permit their disbursements for specified purposes. All money and securities held in Indenture Funds are subject to the first lien of the Indenture and are not subject to any lien, attachment, garnishment or other claims or proceedings by other creditors of the State or any third party.

Investments

Investments Generally

The Trustee agrees to continuously invest and reinvest money on deposit in the Indenture Funds in Qualified Investments as directed in writing by the State, which the State agrees to provide. Investments made with money on deposit in the Indenture Funds may be made by the Trustee through its own bank investment department and:

(a) will have maturities or be readily marketable prior to maturity in the amounts and not later than the dates as may be necessary to provide funds for the purpose for which the money in any account is to be used,

(b) will be held by or under the control of the Trustee,

(c) will at all times be considered a part of the Fund or Account for whose benefit the investment was made,

(d) will have any loss attributable to them charged to the Fund or Account for whose benefit the investment was made, and

(e) in all other cases, will have any interest or profit derived from them retained in the Fund or Account from which the investment was made.

The Trustee shall not be responsible or liable for any loss resulting from such investment, except to the extent caused by its negligence or willful default.

Discharge of Indenture

Discharge

The Indenture and the estate and rights granted by it ceases, determines and is void if:

(a) the State has performed all of its obligations under the Indenture and the Bond Purchase Agreement,

(b) all Trustee's Expenses and the expenses of any other paying agent which have accrued and will accrue through the final payment of the Bonds have been paid or arrangements satisfactory to the Trustee for their payment have been made,

(c) provision for the payment of all Outstanding Bonds has been made to the satisfaction of the Trustee in one or more of the following ways:

(1) by paying or causing to be paid, when due, the principal of, premium, if any, and interest on all Outstanding Bonds,

(2) by irrevocably depositing with the Trustee, in trust for such purpose, at or before maturity, cash in an amount sufficient to pay or redeem (when redeemable) all Outstanding Bonds including unpaid interest which has accrued on the Bonds and will accrue through the final payment or redemption of the Bonds and any redemption premium,

(3) by delivering to the Trustee, for cancellation, all Outstanding Bonds, or

(4) by depositing with the Trustee, in trust, Defeasance Obligations that mature in an amount that will, together with the income or increment to accrue on them but without reinvestment, be sufficient to pay or redeem (when redeemable) all Bonds at or before their respective maturity dates, including interest which has accrued on the Bonds and will accrue through the final payment or redemption of the Bonds and any redemption premium,

(d) a notice of redemption which includes the Redemption Notice Information has been given as required by the Indenture if any of the Bonds are to be redeemed before their maturity or if a notice of redemption cannot then be given as provided in the Indenture, then the State has given the Trustee, in a form satisfactory to the Trustee, irrevocable instructions to provide a notice of redemption which includes the Redemption Notice Information to the Registered Owners of any Bonds to be redeemed when a notice of redemption can be timely given under the Indenture,

(e) if the payment of the Bonds has been provided for under (c)(2) or (c)(4) above, the Trustee (i) has been furnished with an Opinion of Bond Counsel to the effect that the actions taken under the Indenture will not adversely affect the validity of any Bonds and (ii) has given notice to the Registered Owners of the Bonds at the Registered Owner's Address to the Trustee of the actions taken under subsection (c) above, and

(f) if the payment of the Bonds has been provided for under (c)(4) above, an opinion from an independent certified public accountant to the effect that the funds available or to be available in the escrow for the payment of the Bonds will be sufficient to pay the principal of, premium, if any, and interest on the Bonds.

On the occurrence of the events described in (a) through (f) above, the Trustee is authorized and directed to:

(1) execute and deliver all appropriate instruments evidencing and acknowledging the satisfaction of the Indenture, and

(2) assign and deliver to the Department any money and investments in any Indenture Fund (except money or investments held by the Trustee for the payment of the principal of, premium, if any, and interest on any Bonds).

Notwithstanding any other provision of the Indenture which may be contrary to the provisions set forth above, all money and Defeasance Obligations which are set aside and held in trust pursuant to the provisions of the Indenture for the payment of the principal of, premium, if any, and interest on Bonds will be applied to and used solely for the payment of the principal of, premium, if any, and interest on the particular Bonds with respect to which it was so set aside in trust. The income derived from Defeasance Obligations held by the Trustee under the Indenture which are not needed for the payment of the principal of, premium, if any, or interest on the Bonds is to be disposed of in a manner which, in the Opinion of Bond Counsel, will not adversely affect the validity of any Bonds.

Notwithstanding a discharge of the Indenture as provided in clause (c)(2) or (c)(4) above, resulting in the Owners of Bonds having a claim for the payment of their Bonds solely from the cash and securities so set aside, the Indenture will continue to govern the method of making payments of principal and interest on

the Bonds, the registration, transfer and exchange of Bonds, the circumstances under which the Bonds may be redeemed and similar matters.

Defaults and Remedies

Events of Default

The occurrence and continuance of any of the following events is an Event of Default under the Indenture:

(a) failure to pay when due the principal of (whether at maturity, upon redemption or otherwise), or premium, if any, or interest on any Bonds or any Parity Swap Payment Obligations, except to the extent that such failure is due to an Event of Nonappropriation;

(b) failure to pay as required by the terms of the Indenture any Subordinated Swap Payment Obligations and Credit Facility Payment Obligations, except to the extent that such failure is due to an Event of Nonappropriation;

(c) failure to pay when due the tender price on any Bond upon mandatory or optional tender for purchase as provided in the Indenture, except to the extent that such failure is due to an insufficiency of appropriated funds to make such payment with respect to any Bonds for which there is no liquidity facility; or

(d) the State defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds, the Indenture or any Supplemental Indenture on the part of the State to be performed and the default continues for thirty (30) days after written notice specifying the default and requiring that it be remedied has been given to the State by the Trustee, which may give the notice in its discretion and must give the notice upon receipt of a written request of the Owners of at least 25% of the aggregate principal amount of any Series of Bonds then Outstanding that it do so, *provided* that if the default is one which can be remedied but cannot be remedied within that thirty-day period, the Trustee may grant an extension of the thirty-day period if the State institutes corrective action within that thirty-day period and diligently pursues that action until the default is remedied.

Remedies

Upon the occurrence of any Event of Default the Trustee may take whatever action at law or in equity it deems necessary or desirable (i) to collect any amounts then due under the Indenture or the Bonds, any Swap Payment Obligations or any Credit Facility Payment Obligations, (ii) to enforce performance of any obligation, agreement or covenant of the State under the Indenture or the Bonds, of a Credit Issuer under any Credit Facility issued or entered into with respect to any Bonds or of the grantor of any other collateral given to secure the payment of any Bonds or (iii) to otherwise enforce any of its rights; provided, however, actions against the State shall be limited to those permitted by the Statutes and the Constitution of the State.

None of the remedies under the Indenture is exclusive of any other remedy or remedies. Each remedy given under the Indenture is cumulative and is in addition to every other remedy which is given or which now or hereafter exists at law, in equity or by statute.

No delay or omission in the exercise of any right or power accruing upon an Event of Default impairs the right or power or is a waiver of or acquiescence in any Event of Default. Every right and power given by the Indenture may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default extends to or affects any subsequent or other Event of Default or impairs any rights or remedies consequent thereon.

Right to Direct Proceedings

The Owners of the Bonds have the right to direct the exercise of any rights or remedies under the Indenture, and the method and place of conducting all proceedings to be taken in connection with the enforcement of the Indenture. The Indenture provides that so long as a Bond Insurer is not in default under its Bond Insurance Policy, such Bond Insurer is treated as the Owner of the Bonds of the Series insured by it, for purposes of declaring defaults and directing remedies.

The directions of the Owners of Bonds under Section 1003 are to be: (a) contained in a request which is signed by the Owners of at least a majority of the aggregate principal amount of each series of Bonds then Outstanding and delivered to the Trustee, (b) in accordance with law and the provisions of the Indenture and (c) accompanied with indemnification of the Trustee as is provided in Section 1101(o) of the Indenture.

Application of Funds

Upon an Event of Default or an Event of Nonappropriation, any Appropriated Funds received or held by the Trustee will be applied as follows:

FIRST: To the payment of (i) the costs and expenses associated with the Trustee's carrying out its obligations with respect to the Event of Nonappropriation or the exercise of any remedy related to an Event of Default, including reasonable compensation to the Trustee and its attorneys and agents, and (ii) any Trustee's Expenses.

SECOND: To the payment of interest, principal and premium, if any then due on the Bonds (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of Article 9 of the Indenture) and Parity Swap Payment Obligations, in the order of the maturity of the payments of interest, principal and premium, if any and Parity Swap Payment Obligations then due ratably, and, if the amount available is not sufficient to pay in full interest, principal, premium and Parity Swap Payment Obligations due on any particular date, then first to the payment of interest and Parity Swap Payment Obligations ratably, according to the amounts due, to the persons entitled to it without discrimination or privilege and second, to the amount of principal and premium, ratably, according to the amounts due, to the persons entitled to it without discrimination or privilege.

THIRD: Subject to the provisions of the Indenture described in "**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; Appropriated Funds and Funds and Accounts; Use of Monies in the Subordinated Payment Obligations Fund,**" to the payment of Subordinated Swap Payment Obligations and Credit Facility Payment Obligations then due in the order of the maturity of such payments and, if the amount available is not sufficient to pay in full the Subordinated Swap Payment Obligations and Credit Facility Payment Obligations due on any particular date then to their payment ratably, according to the amount due, to the persons entitled to it without discrimination or privilege.

FOURTH: To the payment of any other sums required to be paid by the State pursuant to any provisions of any of the Indenture.

Whenever money is to be applied as described above, the money is to be applied at the times the Trustee determines, having due regard for the amount of money available for application and the likelihood of additional money becoming available for application in the future. Whenever the Trustee applies such funds it will fix the date (which will be a Interest Payment Date unless it deems another date more suitable) upon which the application is to be made and on that date interest on the amounts of principal paid ceases to accrue.

Any monies derived from an appropriation may only be applied in a manner consistent with its appropriation.

Remedies Vested in Trustee

All rights of action (including the right to file proofs of claim) under the Indenture or under any Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production of them in any trial or other proceeding relating to them. Any suit or proceeding instituted by the Trustee is to be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants the Registered Owners. Any resulting recovery or judgment is for the benefit of the Registered Owners of the Outstanding Bonds, the Swap Providers and the Credit Issuers in accordance with the terms of the Indenture.

Rights and Remedies of the Bondowners

No Bondowner, Swap Provider or Credit Issuer has any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture, for the execution of any trust created under the Indenture, for the appointment of a receiver or any other remedy, unless

- (a) an Event of Default has occurred of which the Trustee has been notified as provided in the Indenture or of which the Trustee is deemed to have notice by the terms of the Indenture,
- (b) the Trustee has received a request to do so and has been offered a reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute an action, suit or proceeding in its own name,
- (c) the Trustee has been offered indemnity as provided in the Indenture and
- (d) the Trustee thereafter fails or refuses to exercise the powers granted in the Indenture or to institute an action, suit or proceeding in its own name.

No Bondowner, Swap Provider or Credit Issuer has any right to affect, disturb or prejudice the security of the Indenture by its action or to enforce any right under the Indenture except in the manner provided in the Indenture and all proceedings at law or in equity are to be conducted in the manner provided in the Indenture for the equal and ratable benefit of all the Bondowners, Swap Providers or Credit Issuers in accordance with the priority provided in the Indenture. Nothing in the Indenture, however, affects or impairs the right of Bondowners, Swap Providers or Credit Issuers to enforce the payment of the principal of, premium, if any, and interest on any Bonds, Swap Payment Obligations or Credit Facility Payment Obligations, respectively, at and after their maturity or the obligation of the State to pay the principal of, premium, if any, and interest on the Bonds issued under the Indenture, Swap Payment Obligations or Credit Facility Payment Obligations, respectively, to Bondowners, Swap Providers and Credit Issuers, respectively, at the time and place, from the source and in the manner expressed in the Indenture and the Bonds (if applicable).

Waivers of Events of Default

The Trustee may waive any Event of Default under the Indenture and its consequences and must do so upon receipt of a request to do so from the Registered Owners of a majority in aggregate principal amount of all Bonds then outstanding in respect of which the failure to pay the principal of, premium, if any, or interest on which has resulted in an Event of Default or of the Owners of a majority in principal amount of each Series of Bonds then Outstanding in the case of any other Event of Default. Notwithstanding the preceding sentence, the Trustee may not waive any Event of Default in the payment of the principal of, premium, if any, or interest on any Bond unless prior to the waiver all arrears of principal, premium, if any, and interest on the Bonds for which appropriations have been made, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for.

The Trustee

Acceptance of the Trusts

The Trustee accepts and agrees to perform the duties of the Trustee under the Indenture upon the terms and conditions set forth therein.

Trustee's Expenses and Indemnification

The Trustee is entitled to payment or reimbursement of its Trustee's Expenses. Upon the occurrence of an Event of Default or an Event of Nonappropriation, but only upon the occurrence of an Event of Default or an Event of Nonappropriation, the Trustee has a lien with right to payment prior to payment on account of the principal of, premium, if any, and interest on any Bond, any Swap Payment Obligation and any Credit Facility Payment Obligations upon the Trust Estate and any other collateral securing the Bond, any Swap Payment Obligation and any Credit Facility Payment Obligation for the payment of the Trustee's Expenses. To the extent permitted by the Statutes and Constitution of the State, the Trustee shall be entitled to payment or reimbursement from the State to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under the Indenture.

Notice to Holders of Bonds if an Event of Default or an Event of Nonappropriation Occurs

If an Event of Default or an Event of Nonappropriation occurs of which the Trustee is required to take notice or of which it has been given notice, the Trustee agrees to give written notice of the Event of Default or Event of Nonappropriation by first-class mail to the last known holders of all Bonds then Outstanding as shown by the Registration Books.

Intervention by Trustee

The Trustee may, and upon receipt of a request to do so from the Owners of a majority of the principal amount of Bonds then Outstanding and upon indemnity being provided as required by the Indenture must, intervene on behalf of the holders of Bonds in any judicial proceeding to which the State is a party and which in the opinion of the Trustee and its Counsel has a substantial bearing on the interests of the holders of Bonds. The rights and obligations of the Trustee described in this paragraph are subject to the approval of a court of competent jurisdiction.

Successor Trustee; Resignation or Removal of the Trustee; Successor or Temporary Trustee

Any corporation or association (a) into which the Trustee may be converted or merged, (b) with which the Trustee may be consolidated, (c) to which the Trustee may sell or transfer its trust business and assets as a whole or substantially as a whole or (d) resulting from a conversion, sale, merger, consolidation or transfer to which the Trustee is a party becomes successor Trustee under the Indenture and is vested with all of the title to the Trust Estate and the Trustee's interest in the Indenture and all the trusts, powers, discretions, immunities, privileges and all other matters as its predecessor was without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture, anything in the Indenture to the contrary notwithstanding.

The Trustee and any successor Trustee may at any time resign from the trusts the Indenture created by giving 30 days written notice by registered or certified mail to the State and the Registered Owners. A resignation takes effect upon the appointment of a successor or temporary Trustee by the Registered Owners or the State and the successor or temporary Trustee's acceptance of its appointment.

The Trustee may be removed at any time without cause (a) of the direction of the State (so long as no Default or Event of Default under the Indenture has occurred, whether or not continuing) or (b) by an instrument or concurrent instruments in writing signed by the Registered Owners of a majority of the

aggregate principal amount of the Bonds then Outstanding and delivered to the Trustee and the State. A removal takes effect upon the appointment of a successor or temporary Trustee by the Registered Owners or the State and the successor or temporary Trustee's acceptance of its appointment.

In case the Trustee resigns, is removed, is dissolved, is in the course of dissolution or liquidation, is taken under the control of a public officer, has a receiver appointed for it by a court or otherwise becomes incapable of acting under the Indenture, a successor may be appointed by an instrument or concurrent instruments in writing signed by the holders of a majority of the aggregate principal amount of the Bonds then Outstanding. In case of a vacancy the State by an instrument executed and signed by an Authorized Department Representative in accordance with applicable law may appoint a temporary Trustee to fill the vacancy until a successor Trustee has been appointed by the holders of Bonds in the manner described above. Any temporary Trustee appointed by the State immediately and without further act is superseded by the Trustee appointed by the holders of Bonds. Every Trustee so appointed must be a trust company or a bank in good standing having a reported capital and surplus of not less than \$10,000,000 or having assets under administration of not less than \$200,000,000 if there is an institution willing, qualified and able to accept the trust upon reasonable and customary terms and have the qualifications required by the Act.

Concerning Any Successor Trustee; Successor Trustee as Trustee of Funds, Paying Agent and Registrar

Every successor Trustee appointed under the Indenture will execute, acknowledge and deliver to its predecessor and to the State an instrument in writing accepting its appointment under the Indenture and thereupon the successor, without any further act, deed or conveyance, will become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor. Its predecessor agrees, nevertheless, on the written request of the State or of its successor, to execute and deliver an instrument transferring to its successor all the estates, properties, rights, powers and trusts of the predecessor under the Indenture. Every predecessor Trustee agrees it will deliver to its successor all securities, money, investments and other property held by it in any Indenture Fund, a list of all checks or other fund transfers which the Trustee has issued or made but which have not been paid on the date the successor trustee becomes the Trustee under the Indenture, a copy of the Registration Book certified by the Trustee to be correct, executed originals of all letters of credit, policies of bond insurance or other Credit Facilities relating to the Bonds, all printed but unissued Bonds, all Bonds in the Trustee's possession which are to be but have not been destroyed, executed originals of all indemnity bonds relating to the Bonds, a list of all stop transfer orders held by the Trustee and such other documents and information as the successor trustee reasonably requests. If any instrument in writing from the State is required by any successor Trustee for more definitely and certainly vesting in the successor the estate, rights, powers, and duties vested or intended to be vested in the predecessor the State agrees to execute, acknowledge and deliver any and all requested instruments in writing on request. The instrument appointing a successor under the Indenture will be filed and/or recorded by the successor Trustee in each filing or recording office where any document providing collateral security for the Indenture has been filed and/or recorded.

In the event the Trustee is changed the predecessor Trustee which has resigned or been removed ceases to be trustee of the Indenture Funds and bond registrar and paying agent for principal of, premium, if any, and interest on the Bonds and the successor Trustee becomes the Trustee, the bond registrar and paying agent.

Trust Estate May Be Vested in Separate or Co-Trustee

It is the intent of the State and the Trustee that the Indenture not violate the law of any jurisdiction (including particularly the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in that jurisdiction. It is recognized that in case of litigation under the Indenture, and in particular in case of the enforcement on an Event of Default, or in case the Trustee

deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies granted to it under the Indenture or hold title to the Trust Estate or take any other action which may be desirable or necessary in connection therewith, it may be necessary for the Trustee to appoint an additional individual or institution as a separate or co-trustee.

Supplemental Indentures

Supplemental Indentures Not Requiring the Consent of Bondowners or Swap Providers

The State and the Trustee may, without the consent of or notice to the Bondowners or Swap Providers, enter into an indenture or indentures supplemental to the Indenture which are not inconsistent with the terms and provisions of the Indenture in order to:

- (a) provide for the issuance of Additional Bonds;
- (b) cure any ambiguity or formal defect or omission in the Indenture;
- (c) grant to or confer upon the Trustee for the benefit of the Bondowners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondowners or the Trustee provided that such amendment does not adversely affect the rights or interests of any Swap Provider;
- (d) subject to the Indenture additional revenues, properties or collateral; or
- (e) supplement the Indenture in any other way which, in the judgment of the Trustee, is not to the material prejudice of the Trustee, the Bondowners or any Swap Provider.

