OFFICIAL STATEMENT

New Issue

This Official Statement provides information about the Notes. 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.

$400,000,000
STATE OF WISCONSIN
OPERATING NOTES OF 2003

Dated: September 18, 2003 **Due: June 15, 2004**

Note Ratings	F1+ Fitch Ratings MIG 1 Moody's Investors Service, Inc. SP-1+ Standard & Poor's Ratings Services
Coupon	2.25%
Term	267 days (on a 30/360 basis)
Closing/Settlement	September 18, 2003
Maturity	June 15, 2004
Interest Payment Date	June 15, 2004
Tax Exemption	Interest on the Notes is excluded from gross income and is not an item of tax preference for federal income tax purposes. Interest on the Notes is, however, subject to State of Wisconsin income and franchise taxes–*See pages 13-14*.
Redemption	Not subject to redemption prior to maturity.
Security	The State of Wisconsin is obligated to use all General Fund revenues, other than those required to pay State general obligations, to make impoundment payments into the Operating Note Redemption Fund for payment of principal and interest on the Notes–*See pages 2-4.*
Purpose	General Fund cash-flow needs—*See page 2.*
Denominations	$25,000
Bond Counsel	Gonzalez, Saggio & Harlan, L.L.P.—*See page 13.*
Tax Counsel	Foley & Lardner—*See page 13.*
Trustee/Registrar/Paying Agent	BNY Midwest Trust Company
Issuer Contact	Wisconsin Capital Finance Office; (608) 266-2305; capfin@doa.state.wi.us
Book-Entry-Only Form	The Depository Trust Company–*See pages 4-6*.
Annual Report	This Official Statement incorporates by reference Parts I and II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2002.
Sale Information	Competitive sale on September 3, 2003–*See page 13*.

September 3, 2003

This document is the "official" statement—that is, it contains the only authorized information about the offering of the Notes. This document is not an offer or solicitation for the Notes, 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 Notes, 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 federal securities laws, 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 Notes 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 Notes 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.

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STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF THE NOTES

BUILDING COMMISSION MEMBERS

Voting Members	Term of Office Expires
Governor Jim Doyle, Chairperson	January 8, 2007
Senator Fred A. Risser, Vice-Chairperson	January 3, 2005
Senator Robert Cowles	January 3, 2005
Senator Carol Roessler	January 3, 2005
Representative Spencer Black	January 3, 2005
Representative Jeff Fitzgerald	January 3, 2005
Representative Daniel Vrakas	January 3, 2005
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
Building Commission Secretary	
Mr. Robert G. Cramer, Administrator Division of Facilities Development Department of Administration	At the pleasure of the Building Commission and Secretary of Administration

OTHER PARTICIPANTS

Mr. Marc J. Marotta, Secretary Department of Administration	At the pleasure of the Governor
Ms. Peggy A. Lautenschlager State Attorney General	January 8, 2007

DEBT MANAGEMENT AND DISCLOSURE

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SUMMARY DESCRIPTION OF THE NOTES

Selected information is presented on this page for the convenience of the reader. To make an informed decision about the Notes, a prospective investor should read the entire Official Statement.

Description:	State of Wisconsin Operating Notes of 2003
Principal Amount:	$400,000,000
Denominations:	$25,000 and integral multiples thereof
Date of Issue:	September 18, 2003
Term:	267 days (on a 30/360 basis)
Maturity:	June 15, 2004
Interest Payment:	June 15, 2004
Redemption:	Not subject to redemption prior to maturity.
Form:	Book-entry-only—*See pages 4-6*
Paying Agent:	All payments of principal and interest on the Notes will be made by BNY Midwest Trust Company, Trustee. All payments will be made to The Depository Trust Company, which will distribute payments to Beneficial Owners as described herein.
Security:	All General Fund revenues, other than those required to pay State general obligations, are pledged by the Commission and will be used to make impoundment payments into the Operating Note Redemption Fund on February 27, March 31, April 30, and May 28, 2004 for payment of principal and interest on the Notes—*See pages 2-4*
Authority for Issuance:	The Notes are issued under Chapters 16 and 18 of the Wisconsin Statutes.
Purpose:	General Fund cash-flow needs.
Additional Notes:	The State may issue additional operating notes.
Legality of Investment:	State law provides that the Notes are legal investments for all banks, trust companies, savings banks and institutions, building and loan association, savings and loan associations, credit unions, investment companies, and other persons or entities carrying on a banking business; for all executors, administrators, guardians, trustees, and other fiduciaries; and for the State and all public officers, municipal corporations, political subdivisions, and public bodies.
Tax Exemption:	Interest on the Notes is not included in gross income and not an item of tax preference for federal income tax purposes—*See pages 13-14* Interest on the Notes is subject to State of Wisconsin income and franchise taxes—*See page 14*
Legal Opinions:	Legal opinions to be provided by Gonzalez, Saggio & Harlan, L.L.P., Bond Counsel, and Foley & Lardner, Tax Counsel—*See page 13*