Supplemental Indentures Requiring the Consent of the Bondowners and Swap Providers

In addition to supplemental indentures described above under “**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; Supplemental Indentures; Supplemental Indentures Not Requiring the Consent of Bondowners or Swap Providers,**” the State and the Trustee, with the prior written consent of the Owners of a majority of the aggregate principal amount of each series of Bonds then Outstanding and each Swap Provider, may enter into an indenture or indentures supplemental to the Indenture as the State and the Trustee deem necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture. No supplemental indenture, however, may permit (a) an extension of the stated maturity or reduction in the principal amount of, reduction in the rate or extension of the time for paying interest on, a reduction of any premium payable on the redemption of or a reduction in the amount or extension of the time for any payment required by any sinking fund or principal fund applicable to any Bonds without the consent of the Owners of all the Bonds which would be affected by the action to be taken, (b) the creation of any lien prior to or, except in connection with the issuance of Additional Bonds, on a parity with the lien of the Indenture, without the consent of the Owners of all Bonds at the time Outstanding, or (c) a reduction in the aggregate principal amount of Bonds the Owners of which are required to consent to any supplemental indenture without the consent of the Owners of all Bonds at the time Outstanding which would be affected by the action to be taken.

If at any time the State requests the Trustee to enter into such a supplemental indenture, the Trustee agrees, upon being satisfactorily indemnified with respect to expenses, to send notice of the proposed execution of the supplemental indenture by registered or certified mail to the Registered Owner of each of the Bonds at the Registered Owner’s Address subject, for so long as the Bonds are in Book Entry System, to the Letter of Representations. The notice will briefly set forth the nature of the proposed supplemental indenture and state that copies of it are on file at the Designated Trust Office of the Trustee for inspection by the Registered Owner of any Bond. If, within sixty days or any longer period as is prescribed by the State following the mailing of the notice, consent of the Owners of a majority of the aggregate principal amount of each series of Bonds then Outstanding has been obtained, no Registered Owner of any Bond has any right to object to any of the terms and provisions of the Indenture or their operation, in any

manner to question the propriety of the execution of the supplemental indenture or to enjoin or restrain the Trustee or the State from executing the supplemental indenture or from taking any action pursuant to the provisions of the supplemental indenture. Upon the execution of any supplemental indenture as provided in the Indenture, the Indenture is modified and amended in accordance with it.

Miscellaneous

Consent of Bondowners

Any consent, request, direction, approval, objection or other instrument required by the Indenture to be signed by Bondowners may be in any number of concurrent writings of similar tenor. Proof of the execution of any consent, request, direction, approval, objection or other instrument is sufficient for any of the purposes of the Indenture, and is conclusive in favor of the Trustee with regard to any action taken by it, if it contains or is accompanied by (i) a certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction to the effect that the person signing the writing acknowledged before him the execution thereof or (ii) an affidavit of any witness to the execution. The ownership of Bonds and the amount, series, numbers and other identification of them and the date on which they were held are conclusively proved by the Registration Books.

Notices

Unless provided to the contrary in another Section of the Indenture, all notices, certificates or other communications under the Indenture are deemed given when delivered or mailed by first-class mail, postage prepaid, addressed to the parties at the addresses set forth in the Indenture. The State shall give written notice to each Rating Agency of each of the following events, promptly following the occurrence thereof:

- (a) the redemption or defeasance of all the Outstanding Bonds; or
- (b) a change in the Auction Period or Interest Period for the Series B Bonds.

APPENDIX B INFORMATION ABOUT THE STATE

This appendix includes information concerning the State of Wisconsin (**State**). [Part II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2002 \(2002 Annual Report\)](#) is included by reference as part of this **APPENDIX B**.

This appendix also includes information on the following:

- Estimated tax collections for the 2003-04 and 2004-05 fiscal years, as released by the Legislative Fiscal Bureau in a memorandum dated January 23, 2003.
- 2003-05 biennial budget bill, as signed into law with some partial vetoes by Governor Doyle on July 24, 2003 (2003 Wisconsin Act 33).
- Results for the 2002-03 fiscal year as reported in the Annual Fiscal Report (budgetary basis), dated October 10, 2003.

[Part II to the 2002 Annual Report](#) contains general information about the State. More specifically, that part presents information on the following matters:

- State's operations and financial procedures
- State's accounting and financial reporting
- Organization of, and services provided by, the State
- Results of the 2001-02 fiscal year
- State budget
- Obligations of the State
- State Investment Board
- Statistical information about the State's population, income, and employment

Included as [Appendix A to Part II of the 2002 Annual Report](#) are the audited general purpose external financial statements for the fiscal year ending June 30, 2002, prepared in conformity with generally accepted accounting principles (**GAAP**) for governments as prescribed by the Government Accounting Standards Board, and the State Auditor's report.

The 2002 Annual Report has been filed with each nationally recognized municipal securities information repository (**NRMSIR**). As of the date of this Official Statement, Part II of the 2002 Annual Report is available from the part of the Capital Finance Office web site called "[Official Disclosure for Bonds, Notes, and Other Securities Issued by the State of Wisconsin.](#)" The Capital Finance Office web site is located at the following address:

www.doa.wi.gov/capitalfinance

Copies of the 2002 Annual Report may also be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, 10th Floor
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us

After publication and filing of the 2002 Annual Report, certain changes or events have occurred that affect items discussed in the 2002 Annual Report. Listed below, by reference to particular sections of the 2002 Annual Report, are changes or additions to the discussion contained in those particular sections. Many of the following changes have not been filed with the NRMSIRs. However, the State has filed, and expects to continue to file, certain informational notices with the NRMSIRs. These informational notices do not constitute listed material events under the State's Master Agreement on Continuing Disclosure.

State Budget; Budget for 2001-03 (Part II–Pages 24-28). Add the following new sections:

Projected Condition of General Fund for 2002-03 Fiscal Year

On January 23, 2003, the Legislative Fiscal Bureau provided projections of the ending General Fund condition for the 2002-03 fiscal year. These projections showed a gross ending balance (not including the statutory required reserve) of negative \$373 million. This was approximately \$188 million less than the balance that was projected as a result of the revenue estimates provided by the Department of Revenue on November 20, 2002. The difference was the result of:

- Decrease of \$178 million in estimated tax collections.
- Decrease of \$49 million in departmental revenues.
- Decrease of \$39 million in expenditures.

These projections were part of a report that included tax collection estimates for the 2003-04 and 2004-05 fiscal years. A complete copy of the memorandum from the Legislative Fiscal Bureau appears on pages **B-7 to B-23 of this Official Statement.**

Budget Emergency Bill for 2002-03

On February 27, 2003, Governor Doyle signed into law the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1). As a result of this bill, the projected ending balance for the 2002-03 fiscal year was reduced by approximately \$90 million to a negative \$284 million.

A copy of 2003 Wisconsin Act 1 may be obtained from the address at the top of this page.

Results of 2002-03 Fiscal Year

On August 29, 2003, the Department of Revenue has reported that preliminary general purpose revenue collections for the 2002-03 fiscal year were only \$24 million less than projections made by the Legislative Fiscal Bureau in January, 2003. With regard to the major reporting categories, the Department of Revenue report shows that individual income and general sales and use tax collections fell short of projections by \$68 million and \$22 million, respectively, but that corporate franchise and public utility tax collections exceeded projections by \$37 million and \$16 million, respectively.

On October 10, 2003, the State published its Annual Fiscal Report (budgetary basis) for the fiscal year ended June 30, 2003. It reports the State ended the 2002-03 fiscal year on a statutory and unaudited basis with an undesignated balance of negative \$282 million, which is \$2 million better than the balance projected after enactment of 2003 Wisconsin Act 1 in February, 2003. The State did not issue any operating notes during the 2002-03 fiscal year.

The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, which did occur, and the Wisconsin Constitution also requires that if final budgetary expenses of any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year. As shown below, the 2003-05 biennial budget does provide for a balanced budget in the 2003-04 fiscal year.

A complete copy of the Annual Fiscal Report (budgetary basis) may be obtained from the State at the address on [page B-2](#).

State Budget; Budget for 2003-05. Add the following new sections:

Budget for 2003-05

Governor Doyle's proposed budget for the 2003-04 and 2004-05 fiscal years was introduced on February 18, 2003. The Legislature approved a budget bill for the 2003-04 and 2004-05 fiscal years, which included differences from the Governor's proposed budget. Governor Doyle signed the budget bill for the 2003-04 and 2004-05 fiscal years into law, with some partial vetoes, on July 24, 2003 (2003 Wisconsin Act 33). A two-thirds vote in each house is required to override any veto. Prior to the date of this Official Statement, one house of the Legislature (Senate) considered a motion to override certain vetoes relating to the budget for the 2003-04 and 2004-05 fiscal years, but the motion failed to obtain the requisite two-thirds vote.

The budget for the 2003-04 and 2004-05 fiscal years (2003 Wisconsin Act 33) is summarized on [pages B-4 through B-6](#). The tax collection estimates for the 2003-04 and 2004-05 fiscal years are taken from projections in a memorandum released by the Legislative Fiscal Bureau on January 23, 2003. A complete [copy of the memorandum from the Legislative Fiscal Bureau appears on pages B-7 to B-23](#) of this Official Statement.

Additional information on 2003 Wisconsin Act 33 can be obtained from the State at the address on [page B-2](#).

Updated Budget Tables

The tables on [page B-4](#) provide a general summary, and the tables on [pages B-5 and B-6](#) provide a more detailed summary, of (1) the budget emergency bill for the 2002-03 fiscal year, through the budget emergency bill for that fiscal year (2003 Wisconsin Act 1), (2) the results for the 2003-03 fiscal year (Annual Fiscal Report, budgetary basis, dated October 10, 2003), and (3) the budget bill for the 2003-04 and 2004-05 fiscal years (2003 Wisconsin Act 33).

**State Budget Summary
General Fund Basis
(Amounts in Millions)**

	<u>Actual 2003-03</u>	<u>Budget 2002-03</u>	<u>Budget 2003-04</u>	<u>Budget 2004-05</u>
Beginning Balance	\$ 54	\$ 54	\$ (284) ^(c)	\$ 144
Tax Revenues	10,218	10,223	10,742	11,346
Tobacco Settlement Payments	154	149	n/a	n/a
Tribal Gaming Revenues	n/a	n/a	78	79
Nontax Revenues	<u>10,312</u>	<u>8,240</u>	<u>9,425</u>	<u>9,294</u>
Total Amount Available	\$ 20,738	\$ 18,666	\$ 19,961	\$ 20,863
Total Disbursements/Reserves	<u>\$ 20,985</u>	<u>\$ 18,950</u>	<u>\$ 19,852</u>	<u>\$ 20,717</u>
Estimated Gross Balance	\$ (157)	\$ (284)	\$ 109	\$ 146
GPR Designated and PR Balances ^(e)	(125)	n/a	n/a	n/a
Required Statutory Reserve	<u>n/a</u>	<u>0^(a)</u>	<u>35</u>	<u>40</u>
Net Balance	\$ (282) ^(b)	\$ (284) ^(b)	\$ 144	\$ 186 ^(d)

**All-Funds Basis^(f)
(Amounts in Millions)**

	<u>Actual 2003-03</u>	<u>Budget 2002-03</u>	<u>Budget 2003-04</u>	<u>Budget 2004-05</u>
Beginning Balance	\$ 54	\$ 54	\$ (284) ^(c)	\$ 144
Tax Revenues	11,323	10,223	10,742	11,346
Tobacco Settlement Payments	154	149	n/a	n/a
Tribal Gaming Revenues	n/a	n/a	78	79
Nontax Revenues	<u>19,805</u>	<u>20,988</u>	<u>20,557</u>	<u>20,462</u>
Total Amount Available	\$ 31,336	\$ 31,414	\$ 31,093	\$ 32,031
Total Disbursements/Reserves	<u>\$ 31,493</u>	<u>\$ 31,698</u>	<u>\$ 30,984</u>	<u>\$ 31,885</u>
Estimated Gross Balance	\$ (157)	\$ (284)	\$ 109	\$ 146
GPR Designated and PR Balances ^(e)	(125)	n/a	n/a	n/a
Required Statutory Reserve	<u>n/a</u>	<u>0^(a)</u>	<u>35</u>	<u>40</u>
Net Balance	\$ (282) ^(b)	\$ (284) ^(b)	\$ 144	\$ 186 ^(d)

- (a) The budget emergency bill for the 2002-03 fiscal year included an exemption from the statutory balance requirement for that fiscal year.
- (b) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, and the Wisconsin Constitution also requires that, if final budgetary expenses of any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.
- (c) The actual ending balance for the 2002-03 fiscal year is negative \$282 million.
- (d) The Legislative Fiscal Bureau's estimate of the impact of the veto of the property tax limits decreases individual income tax by \$17 million and increases expenditures by \$16 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of \$186 million. The Department of Administration's estimate of the impact of the veto of the property tax limits decreases individual income tax by \$9 million and increases expenditures by \$9 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of \$205 million.
- (e) See Exhibit A-2 of the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year.
- (f) The all-funds budget assumes that certain categories of revenues are expended in like amounts. This includes federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

Table II-4; State Budget-General Fund (Part II–Page 27). Replace with the following:

State Budget–General Fund^(a)

	<u>Actual 2002-2003^(b)</u>	<u>Budget 2002-2003</u>	<u>Budget 2003-2004</u>	<u>Budget 2004-2005</u>
RECEIPTS				
Fund Balance from Prior Year.....	\$ 53,782,000	\$ 53,782,000	\$ (283,633,300) ^(f)	\$ 144,469,900
Tax Revenue				
State Taxes Deposited to General Fund				
Individual Income.....	5,051,997,000	5,120,000,000	5,405,800,000	5,795,900,000
General Sales and Use.....	3,737,912,000	3,760,000,000	3,915,400,000	4,107,200,000
Corporate Franchise and Income.....	526,545,000	490,000,000	539,750,000	554,350,000
Public Utility.....	276,790,000	260,400,000	268,000,000	278,000,000
Excise				
Cigarette/Tobacco Products.....	309,205,000	307,900,000	305,200,000	302,600,000
Liquor and Wine.....	36,038,000	36,300,000	37,200,000	38,500,000
Malt Beverage.....	9,517,000	9,700,000	9,800,000	9,900,000
Inheritance, Estate & Gift.....	68,702,000	67,000,000	85,000,000	90,000,000
Insurance Company.....	114,897,000	105,000,000	105,000,000	95,000,000
Other.....	86,391,000	67,200,000	71,300,000	74,700,000
Subtotal.....	<u>10,217,994,000</u>	<u>10,223,500,000</u>	<u>10,742,450,000</u>	<u>11,346,150,000</u>
Nontax Revenue				
Departmental Revenue				
Tobacco Settlement.....	153,923,000	149,081,600	n/a	n/a
Tobacco Securitization.....	n/a	n/a	n/a	n/a
New Tribal Gaming Revenues.....	n/a	n/a	78,305,500	79,172,100
Other.....	253,879,000	278,613,700	331,285,900	329,447,800
Program Revenue-Federal.....	6,668,346,000	4,860,982,500	5,707,550,800	5,435,423,200
Program Revenue-Other.....	3,389,779,000	3,100,962,000	3,385,951,600	3,529,154,200
Subtotal.....	<u>10,465,927,000</u>	<u>8,389,639,800</u>	<u>9,503,093,800</u>	<u>9,373,197,300</u>
Total Available.....	<u>\$ 20,737,703,000</u>	<u>\$ 18,666,921,800</u>	<u>\$ 19,961,910,500</u>	<u>\$ 20,863,817,200</u>
DISBURSEMENTS AND RESERVES				
Commerce.....	\$ 222,143,000	\$ 228,319,500	\$ 267,951,200	\$ 270,736,800
Education.....	9,087,026,000	8,849,025,300	9,236,518,400	9,369,734,400
Environmental Resources.....	264,282,000	248,745,100	252,915,200	251,677,800
Human Relations and Resources.....	8,630,020,000	7,552,695,500	7,704,344,000	8,355,526,200
General Executive.....	646,171,000	637,880,200	622,251,300	627,647,400
Judicial.....	109,697,000	103,786,900	110,945,700	110,988,200
Legislative.....	61,219,000	57,649,200	62,468,300	62,479,800
General Appropriations.....	1,935,927,000	1,386,187,500	1,687,946,100	1,690,239,300
Subtotal.....	<u>20,956,485,000</u>	<u>19,064,289,200</u>	<u>19,945,340,200</u>	<u>20,739,029,900</u>
Less: (Lapses).....	n/a	(208,894,700)	(237,052,500)	(224,586,700)
Compensation Reserves.....	n/a	79,815,500	109,152,900	163,019,600
Required Statutory Balance.....	n/a	0 ^(e)	35,000,000	40,000,000
Transfer to Tobacco Control Board.....	n/a	15,345,100	-	-
Changes in Continuing Balance.....	<u>(61,576,000)</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Total Disbursements & Reserves.....	<u>\$ 20,894,909,000</u>	<u>\$ 18,950,555,100</u>	<u>\$ 19,852,440,600</u>	<u>\$ 20,717,462,800</u>
Fund Balance.....	\$ (157,206,000)	\$ (283,633,300)	\$ 109,469,900	\$ 146,354,400
GPR Designated Balance	\$ (6,402,000) ^(c)			
PR Balance	\$ (118,613,000) ^(c)			
Undesignated Balance.....	\$ (282,221,000) ^(d)	\$ (283,633,300)	\$ 144,469,900	\$ 186,354,400 ^(g)

(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 dollars.

(c) See Exhibit A-2 of the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year, dated October 10, 2003.

(d) The budget for the 2003-04 fiscal year anticipated a \$283.6 million negative beginning balance and projects a balance of \$144.4 million at June 30, 2004.

(e) A required balance for the 2002-03 fiscal year was not specified in State Statutes.

(f) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget. Subsequent to adoption of the 2001-2003 biennial budget (2001 Wisconsin Act 16), there was in January 2002 a downward re-estimate of revenues resulting in projected negative ending balances. 2001 Wisconsin Act 109 eliminated the projected negative ending balances. The projected fund balance reflects the revenue estimates and projections contained in a memorandum released by the Legislative Fiscal Bureau on January 23, 2003 and the General Fund condition statement following enactment of the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1).