OFFICIAL STATEMENT

$400,000,000

STATE OF WISCONSIN

OPERATING NOTES OF 2003

INTRODUCTION

This Official Statement sets forth information concerning the $400,000,000 State of Wisconsin Operating Notes of 2003 **(Notes),** issued by the State of Wisconsin **(State)**. This Official Statement includes by reference Parts I and II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2002 **(2002 Annual Report)**.

The Notes are issued pursuant to Chapters 16 and 18 of the Wisconsin Statutes **(Act)** and a resolution adopted by the State of Wisconsin Building Commission **(Commission)** on July 30, 2003 **(Resolution)**. All steps and actions required before adoption of the Resolution were satisfied.

The Commission, an agency of the State, is empowered by law to authorize, issue, and sell all borrowing obligations of the State. In connection with the issuance and sale of the Notes, the Commission has authorized the State of Wisconsin Department of Administration **(Department)** to prepare this Official Statement. This Official Statement contains information furnished by the State or obtained from the sources indicated.

THE STATE

The State is located in the Midwest among the northernmost tier of states. The State ranks 18th among the states in population and 26th in land area. Wisconsin attained statehood in 1848, its capital is Madison, and its largest city is Milwaukee.

Information concerning the State and its financial condition is included as APPENDIX A, which includes by reference Part II of the 2002 Annual Report. APPENDIX A also includes information on the following:

- Projected ending condition of the General Fund for the 2002-03 fiscal year.
- Budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1).
- 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).
- Preliminary general purpose revenue collections for the 2002-03 fiscal year as reported by the Department of Revenue.

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

Contact: Capital Finance Office
Attn: Capital Finance Director
Phone: (608) 266-2305
Mail: 101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
E-mail: capfin@doa.state.wi.us

THE NOTES

General

The Notes will be dated September 18, 2003 and will bear interest from that date payable on the maturity date of the Notes, which is June 15, 2004.

The Notes will bear interest at a rate of 2.25%, computed on the basis of a 30-day month and a 360-day year. Payments of principal and interest for each Note will be paid to the registered owner of the Notes. The Notes are being issued in book-entry-only form, so the registered owner will be a securities depository—initially, a nominee of The Depository Trust Company, New York, New York **(DTC)**.

The Commission has appointed BNY Midwest Trust Company as the trustee for the Notes (**Trustee**). The Trustee is also the registrar (**Registrar**) and paying agent (**Paying Agent**) for the Notes.

The Notes are not subject to redemption prior to maturity.

The Notes are issued as fully registered obligations in principal denominations of $25,000 or integral multiples thereof. Under certain conditions, the Notes may be issued in certificated form.

Purpose

The State is issuing the Notes because of an imbalance between the timing of payments disbursed and receipts collected. The Notes are issued in an aggregate amount estimated to be sufficient with interfund borrowings and reallocations to meet General Fund cash-flow needs for the remainder of the 2003–04 fiscal year. Developments during the year may require the State to issue additional operating notes. See "THE NOTES; Additional Notes".

The Notes mature before the end of the 2003–04 fiscal year. The budget for the 2003–04 fiscal year, as signed into law with some partial vetoes by Governor Doyle on July 24, 2003, is balanced on a statutory basis. APPENDIX A includes a summary of the budget for the 2003–04 fiscal year. Although many factors may affect the State's financial results for the 2003–04 fiscal year, the estimates of receipts and disbursements included in the 2003–04 budget are believed to be reasonable.

The State will deposit the proceeds from the sale of the Notes into the General Fund. The State will expend the Note proceeds in anticipation of revenues to be received later in the fiscal year. Until so used, the proceeds will be invested by the State on a short-term basis. This investment activity is the responsibility of the State of Wisconsin Investment Board. See APPENDIX A.

Premium, if any, paid as part of the purchase price of the Notes will be deposited into the Operating Note Redemption Fund and used to pay interest on the Notes. The costs of issuance of the Notes will be paid by the State from money separately appropriated from the General Fund.

Security

General

The Notes are contractual obligations of the State to be paid solely from General Fund revenues pledged by the Commission pursuant to the Act and the Resolution and deposited into the Operating Note Redemption Fund **(Pledged Revenues)**. The budget for the 2003-04 fiscal year is balanced on a statutory basis. There has been appropriated from the General Fund to the Operating Note Redemption Fund a sum sufficient for the payment of the principal of and interest on the Notes. The Operating Note Redemption Fund is a separate and distinct fund established with the Trustee. All money in the Operating Note Redemption Fund may be expended only for the payment of the principal and interest on the Notes.

The Notes are not general obligations of the State, and the Notes do not constitute "public debt" of the State as that term is used in the Constitution and in the Wisconsin Statutes. The Pledged Revenues are subject to the first and paramount rights of the owners of the State's general obligations.

Impoundments

The Resolution requires the Secretary of the Department **(Secretary of Administration)** to impound and transfer sums from the General Fund to the Operating Note Redemption Fund by certain dates and in certain amounts:

- 25% of the principal and interest due June 15, 2004 on the Notes must be impounded on February 27, 2004.
- 50% of the principal and interest due June 15, 2004 on the Notes must be impounded on March 31, 2004.
- 75% of the principal and interest due June 15, 2004 on the Notes must be impounded on April 30, 2004.
- 100% of the principal and interest due June 15, 2004 on the Notes must be impounded on May 28, 2004.

If on any of these impoundment dates the balance in the Operating Note Redemption Fund is less than the amount required, then all General Fund revenues (other than those required to be paid with respect to general obligations) **(Unrestricted Revenues)** must be set aside and deposited in the Operating Note Redemption Fund until the balance in the Operating Note Redemption Fund is equal to the amount required by that date.

General Fund Cash-Flow Projections and Determinations

The Resolution requires the Secretary of Administration to prepare and file with the Trustee monthly projected statements of revenues, expenses, and fund balances of the State. This filing with the Trustee will start in October 2003 and continue for each subsequent month in the 2003–04 fiscal year. These statements must be in sufficient detail to permit the Secretary of Administration to make the following determinations required by the Resolution:

- *Interfund Borrowings*—If at any time the Secretary of Administration determines that Unrestricted Revenues will be insufficient to permit the required impoundment from the General Fund to the Operating Note Redemption Fund, the Secretary of Administration must, to the extent permitted by law, transfer to the General Fund other funds of the State in a sum sufficient to permit the required impoundment. The Wisconsin Statutes allow the Secretary of Administration to temporarily borrow from certain segregated funds (and any cash in the budget stabilization fund) to the General Fund an amount up to 5% of the total general-purpose revenue appropriations then in effect and an additional 3% for a period of up to 30 days. For the 2003–04 fiscal year, the 5% amount is approximately $542 million and the 3% amount is approximately $325 million. See APPENDIX A for a summary of balances available for interfund borrowing.
- *Deferral of Expenditures*—If at any time the Secretary of Administration determines that the payment of any amount, other than payments for general obligations, will result in the funds available in the General Fund being less than the required impoundment from the General Fund to the Operating Note Redemption Fund, the Secretary of Administration must defer the payment of enough expenses to permit the required impoundment when due. The Secretary of Administration may set priorities for payments from the General Fund as well as prorate certain payments. The Wisconsin Statutes provide that all payments shall be in accordance with the following order of preference:

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

- *Acceleration of Impoundment*—If at any time the Secretary of Administration determines that the principal and interest due on the Notes at maturity less any amounts on deposit in the Operating Note Redemption Fund equals or exceeds 85% of the amount of Unrestricted Revenues estimated to be received thereafter and prior to June 15, 2004, all Unrestricted Revenues thereafter received must be immediately deposited in the Operating Note Redemption Fund until the amount in such fund is equal to 100% of the principal and interest due on the Notes at maturity.

Ratings

At the State's request, several rating agencies have rated the Notes:

Rating	*Rating Agency*
F1+	Fitch Ratings[(1)]
MIG 1	Moody's Investors Service, Inc.[(2)]
SP-1+	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 Notes 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 Notes.