(g) The Legislative Fiscal Bureau's estimate of the impact of the veto of the property tax limits lowers individual income tax by \$17 million and increases expenditures by \$16 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of \$186 million. The Department of Administration's estimate of the impact of the veto of the property tax limits decreases individual income tax by \$9 million and increases expenditures by \$9 million over the 2003-05 biennium. The Department of Administration estimate results in a balance at June 30, 2005 of \$205 million.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

Table II-6; State Budget-All Funds (Part II–Page 28). Replace with the following:

State Budget–All Funds^(a)

	Actual 2002-2003 ^(b)	Budget 2002-2003	Budget 2003-2004	Budget 2004-2005
RECEIPTS				
Fund Balance from Prior Year.....	\$ 53,782,000	\$ 53,782,000	\$ (283,633,300)	\$ 144,469,900
Tax Revenue				
Individual Income.....	5,051,997,000	5,120,000,000	5,405,800,000	5,795,900,000
General Sales and Use.....	3,737,912,000	3,760,000,000	3,915,400,000	4,107,200,000
Corporate Franchise and Income.....	526,545,000	490,000,000	539,750,000	554,350,000
Public Utility.....	276,790,000	260,400,000	268,000,000	278,000,000
Excise				
Cigarette/Tobacco Products.....	309,205,000	307,900,000	305,200,000	302,600,000
Liquor and Wine.....	36,038,000	36,300,000	37,200,000	38,500,000
Malt Beverage.....	9,517,000	9,700,000	9,800,000	9,900,000
Inheritance, Estate & Gift.....	68,702,000	67,000,000	85,000,000	90,000,000
Insurance Company.....	114,897,000	105,000,000	105,000,000	95,000,000
Other.....	1,191,518,000	67,200,000 ^(c)	71,300,000 ^(c)	74,700,000 ^(c)
Subtotal.....	11,323,121,000	10,223,500,000	10,742,450,000	11,346,150,000
Nontax Revenue				
Departmental Revenue				
Tobacco Settlement.....	153,923,000	149,081,600	n/a	n/a
Tobacco Securitization.....	n/a	n/a	n/a	n/a
Tribal Gaming Revenues.....	n/a	n/a	78,305,500	79,172,100
Other.....	253,879,000	278,613,700	331,285,900	329,447,800
Total Federal Aids.....	7,518,310,000	5,687,824,500	6,341,233,000	6,098,611,900
Total Program Revenue.....	3,389,779,000	3,101,975,200	3,385,952,400	3,529,154,200
Total Segregated Funds.....	3,925,129,000	3,647,172,000	3,187,386,300	2,815,900,300
Bond Authority.....	646,000,000	383,000,000	475,000,000	485,000,000
Employee Benefit Contributions ^(d)	4,072,266,000	7,889,603,973	6,835,282,000	7,203,432,000
Subtotal.....	19,959,286,000	21,137,270,973	20,634,445,100	20,540,718,300
Total Available.....	\$ 31,336,189,000	\$ 31,414,552,973	\$ 31,093,261,800	\$ 32,031,338,200
DISBURSEMENTS AND RESERVES				
Commerce.....	\$ 467,587,000	\$ 417,323,800	\$ 459,932,200	\$ 466,314,600
Education.....	9,313,180,000	8,921,866,800	9,334,721,500	9,492,726,500
Environmental Resources.....	3,072,187,000	2,750,095,800	2,333,184,400	2,474,026,200
Human Relations and Resources.....	10,481,535,000	8,230,228,400	8,607,732,800	8,803,584,600
General Executive.....	5,056,589,000	771,359,700	775,791,000	782,718,500
Judicial.....	110,053,000	104,496,000	111,659,000	111,701,500
Legislative.....	61,219,000	57,649,200	62,468,300	62,479,800
General Appropriations.....	3,419,880,000	2,286,296,700	2,080,920,300	2,024,567,200
General Obligation Bond Program.....	348,603,000	383,000,000	475,000,000	485,000,000
Employee Benefit Payments ^(e)	3,979,708,000	3,830,081,149	4,028,899,000	4,428,317,000
Reserve for Employee Benefit Payments ^(d)	92,558,000	4,059,522,824	2,806,383,000	2,775,115,000
Subtotal.....	36,403,099,000	31,811,920,373	31,076,691,500	31,906,550,900
Less: (Lapses).....	n/a	(208,894,700)	(237,052,500)	(224,586,700)
Compensation Reserves.....	n/a	79,815,500	109,152,900	163,019,600
Required Statutory Balance.....	n/a	- ^(g)	35,000,000	40,000,000
Transfer to Tobacco Control Board.....	n/a	15,345,100	-	-
Change in Continuing Balance.....	(4,909,704,000)	n/a	n/a	n/a
Total Disbursements & Reserves.....	\$ 31,493,395,000	\$ 31,698,186,273	\$ 30,983,791,900	\$ 31,884,983,800
Fund Balance.....	\$ (157,206,000)	\$ (283,633,300) ^(h)	\$ 109,469,900	\$ 146,354,400
GPR Designated Balance	\$ (6,402,000) ⁽ⁱ⁾			
PR Balance	\$ (118,613,000) ⁽ⁱ⁾			
Undesignated Balance.....	\$ (282,221,000) ⁽ⁱ⁾	\$ (283,633,300)	\$ 144,469,900	\$ 186,354,400 ⁽ⁱ⁾

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The all-funds budget assumes that certain categories of revenues are expended in like amounts. This includes federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

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

(c) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected \$902 million of motor fuel taxes in the 2002-03 fiscal year.

(d) 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 in Part II of the 2002 Annual Report.

(e) See Exhibit A-2 of the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year, dated October 10, 2003.

(f) The budget for the 2003-04 fiscal year anticipated a \$283.6 million negative beginning balance and projects a balance of \$144.4 million at June 30, 2004.

(g) A required balance for the 2002-03 fiscal year was not specified in State Statutes.

(h) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget. Subsequent to adoption of the 2001-2003 biennial budget (2001 Wisconsin Act 16), there was in January 2002 a downward re-estimate of revenues resulting in projected negative ending balances. 2001 Wisconsin Act 109 eliminated the projected negative ending balances. The projected fund balance reflects the revenue estimates and projections contained in a memorandum released by the Legislative Fiscal Bureau on January 23, 2003 and the General Fund condition statement following enactment of the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1).

(i) The Legislative Fiscal Bureau's estimate of the impact of the veto of the property tax limits lowers individual income tax by \$17 million and increases expenditures by \$16 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of \$186 million. The Department of Administration's estimate of the impact of the veto of the property tax limits decreases individual income tax by \$9 million and increases expenditures by \$9 million over the 2003-05 biennium. The Department of Administration estimate results in a balance at June 30, 2005 of \$205 million.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

Legislative Fiscal Bureau

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January 23, 2003

Senator Alberta Darling, Senate Chair
Representative Dean Kaufert, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Darling and Representative Kaufert:

Annually, this office prepares general fund expenditure and revenue projections for the Legislature as it begins to consider the state's budget and other legislation.

In the odd-numbered years, our report includes estimated revenues and expenditures for the current fiscal year and tax collection projections for each year of the next biennium. The purpose of this report is to present the conclusions of our analysis.

Comparison with the Administration's November 20, 2002, Report

On November 20, 2002, the Departments of Administration and Revenue submitted a report to the Governor and Legislature that identified revenue projections for the 2002-03 fiscal year and the 2003-05 biennium. Our analysis indicates that for that three-year period, the state's general fund will have \$656 million less than is reflected in the November 20 report.

The \$656 million is the net result of: (1) a projected decrease in tax collections of \$646 million for the three-year period; (2) a decline in departmental revenues of \$49 million for 2002-03; and (3) reduced expenditures of \$39 million for 2002-03.

Prior to addressing the reasons for this difference, it is important to note the nature of the November 20 document. The DOA/DOR report is required, by statute, to be submitted at that time to inform the Governor, Governor-Elect, and Legislature of the magnitude of agency budget requests and present a projection of tax collections. Given the report's timing in the 2002-03 fiscal

year, sufficient data is not available to reestimate certain revenues and expenditures for the current fiscal year. Thus, as indicated in their report, departmental revenues and expenditures were not reestimated by DOA. This is consistent with previous November 20 reports.

2002-03 General Fund Condition Statement

Our analysis indicates that, unless addressed by the Governor and Legislature prior to the end of the current fiscal year, the gross balance of the general fund on June 30, 2003, will be -\$373 million. This is shown in Table 1.

TABLE 1

Estimated 2002-03 General Fund Condition Statement

	<u>2002-03</u>
Revenues	
Opening Balance, July 1	\$53,782,000
Taxes	10,223,500,000
Departmental Revenues	
Tobacco Settlement	149,081,600
Other	<u>216,673,800</u>
Total Available	\$10,643,037,400
 Appropriations	
Gross Appropriations	\$11,121,564,300
Compensation Reserves	79,815,500
Transfer to Tobacco Control Board	15,345,100
Less: Lapses and Sum Sufficient Reestimates	<u>-200,490,700</u>
Net Appropriations	\$11,016,234,200
 Balance	
Gross Balance	-\$373,196,800

The administration's November 20 report contained a 2002-03 general fund condition statement that showed a gross balance of -\$185 million. Thus, the projected gross balance of this report (-\$373 million) is \$188 million less than that shown in the November 20 report.

The \$188 million consists of a decrease in estimated tax collections of \$178 million, a decrease in departmental revenues of \$49 million, and decreased expenditures of \$39 million. The reduction in departmental revenues is primarily due to a projected reduction of \$27 million in interest earnings, and an \$8.5 million decline in tobacco settlement monies because of a reduction in the volume of cigarettes shipped in, or to, the United States. The primary item of the expenditure reduction is a projected lapse of \$24.3 million from the appropriation for SeniorCare (prescription drug program for the elderly). When the SeniorCare program was enacted in the 2001-03 biennial budget, it was not anticipated that federal funds would be available to support the program. That changed in July, 2002, when the U.S. Department of Health and Human Services waived a federal law and allowed the state to claim medical assistance (MA) matching funds for a portion of Wisconsin's eligible, elderly population. In addition, enrollments in the program are below budgeted estimates.

In reviewing the 2002-03 condition statement, the following points should be noted. First, it is currently estimated that MA and BadgerCare benefit costs will exceed amounts budgeted for these programs in 2002-03 by \$64 million GPR. If this shortfall were to be addressed in 2002-03, the gross balance of -\$373 million would instead be -\$437 million. Second, it is uncertain at this time if the 2001-03 collective bargaining agreements and proposed amendments to the state compensation plan will be approved by the Legislature and Governor. If they do not take effect in 2002-03, the deficit figure shown above would improve by an estimated \$33 million. Finally, the -\$373 million is a gross balance figure and does not include a statutory reserve amount. If the Governor and Legislature were to address the gross deficit and maintain a statutory balance (\$134 million), the total amount needed in 2002-03 would be \$507 million.

2003-05 Projected Imbalance

In addition to projecting the \$185 million deficit for 2002-03, the administration's November 20 report indicated a potential general fund imbalance for the 2003-05 biennium. In preparing the estimate, the November 20 report assumed the following: (1) a 2003-04 opening balance of -\$185 million; (2) the general fund revenue estimates for each year of the next biennium as contained in the November 20 report; (3) general fund appropriation amounts requested by state agencies for 2003-05; and (4) the current statutory balance requirements of 1.6% of appropriations in 2003-04 and 1.8% in 2004-05. Using those assumptions, the November 20 report showed an imbalance in 2003-04 of \$1,597 million and an additional imbalance of \$972 million in 2004-05. Thus, for the 2003-05 biennium, the November 20 report showed an imbalance of \$2,569 million (\$1,597 million plus \$972 million).

If the 2003-04 opening balance of -\$373 million and the 2003-05 tax collections of this report were used along with the other assumptions of the November 20 document, the projected imbalance would be \$1,999 million in 2003-04 and an additional \$1,226 million in 2004-05 for a biennial total of \$3,225 million. This is \$656 million more than the \$2,569 million imbalance figure of the November 20 report for the next biennium.

The imbalance figure above is shown for comparative purposes only. At this time, the level of appropriations, departmental revenues, compensation reserves, and other items of the Governor's budget recommendations and those of the Legislature for 2003-05 are unknown. Also, the Constitution requires that the Legislature adopt a balanced budget. Thus, any imbalance projections for 2003-05 will be addressed by the Governor and Legislature in upcoming budget recommendations and deliberations.

General Fund Tax Revenues

The following sections provide information related to general fund tax revenues for 2002-03 and the 2003-05 biennium. The information provided includes a review of the economy in 2002, a discussion of the national economic forecast for 2003 through 2005, and detailed general fund tax revenue projections for the current fiscal year and the next biennium.

Review of the Economy in 2002

Last January, this office prepared general fund revenue estimates for the 2001-03 biennium based on the January, 2002, forecast of the economy prepared by DRI-WEFA (a subsidiary of Global Insight, Inc. that was formed by integrating DRI and Wharton Econometric Forecasting Associates). Global Insight, Inc. now prepares the forecast. The forecast reflected the effects on the national economy of the recession that was declared to have started in March, 2001, by the National Bureau of Economic Research. The recession was projected to bottom out in the first quarter of 2002, followed by gradually accelerating growth during the rest of the year. Relatively strong growth was forecast for 2003. The forecast indicated that the federal tax cuts approved before the September 11, 2001, terrorist attacks, increased federal spending on education, security, defense, and intelligence, and monetary policy that enhanced liquidity and produced low interest rates would all contribute to an economic turn-around. The forecast also assumed a reversal of a build-up of inventories beginning in the first quarter of 2002, and increased expenditures for travel and leisure activities as the impact of September 11 began to fade.

Nominal gross domestic product (GDP) was projected to increase 1.9% in 2002 and 6.0% in 2003, while real GDP was forecast to increase by 0.6% in 2002 and 3.7% in 2003. Inflation would remain relatively low, with the consumer price index at 1.9% in 2002 and 2.6% in 2003. The economic slowdown would cause unemployment to increase to 6.2% in 2002 and then decrease slightly to 5.9% in 2003, as the economy rebounded. Reflecting increased unemployment and the sluggish economy, the growth in personal income was projected to slow in 2002, then pick up in 2003. Growth in personal income was anticipated to be 2.2% in 2002 and increase to 5.2% in 2003, as employment began to grow again. Consumer spending was expected to drop in early 2002 then increase and help spur economic recovery beginning in the spring of 2002. The January, 2002, forecast assumed growth in personal consumption expenditures of 2.3% in 2002 and 6.1% in 2003.

Based on estimated growth in real GDP, it appears that the recession ended in the fourth quarter of 2001, and positive growth occurred in each quarter of 2002. However, when the final numbers are computed for 2002, the economy's quarterly growth rates will exhibit an erratic

pattern, with peaks of 5% and 4% of real growth in the first and third quarters and lower growth rates of 1.3% and 1.0% in the second and fourth quarters, respectively. Consumer spending was the primary force behind economic growth during the year, although spending patterns were somewhat inconsistent. Consumer spending increased by 4.5% last year, with growth rates ranging from 3.9% in the first quarter to 5.4% in the third quarter. Both total personal income and disposable personal income increased to support spending. In 2002, personal income increased 3.0%, while disposable income increased 5.9%. Low prices, product innovations, low interest rates, and the return of zero-percent financing for automobiles led to additional purchases. In addition, falling mortgage rates and increasing home values allowed consumers to tap into the equity in their homes for additional funds for consumer purchases. Although consumers generally kept spending through the year, their mood mirrored the erratic pattern of the economy. Consumer confidence improved over most of the first half of 2002, declined for five months, rebounded in November, and then dropped back at year-end. The Conference Board's index of consumer confidence was 80.3 for December, down from 84.9 in November. The University of Michigan's index of consumer sentiment increased in December to 86.7 from 84.2 in November. Overall, the confidence indices taken together made no strong gains through the end of the year. Consumers were concerned about the stagnant job market, falling stock market, and the possibility of war in the Middle East.

The continuing boom in the housing market made a significant contribution to economic growth during the year. Primarily as a result of low interest rates, sales of both new and existing homes posted their best year ever. Sales of new houses increased 7.6% over 2001 while existing home sales increased from about 5.3 million to 5.6 million, or 5.6% for the year. The increased demand for housing stimulated construction as housing starts were up 5.5% in 2002. The growing demand also bid up home prices as the average price for new homes increased from \$210,100 in 2001 to \$223,300 in 2002. Similarly, the average price of existing homes went from \$184,200 in 2001 to \$200,000 in 2002. Assisted by the expansionary monetary policy followed by the Federal Reserve, mortgage interest rates fell to historic lows. In November, the Federal Open Market Committee cut the target federal funds rate 50 basis points to 1.25%. This was the first decrease in 2002, but the twelfth rate cut in two years. The annual average conventional 30-year fixed mortgage rate dropped from 7.0% in 2001 to 6.5% in 2002. The combination of low interest rates and rising home values spurred homeowners to refinance. According to the Mortgage Bankers Association of America, an estimated \$1.24 trillion in mortgages were refinanced in 2002, and a study by an economist at Goldman, Sachs & Co. found that refinancing provided an amount equal to 2% of disposable income during the first half of 2002.

The year-end employment picture was not good. Payroll contracted by 101,000 in December and there were downward revisions in reported employment for October and November. However, the monthly unemployment rate remained unchanged at 6.0%. For the year, the unemployment rate was 5.8%, up from 4.8% for 2001. The unemployment rate reflects weak labor force growth. Businesses have been reluctant to add employees. In addition, firms are uncertain about the potential economic impact of a war with Iraq, the standoff with North Korea, and any future terrorist attacks. This uncertainty has also contributed to a lack of business investment. Firms are not sure that demand will remain strong enough to justify an increase in capital budgets and to start new capital projects. In addition, operating rates at many companies are quite low. The average

factory operating rate was 70% for 2002. Finally, strong productivity growth allows businesses to increase output without adding new machinery. Real nonresidential fixed investment decreased 5.7% for the year, while purchases of equipment and software declined 1.8%.

In 2002, productivity gains were the best in decades. Nonfarm output per hour increased 4.7%, while manufacturing output per hour increased 5.2%. In 2001, the rate of growth of those factors was 1.1% and 0.9% respectively. At the same time, compensation per hour increased 2.9% and unit labor costs actually declined 1.8%. As a result, businesses were able to increase employee pay and improve profitability. As noted, personal income increased 3.0% in 2002. After declining in 2001, after-tax corporate profits turned around and started increasing throughout the year. The bonus depreciation provisions enacted in the federal Job Creation and Worker Assistance Act of 2002 also increased business cash flow.

Inflation remained contained in 2002, with consumer prices increasing 1.6% for the year. Producer prices for finished goods declined by 1.3% for the year. However, energy prices jumped 9.0% in the last quarter, as a result of the strike against the Venezuela national oil company and concern over war with Iraq. Core CPI inflation was a stable 2.0% for the same quarter.

Although the value of the dollar began declining against most currencies of industrialized countries in 2002, it did not drop far enough to have a positive effect on international trade. As a result, trade was a drag on the U. S. economy for the year. The strong dollar makes imports relatively cheap, while U.S. exporting firms have difficulty selling products and services overseas. The annualized current account balance deficit was almost \$500 billion. America is importing more than it exports, while the income it gets from foreign investments is less than the amount paid to foreigners for investments in the U. S. The combination of a relatively strong dollar and tough competition from countries with low production costs has led to elimination of two million jobs in the manufacturing sector of the economy since 2000.

A series of corporate governance scandals, major bankruptcies, and revelations of accounting fraud that began in late 2001 shook the financial markets in 2002. These events severely undermined confidence in the financial markets. Combined with sluggish economic growth and corporate earnings, rising unemployment, and apprehension about war and terrorism, the market declined in 2002. The market did rally some late in the year, climbing two straight months in the fourth quarter, the first time since March, 1998. However, this was not enough to offset the annual decline. By the end of 2002, the market value of household equity holdings had fallen by an estimated \$3.2 trillion, bringing the three-year decrease to \$7.0 trillion, or 22%. Similarly, for 2002, the Dow index was down 17%, the S&P 500 was down 24%, and the Nasdaq was down 33%. The last time the market saw a three-year run in losses was 1939 to 1941.

National Economic Forecast

The revenue estimates included in this report are based on the January, 2003, forecast of the economy by Global Insight, Inc.

As 2003 began, the United States faced a world filled with uncertainties that could have significant consequences beyond the effects on the economy. The possibility of war with Iraq looms, the North Korean government has revived a program for enriching uranium and threatened aggression if certain conditions are not met, and terrorist groups remain at large and dangerous. The events surrounding potential war in Iraq, the outcome of the confrontation with North Korea, and possible terrorist activities could have substantial impacts on the U. S. economy.

Many economists believe that apprehension by consumers and businesses regarding potential war in Iraq helped contribute to a slowdown in the economy at the end of 2002. The final quarter of 2002 is expected to have a real annual rate of GDP growth of 1.0%. Final demand, reflecting depressed consumer confidence, only increased at an annual rate of 0.3%. Industrial production dropped and the unemployment rate increased. However, according to Global Insight, Inc., the slowdown in growth and increase in unemployment in the fourth quarter of 2002 gives a misleading picture of the health of the economy. Personal income grew at an annual rate of 3.8% and consumer spending for nondurables and services increased more than in the third quarter. After-tax corporate profits were strong and real nonresidential fixed investment changed from a negative annual rate of growth to a positive increase of 3.3%. Government purchases also contributed to economic growth. Inflation remained constrained and interest rates were low.

The Global Insight, Inc. forecast incorporates the effects of a war with Iraq, new federal income tax cuts, and the extension of unemployment benefits into its economic projections for 2003 and beyond. Concern about possible setbacks and a jump in oil prices are expected to depress consumer confidence and the stock market. Consumer spending and business investment will be constrained until a successful outcome of the war is assured.

An additional \$50 billion in federal spending is projected, with most of the initial spending for activating reserves and combat pay. Federal expenditures to replace equipment and munitions used in the war will occur in late 2003 and 2004. The tax cut package finally adopted by Congress and approved by the President and the extension of unemployment benefits is assumed to amount to another \$50 billion. Thus the total fiscal stimulus provided by possible war with Iraq, federal tax cuts, and extended unemployment benefits is forecast to be \$100 billion over the next 18 months.

A resolution of the situation in Iraq, combined with the underlying strengths in the economy and the fiscal stimulus provided by war expenditures, the federal tax cuts, and unemployment compensation benefits, are expected to propel economic recovery beginning in the second half of 2003 and carrying on into 2004. Economic expansion will continue in 2005, but at a lower rate. For the forecast period, moderating growth in consumer spending will be offset by the jump in federal spending, the reversal of business investment in equipment from annual decreases to annual increases, and a decline in the value of the dollar that will improve trade. Global Insight, Inc. estimates that real GDP will grow at an annual rate of 5.5% the last two quarters of 2003. For the year, real GDP will increase 3.1%, compared to 2.4% for 2002. Real GDP growth will increase to 4.7% in 2004, and then moderate to 3.3% in 2005. Nominal GDP, which increased 3.6% in 2002, is projected to increase 5.2% in 2003, 7.2% in 2004, and 5.7% in 2005.

Consumer spending was the primary force behind economic growth in 2002. Purchasing power was enhanced by zero-percent financing for autos, federal tax cuts, and low mortgage interest rates that allowed individuals to borrow from the equity of their homes through refinancing or by taking out new home-equity loans. Despite the year-end drop in consumer confidence and slowdown in spending, the consumer will continue to be a key contributor to economic growth. Since the factors, such as mortgage refinancings, that spurred consumer spending are likely to be less significant, increasing income is expected to be the primary source of additional spending. Continued productivity gains and slowly increasing employment will cause incomes to grow. Increasing productivity gives employers the opportunity to increase wages for their workers and still maintain or increase profit margins. The Global Insight, Inc. forecast estimates that personal income will increase 5.0% in 2003, 6.5% in 2004, and 5.6% in 2005. Productivity (output per hour) is projected to increase 3.3% in 2003, 2.5% in 2004, then slow to 2.0% in 2005. Although consumer spending is expected to continue pushing economic growth during the next three years, the anticipated war with Iraq will weaken consumer spending in the first half of 2003. Oil prices are forecast to increase to almost \$32 per barrel in the first quarter and consumer confidence will fall. However, it is projected that later in 2003 oil prices will decline and consumer confidence and the stock market will surge. Spending is forecast to jump in late 2003 and 2004, as increasing incomes and the proposed federal tax cut provide consumers with more disposable income. Increased hiring over the forecast period will also raise the willingness of consumers to spend. The forecast estimates the annual growth in personal consumption expenditures will be 4.4% for the first half of 2003, then increase to 5.2% for the second half of the year. Annually, personal consumption expenditures are expected to increase 4.8% in 2003, 6.7% in 2004, and 5.8% in 2005. The consumer sentiment index is projected to jump almost ten points from 86.9 in 2003 to 96.4 in 2004. The index will then stabilize at 95.8 in 2005.

At the start of 2003, the state of affairs in the world is reinforcing risk-averse behavior in businesses. In addition to the possibility of war with Iraq and confrontation with North Korea, the strike against the national oil company in Venezuela has created fears of an oil-price spike. Until these situations are cleared up, businesses will be reluctant to undertake substantial investment projects. A strong economic recovery depends on businesses' willingness to take risks and invest. Without investment, businesses are not making commitments to future growth and new hires. The forecast assumes that, once the situation with Iraq is resolved, business investment will be a primary contributor to economic growth from the second half of 2003 through 2005. The underlying factors for increased investment seem to be in place. Businesses have engaged in cost-cutting activities over the past two years. Jobs have been pared, major capital investment projects have been delayed, and worker productivity has increased. As a result, income from sales is generally going directly to a firm's bottom line. Federal bonus depreciation tax provisions will provide additional short-term cash flow to certain businesses as well. Improved earnings and cash flow are expected to drive a rebound in capital spending. In addition, a weakening dollar should make exports more competitive and foreign goods more expensive. This will improve the pricing power of U. S. businesses. The forecast assumes that, in the aftermath of a successful resolution of the situation in Iraq, the economy will experience a substantial increase in growth. Finally, increasing consumer demand is helping raise earnings. Reflecting increased consumer spending and continued strong productivity, pre-tax corporate profits will surge to an annual rate of growth of

15.0% in 2003 and 16.5% in 2004. Businesses will make the capital purchases and start the capital investment projects that have been postponed the past two years. With the ratio of inventories to sales below the ten-year trend, new orders for replacements are likely. This should spur additional investment to support expanded output. Under the forecast, real nonresidential fixed investment is projected to increase 4.8% in 2003, 10.7% in 2004, and 8.2% in 2005. Similarly, real investment in equipment and software is expected to grow by 7.6% in 2003, 12.1% in 2004, and 7.0% in 2005.

The state of the labor market deteriorated in the fourth quarter of 2002, as the unemployment rate moved up to 6.0% and the economy lost jobs. Businesses have focused on reducing costs and have been reluctant to add workers. Moreover, increased productivity from the existing workforce lets businesses increase output without increasing the workforce. Employers will have to regain confidence in the stability of demand and profits before they begin hiring at a pace strong enough to significantly lower the unemployment rate. However, by historical standards, the 6.0% jobless rate is quite low at this stage of a recovery. Under the forecast, the unemployment rate is expected to edge up to 6.4% by the second quarter of 2003. Then, as the economy accelerates in the second half of the year, employment will improve gradually from the third quarter of 2003 through 2005. The annual unemployment rate is projected to be 6.2% in 2003, 5.3% in 2004, and 5.0% in 2005. After increasing only 0.7% in 2003, payroll employment will increase 2.6% in 2004 and 1.9% in 2005.

The housing market was a major contributor to economic growth in 2002. The historic low level of mortgage rates and decline of the stock market made housing a preferred investment. The low mortgage rates accelerated the transition of some households from renters to buyers, and allowed current owners to expand consumption of housing without significantly increasing their housing budgets. The Global Insight, Inc. forecast sees a reduced role for housing and construction as factors in economic growth. Early in 2003, a downswing in housing activity is anticipated once the negative impact of rising unemployment and weak wage gains outweigh the positive impact of low mortgage rates. Beginning in the second half of the year, increasing interest rates are expected to offset an improving employment outlook. The average conventional 30-year mortgage rate is projected to increase slightly from 6.5% in 2002 to 6.7% in 2003, and then jump to 8.1% in 2004, and 8.2% in 2005. Conversely, total housing starts are forecast to drop from 1.69 million units in 2002 to 1.56 million units in 2003, before rebounding somewhat to 1.64 million and 1.67 million units in 2004 and 2005, respectively. Sales of existing homes will follow a similar pattern, while sales of new homes will show annual declines. Real residential construction is projected to decrease 1.3% in 2003, and then increase 2.3% in 2004 and jump 5.4% in 2005.

The U. S. trade deficit is expected to set a record high in 2002, even though the dollar fell to a three-year low against the Euro by mid-January, 2003. Although the dollar has dropped from its peak in February, 2002, it has not fallen enough to create a competitive environment for U. S. exporters. In recessions and times of slow economic growth, trade deficits typically narrow as consumer spending weakens, and a weak economy tends to undermine the value of the dollar, and imports become more expensive and exports cheaper for foreign consumers. While U. S. economic growth has been sluggish, the economies of many of the United States' trading partners are growing more slowly, depressing overseas demand for U. S. goods, services, and financial assets. And even

though the value of the dollar is falling relative to the currencies of other trading partners, many economists believe it could take up to two years for a drop in the currency to translate into noticeable export gains or declining imports. Rather than show a fairly smooth quarterly pattern of gradual expansion of the trade deficit, the forecast projects a minor improvement in trade for several quarters of 2003, as automotive manufacturers reduce North American production and imports of completed vehicles into the United States. The trade deficit is then expected to deteriorate until later in the forecast period when foreign economies improve. The trade deficit is forecast to increase from \$414.9 billion in 2002 to \$421.5 billion in 2003 and \$431.1 billion in 2004, before dropping to \$423.2 billion in 2005.

The forecast indicates that, despite recent jumps in energy prices, the inflation environment remains benign. While many broad measures of inflation have been showing modest acceleration recently, and inflation is expected to rise, Global Insight, Inc. does not consider the rise alarming. The annual rate of increase in core inflation (the Consumer Price Index, excluding food and energy) decreased through November. Part of the drop in core inflation was due to lower wage cost escalation. Lower labor cost increases may have been the single most important reason inflation has been trending down over the past few years. The annual increase in total labor costs decreased from 4.6% in 2000 to 3.7% in 2002. The annual growth in labor costs is projected to decrease to 3.3% in 2003, then to increase 4.0% in 2004 and 3.7% in 2005, as the economy rebounds. However, there is some concern about the rising cost of employee benefits, particularly health care. The producer price index (PPI) for finished goods is also seemingly under control, having declined 1.3% in 2002, partially due to decreased auto prices. The CPI and PPI are expected to increase in the first half of 2003, as a result of the strike against the Venezuelan national oil company and the possibility of war in Iraq. The PPI for energy is expected to increase 15.3% in the first quarter of 2003, while the CPI for energy will be up 17.7% for the same period. However, when these matters are resolved, energy prices are expected to drop. The drop in energy prices is expected to dampen the inflationary effects of the increased ability of producers to raise prices as the economy recovers beginning in the second half of 2003. Moreover, sluggish growth in the manufacturing sector and moderate increases in employment costs will keep prices under control. The annual change in the PPI is expected to be 1.2% in 2003 and 2004, and 1.4% in 2005. The annual increase in the CPI is projected to be 2.3% in 2003, 2.4% in 2004, and 2.6% in 2005. Finally, core inflation is forecast to grow 2.2% in 2003 and 2.7% in both 2004 and 2005.

For most of the past two years, monetary policy has been the primary government tool used to manage the economy. The Federal Reserve's actions to continuously cut interest rates have thus far prevented the economy from tumbling into a major recession. The rate reductions have had the greatest effect on the automotive, housing, and mortgage markets. However, the lower rates have not had a significant effect on business investment. Global Insight, Inc. does not expect the Federal Reserve to take any actions during the first two quarters of 2003. Once the situation in Iraq is successfully resolved, economic growth will begin to surge and pressure will increase on prices. The forecast indicates that, in order to head off any inflationary pressures related to the recovery, the Federal Reserve will approve a rate hike next summer. The timing could be affected by the situation in Iraq or passage of a version of the administration's fiscal package.

In early January, President Bush proposed a fiscal stimulus package of tax cuts, extended unemployment compensation benefits, and personal re-employment accounts, with a total cost of almost \$700 billion over ten years. [The extended unemployment benefits package has already been enacted into law.] As noted, the forecast includes the estimated effect of a stimulus package on the economy. In addition, the forecast assumes that Congress will pass an omnibus budget bill that is close to the administration's target. Increased federal outlays are anticipated for income security, Medicare, Medicaid, and defense. The federal deficit is expected to be \$300 billion or more for the next two years. A budget surplus is not projected until 2011.

Over the past six quarters, state and local governments, in aggregate, have been running an annual operating deficit of about \$50 billion, or about 4% of their operating budgets. This amounts to about 20% of non-wage, non-transfer spending. Since state and local governments must have balanced budgets, these governments have worked to fund the deficits mainly through the use of reserve funds, accounting adjustments, and short-term borrowing. These devices are generally not permanent solutions. As a result, Global Insight, Inc. anticipates that, during the next few years, state and local governments will use layoffs and spending cuts to bring their budgets back into balance. Also, some revenue increases, beyond cigarette taxes and casino gambling, are anticipated.

Table 2 shows projected values for several economic indicators that underlie the general fund revenue estimates for 2002-03 and the 2003-05 biennium.

TABLE 2

**Summary of National Economic Indicators
Global Insight, Inc.
January, 2003
(\$ in Billions)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Nominal Gross Domestic Product	\$10,448.9	\$10,987.1	\$11,775.8	\$12,448.7
Percent Change	3.6%	5.2%	7.2%	5.7%
Real Gross Domestic Product	\$9,437.7	\$9,730.0	\$10,188.0	\$10,524.3
Percent Change	2.4%	3.1%	4.7%	3.3%
Consumer Price Index	1.6%	2.3%	2.4%	2.6%
Personal Income	\$8,947.0	\$9,391.6	\$10,004.3	\$10,566.7
Percent Change	3.0%	5.0%	6.5%	5.6%
Personal Consumption Expenditures	\$7,299.0	\$7,650.6	\$8,164.6	\$8,640.9
Percent Change	4.5%	4.8%	6.7%	5.8%
Corporate Profits Before Tax	\$659.4	\$758.4	\$883.4	\$851.1
Percent Change	-1.6%	15.0%	16.5%	-3.7%
Unemployment Rate	5.8%	6.2%	5.3%	5.0%

The January, 2003, Global Insight, Inc. economic forecast includes a fairly extensive list of risks that could have an effect on the U. S. economy in 2003, which are described below. Most of these risks would negatively impact the economy; however, the last three risks would lead to stronger growth.

Extensive War with Iraq. Although the effects of a short war with Iraq have been built into the forecast, there is a possibility that the war could be longer and more difficult. In such a scenario, oil prices would increase more and the negative impacts on the stock market and consumer confidence would be greater. The additional uncertainty and higher oil prices could trigger recessions in the United States and other countries.

Major Terrorist Attack. A major terrorist attack in the United States or Europe would severely damage business and consumer confidence and reduce the prospects for economic recovery.

Stock Market Dive. Lackluster earnings, further corporate scandals, and geopolitical events, such as a nuclear showdown with North Korea, could cause stock prices to drop again. Though

unlikely, a further large decrease in key market indexes could significantly weaken consumer spending and prevent a recovery in capital expenditures.

Housing "Bubble" Bursts. About a dozen urban housing markets in the U. S. have exhibited some symptoms of "bubble" activity, especially at the high ends of the price spectrum. Recent data indicates that these "bubbles" are slowly deflating rather than bursting. A plunge in housing prices could only occur if interest rates jumped, which is a remote possibility in 2003. However, a drop in housing wealth could reduce consumer spending.

U. S. Dollar Crashes. If the U. S. dollar were to fall precipitously, both inflation and interest rates in the U.S. could spike. A plunge in the dollar would also undermine the export-led recoveries in Europe and Asia. Global Insight, Inc. indicates that the odds of a crash in the value of the dollar are low for two reasons. First, stronger growth in the U. S. relative to most other parts of the world will support the dollar. Second, if the dollar actually started a free-fall, the Federal Reserve and central banks in other countries would likely intervene to prevent disruption of global markets.

A Financial Crisis in a Foreign Country. Many analysts worry that a world financial crisis could be set off by a default in a large, emerging market such as Brazil, or by a financial meltdown in Japan. The likelihood of this scenario is low.

Capital Spending Accelerates. Typically, spending on equipment and structures tends to rebound strongly after a recession. It is believed that worldwide weak growth and large amounts of excess capacity are discouraging companies from making capital investments. However, ratios of inventories to sales and corporate sector net investment to GDP are at historically very low levels. There is a possibility that there is a pent-up demand for capital spending that could take off after the uncertainty about the war with Iraq dissipates. This could significantly increase economic growth above the forecasted level.

Stronger Economic Growth in Europe and Japan. The forecast anticipates weak growth in Europe and Japan. The European Central Bank is showing greater willingness to promote growth. This, combined with more flexibility on fiscal policy, could mean greater growth in domestic European demand. At the same time, banking reform could occur in Japan. If accompanied by macroeconomic policies to offset any initial negative impact on growth, the net result could benefit the worldwide economy.

No War with Iraq. The forecast assumes a short war with Iraq. An alternative would be no attack on Iraq. Under this scenario, there would be less short-term fiscal stimulus from the federal government because of lower military spending. However, the economy would get a boost in 2003 from four other sources: (1) lower oil prices; (2) higher consumer sentiment, resulting in stronger consumer spending; (3) an earlier rebound in capital spending, particularly on equipment; and (4) higher economic growth in foreign trading partners, resulting in increased exports. Under this alternative, a broad recovery starts early in 2003.

General Fund Tax Collections

Table 3 shows revenue estimates for all general fund tax sources for the 2002-03 fiscal year and each year of the 2003-05 biennium. Over the three-year period, these estimates are lower than the Department of Revenue's November 20 projections by \$646.1 million (\$177.5 million in 2002-03, \$215.1 million in 2003-04, and \$253.5 million in 2004-05). In the current fiscal year, the difference is primarily due to the individual income and sales taxes, and reflects more recent collections and employment data that are less favorable than the information that was available when DOR's estimates were prepared. In the two years of the 2003-05 biennium, overall growth rates similar to DOR's are projected (5.1% in 2003-04 and 5.6% in 2004-05). However, the reduced base-year (2002-03) estimate results in lower projections in each of the two out-years. Revenues from the estate tax are also expected to be significantly lower than DOR's figures during the next two fiscal years, based on collection patterns that prevailed prior to the recent federal and state law changes in that tax (as discussed later in this report in the section on estate taxes).