(1) On March 26, 2003, Fitch Ratings placed the rating on the State's general obligations on "rating watch negative".

(2) On March 4, 2002, Moody's Investors Service, Inc. revised the rating outlook on the State's general obligations from "stable" to "negative".

Authority for Issuance

The Commission is authorized by the Wisconsin Statutes to issue operating notes when, in the judgment of the Department, a deficiency will occur in the funds of the State which will not permit the State to pay its operating obligations in a timely manner. Operating notes may be issued in an amount not exceeding 10% of budgeted appropriations of general purpose and program revenues for the year in which operating notes are issued. The maximum issuance of operating notes for the 2003–04 fiscal year is approximately $2.0 billion.

Book-Entry-Only Form

DTC will act as securities depository for the Notes. The Trustee will register all Notes in the name of Cede & Co. (DTC's partnership nominee). DTC will receive a certificate or certificates for the aggregate principal amount of the Notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the same 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 Securities Exchange Act of 1934, as amended. DTC holds securities that its participants **(Direct Participants)** deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly **(Indirect Participants)**. The rules applicable to DTC and its Direct and Indirect Participants—that is, Participants—are on file with the Securities and Exchange Commission.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note **(Beneficial Owner)** is in turn to be recorded on the Direct 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 Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To make the system work more smoothly, all Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. This does not affect the beneficial ownership of any Note. DTC has no idea who the Beneficial Owners of the Notes are; its records show only the identity of the Direct Participants to whose accounts the Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct 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.

Neither DTC nor Cede & Co. will consent or vote with respect to the Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

The Trustee will make payments of principal and interest on the Notes to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by 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 Participant and not of the State, the Trustee, or DTC, subject to any legal requirements. The Trustee is responsible for sending payments to DTC. DTC is responsible for disbursing these payments to Direct Participants. Both Direct and Indirect Participants are responsible for disbursing those payments to the Beneficial Owners.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If that happens, Note certificates will be printed and delivered.

The information in this section about DTC and DTC's book-entry system has been obtained from DTC; the State takes no responsibility for its accuracy.

No one can give any assurance that DTC, Direct Participants, and Indirect Participants will promptly transfer payments or notices received with respect to the Notes. The State and the Trustee are not responsible for the failure of DTC, Direct Participants, or Indirect Participants to transfer to the Beneficial Owner payments or notices received with respect to the Notes.

Similarly, no one can give any assurance that DTC will abide by its procedures or that its procedures will not be changed. In the event the State designates a successor securities depository, the successor may establish different procedures.

Investment of Operating Note Redemption Fund

Money deposited in the Operating Note Redemption Fund may be invested by the Trustee at the direction of the State of Wisconsin Investment Board in any of the following types of investments:

- Direct obligations of, or obligations unconditionally guaranteed by, the United States.
- Obligations issued by agencies or instrumentalities of United States.
- Obligations of the international bank for reconstruction and development having the highest rating given by a nationally recognized rating service.
- A money market fund that (i) invests solely in direct obligations of or obligations unconditionally guaranteed by the United States or obligations issued by agencies or instrumentalities of the United States and (ii) that has one of the two highest ratings given by a nationally recognized rating service.
- Repurchase agreements with banks other than the Trustee which are members of the Federal Deposit Insurance Corporation and government bond dealers, reporting to, trading with, and recognized as primary dealers by the Federal Reserve Bank of New York, having capital of at least $250,000,000 and having one of the two highest ratings given by a nationally recognized rating service, the underlying securities of which are direct obligations of, or obligations unconditionally guaranteed by, the United States, or obligations issued by agencies or instrumentalities of United States. The underlying securities are required to be continuously maintained at a value (consisting of the market value of such securities and the amount of interest accrued on such securities) not less than the amount so invested plus accrued interest and to be held by the Trustee or a third party.

All investments in the Operating Note Redemption Fund must mature on or before June 15, 2004. All investments must be valued at their face amount, including any interest to be paid to maturity.

Additional Notes

The Notes are issued in an aggregate amount estimated to be sufficient, together with interfund borrowings and reallocations, to meet General Fund cash-flow needs for the 2003–04 fiscal year.

Any additional operating notes that may be issued must, pursuant to the Resolution, mature on or after June 15, 2004 and will not be entitled to any priority with respect to payment or security over the Notes or any other series of additional operating notes. Any additional operating notes would be payable from the same source, be entitled to the same security as the Notes, and be subject to the same impoundment provisions.

Defaults and Remedies

Either of the following constitutes an "Event of Default" under the Resolution:

- A default in the due and punctual payment of the principal of or interest on any of the Notes when the same shall become due and payable.
- A default by the State in the performance of any of its obligations with respect to payments into the Operating Note Redemption Fund or in the observance and performance of any other of the covenants, conditions, and agreements of the State contained in the Resolution.

If an Event of Default shall have occurred and continues for a period of 30 days, the Trustee must publish notice of the Event of Default in *The Bond Buyer*.

If an Event of Default has occurred and is continuing, the Trustee may proceed to institute such actions and proceedings as are authorized by the Act or other law to collect all sums due in connection with the Notes and to protect and enforce its rights and the rights of the holders of the Notes. The Trustee, at the request of the holders of not less than 25% in aggregate principal amount of the Notes then outstanding and upon being furnished with reasonable security and indemnity, must take such steps and institute such suits, actions, or proceedings for the protection and enforcement of the rights of the holders of the Notes to collect any amount due and owing from the State or by injunction, mandamus, or other appropriate proceeding in law or in equity to obtain other appropriate relief.

No holder of any Notes may institute any suit, action, or proceeding in equity or at law, except to enforce payment of the Notes held by such holder, for the enforcement of the Resolution or for the execution of any trust thereof or any remedy thereunder, unless an Event of Default has occurred of which the Trustee has been notified and the holders of 25% in aggregate principal amount of the Notes then outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers granted in the Resolution or to institute such action, suit, or proceedings in its own name and the Trustee thereafter shall have failed or refused to exercise such powers or to institute such action, suit, or proceeding.

If the State fails to pay the Notes in accordance with its terms, then an action to compel such payment may be commenced against the State in the Circuit Court for Dane County, Wisconsin. If there is a final judgment against the State in such an action, the Act requires that it be paid together with interest at the rate of 10% per year from the date the payment was judged to have been due until the date of payment of the judgment. Wisconsin law requires that any such final judgment obtained against the State be filed by the Clerk of Courts with the Department. The Department is required to audit the amount of damage and costs awarded, and the amount is then required to be paid out of the State Treasury. State law contains a continuing appropriation in sum sufficient to meet judgments against the State.

GENERAL FUND INFORMATION

Information regarding the State's General Fund is included as APPENDIX A, which includes by reference Part II of the 2002 Annual Report. There can be no assurance that historical data with respect to such revenues and expenditures are necessarily indicative of future receipts and payments.

General Fund Cash Flow

The General Fund cash-flow tables on the following pages present the following by major categories of receipts and disbursements:

- Actual monthly cash flow of the General Fund from July 2001 through June 2002.
- Actual monthly cash flow of the General Fund from July 2002 through June 2003.
- Actual monthly cash flow of the General Fund for July 2003 and projected monthly cash flow from August 2003 through June 2004.

The cash-flow tables should be read in conjunction with other information concerning the 2003–04 budget, as summarized in APPENDIX A of this Official Statement.

As it has done since July 2001, the State intends, but is not obligated, to post on the Capital Finance Office web site monthly reports of actual and projected General Fund cash flows for the 2003-04 fiscal year. These reports are located in 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.state.wi.us/capitalfinance

There has been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentation on the following pages includes all tax receipts as revenues and tax refunds as disbursements. The budgetary basis presentation in APPENDIX A includes tax revenues that are net of tax refunds. In addition, Wisconsin counties have the authority to impose a county sales tax. The State receives all county sales tax collections and then returns to the counties their respective portion. The cash-flow basis presentation includes the gross sales tax receipts and the disbursement to the counties, while the county sales tax is not included in the budgetary basis presentation. There are other items that are treated differently between the cash-flow basis and budgetary basis that prevent a direct reconciliation of the cash and budgetary presentations.

Unforeseen events or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month. Additionally, the timing of transactions from month to month may vary from the forecast.