TABLE 3

Projected General Fund Tax Collections (\$ in Millions)

	<u>2001-03 Biennium</u>		<u>2003-05 Biennium</u>	
	<u>2001-02</u> <u>Actual</u>	<u>2002-03</u> <u>Estimated</u>	<u>2003-04</u> <u>Estimated</u>	<u>2004-05</u> <u>Estimated</u>
Individual Income	\$4,979.7	\$5,120.0	\$5,410.0	\$5,800.0
Sales and Use	3,695.8	3,760.0	3,910.0	4,100.0
Corporate Income & Franchise	503.0	490.0	540.0	555.0
Public Utility	252.2	260.4	268.0	278.0
Excise				
Cigarettes	288.8	292.0	288.4	284.7
Liquor and Wine	36.0	36.3	37.2	38.5
Tobacco Products	13.9	15.9	16.8	17.9
Beer	9.6	9.7	9.8	9.9
Insurance Company	96.1	105.0	105.0	95.0
Estate	82.6	67.0	85.0	90.0
Miscellaneous Taxes	<u>62.5</u>	<u>67.2</u>	<u>71.3</u>	<u>74.7</u>
TOTAL	\$10,020.2	\$10,223.5	\$10,741.5	\$11,343.7
Change from Prior Year		\$203.3	\$518.0	\$602.2
Percent Change		2.0%	5.1%	5.6%

Individual Income Tax. Individual income tax receipts are estimated to total \$5,120.0 million in 2002-03, which represents a 2.8% increase over collections during 2001-02. For the 2003-05 biennium, individual income tax collections are estimated to be \$5,410.0 million in 2003-

04 and \$5,800.0 million in 2004-05. These figures represent increases of 5.7% and 7.2%, respectively, over prior year estimates, and are based on the forecast and assumptions about taxable personal income growth in 2003 and 2004.

General Sales and Use Tax. Sales tax revenues totaled \$3,695.8 million in 2001-02 and are estimated at \$3,760.0 million in 2002-03, \$3,910.0 million in 2003-04, and \$4,100.0 million in 2004-05. These projections are based on historical experience and forecast growth in personal consumption expenditures, with adjustments for expenditures on food, gas and oil, and services to more closely reflect Wisconsin's sales tax base. The estimates represent growth rates of 1.7% in 2002-03, 4.0% in 2003-04, and 4.9% in 2004-05.

Corporate Income and Franchise Tax. Corporate income and franchise tax revenues are projected to decline from \$503.0 million in 2001-02 to \$490.0 million in 2002-03. Revenues are then forecast to increase to \$540.0 million in 2003-04 and to \$555.0 million in 2004-05.

The 2002-03 estimate reflects lower year-to-date corporate income and franchise tax collections and slow profit growth in the first quarter of 2003. Through December, 2002, monthly corporate income and franchise tax collections have declined significantly from 2001-02 monthly collections. In addition, corporate profits declined in 2002 and are not expected to rebound until the spring of 2003.

As the economy expands beginning in the second half of 2003, improving employment and consumer spending are expected to increase demand for business outputs and services. A surge in capital spending will also increase demand for business products. Continued productivity growth is expected to contribute to profit margins.

Public Utility Taxes. Public utility taxes are estimated to be \$260.4 million in 2002-03. The estimate represents a 3.3% increase over the \$252.2 million in utility taxes collected in 2001-02 and is based on year-to-date collections and assumptions about the pattern of estimated tax payments over the remainder of the fiscal year. Utility tax revenues are estimated at \$268.0 million in 2003-04 and \$278.0 million in 2004-05, representing year-over-year increases of 2.9% and 3.7%. These figures incorporate the reduced tax rate on wholesale electricity sales that was provided under 2001 Wisconsin Act 16 (the 2001-03 biennial budget), starting with receipts from electricity sales in 2004.

Excise Taxes. Excise taxes on cigarettes, tobacco products, and alcoholic beverages totaled \$348.3 million in 2001-02. These collections are projected to be \$353.9 million in 2002-03, \$352.2 million in 2003-04, and \$351.0 million in 2004-05. Revenues from the most significant of the excise taxes, the cigarette tax, are projected to decline during both years of the 2003-05 biennium, reflecting the continuation of a trend of gradual year-to-year consumption declines. An 18¢ increase in the cigarette excise tax (from 59¢ per pack to 77¢ per pack) was enacted in Act 16 and took effect on October 1, 2001. Because the higher rate will be in effect for the entirety of fiscal year 2002-03 but was in effect only for nine months of fiscal year 2001-02, a year-over-year

increase in revenues (1.1%) is projected for 2002-03, even though year-over-year pack sales are expected to decline.

Estimates of revenues from the tobacco products tax also reflect a rate increase--from 20% of the manufacturer's list price to 25% of the price, effective October 1, 2001. In addition, sales of tobacco products are expected to grow each year during the 2003-05 biennium, trending in the opposite direction of cigarettes.

The remaining excise taxes on beer, wine, and liquor are estimated to post modest year-over-year revenue increases during all three years for which estimates have been prepared.

Insurance Premiums Taxes. Insurance premiums taxes are projected to increase from \$96.1 million in 2001-02 to \$105 million in 2002-03 and in 2003-04. It is estimated that insurance premiums tax revenues will then decrease to \$95 million in 2004-05. The increased revenues in the first two years are due to a significant annual increase in premiums, mainly from higher prices and to a lesser extent from higher demand. Investment income is generally a significant source of income for insurers. In response to lower investment income, which reflects declining returns from equity markets, insurance companies have increased premium rates to maintain some level of profitability. Industrywide net written premiums are expected to increase 13.6% in 2002 and 12.3% in 2003. Insurance premiums tax collections to-date are significantly above last year's level. Collections are expected to moderate in 2005 as the improving economy and equity markets reduce the importance of premiums as a source of insurance company profits.

Estate Taxes. Estate tax revenues are estimated at \$67.0 million in 2002-03, \$85.0 million in 2003-04, and \$90.0 million in 2004-05. These estimates reflect a decrease of 18.9% in 2002-03 from 2001-02 collections of \$82.6 million, and increases of 26.9% and 5.9% in 2003-04 and 2004-05, respectively, over prior year estimates.

Annual estate tax collections are significantly affected by the settlement, or lack thereof, of a small number of large estates. Collections may, therefore, vary considerably from year to year. However, the variation in actual collections and estimated estate taxes from 2001-02 through 2004-05 primarily reflects the effects of the federal law changes under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and subsequent state law changes under Act 16.

Prior to Act 16, state estate taxes were coupled to federal law. Following the federal estate tax reductions under EGTRRA (which provided for the gradual elimination of the estate tax, starting with deaths in 2002, and the phase-out of the federal credit for state death taxes upon which the state estate tax was based), Act 16 decoupled state estate taxes from current federal law. Act 16 provided, instead, that state estate taxes would be linked to federal law in effect on December 31, 2000, (prior to the EGTRRA reductions) for a specified period starting October 1, 2002. The combined effect of the federal and state law changes was to temporarily reduce state estate taxes, which is reflected in the estimate of \$67.0 million in estate taxes in 2002-03. Starting with fiscal year 2003-04, it is expected that state estate tax revenues will return to levels similar to those

received prior to the change in the federal law. The estimates for 2003-04 and 2004-05 are based on collection patterns prior to EGTRRA.

Miscellaneous Taxes. Collections from the miscellaneous taxes--the real estate transfer fee, which comprises over 80% of miscellaneous tax revenues, and municipal and circuit court-related fees--are expected to increase by 7.4% during 2002-03, to an estimated \$67.2 million, then exhibit somewhat slower growth in the two years of the 2003-05 biennium, 6.1% and 4.8%, respectively. Interest rate increases expected to occur during the economic recovery, with their dampening effects on home sales and other property transfers, are the primary factor underlying the slower growth estimates in future years.

We will continue to monitor tax collections, economic forecasts, and expenditures and keep you apprised of any modifications that may be necessary.

Sincerely,

A handwritten signature in black ink that reads "Bob". The letters are stylized and cursive.

Robert Wm. Lang
Director

RWL/sas
cc: Members, Wisconsin Legislature

General Fund Information; General Fund Cash Flow (Part II–Pages 36-44).

The following provide updates to various tables containing General Fund information that is presented on a cash or recorded basis. Information presented earlier in this APPENDIX B has been presented on a budgetary basis. Unless noted, the following information reflects the revised revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003 and the budget bill for the 2003-04 and 2004-05 fiscal years (2003 Wisconsin Act 33).

The following tables show negative balances on a cash basis. Wisconsin Statutes provide certain administrative remedies, such as interfund borrowing, to deal with periods when the balance, on a cash basis, is negative. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

The State can have a negative cash balance at the end of a fiscal year. This is different than budgetary requirements, in which the Wisconsin Constitution requires the Legislature to enact a balanced biennial budget. The Wisconsin Constitution also requires that if final budgetary expenses of any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.

Table II-7; State Budget-General Fund (Part II–Page 39). Replace the table with the following:

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2002-JUNE 30, 2003

	(In Thousands of Dollars)											
	July 2002	August 2002	September 2002	October 2002	November 2002	December 2002	January 2003	February 2003	March 2003	April 2003	May 2003	June 2003
BALANCES^(a)												
Beginning Balance	-421,915	-616,711	-151,597	312,086	637,718	631,559	159,706	833,727	940,167	209,055	597,754	516,851
Ending Balance ^(b)	-616,711	-151,597	312,086	637,718	631,559	159,706	833,727	940,167	209,055	597,754	516,851	-301,120
Lowest Daily Balance ^(b)	-835,846	-682,211	-292,593	146,623	562,154	-164,082	159,706	677,134	31,400	-95,472	285,166	-735,433
RECEIPTS												
TAX RECEIPTS												
Individual Income	515,747	350,778	629,833	469,429	306,427	591,751	753,704	448,331	425,443	800,494	350,610	627,194
Sales & Use	360,882	367,587	361,239	344,735	335,382	318,549	366,893	283,770	278,331	319,239	320,108	347,662
Corporate Income	14,037	12,214	110,295	24,404	14,643	120,855	21,494	12,509	172,994	22,473	12,993	114,972
Public Utility	197	19	211	4,299	145,137	5,492	-2,773	5,070	23	2,018	120,118	2,175
Excise	32,420	32,992	32,434	32,234	33,477	26,215	28,962	31,172	21,643	25,512	32,534	29,407
Insurance	1,086	1,897	22,836	784	1,291	23,036	1,889	16,309	24,750	24,504	2,581	24,962
Inheritance	6,834	7,406	14,701	3,871	4,538	3,497	7,799	2,124	2,625	3,761	8,797	3,650
Subtotal Tax Receipts	931,203	772,893	1,171,549	879,756	840,895	1,089,395	1,177,968	799,285	925,809	1,198,001	847,741	1,150,022
NON-TAX RECEIPTS												
Federal	451,110	384,251	473,314	500,946	491,232	443,561	628,967	537,288	523,444	511,718	354,871	660,374
Other & Transfers ^(c)	318,163	479,857	381,016	225,312	150,199	173,532	298,922	385,219	203,021	391,682	282,728	219,984
Note Proceeds ^(d)	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	769,273	864,108	854,330	726,258	641,431	617,093	927,889	922,507	726,465	903,400	637,599	880,358
TOTAL RECEIPTS	1,700,476	1,637,001	2,025,879	1,606,014	1,482,326	1,706,488	2,105,857	1,721,792	1,652,274	2,101,401	1,485,340	2,030,380
DISBURSEMENTS												
Local Aids ^(e)	903,055	166,454	704,521	101,549	410,446	1,175,368	223,251	244,546	1,199,379	133,429	214,765	1,810,134
Income Maintenance	357,630	355,727	306,119	359,298	357,037	365,688	357,190	353,772	326,068	404,651	347,535	289,515
Payroll and Related	289,522	317,944	213,252	361,884	396,657	234,841	410,335	305,602	230,548	314,141	434,080	281,801
Tax Refunds	46,735	41,583	44,505	55,983	70,935	133,298	70,374	377,534	358,377	355,000	166,318	134,427
Debt Service	0	1,159	0	120,742	1,281	0	0	893	0	262,262	6,797	0
Miscellaneous	298,330	289,020	293,799	280,926	252,129	269,146	370,686	333,005	269,014	243,219	396,748	332,474
Note Repayment ^(d)	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	1,895,272	1,171,887	1,562,196	1,280,382	1,488,485	2,178,341	1,431,836	1,615,352	2,383,386	1,712,702	1,566,243	2,848,351

(a) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. Their designated funds were expected to range from \$150 to \$300 million during the 2002-03 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds were expected to average approximately \$50 million during the 2002-03 fiscal year.

(b) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was approximately \$556 million for the 2002-03 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately \$334 million for the 2002-03 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the general fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(c) Reflects receipt on August 1, 2002 of \$231 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement.

(d) No operating notes were issued in the 2002-03 fiscal year; therefore, the table does not include any proceeds from the issuance of operating notes or any impoundment payments.

(e) Reflects use in November 2002 of approximately \$600 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement to make a portion of the shared revenue payment.

Table II-7; State Budget-General Fund (Part II–Page 39) Update the following table with the following:

**ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2003 TO OCTOBER 31, 2003
PROJECTED GENERAL FUND CASH FLOW; NOVEMBER 1, 2003 TO JUNE 30, 2004^(a)**

	(In Thousands of Dollars)											
	July 2003	August 2003	September 2003	October 2003	November 2003	December 2003	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004
BALANCES^(b)												
Beginning Balance	-301,120	-622,418	-400,502	418,507	907,811	676,738	246,856	1,015,926	1,225,864	114,893	579,151	675,512
Ending Balance ^(c)	-622,418	-400,502	418,507	907,811	676,738	246,856	1,015,926	1,225,864	114,893	579,151	675,512	-70,801
Lowest Daily Balance ^(c)	-762,702	-757,258	-654,756	289,720	478,108	-430,969	195,837	903,668	63,398	-76,531	373,565	-291,190
RECEIPTS												
TAX RECEIPTS												
Individual Income ^(d)	535,668	361,664	632,800	495,028	343,800	539,700	800,000	464,400	460,900	855,700	332,900	651,300
Sales & Use	368,518	363,614	375,775	374,113	364,000	304,400	408,000	318,600	287,700	324,400	344,800	354,000
Corporate Income	15,220	19,228	126,009	28,093	13,600	137,000	23,000	12,000	159,900	25,000	16,400	114,200
Public Utility	296	0	325	4,994	138,500	4,300	0	3,700	200	5,200	118,000	1,700
Excise	38,152	34,660	28,651	32,261	36,200	28,900	28,200	29,900	25,000	27,500	30,800	30,400
Insurance	828	1,375	25,541	293	1,200	22,100	1,800	12,000	19,100	24,100	3,900	23,200
Inheritance	5,660	11,035	7,017	6,607	6,200	4,900	8,200	5,500	6,200	10,300	6,300	5,600
Subtotal Tax Receipts	964,342	791,576	1,196,118	941,389	903,500	1,041,300	1,269,200	846,100	959,000	1,272,200	853,100	1,180,400
NON-TAX RECEIPTS												
Federal	420,678	479,004	507,840	618,086	422,500	448,900	610,800	525,300	471,600	533,500	518,900	553,400
Other & Transfers ^(d)	291,431	190,445	519,577	270,496	253,500	237,900	385,600	387,100	328,100	329,800	312,300	411,100
Note Proceeds ^(e)	0	0	400,000	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	712,109	669,449	1,427,417	888,582	676,000	686,800	996,400	912,400	799,700	863,300	831,200	964,500
TOTAL RECEIPTS	1,676,451	1,461,025	2,623,535	1,829,971	1,579,500	1,728,100	2,265,600	1,758,500	1,758,700	2,135,500	1,684,300	2,144,900
DISBURSEMENTS												
Local Aids	890,876	172,578	741,814	109,530	824,806	1,156,159	205,865	256,886	1,179,936	123,589	247,081	1,774,181
Income Maintenance	439,565	373,987	352,115	385,040	337,164	345,825	390,021	335,896	391,678	360,479	340,741	310,329
Payroll and Related	317,741	312,301	225,424	462,397	258,142	304,330	415,696	225,616	305,368	476,187	255,458	302,883
Tax Refunds	68,585	50,293	54,656	50,624	68,592	70,100	57,200	327,007	328,885	293,412	219,400	195,000
Debt Service	0	984	118,305	441	3,892	0	0	3,892	263,998	0	36,394	0
Miscellaneous	280,982	328,966	312,212	332,635	317,977	281,568	427,748	300,863	298,137	315,906	387,197	308,820
Note Repayment ^(e)	0	0	0	0	0	0	0	98,402	101,669	101,669	101,668	0
TOTAL DISBURSEMENTS	1,997,749	1,239,109	1,804,526	1,340,667	1,810,573	2,157,982	1,496,530	1,548,562	2,869,671	1,671,242	1,587,939	2,891,213

(a) Projections reflect the 2003-05 biennial budget bill that Governor Doyle signed into law with some partial vetoes on July 24, 2003 (2003 Wisconsin Act 33). The projections also reflect the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003 and adjustments made starting in September 2003 to better reflect end-of-month electronic fund transfers. While the projections are based on budgetary assumptions, they are presented on a cash basis and not a budgetary basis. Projections do not include interfund borrowings.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. These designated funds are expected to range from \$150 to \$300 million during the 2003-04 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately \$50 million during the 2003-04 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately \$542 million for the 2003-04 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately \$325 million for the 2003-04 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(d) The July Individual Income Tax Receipts and Non-Tax Receipts for Other & Transfers have been restated due to a subsequent reporting reclassification by the Department of Revenue.

(e) Includes \$400 million in operating note proceeds received in September, 2003 and impoundment payments due on February 27, March 31, April 30, and May 28, 2004. The February 27, 2004 impoundment payment excludes the premium deposited on September 18, 2003 into the operating note redemption fund.

Table II-8; General Fund Cash Receipts and Disbursements Year To Date; Compared to Estimates and Previous Fiscal Year. (Page 40). Update the table with the following:

2002-03 FISCAL YEAR
GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE
COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR^(a)
(Cash Basis)
As of June 30, 2003
(Amounts in Thousands)

	<u>2001-02 Fiscal Year</u>	<u>2002-03 Fiscal Year</u>			Difference FY02 Actual to FY03 Actual
	Actual	Actual	Estimate ^(b)	Variance	
RECEIPTS					
Tax Receipts					
Individual Income	\$ 6,103,348	\$ 6,269,741	\$ 6,198,997	\$ 70,744	\$ 166,393
Sales	3,977,953	4,004,377	3,994,441	9,936	26,424
Corporate Income	631,507	653,883	626,913	26,970	22,376
Public Utility	267,913	281,986	265,996	15,990	14,073
Excise	349,072	359,002	363,293	(4,291)	9,930
Insurance	123,627	145,925	129,776	16,149	22,298
Inheritance	85,059	69,603	68,462	1,141	(15,456)
Total Tax Receipts	\$ 11,538,479	\$ 11,784,517	\$ 11,647,878	\$ 136,639	\$ 246,038
Non-Tax Receipts					
Federal	\$ 4,981,947	\$ 5,961,076	\$ 5,120,168	\$ 840,908	\$ 979,129
Other and Transfers	3,998,844	3,509,635	3,795,920	(286,285)	(489,209)
Note Proceeds ^(c)	800,000	-	-	-	(800,000) ^(c)
Total Non-Tax Receipts	\$ 9,780,791	\$ 9,470,711	\$ 8,916,088	\$ 554,623	\$ (310,080)
TOTAL RECEIPTS	\$ 21,319,270	\$ 21,255,228	\$ 20,563,966	\$ 691,262	\$ (64,042)
DISBURSEMENTS					
Local Aids	\$ 7,627,031	\$ 7,286,897	\$ 7,385,261	\$ 98,364	\$ (340,134)
Income Maintenance	4,258,424	4,180,230	4,009,219	(171,011)	(78,194)
Payroll & Related	3,619,178	3,790,607	3,780,954	(9,653)	171,429
Tax Refunds	1,820,377	1,855,069	1,828,106	(26,963)	34,692
Debt Service	307,668	393,134	397,322	4,188	85,466
Miscellaneous	3,577,903	3,628,496	3,272,128	(356,368)	50,593
Note Repayment ^(c)	812,169	-	-	-	(812,169)
TOTAL DISBURSEMENTS	\$ 22,022,750	\$ 21,134,433	\$ 20,672,990	\$ (461,443)	\$ (888,317)
VARIANCE FY03 YEAR-TO-DATE				\$ 229,819	

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly General Fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.
- (b) Estimates include assumptions from all fiscal bills enacted into law through 2003 Wisconsin Act 1 but are presented on a cash basis and not a budgetary basis. The projections also reflect the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003.
- (c) Operating Notes were issued in the 2001-02 fiscal year but were not issued in the 2002-03 fiscal year.

Table II-8; General Fund Cash Receipts and Disbursements Year To Date; Compared to Estimates and Previous Fiscal Year. (Page 40). Add the following table:

2003-04 FISCAL YEAR
GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE
COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR^(a)
(Cash Basis)
As of October 31, 2003
(Amounts in Thousands)

	FY03 through October 2002	FY04 through October 2003				Difference FY03 Actual to FY04 Actual
	Actual	Actual	Estimate ^(b)	Variance	Adjusted Variance ^(c)	
RECEIPTS						
Tax Receipts						
Individual Income	\$ 1,965,787	\$ 2,025,160	\$ 2,146,300	\$ (121,140)	\$ (58,540)	\$ 59,373
Sales	1,434,443	1,482,020	1,475,300	6,720	6,720	47,577
Corporate Income	160,950	188,550	183,900	4,650	4,650	27,600
Public Utility	4,726	5,615	4,000	1,615	1,615	889
Excise	130,080	133,724	125,700	8,024	8,024	3,644
Insurance	26,603	28,037	26,000	2,037	2,037	1,434
Inheritance	32,812	30,319	30,500	(181)	(181)	(2,493)
Total Tax Receipts	\$ 3,755,401	\$ 3,893,425	\$ 3,991,700	\$ (98,275)	\$ (35,675)	\$ 138,024
Non-Tax Receipts						
Federal	\$ 1,809,621	\$ 2,025,608	\$ 1,962,500	\$ 63,108	\$ 63,108	\$ 215,987
Other and Transfers	1,404,348	1,271,949	1,193,000	78,949	78,949	(132,399)
Note Proceeds	-	400,000	400,000	-	-	400,000 ^(d)
Total Non-Tax Receipts	\$ 3,213,969	\$ 3,697,557	\$ 3,555,500	\$ 142,057	\$ 142,057	\$ 483,588
TOTAL RECEIPTS	\$ 6,969,370	\$ 7,590,982	\$ 7,547,200	\$ 43,782	\$ 106,382	\$ 621,612
DISBURSEMENTS						
Local Aids	\$ 1,875,579	\$ 1,914,798	\$ 1,932,070	\$ 17,272	\$ 17,272	\$ 39,219
Income Maintenance	1,378,774	1,550,707	1,478,314	(72,393)	(72,393)	171,933
Payroll & Related	1,182,602	1,317,863	1,323,352	5,489	5,489	135,261
Tax Refunds	188,806	224,158	220,463	(3,695)	(3,695)	35,352
Debt Service	121,901	119,730	129,228	9,498	9,498	(2,171)
Miscellaneous	1,162,075	1,254,795	1,274,344	19,549	19,549	92,720
Note Repayment	-	-	-	-	-	-
TOTAL DISBURSEMENTS	\$ 5,909,737	\$ 6,382,051	\$ 6,357,771	\$ (24,280)	\$ (24,280)	\$ 472,314
VARIANCE FY04 YEAR-TO-DATE				\$ 19,502	\$ 82,102	

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly General Fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.
- (b) Estimates include assumptions from the 2003-05 biennial budget bill, as signed into law with some partial vetoes by Governor Doyle on July 24, 2003 (2003 Wisconsin Act 33), but are presented on a cash basis and not a budgetary basis. The projections also reflect the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003.
- (c) Changes were made, after the beginning of the fiscal year, to the estimates of receipts starting in September 2003. These changes were made to better reflect the timing of end-of-month electronic fund transfers. Because the changes were made starting in September 2003, the July and August 2003 estimates could not be changed. Since the timing of end-of-month electronic fund transfers impacted August and September 2003, the changes to the estimates of receipts include an increase in September 2003 but could not include any decrease in the August 2003 estimate. As a result, the variance has been adjusted by \$63 million to show the result if the August 2003 estimate were changed.
- (d) Operating Notes were issued in the 2003-04 fiscal year but were not issued in the 2002-03 fiscal year.

Table II-9; General Fund Monthly Position (Page 41). Update the table with the following:

GENERAL FUND MONTHLY CASH POSITION^(a)
July 1, 2001 through October 31, 2003 — Actual
November 1, 2003 through June 30, 2004 — Estimated^(b)
 (Amounts in Thousands)

	<u>Starting Date</u>	<u>Starting Balance</u>	<u>Receipts^(c)</u>	<u>Disbursements^(c)</u>	
2001	July.....	281,565 ^(d)	\$ 1,575,450	\$ 1,853,617	
	August.....	3,398 ^(d)	1,497,565	1,103,304	
	September.....	397,659 ^(d)	2,520,198	1,627,038	
	October.....	1,290,819	1,631,893	1,101,102	
	November.....	1,821,610	1,469,470	2,347,429	
	December.....	943,651 ^(d)	1,530,624	2,090,608	
	2002	January.....	383,667	2,014,638	1,293,585
		February.....	1,104,720	1,570,087	1,705,687
		March.....	969,120 ^(d)	1,530,532	2,730,873
		April.....	(231,221) ^(d)	2,070,342	1,573,434
		May.....	265,687 ^(d)	2,155,171	1,844,456
		June.....	576,402 ^(d)	1,753,300	2,751,617
July.....		(421,915) ^(d)	1,700,476	1,895,272	
August.....		(616,711) ^(d)	1,637,001	1,171,887	
September.....		(151,597) ^(d)	2,025,879	1,562,196	
October.....		312,086	1,606,014	1,280,382	
November.....		637,718	1,482,326	1,488,485	
December.....		631,559 ^(d)	1,706,488	2,178,341	
2003	January.....	159,706	2,105,857	1,431,836	
	February.....	833,727	1,721,792	1,615,352	
	March.....	940,167	1,652,274	2,383,386	
	April.....	209,055 ^(d)	2,101,401	1,712,702	
	May.....	597,754	1,485,340	1,566,243	
	June.....	516,851 ^(d)	2,030,380	2,848,351	
	July.....	(301,120) ^(d)	1,676,451	1,997,749	
	August.....	(622,418) ^(d)	1,461,025	1,239,109	
	September.....	(400,502) ^(d)	2,623,535	1,804,526	
	October.....	418,507	1,829,971	1,340,667	
	November.....	907,811	1,579,500	1,810,573	
	December.....	676,738 ^(d)	1,728,100	2,157,982	
2004	January.....	246,856	2,265,600	1,496,530	
	February.....	1,015,926	1,758,500	1,548,562	
	March.....	1,225,864	1,758,700	2,869,671	
	April.....	114,893 ^(d)	2,135,500	1,671,242	
	May.....	579,151	1,684,300	1,587,939	
	June.....	675,512 ^(d)	2,144,900	2,891,213	

- (a) The General Fund balances presented in this table are not based on Generally Accepted Accounting Principles (GAAP).
- (b) The monthly receipt and disbursement projections for November 1, 2003 through June 30, 2004 are based on the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003 and the budget for the 2003-05 biennium as signed into law with some partial vetoes by Governor Doyle on July 24, 2003 (2003 Wisconsin Act 33). Adjustments have been made to the cash flow projections to better reflect end-of-month electronic fund transfers.
- (c) The amounts shown in October 2001 and September 2003 include receipts from the issuance of operating notes, and amounts shown in February through May 2002 and February through May 2004 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued for the 2002-03 fiscal year.
- (d) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was \$556 million for the 2002-03 fiscal year and is approximately \$542 million for the 2003-04 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (\$334 million for the 2002-03 fiscal year and approximately \$325 million for the 2003-04 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

Source: Wisconsin Department of Administration.

Table II-10; Balances in Funds Available for Interfund Borrowing (Page 42). Update the table with the following:

BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING^(a)

July 31, 2001 to October 31, 2003 — Actual

November 30, 2003 to June 30, 2004 — Estimated^(b)

(Amounts in Millions)

<u>Month (Last Day)</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
January	\$	\$ 5,360	\$ 5,025	\$ 1,738
February		5,463	5,235	1,802
March		5,628	5,438	1,917
April		5,135	5,113	1,765
May		4,819	4,674	1,724
June		5,001	4,836	1,819
July	5,275	5,401	5,135	
August	4,785	4,785	4,579	
September	4,897	4,898	4,378	
October	4,328	4,328	3,922	
November	4,242	4,242	1,528 ^(b)	
December	4,737	4,737	1,649	

^(a) Consists of the following funds:

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

^(b) Estimated balances for November 30, 2003 and subsequent months include as an assumption that only 20% of the amount will be available for the local government investment pool. The local government investment pool is composed of funds deposited by local units of government that may be withdrawn without notice. Balances in the local government investment pool the past five years have ranged from a low of \$2.096 billion on November 14, 1997 to a high of \$4.684 billion on March 26, 2002. Under Section 20.002 (11), Wisconsin Statutes, the Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was \$556 million for the 2002-03 fiscal year and is approximately \$542 million for the 2003-04 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (\$334 million for the 2002-03 fiscal year and approximately \$325 million for the 2003-04 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

Source: Wisconsin Department of Administration.

Table II-11; General Fund Recorded Revenues (Page 43). Update the table with the following:

(Agency Recorded Basis)
July 1, 2003 to October 31, 2003 compared with previous year ^(a)

	Annual Fiscal Report Revenues <u>2002-03 FY^(b)</u>	Projected Revenues <u>2003-04 FY^(c)</u>	Recorded Revenues July 1, 2002 to <u>October 31, 2002^(d)</u>	Recorded Revenues July 1, 2003 to <u>October 31, 2003^(e)</u>
Individual Income Tax	\$ 5,052,500,000	\$ 5,405,800,000	\$ 1,450,167,308	\$ 1,494,772,662
General Sales and Use Tax	3,738,000,000	3,915,400,000	980,121,996	1,021,285,684
Corporate Franchise and Income Tax	526,500,000	539,750,000	129,784,740	157,178,653
Public Utility Taxes	276,800,000	268,000,000	877,595	-170,836
Excise Taxes	354,800,000	352,200,000	96,411,519	94,512,754
Inheritance Taxes	68,700,000	105,000,000	31,991,341	29,697,887
Insurance Company Taxes	114,900,000	85,000,000	24,725,289	27,190,229
Miscellaneous Taxes	67,500,000	71,300,000	31,212,699	31,411,115
SUBTOTAL.....	<u>10,199,700,000</u>	<u>10,742,450,000</u>	<u>2,745,292,488</u>	<u>2,855,878,148</u>
Federal and Other Inter- Governmental Revenues ^(f)	6,668,346,000	5,707,551,000	2,427,195,420	2,034,835,976
Dedicated and Other Revenues ^(g)	<u>3,815,875,000</u>	<u>1,931,197,500</u>	<u>1,664,815,973</u>	<u>1,236,106,663</u>
TOTAL.....	<u>\$ 20,683,921,000</u>	<u>\$ 18,381,198,500</u>	<u>\$ 6,837,303,881</u>	<u>\$ 6,126,820,786</u>

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.
- (b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year, dated October 10, 2003.
- (c) Projected revenues are based on the 2003-05 budget signed into law, with some partial vetoes, on July 24, 2003 by Governor Doyle (2003 Wisconsin Act 33) and also reflect the revenue estimates for the 2002-03 fiscal year that were released by the Legislative Fiscal Bureau on January 23, 2003.
- (d) The amounts shown are 2002-03 fiscal year revenues as recorded by state agencies.
- (e) The amounts shown are 2003-04 fiscal year revenues as recorded by state agencies.
- (f) This category includes intergovernmental transfers. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.
- (g) Certain transfers between General Fund appropriations are 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.

Source: Wisconsin Department of Administration.

Table II-12; General Fund Recorded Expenditures By Function (Page 44). Update the table with the following:

(Agency Recorded Basis)
July 1, 2003 to October 31, 2003 compared with previous year ^(a)

	Annual Fiscal Report Expenditures 2002-03 FY ^(b)	Appropriations 2003-04 FY ^(c)	Recorded Expenditures July 1, 2002 to October 31, 2002 ^(d)	Recorded Expenditures July 1, 2003 to October 31, 2003 ^(e)
Commerce.....	\$ 222,143,000	\$ 267,951,200	\$ 79,631,839	\$ 100,624,531
Education.....	9,087,026,000	7,372,173,100	2,142,809,499	2,213,627,924
Environmental Resources.....	264,282,000	252,915,200	90,862,686	77,629,010
Human Relations & Resources	8,630,020,000	7,704,344,000	3,122,354,679	2,712,791,385
General Executive.....	646,171,000	622,251,300	206,059,838	192,260,609
Judicial.....	109,697,000	110,945,700	41,209,754	41,473,255
Legislative.....	61,219,000	62,468,300	17,576,496	16,224,158
General Appropriations.....	1,935,927,000	1,687,946,100	1,298,055,031	702,559,894
TOTAL.....	\$ 20,956,485,000	\$ 18,080,994,900	\$ 6,998,559,822	\$ 6,057,190,766

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.
- (b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year, dated October 10, 2003.
- (c) Estimated appropriations based on the 2003-05 budget bill signed into law, with some partial vetoes, on July 24, 2003 by Governor Doyle (2003 Wisconsin Act 33).
- (d) The amounts shown are 2002-03 fiscal year expenditures as recorded by state agencies.
- (e) The amounts shown are 2003-04 fiscal year expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

The tables on the following two pages, which are included in Part II of the 2002 Annual Report, present information on revenues (all funds) and expenditures (all funds) of the State for five previous fiscal years (1997-98 fiscal year through 2001-02 fiscal year). There have been no changes or updates to these tables. Information for the 2002-03 fiscal year is included elsewhere in this APPENDIX B.

The following table identifies the specific sources of revenue (all funds) and the amounts raised from each source for five previous fiscal years. There can be no assurance that future receipts will correlate with historical data included in the following table.

REVENUES (ALL FUNDS) ^(a)					
1997-98 TO 2001-02					
	2001-02	2000-01	1999-2000	1998-99	1997-98
State Collected Taxes					
Individual Income.....	\$ 4,979,661,843	\$ 5,156,565,325	\$ 5,959,818,943	\$ 5,162,238,865	\$ 5,047,324,479
General Sales and Use.....	3,695,795,708	3,609,895,359	3,501,658,965	3,284,694,814	3,047,406,215
Corporate Franchise and	503,007,920	537,159,154	644,625,016	635,202,891	627,024,134
Public Utility.....	252,297,980	239,298,968	259,991,437	287,093,752	288,376,893
Excise.....	348,282,067	299,775,120	301,851,909	308,921,713	299,091,574
Inheritance and Gift	82,634,627	77,084,123	133,261,148	116,898,047	80,110,729
Insurance	96,055,400	89,041,589	86,877,861	97,045,435	88,065,247
Motor Fuel.....	954,147,642	918,449,310	914,673,547	907,722,042	740,209,790
Forest.....	65,885,102	58,648,511	58,061,250	52,253,055	49,561,411
Miscellaneous.....	113,979,522	112,312,779	104,617,943	129,848,806	235,983,488
Subtotal.....	11,091,747,811	11,098,230,239	11,965,438,019	10,981,919,420	10,503,153,960
Federal Aid					
Medical	2,663,987,093	2,395,438,874	1,961,769,304	1,679,110,792	1,578,071,534
AFDC/W2.....	490,161,681	403,990,150	263,964,530	148,879,361	154,334,829
Transportation.....	769,221,794	671,344,340	608,670,820	525,360,773	421,841,928
Education.....	1,120,807,676	1,028,557,046	957,144,633	870,817,978	805,930,081
Other.....	2,158,980,902	1,727,232,553	1,055,061,747	1,154,327,827	972,945,870
Subtotal.....	7,203,159,146	6,226,562,962	4,846,611,034	4,378,496,731	3,933,124,242
Fees					
University of Wisconsin ^(b)	84,006,675	2,155,613,345	632,110,050	578,407,190	552,167,916
Other.....	356,048,754	300,580,123	282,404,664	267,718,834	244,291,725
Subtotal.....	440,055,429	2,456,193,468	914,514,714	846,126,024	796,459,641
Licenses and Permits					
Vehicles and Drivers.....	340,205,268	324,531,760	326,133,108	304,346,133	290,782,206
Hunting and	81,747,187	78,929,285	132,906,803	84,829,913	56,268,405
Other.....	383,584,407	328,027,538	243,832,829	260,410,783	273,800,793
Subtotal.....	805,536,862	731,488,582	702,872,740	649,586,829	620,851,404
Miscellany					
Service Charges.....	625,265,992	524,635,878	500,897,911	423,557,725	407,273,543
Sales of Products.....	682,332,141	679,562,010	687,203,049	684,788,382	675,171,110
Investment	(3,541,516,552)	(4,003,889,358)	8,119,031,124	5,825,766,448	8,626,768,140
Gifts and Grants.....	337,321,976	373,700,027	349,206,053	281,312,163	301,417,790
Employee Benefit					
Contributions ^(c)	1,768,712,369	1,847,520,797	1,558,509,041	1,697,287,871	1,484,849,345
General Obligation	785,363,834	1,012,418,625	702,676,279	490,002,803	444,985,883
Other Revenues ^(d)	5,265,115,871	709,942,714	1,867,986,094	1,184,536,265	847,094,578
Subtotal.....	5,922,595,630	1,143,890,693	13,785,509,551	10,587,251,657	12,787,560,389
Summary					
TOTAL NET	25,463,094,878	21,656,365,944	32,214,946,058	27,443,380,661	28,641,149,636
Transfers.....	1,307,219,152	620,137,706	658,364,767	656,836,667	956,781,647
Gross Revenue.....	<u>\$ 26,770,314,030</u>	<u>\$ 22,276,503,650</u>	<u>\$ 32,873,310,825</u>	<u>\$ 28,100,217,328</u>	<u>\$ 29,597,931,283</u>

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

^(b) The decrease in 2001-02 is the result of certain fees being erroneously posted under "Miscellany; Other Revenues" in this

^(c) Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled \$824,268,843 for \$758,283,014 for 2000-01; \$668,926,218 for 1999-2000; \$641,535,593 for 1998-99; and \$608,663,836 for 1997-

^(d) The increase from 2000-01 to 2001-02 reflects sale of rights to tobacco settlement revenues, an increase in child support collections, certain University of Systems fees being erroneously posted to this category, and other intergovernmental transfers or miscellaneous

Source: Wisconsin Department of Administration.