Table 1
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2001 TO JUNE 30, 2002

(In Thousands of Dollars)

	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002
BALANCES[a]												
Beginning Balance	281,565	3,398	397,659	1,290,819	1,821,610	943,651	383,667	1,104,720	969,120	-231,221	265,687	576,402
Ending Balance	3,398	397,659	1,290,819	1,821,610	943,651	383,667	1,104,720	969,120	-231,221	265,687	576,402	-421,915
Lowest Daily Balance[b]	-162,060	-202,246	-99,652	1,248,678	943,651	-60,419	383,667	883,723	-280,013	-359,784	-4,720	-727,357
RECEIPTS												
TAX RECEIPTS												
Individual Income	507,468	388,372	533,868	508,613	399,103	479,545	740,505	433,688	347,168	855,221	392,265	517,532
Sales & Use	343,973	356,048	342,096	348,297	358,636	323,558	383,293	303,711	260,578	305,548	325,402	326,813
Corporate Income	12,421	16,903	112,886	24,461	10,693	126,388	22,464	12,155	153,340	23,862	15,539	100,395
Public Utility	0	0	518	3,561	131,654	1,357	0	49	19	3,392	127,117	246
Excise	29,231	26,372	28,085	27,504	39,451	27,407	27,457	30,526	25,651	26,687	30,945	29,756
Insurance	999	1,657	19,935	339	887	19,336	2,245	11,471	14,959	25,486	4,329	21,984
Inheritance	6,638	6,162	13,423	5,645	5,568	4,969	7,275	8,310	4,675	10,147	3,781	8,466
Subtotal Tax Receipts	900,730	795,514	1,050,811	918,420	945,992	982,560	1,183,239	799,910	806,390	1,250,343	899,378	1,005,192
NON-TAX RECEIPTS												
Federal	343,646	452,855	365,526	452,845	346,684	378,392	457,577	444,893	390,521	443,150	426,659	479,199
Other & Transfers[c]	331,074	249,196	303,861	260,628	176,794	169,672	373,822	325,284	333,621	376,849	829,134	268,909
Note Proceeds[d]	0	0	800,000	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	674,720	702,051	1,469,387	713,473	523,478	548,064	831,399	770,177	724,142	819,999	1,255,793	748,108
TOTAL RECEIPTS	1,575,450	1,497,565	2,520,198	1,631,893	1,469,470	1,530,624	2,014,638	1,570,087	1,530,532	2,070,342	2,155,171	1,753,300
DISBURSEMENTS												
Local Aids	878,438	160,458	663,004	99,188	975,970	1,138,856	208,135	260,487	1,140,896	122,049	250,535	1,729,015
Income Maintenance	363,315	352,214	309,334	372,969	339,757	342,249	335,842	349,016	361,694	359,467	394,422	365,417
Payroll and Related	215,318	300,380	204,832	303,186	421,307	234,716	326,851	296,263	298,780	328,583	441,038	246,924
Tax Refunds	105,487	44,995	46,906	43,602	66,467	138,297	63,460	338,234	309,105	292,892	220,041	150,891
Debt Service	7	12,463	108,775	0	1,882	0	0	12,069	165,264	0	7,814	-5
Miscellaneous[e]	291,052	232,794	294,187	282,157	542,046	236,490	359,297	252,672	250,417	265,335	325,208	259,375
Note Repayment[d]	0	0	0	0	0	0	0	196,946	204,717	205,108	205,398	0
TOTAL DISBURSEMENTS	1,853,617	1,103,304	1,627,038	1,101,102	2,347,429	2,090,608	1,293,585	1,705,687	2,730,873	1,573,434	1,844,456	2,751,617

(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 pr 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 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 short designated funds were expected to range from $150 to $300 million during the 2001-02 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds were e average approximately $50 million during the 2001-02 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-pu revenue appropriations then in effect) to the General Fund. This amount was approximately $569 million for the 2001-02 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3 general-purpose revenue appropriations then in effect (approximately $341 million for the 2001-02 fiscal year) for a period of up to 30 days.

(c) Reflects receipt on May 23, 2002 of the $450 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement.

(d) Includes $800 million in operating note proceeds received in September, 2001 and impoundment payments made on February 28, March 29, April 30, and May 31, 2002. The February 28, 2002 impoundment payment excluded the pre was deposited on September 20, 2001 into the operating note redemption fund.

(e) $275 million in federal intergovernmental transfer funds were transferred to the Medical Assistance Trust Fund on November 30, 2001.

Table 2

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2002 TO 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. The 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.