The following table shows the amounts expended (all funds) by function and type for five previous fiscal years.

	EXPENDITURES BY FUNCTION AND TYPE (ALL FUNDS)^(a)				
	1997-98 TO 2001-2002				
	2001-02	2000-01	1999-2000	1998-99	1997-98
Commerce					
State Operations.....	\$ 170,184,711	\$ 171,267,613	\$ 162,895,100	\$ 150,658,080	\$ 147,344,847
Aids to Individuals and Organizations.....	174,212,058	215,454,938	346,664,701	155,481,162	151,694,308
Local Assistance.....	74,407,965	51,631,378	56,346,765	58,646,694	53,076,585
Subtotal.....	418,804,734	438,353,929	565,906,566	364,785,936	352,115,740
Education					
State Operations.....	3,115,399,765	3,075,483,311	2,804,394,458	2,622,619,858	2,502,704,172
Aids to Individuals and Organizations.....	427,268,613	391,871,206	342,821,711	323,423,408	280,565,768
Local Assistance.....	5,118,756,509	4,941,446,927	4,676,809,090	4,435,185,215	4,163,022,316
Subtotal.....	8,661,424,887	8,408,801,444	7,824,025,259	7,381,228,481	6,946,292,256
Environmental Resources					
State Operations.....	1,669,826,629	1,689,461,785	1,471,082,344	1,427,889,702	1,289,397,451
Aids to Individuals and Organizations.....	32,409,367	25,802,608	25,185,553	27,519,834	11,458,404
Local Assistance.....	1,009,292,244	1,011,992,606	1,039,528,614	967,912,080	851,469,438
Subtotal.....	2,711,528,240	2,727,256,998	2,535,796,511	2,423,321,616	2,152,325,292
Human Relations and Resources					
State Operations.....	2,201,627,675	1,972,235,028	1,863,099,973	1,726,775,813	1,573,507,826
Aids to Individuals and Organizations.....	7,002,052,675	5,711,855,259	5,220,672,714	3,971,027,191	3,484,623,091
Local Assistance.....	722,778,120	697,998,641	676,100,856	699,232,414	650,326,226
Subtotal.....	9,926,458,471	8,382,088,927	7,759,873,543	6,397,035,418	5,708,457,143
General Executive					
State Operations.....	4,507,929,098	3,870,708,222	3,356,742,192	2,925,101,503	2,885,868,362
Aids to Individuals and Organizations.....	326,682,917	357,195,805	302,438,911	300,649,421	304,857,854
Local Assistance.....	104,908,224	59,560,427	40,962,042	35,229,960	36,173,254
Subtotal.....	4,939,520,239	4,287,464,453	3,700,143,145	3,260,980,884	3,226,899,470
Judicial					
State Operations.....	84,149,092	85,292,057	78,820,982	74,014,002	69,616,266
Local Assistance.....	23,716,900	23,726,900	23,666,900	21,416,900	21,410,600
Subtotal.....	107,865,992	109,018,957	102,487,882	95,430,902	91,026,866
Legislative					
State Operations.....	62,114,318	62,220,008	59,819,385	58,081,525	55,051,282
Subtotal.....	62,114,318	62,220,008	59,819,385	58,081,525	55,051,282
General					
State Operations.....	1,320,960,416	564,306,377	656,616,891	709,978,546	725,825,981
Aids to Individuals and Organizations.....	1,179,940,690	837,938,682	884,416,569	178,777,552	185,874,167
Local Assistance.....	1,693,443,439	1,675,208,599	1,779,060,238	1,639,701,767	1,701,484,672
Subtotal.....	4,194,344,545	3,077,453,657	3,320,093,698	2,528,457,865	2,613,184,820
General Obligation Bond Program					
State Operations.....	622,061,731	675,100,374	576,493,991	453,827,797	435,910,841
Subtotal.....	622,061,731	675,100,374	576,493,991	453,827,797	435,910,841
Summary Totals					
State Operations.....	13,754,253,435	12,166,074,774	11,029,965,316	10,148,946,826	9,685,227,028
Aids to Individuals and Organizations.....	9,142,566,320	7,540,118,497	7,122,200,159	4,956,878,568	4,419,073,591
Local Assistance.....	8,747,303,402	8,461,565,478	8,292,474,505	7,857,325,030	7,476,963,090
GRAND TOTAL.....	\$31,644,123,157	\$28,167,758,749	\$26,444,639,980	\$22,963,150,424	\$21,581,263,709

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

Source: Wisconsin Department of Administration.

APPENDIX C AUCTION RATE CERTIFICATES

This **APPENDIX C** provides information about the Auction Rate Certificates (ARCs), which is the mode in which the Series B Bonds are initially issued, including the manner of determining the interest rate on the ARCs, auction procedures, settlement procedures, and broker-dealer agreements. All the terms used in this **APPENDIX C** are defined herein or in other parts of this Official Statement. The following table sets forth certain information with respect to the ARCs. The information under the headings “Auction Date”, “Interest Period”, and “Broker-Dealer(s)” indicate the terms that will be applicable to auctions, except as affected by non-Business Days and except as such terms may be changed as described elsewhere in this APPENDIX C.

<u>CUSIP</u>	<u>ISIN</u>	<u>Euroclear and Clearstream Common Code</u>	<u>Subseries</u>	<u>Principal Amount</u>	<u>Last Day of Initial Interest Period</u>	<u>Auction Date</u>	<u>Interest Period (After Initial Period)</u>	<u>Broker-Dealer(s)</u>
977100 AD8	US977100 AD8 6	182 75287	B-1	\$ 118,750,000	January 13, 2004	Tuesday	28 days	All Senior Managers
977100 AE6	US977100 AE6 9	182 75341	B-2	100,000,000	January 15, 2004	Thursday	28 days	JPMorgan Securities Inc.
977100 AF3	US977100 AF3 5	182 75392	B-3	118,700,000	January 20, 2004	Tuesday	28 days	All Senior Managers
977100 AG1	US977100 AG1 8	182 75481	B-4	100,000,000	January 22, 2004	Thursday	28 days	Bear, Stearns & Co. Inc.
977100 AH9	US977100 AH9 0	182 75627	B-5	118,700,000	January 27, 2004	Tuesday	28 days	All Senior Managers
977100 AJ5	US977100 AJ5 6	182 75678	B-6	100,000,000	January 29, 2004	Thursday	28 days	UBS Financial Services Inc.
977100 AK2	US977100 AK2 0	182 75732	B-7	118,700,000	February 3, 2004	Tuesday	28 days	All Senior Managers
977100 AL0	US977100 AL0 3	182 75783	B-8	70,000,000	February 4, 2004	Wednesday	28 days	UBS Financial Services Inc.
977100 AM8	US977100 AM8 5	182 75813	B-9	100,000,000	February 5, 2004	Thursday	28 days	Citigroup Global Markets Inc.

DEFINITIONS

All-Hold Rate means, on any date of determination, the lesser of the Applicable LIBOR-Based Rate less 0.25%, or the Maximum Rate.

Applicable ARCs Rate means the interest rate on a subseries of the ARCs for any period after the Initial Interest Period.

Applicable LIBOR-Based Rate means (a) for an Auction Period of 8 days or less, One-Week LIBOR, (b) for an Auction Period of 35 days or less, One-Month LIBOR, (c) for an Auction Period of more than 35 days but less than 115 days, Three-Month LIBOR, (d) for an Auction Period of more than 114 days but less than 195 days, Six-Month LIBOR, and (d) for an Auction Period of more than 194 days, One-Year LIBOR.

Applicable Number of Business Days means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

ARCs means the Series B Bonds.

Auction means each periodic implementation of the Auction Procedures on an Auction Date, as described herein.

Auction Agency Agreement means the Auction Agency Agreement dated as of December 1, 2003, between the Trustee, the Auction Agent, and the State, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

Auction Agent means any person appointed as such pursuant to the Indenture or its successor (initially, Deutsche Bank Trust Company Americas).

Auction Date means the Business Day immediately preceding the first day of each respective Interest Period, other than:

(a) each Interest Period commencing after the ownership of the ARCs of such Subseries is no longer maintained in book-entry form by the Depository;

(b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default;

(c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default; or

(d) any Interest Period commencing on a Failed Conversion Date.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to the Indenture as described below under “**CHANGES IN AUCTION PERIODS OR AUCTION DATE.**”

Auction Period means, with respect to any subseries of ARCs, the Interest Period applicable thereto, which initially shall consist generally of 28 days, as the same may be changed pursuant to the Indenture as described below under “**CHANGES IN AUCTION PERIODS OR AUCTION DATE.**”

Authorized Denominations means \$50,000 and any multiple thereof.

Broker-Dealer means for any subseries of the ARCs the broker-dealer(s) identified in the table of page C-1, or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has a capital surplus of at least \$100,000,000, (c) has been selected by the State with the approval of the Market Agent (which approval shall not be unreasonably withheld), and (d) has entered into a Broker-Dealer Agreement that remains effective.

Broker-Dealer Agreement means each Broker-Dealer Agreement dated as of December 1, 2003 between the State, an Auction Agent and the initial Broker-Dealers and each other agreement between the State, the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

Business Day means any day other than such dates as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer and the State, or a Saturday, Sunday, or day on which banks located in the City of New York, New York, the New York Stock Exchange, or the payment office or principal office of the Trustee or the Auction Agent, are authorized or permitted by law or executive order to close.

Depository means The Depository Trust Company or any successor depository, selected or approved by the State.

Existing Owner means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with a Broker-Dealer in connection with an Auction a Person who is a beneficial owner of ARCs.

Failed Conversion means the failure to meet the conditions set forth in the Indenture to convert one or more subseries of ARCs to a different mode as described in **APPENDIX A under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE; Mode Conversion,”** which failure results in the ARCs continuing in the Auction Rate Certificate mode.

Failed Conversion Date means a date on which the ARCs are required to be tendered for purchase as described in this Official Statement under “**THE BONDS; Series B Bonds; Mandatory Tender for Purchase,**” but for which the conditions to such purchase are not met.

Initial Interest Period means, for each subseries of ARCs, the period ending on the date set forth under “**Determination of Applicable ARCs Rate**” below.

Interest Payment Date means, with respect to any subseries of ARCs, the Business Day following the last day of each Interest Period, except as provided in the Indenture, *provided, however,* that if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each May 1 and

November 1 (or if such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the Business Day following the last day of such Interest Period; and shall also mean the maturity date of the Bonds, or if such day is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date).

Interest Period means (a) unless otherwise changed as described herein, with respect to each subseries of ARCs, the Initial Interest Period, and thereafter any of (i) a period, generally of 28 days, beginning on and including a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on and including the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (ii) a period, generally of 28 days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on and including the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (iii) a period, generally of 28 days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on and including the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (iv) a period, generally of 28 days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on and including the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day) or (v) a period, generally of 28 days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on and including the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), and (b) if the Auction Periods are changed as provided herein, each period from an Interest Payment Date to but excluding the next succeeding Interest Payment Date.

LIBOR Determination Date means the Auction Date, or if no Auction Date is applicable, the Business Day immediately preceding the first day of each Interest Period.

Market Agent means the market agent or market agents appointed pursuant to the Indenture, and its or their successors or assigns.

Market Agent Agreement means the Market Agent Agreement dated as of December 1, 2003, between the Trustee and each Market Agent, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

Maximum Rate means the lesser of (a) 15% per annum or such higher rate as the State may establish with a Rating Confirmation or (b) the maximum rate of interest permitted by the laws of the State.

One-Week LIBOR, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR, or One-Year LIBOR each means the offered rate, as determined by the Auction Agent or the Trustee, as applicable, for United States dollar deposits for the respective periods specified above which appears on Telerate Page 3750, as reported by Bloomberg Financial Markets Commodities News (or such other page as may replace Telerate Page 3750 for the purpose of displaying comparable rates) as of approximately 11:00 a.m. London time, on the LIBOR Determination Date; *provided*, that if on any calculation date, no rate appears on Telerate Page 3750 as specified above, the Auction Agent or the Trustee, as applicable, shall determine the arithmetic mean of the offered quotations for four major banks in the London interbank market, for deposits in U.S. dollars for the respective periods specified above to the banks in the London interbank market as of approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market and at such

time, unless fewer than two such quotations are provided, in which case, the Applicable LIBOR-Based Rate shall be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Auction Agent or the Trustee, as applicable, are quoting on the relevant LIBOR Determination Date for loans in U.S. dollars for the respective periods specified above to leading European banks in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time. All percentages resulting from such calculations shall be rounded upwards, if necessary, to the nearest one hundredth of one percent.

Payment Default means failure to make any payment of interest on, premium, if any, or principal of, any Bonds when due, by the State.

Potential Owner means any Person (including any Existing Owner that is (a) a Broker-Dealer when dealing with the Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARCs (or, in the case of an Existing Owner thereof, an additional principal amount of ARCs).

Record Date means (a) if, and for so long as Interest Payment Dates are specified to occur at the end of each Auction Period, the Applicable Number of Business Days immediately preceding each Interest Payment Date and (b) if and for so long as interest is payable with respect thereto semiannually, one Business Day prior to each Interest Payment Date.

Registrar means the Trustee or any separate registrar appointed under the Indenture with respect to the ARCs.

Securities Exchange Act means the Securities Exchange Act of 1934, as amended.

Submission Deadline means 1:00 p.m. on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

Winning Bid Rate has the meaning set forth below under “**AUCTION PROCEDURES.**”

PAYMENTS

So long as the ARCs are registered in the name of the Depository or the nominee thereof, payment of interest (other than at maturity) and premium, if any, on, and of principal at redemption of, the ARCs shall be made to the Depository by wire transfer provided proper wire instructions are received. If the Series B Bonds are not in registered in the name of the Depository, payment of principal will be made by check or draft issued upon the presentation and surrender of the Series B Bonds at the designated office of the Paying Agent. Payment of interest due on the Series B Bonds will be made by check or draft mailed to the registered owner shown in the registration book at the close of business on the Record Date.

DETERMINATION OF APPLICABLE ARCS RATE

Interest on the ARCs shall accrue for each Interest Period and shall be payable in arrears, on each Interest Payment Date. For the Initial Interest Period applicable to each subseries (which shall be the period from the date of issuance through the applicable date set forth in the table of page C-1), the ARCs of that subseries will bear interest at their respective initial rates, expected to be determined on December 16, 2003.

The rate of interest on the ARCs for each subsequent Interest Period will be the Auction Rate unless the Auction Rate exceeds the Maximum Rate, in which case the rate of interest on the ARCs for such Interest Period shall be the Maximum Rate. Except as described below, if for any reason an Auction is not held on any Auction Date, then the Auction Rate for the next succeeding Interest Period shall equal the Auction Rate in effect for the preceding Interest Period. Notwithstanding the foregoing, if:

(i) the ownership of the ARCs is no longer maintained in Book-Entry Form by the Depository, Auctions will be suspended and the Applicable ARCs Rate for any Interest Period commencing after the delivery of certificates representing ARCs shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period; or

(ii) a Payment Default occurs, Auctions will be suspended and the Applicable ARCs Rate for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than the Applicable Number of Business Days after, such Payment Default is cured will equal the Maximum Rate; or

(iii) a Failed Conversion occurs, there will be no Auction on the Failed Conversion Date and the Applicable ARCs Rate for the Interest Period commencing on that date shall equal the Maximum Rate.

AUCTION PROCEDURES

By purchasing ARCs, whether in an Auction or otherwise, each purchaser of the ARCs, or its Broker-Dealer, must agree and shall be deemed by such purchase to have agreed (i) to participate in Auctions on the terms described herein, (ii) to have its beneficial ownership of the ARCs maintained at all times in Book-Entry Form for the account of its Participant, which in turn will maintain records of such beneficial ownership, and (iii) to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request. Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (w) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Depository, (x) each Interest Period commencing after the occurrence and during the continuance of a Payment Default, (y) any Interest Period commencing less than the Applicable Number of Business Days after the cure of a Payment Default, or (z) any Interest Period commencing on a Failed Conversion Date). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner (such procedures to apply separately to each subseries of the ARCs).

(a) *Submission by Existing Owners and Potential Owners.*

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARCs may submit to a Broker-Dealer information as to:

(1) the principal amount of ARCs that are **Outstanding** (as defined in **APPENDIX A**), if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period;

(2) the principal amount of Outstanding ARCs, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Owner; and/or

(3) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of ARCs which each such Potential Owner offers to purchase if the

Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Owner.

The communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3) or (B) above is hereinafter referred to as an **Order** and collectively as **Orders**. Each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a **Bidder** and collectively as **Bidders**. An Order containing the information referred to in clause (A)(1) above is hereinafter referred to as a **Hold Order** and collectively as **Hold Orders**. An Order containing the information referred to in clause (A)(2) or (B) above is hereinafter referred to as a **Bid** and collectively as **Bids**. An order containing the information referred to in clause (A)(3) above is hereinafter referred to as **Sell Order** and collectively as **Sell Orders**.

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid; or

(3) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) below if the rate specified in such Bid shall be higher than the Maximum Rate and Sufficient Clearing Bids (as defined in paragraph (c) herein) have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARCs specified in such Sell Order; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs determined as set forth in clause (C) of paragraph (ii) of subsection (d) below if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs determined as set forth in clause (E) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid.

(b) *Submission by Broker-Dealer to Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order,

(B) the aggregate principal amount of ARCs that are the subject of such Order,

(C) to the extent that such Bidder is an Existing Owner:

(1) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Owner;

(2) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(3) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding ARCs held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) None of the State, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(v) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Owner, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Owner, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Owner.

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v);

(2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be redeemed pro rata to cover the stated amount of ARCs equal to such excess:

(3) subject to subclauses (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination or any multiple thereof shall be rejected.

(viii) An Existing Owner that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Owner.

(ix) Any Bid specifying a rate higher than the Maximum Interest Rate will: (A) be treated as a Sell Order if submitted by an Existing Owner; and (B) not be accepted if submitted by a Potential Owner.

(c) *Determination of Sufficient Clearing Bids, Auction Rate, and Winning Bid Rate.*

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a **Submitted Hold Order**, a **Submitted Bid**, or a **Submitted Sell Order**, as the case may be, or as a **Submitted Order** and collectively as **Submitted Hold Orders, Submitted**

Bids, or Submitted Sell Orders, as the case may be, or as Submitted Orders) and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the **Available ARCs**); and

(B) from such Submitted Orders whether:

(1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Rate;

exceeds or is equal to the sum of:

(2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Interest Rate; and

(3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders;

(in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (2) and (3) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as **Sufficient Clearing Bids**); and

(C) if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which shall be the **Winning Bid Rate**) such that if:

(1) (aa) each such Submitted Bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and

(2) (aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted,

the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee and the Broker-Dealers of the Maximum Rate, the All-Hold Rate, One-Month LIBOR, and the Applicable LIBOR-Based Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the **Auction Rate**) as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or

(C) if all Outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All-Hold Rate.

If the Auction Rate determined as set forth above exceeds the Maximum Rate, the Applicable ARCs Rate for such Interest Period shall be equal to the Maximum Rate.

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.* Existing Owners shall continue to hold the principal amount of ARCs that are subject to Submitted Hold Orders, and based on the determinations made pursuant to (i) of subsection (c), Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) if Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the **remaining principal amount**) equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate;

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected;

(A) Existing Owners' Submitted Bids specifying rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Owners to continue, to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring each Potential Owner to purchase, the aggregate principal amount of ARCs subject to such Submitted Bids; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Rate and each Existing Owner's Submitted Sell Order shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders;

(iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected; and

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination, the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of

ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be ARCs.

(f) Any calculation by the Auction Agent or the Trustee, as applicable, of the Applicable ARCs Rate, the Applicable LIBOR-Based Rate, the Maximum Rate, and the All-Hold Rate shall, in the absence of manifest error, be binding on all other parties.

CHANGES IN AUCTION PERIODS OR AUCTION DATE

Changes in Auction Period or Periods

In order to conform with then current market practice with respect to similar securities, or in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the ARCs, and with the written consent of the State, the Market Agent may change, from time to time, the length of one or more Auction Periods. The Market Agent shall, not less than three days nor more than twenty days prior to the effective date of such change, deliver to the State a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the change in the length of one or more Auction Periods by giving written notice to the Trustee, the Auction Agent, the State and the Depository in substantially the form, or containing substantially the information, contained in the Indenture at least ten days prior to the Auction Date for such Auction Period.

Any such changed Auction Period shall not be less than seven days. The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as described above and the Auction immediately preceding the proposed change.

The change in length of one or more Auction Periods shall take effect only if (a) the Trustee and the Auction Agent receive, by 11:00 a.m. on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Market Agent authorizing the change in the length of one or more Auction Periods specified in such certificate and (b) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (a) above is not met, the Applicable ARCs Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (a) is met but the condition referred to in (b) above is not met, the Applicable ARCs Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be the Auction Period determined without reference to the proposed change.

Changes in the Auction Date

In order to conform with then current market practice with respect to similar securities, or in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARCs, and with the written consent of the State, the Market Agent may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined with respect to one or more specified Auction Periods. The Market Agent shall, not less than three days nor more than twenty days prior to the effective date of such change, deliver to the State a written request for consent together within a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least ten days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the State and the Depository.

SETTLEMENT PROCEDURES

(a) Not later than 3:00 p.m. on each Auction Date, the Auction Agent is required to notify by telephone or electronically the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the Auction Rate fixed for the next Interest Period;

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if such Broker-Dealer (a **Seller's Broker-Dealer**) submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer (a **Buyer's Broker-Dealer**) submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARCs and the principal amount of ARCs to be purchased from one or more Existing Owners on whose behalf such Broker-Dealer acted by one or more Potential Owners on whose behalf each of such other Buyer's Broker-Dealers acted;

(vi) if the principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARCs and the principal amount of ARCs to be sold to one or more Potential Owners on whose behalf such Broker-Dealer acted by one or more Existing Owners on whose behalf of each of such Seller's Broker-Dealers acted;

(vii) unless previously provided, a list of all Applicable ARCs Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and

(viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its

Participant) through the Depository the amount necessary to purchase the principal amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Broker-Dealer (or its Participant) through the Depository the principal amount of ARCs to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any ARCs received by it pursuant to paragraph (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be; (ii) each Seller's Broker-Dealer that is not a Participant in the Depository shall instruct its Participant to (A) pay through the Depository to the Participant of the Existing Owner delivering ARCs to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such ARCs against receipt of such ARCs, and (B) deliver such ARCs through the Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(ii) each Buyer's Broker-Dealer that is not a Participant in the Depository shall instruct its Participant to (A) pay through the Depository to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the ARCs to be purchased pursuant to (b)(ii) above against receipt of such ARCs, and (B) deliver such ARCs through the Depository to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct the Depository to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and the Depository shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct the Depository to execute the transactions described in (d)(ii) above for such Auction, and the Depository shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct the Depository to execute the transactions described in (d)(iii) above for such Auction, and the Depository shall execute such transactions.

(f) If an Existing Owner selling ARCs in an Auction fails to deliver such ARCs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of ARCs that is less than the principal amount of ARCs that otherwise was to be purchased by such Potential Owner (but only in Authorized Denominations). In such event, the principal amount of ARCs to be so delivered shall be determined solely by such Broker-Dealer (but only in Authorized Denominations). Delivery of such lesser principal amount of ARCs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of ARCs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent and the Broker-Dealer Agreement.

BROKER-DEALER AGREEMENTS

The State and the Auction Agent will enter into separate Broker-Dealer Agreements with one or more of UBS Financial Services Inc., Citigroup Global Markets Inc., Bear, Stearns & Co. Inc., and JPMorgan Securities Inc. with respect to each subseries of ARCs, as listed on page C-1.

APPENDIX D GLOBAL BOOK-ENTRY SYSTEM

General

The description that follows of the procedures for record keeping about beneficial ownership of the Bonds, payment of principal of and interest on the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds, and other securities-related transactions is based solely on information furnished by DTC, Clearstream, and Euroclear and has not been independently verified by the State or the Underwriters.

Beneficial owners of the Bonds may hold their certificates through DTC, which is located in the United States, or Clearstream or Euroclear, which are in Europe, if they are participants of one of those systems, or indirectly through organizations that are participants in any of those systems.

DTC will act as a securities depository for the Bonds. Clearstream and Euroclear will hold omnibus positions, on behalf of their respective participants (**Participants**), through customers securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories (collectively, **Depositories**), which in turn will hold such positions in customers' securities accounts in the names of their respective Depositories on the books of DTC.

DTC

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its Participants deposit with it. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies (**Indirect Participants**) that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly. The rules applicable to DTC and its DTC Participants are on file with the SEC.

Transfers between DTC Participants will occur in accordance with DTC rules. Transfers between Clearstream Participants and Euroclear Participants will occur in the ordinary way in accordance with their applicable rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines based on European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its Depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to the Depositories.

Because of time-zone differences, credits of securities in Clearstream or Euroclear as a result of a transaction with a DTC Participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date, and such credits or any transactions in such securities settled during such processing will be reported to the relevant Clearstream Participant or Euroclear Participant on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or a Euroclear Participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC. Day traders that use Clearstream or Euroclear and that purchase the Bonds from DTC Participants for delivery to Clearstream Participants or Euroclear Participants should note that these trades may fail on the sale side unless affirmative actions are taken. Participants should consult with their clearing system to confirm that adequate steps have been taken to assure settlement.

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual owner of a Bond (**Beneficial Owner**) is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except when use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the DTC Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect Participants and some other banks, the Beneficial Owner of a Bond may be limited in its ability to pledge Bonds to persons or entities that do not participate in the DTC system, or to otherwise take actions with respect to those Bonds due to the lack of a physical certificate for those Bonds.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may desire to make arrangements with a DTC Participant or an Indirect Participant so that all notices of redemption of their Bonds or other communications to DTC which affect these Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant or Indirect Participant. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to advise a Beneficial Owner, of any notice of redemption or its content or effect will not affect the validity of the redemption of Bonds called for redemption or any other action premised on such notice.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an omnibus proxy to the issuer as soon as possible after the record date, which assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Bonds are credited on the record date, identified in an attached listing.

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit the accounts of the DTC Participants, upon DTC's receipt of funds and corresponding detail information from the

Trustee, on payment dates in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name” and will be the responsibility of such DTC Participant and not of DTC, the Trustee or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to DTC Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of DTC Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State or the Trustee. Under such circumstances, if a successor securities depository is not obtained, Bond certificates are required to be prepared and delivered. The State may decide to discontinue use of the system of book-entry transfers through DTC, or a successor Securities Depository. In that event, Bond certificates will be delivered to the Beneficial Owners of the Bonds.

Clearstream

Clearstream Banking, société anonyme (**Clearstream**) is a limited liability company organized under Luxembourg law and is registered as a bank in Luxembourg. Clearstream holds securities for its Participants and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance, and settlement of internationally traded securities and securities lending and borrowing. Clearstream Participants are financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, and clearing corporations. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Euroclear

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned by Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (**Euroclear Operator**).

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Non-Participants of Euroclear or any other securities intermediary that holds a book-entry interest in the Bonds through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator.

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, **Terms and Conditions**). The Terms and Conditions

govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with Persons holding through Euroclear Participants.

Clearance and Settlement

Although the Euroclear Operator has agreed to the procedures provided below in order to facilitate transfers of Bonds among Euroclear Participants, and between Euroclear Participants and Participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Initial Distribution

Investors electing to acquire Bonds through an account with the Euroclear Operator or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities.

Secondary Market

Investors electing to acquire, hold or transfer Bonds through an account with the Euroclear Operator or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities.

Custody

Investors who are Euroclear Participants may acquire, hold, or transfer interests in the securities by book-entry to accounts with Euroclear Operator. Investors who are not Participants of Euroclear may acquire, hold, or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through accounts with Euroclear.

Custody Risks

Investors that acquire, hold, and transfer interest in the securities by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

The Euroclear Operator has advised as follows:

Under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the solvency of the Euroclear Operator, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Euroclear Participants credited with such interests in securities on the Euroclear Operator's records, all Euroclear Participants having an amount of interests in securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their *pro rata* share of the amount of interests in securities actually on deposit.

Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights, and other entitlements) to any person credited with such interests in securities on its records.

Distributions

Distributions with respect to Bonds held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants in accordance with the relevant system's rules and procedures, to the extent received by its Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See **“UNITED STATES TAX CONSEQUENCES; Information Reporting and Back-up Withholding.”** Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a beneficial owner of the Bonds under the Indenture on behalf of a Clearstream Participant or Euroclear Participant only in accordance with its relevant rules and procedures and subject to its Depository's ability to effect such actions on its behalf through DTC.

DTC, Clearstream, and Euroclear are under no obligation to perform or continue to perform the foregoing procedures, and such procedures may be discontinued at any time.

No one can give any assurance that DTC, Clearstream, or Euroclear, or any of their direct or indirect Participants, will promptly transfer payments or notices received with respect to the Bonds. The State and the Trustee are not responsible for the failure of any of those parties to transfer to the Beneficial Owner payments or notices received with respect to the Bonds.

Similarly, no one can give any assurance that any Depository will abide by its procedures or that its procedures will not be changed. In the event the State designates a successor securities depository for the Bonds, the successor may establish different procedures.

APPENDIX E

INFORMATION ABOUT FINANCIAL SECURITY ASSURANCE INC.

The following information has been supplied by Financial Security Assurance Inc. (**Financial Security**) for inclusion in this Official Statement. No representation is made by the State or the Underwriters as to the accuracy or completeness of the information.

Financial Security accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Financial Security and its affiliates set forth in this Appendix. In addition, Financial Security makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security will issue its Municipal Bond Insurance Policy (**Policy**) for the Series A Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included in this Appendix on the following pages.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (**Holdings**). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium, and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,021,327,000 and its total unearned premium reserve was approximately \$1,281,769,000 in accordance with statutory accounting practices. At September 30, 2003, Financial Security's total shareholders' equity was approximately \$2,208,123,000 and its total net unearned premium reserve was approximately \$1,098,688,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Series A Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series A Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the State the information presented in this Appendix for inclusion in the Official Statement.



**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

APPENDIX F

INFORMATION ABOUT XL CAPITAL ASSURANCE INC.

The following information has been supplied by XL Capital Assurance Inc. (XLCA) for inclusion in this Official Statement. No representation is made by the State or the Underwriters as to the accuracy or completeness of the information.

XLCA accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding XLCA and its affiliates set forth in this Appendix. In addition, XLCA makes no representation regarding the Series B Bonds or the advisability of investing in the Series B Bonds.

General

XLCA is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. XLCA is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-seven other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. XLCA has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

XLCA is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation (**XL Capital Ltd**). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). *XL Capital Ltd is not obligated to pay the debts of or claims against XLCA.*

XLCA was formerly known as The London Assurance of America Inc. (**London**), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. (**XL Re**) acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

XLCA has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd (XLFA), an insurance company organized under the laws of Bermuda, and an affiliate of XLCA. Pursuant to this reinsurance agreement, XLCA expects to cede up to 90% of its business to XLFA. XLCA may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by XLCA as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XLCA's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the insurance policy issued with respect to the Series B Bonds.

Based on the audited financials of XLFA, as of December 31, 2002, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$611,791,000, \$245,750,000, \$39,000,000 and \$327,041,000, respectively, determined in accordance with generally accepted accounting principles in

the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd (XLI), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's insurance financial strength rating is "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Series B Bonds, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to XLCA described in this section, the beneficial owners of the Series B Bonds will have direct recourse against XLCA only, and neither XLFA nor XLI will be directly liable to the beneficial owners of the Series B Bonds.

Financial Strength and Financial Enhancement Ratings of XLCA

XLCA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of XLCA's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Series B Bonds, and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series B Bonds. XLCA does not guaranty the market price of the Series B Bonds nor does it guaranty that the ratings on the Series B Bonds will not be revised or withdrawn.

Capitalization of XLCA

Based on the audited statutory financial statements for XLCA as of December 31, 2001, XLCA had total admitted assets of \$158,442,157, total liabilities of \$48,899,461 and total capital and surplus of \$109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities (SAP). Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$180,993,189, total liabilities of \$58,685,217 and total capital and surplus of \$122,307,972 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the **Commission**) by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Series B Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of XLCA

XLCA is regulated by the Superintendent of Insurance of the State of New York. In addition, XLCA is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, XLCA is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. XLCA is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

The Financial Guaranty Insurance Policies issued by XLCA, including the insurance policy issued with respect to the Series B Bonds, are not covered by the Property Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The principal executive offices of XLCA are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

MUNICIPAL BOND INSURANCE POLICY

ISSUER: []

Policy No: []

BONDS: []

Effective Date: []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:
Title:

Name:
Title:

APPENDIX G

EXPECTED FORM OF LEGAL OPINION OF BOND COUNSEL

Upon delivery of the Bonds, it is expected that Quarles & Brady LLP will deliver a legal opinion in substantially the following form:

Re: \$1,794,850,000 State of Wisconsin General Fund Annual Appropriation Bonds of 2003, Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates) (collectively, the **Bonds**)

We have acted as bond counsel to the State of Wisconsin (the **State**) in connection with the issuance by the State of the Bonds. In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion. We have also examined the Bonds and find the same to be in proper form.

The Bonds are issued pursuant to section 16.527 of the Wisconsin Statutes (the **Act**), an authorizing certification of the Department of Administration of the State (the **Department**) executed and delivered by its Secretary and dated December 10, 2003 (the **Authorizing Certification**) and a Trust Indenture, dated as of December 1, 2003 (the **Indenture**), between the State, acting by and through the Department, and Deutsche Bank Trust Company Americas, as trustee.

Regarding questions of fact material to our opinion, we have relied on the representations of the State contained in the Authorizing Certification, the Indenture and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The State has the valid right and lawful authority to enter into and perform its obligations under the Authorizing Certification and the Indenture and to issue the Bonds.
2. The Authorizing Certification and the Indenture have been duly authorized, executed and delivered by the State and are valid and binding obligations enforceable against the State.
3. The Bonds have been authorized, executed, issued and delivered in accordance with law, the Authorizing Certification and the Indenture. The Bonds are valid and binding limited obligations of the State payable as provided in the Indenture solely from amounts appropriated by law for such payment.
4. The Bonds do not constitute a debt of the State for constitutional purposes nor do they constitute the giving or lending of credit of the State, and the State shall not be generally liable on the Bonds. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds.
5. The interest on the Bonds is included for federal income tax purposes in the gross income of the owners of the Bonds. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Authorizing Certification and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion regarding the accuracy, adequacy or completeness of the Official Statement relating to the Bonds (except to the extent, if any, stated in a separate opinion) or regarding the perfection or priority of the lien on the funds and accounts created by the Indenture.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

QUARLES & BRADY LLP

APPENDIX H CONTINUING DISCLOSURE UNDERTAKING

The State's continuing disclosure undertaking, which appears in the following pages of this appendix, consists of three parts. The master agreement establishes a general framework under which the State will provide continuing disclosure on various types of securities the State has issued. An addendum describes what financial information and operating data will be disclosed for the particular type of security. A supplement specifies that the master agreement and an addendum shall apply with respect to a particular issue of securities.

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. Termination of Reporting Obligation.

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. Amendment; Waiver.

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. Additional Information.

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

EXHIBIT A

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.

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] [Each of the entity named or described by objective criteria below is an obligated person:
_____]

Content of Annual Report for Issuer.

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: _____.

Content of Annual Report for Additional Obligated Person(s).

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 FUND ANNUAL APPROPRIATION BONDS

This Addendum Describing Annual Report for General Fund Annual Appropriation 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 prepared with respect to appropriation obligations issued under Section 16.527 of the Wisconsin Statutes. 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:

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 External Financial Statements section of the audited Comprehensive Annual Financial Report.

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

- (i) a determination, with supporting information, of the “Annual Appropriation Amount,” as defined in the Trust Indenture, dated as of December 1, 2003 (the “Indenture”) between the Issuer and Deutsche Bank Trust Company Americas, as trustee, for each fiscal year in the current biennium and, in the second fiscal year of a biennium, for the upcoming biennium;
- (ii) the amounts appropriated by the legislature in each fiscal year with respect to appropriation obligations issued under Section 16.527 of the Wisconsin Statutes; *provided, however,* that not more than ten years in which amounts have been appropriated need be presented;
- (iii) revenues received by the State;
- (iv) expenditures made by the State;
- (v) budgets;
- (vi) selected financial data concerning the General Fund;
- (vii) information concerning interfund borrowings;
- (viii) pertinent information on significant pending litigation;

- (ix) balances of outstanding State obligations; and
- (x) statistical information on the State's economic condition, veterans housing loan program, and Wisconsin Retirement System.

Reporting of Significant Events:

The Issuer agrees that it will treat each of the following events as though it were a Listed Event under the Disclosure Agreement:

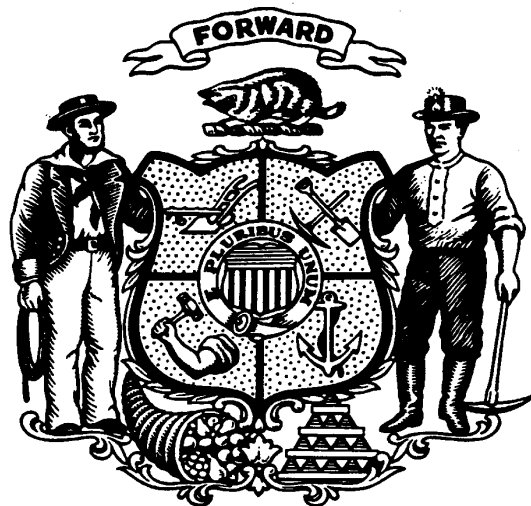
- (i) the event of a Budget Bill failing to include the Annual Appropriation Amount (as such terms are defined in the Indenture);
- (ii) an Event of Nonappropriation (as such term is defined in the Indenture); and
- (iii) any failure to make a payment when due under a Swap Agreement (as such term is defined in the Indenture).

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

Date: December 10, 2003

STATE OF WISCONSIN,
Issuer

By: /s/ FRANK R. HOADLEY
Frank R. Hoadley
Capital Finance Director



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