(c) Reflects receipt on August 1, 2002 of $231million 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 3

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2003 TO JULY 31, 2003
PROJECTED GENERAL FUND CASH FLOW; AUGUST 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	-206,104	147,642	647,187	517,189	8,954	882,603	1,052,836	-124,928	389,540	526,831
Ending Balance [(c)]	-622,418	-206,104	147,642	647,187	517,189	8,954	882,603	1,052,836	-124,928	389,540	526,831	-328,820
Lowest Daily Balance [(c)]	-762,702	-757,479	-683,380	110,829	240,756	-629,404	-38,573	718,941	-124,928	-307,940	134,722	-526,473
RECEIPTS												
TAX RECEIPTS												
Individual Income	478,461	422,600	422,600	528,100	442,200	466,900	865,900	450,900	377,100	925,600	403,700	572,800
Sales & Use	368,518	382,400	353,200	369,400	372,000	309,400	408,600	323,000	293,200	315,500	357,800	352,000
Corporate Income	15,220	16,700	120,600	27,500	14,700	140,900	22,300	10,500	140,900	26,500	16,800	117,700
Public Utility	296	0	400	3,000	139,000	1,200	200	0	200	8,000	125,200	200
Excise	38,152	32,600	32,600	28,400	33,000	30,300	27,700	26,500	25,700	29,200	27,700	30,800
Insurance	828	2,100	22,400	1,200	1,100	22,900	2,400	10,800	18,500	25,100	4,100	23,900
Inheritance	5,660	7,700	9,400	5,300	5,700	10,100	6,600	8,900	7,700	9,900	3,800	6,200
Subtotal Tax Receipts	907,135	864,100	961,200	962,900	1,007,700	981,700	1,333,700	830,600	863,300	1,339,800	939,100	1,103,600
NON-TAX RECEIPTS												
Federal	420,678	445,100	436,600	629,400	422,500	448,900	610,800	525,300	471,600	533,500	518,900	553,400
Other & Transfers	348,638	271,900	366,100	245,600	253,500	237,900	385,600	387,100	328,100	329,800	312,300	411,100
Note Proceeds [(d)]	0	0	400,000	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	769,316	717,000	1,202,700	875,000	676,000	686,800	996,400	912,400	799,700	863,300	831,200	964,500
TOTAL RECEIPTS	1,676,451	1,581,100	2,163,900	1,837,900	1,683,700	1,668,500	2,330,100	1,743,000	1,663,000	2,203,100	1,770,300	2,068,100
DISBURSEMENTS												
Local Aids	890,876	140,128	765,990	119,573	824,806	1,156,159	205,865	256,886	1,179,936	123,589	247,081	1,774,181
Income Maintenance	439,565	380,945	327,925	363,451	368,397	380,905	366,890	367,839	372,394	387,422	400,019	346,739
Payroll and Related	317,741	326,313	215,293	478,497	258,142	304,330	415,696	225,616	305,368	476,187	255,458	302,883
Tax Refunds	68,585	52,182	45,303	59,994	58,584	69,800	64,600	334,797	337,901	303,510	228,900	208,706
Debt Service	0	3,892	125,336	0	3,892	0	0	3,892	263,998	0	36,394	0
Miscellaneous	280,982	261,326	330,307	316,840	299,877	265,541	403,400	285,335	279,498	296,255	363,489	291,242
Note Repayment [(d)]	0	0	0	0	0	0	0	98,402	101,669	101,669	101,668	0
TOTAL DISBURSEMENTS	1,997,749	1,164,786	1,810,154	1,338,355	1,813,698	2,176,735	1,456,451	1,572,767	2,840,764	1,688,632	1,633,009	2,923,751

(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). While the projections are based on budgetary assumptions, they 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. 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. Ther 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) 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 that is expected to be deposited on September 18, 2003 into the operating note redemption fund.

OTHER INFORMATION

Borrowing Plans for 2003

General Obligations

The State has issued four series of general obligation bonds. The State has previously issued $21 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, and $174 million of general obligation bonds for general governmental purposes.

The Commission has also authorized the following general obligations that may be issued in calendar year 2003:

- 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 depends 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 depends on market conditions.
- Up to $189 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 depends on market conditions.
- Up to $30 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 depends on loan disbursements from the Clean Water Fund Program.

In addition, the State expects to authorize and issue additional general obligations to fund general governmental purposes in the fourth quarter of this calendar year.

Other Obligations

The Commission has authorized $250 million of transportation revenue refunding bonds to refund previously issued transportation revenue bonds. The amount and timing of any refunding bonds depends on market conditions. The Commission may also authorize and issue transportation revenue obligations in the fourth quarter to fund projects in the transportation revenue obligation program.

The Commission has authorized $125 million of clean water revenue refunding bonds to refund previously issued clean water revenue bonds. The amount and timing of any refunding bonds depends on market conditions. The Commission may also authorize and issue clean water revenue bonds in the fourth quarter to fund loans in the Clean Water Fund Program.

The Commission has authorized up to $125 million of petroleum inspection fee revenue refunding bonds. The amount and timing of any refunding bonds depends on market conditions. The Commission may also authorize and issue petroleum inspection fee revenue obligations in the fourth quarter to fund claims under a soil remediation program.

The State expects to issue appropriation bonds in the fourth quarter to fund all or part of the State's unfunded prior service pension liability and the State's unfunded accumulated sick leave conversion credit program liability.

The State expects to issue master lease certificates of participation in the fourth quarter of this calendar year.

Underwriting

The Notes were purchased at competitive bidding on September 3, 2003. Information about the public reoffering of the Notes may be obtained only from the successful bidders **(Underwriters).** The award of the Notes was to the following Underwriters in the amounts shown. The Underwriters paid an aggregate amount of $ 403,267,000 , resulting in a weighted net interest cost rate to the State of 1.1488%.

Underwriter	Amount	Purchase Price
Lehman Brothers	$100,000,000	$100,820,000
J.P. Morgan Securities, Inc. With Ramirez & Co., Inc.	50,000,000	50,410,000
UBS Financial Services, Inc.	100,000,000	100,816,000
Goldman Sachs & Co. With Citigroup Capital Market, Inc. and M.R. Beal	100,000,000	100,814,000
J.P. Morgan Securities, Inc. With Ramirez & Co. Inc.	50,000,000	50,407,000

Legal Investment

The Notes are legal investments for all of the following:

- Banks, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, credit unions, investment companies, and other persons or entities carrying on a banking business.
- Executors, administrators, guardians, trustees, and other fiduciaries.
- The State and all public officers, municipal corporations, political subdivisions, and public bodies.

Legal Opinions

Legal matters incident to the authorization, issuance, and sale of the Notes are subject to the approval of Gonzalez, Saggio & Harlan, L.L.P., Bond Counsel, and Foley & Lardner, Tax Counsel, whose approving opinions, substantially in the forms shown in APPENDIX B and APPENDIX C, respectively, will be delivered on the date of issue of the Notes. In the event certificated Notes are issued, the opinions will be printed on the reverse side of each Note.

As required by law, the Attorney General of the State of Wisconsin will examine a certified copy of all proceedings preliminary to issuance of the Notes to determine the regularity and validity of such proceedings. In the event certificated Notes are issued, the certificate of the Attorney General will be printed on the reverse side of each Note.

Tax Exemption

Federal Income Tax

In the opinion of Tax Counsel, under existing law, the interest on the Notes is excluded from gross income for federal income tax purposes and the interest on the Notes is not an item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers; it should be noted, however, that with respect to certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations.

The opinions set forth in the preceding paragraph are subject to the condition that the State comply with all requirements of the Internal Revenue Code of 1986, as amended **(Code)**, and other federal tax legislation that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with each such requirement to the extent it may lawfully do so. Failure to comply with certain of such requirements may cause interest on the Notes to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Notes. Tax Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Notes. The proceedings authorizing the Notes do not provide for an increase in the interest rate or a redemption of the Notes in the event of taxability.

The Code contains numerous provisions that could affect the economic value of the Notes to particular owners of the Notes. The following are examples:

- Section 265 of the Code denies a deduction for interest on any indebtedness incurred or continued to purchase or carry the Notes or, in the case of financial institutions, that portion of an owner's interest expense allocable to interest on the Notes.
- Property and casualty insurance companies will be required in each taxable year to reduce the amount of their deductible losses by 15% of the amount of tax-exempt interest received or accrued during such taxable year, including interest on the Notes, and life insurance companies are subject to similar provisions under which taxable income is increased by reason of receipt or accrual tax-exempt interest.
- Interest on the Notes earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code.
- Passive investment income, including interest on the Notes, may be subject to federal income taxation under Section 1375 of the Code for S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of the S corporation is passive investment income.
- Section 86 of the Code requires certain recipients of social security and railroad retirement benefits to include a portion of such benefits in gross income by reason of receipts or accruals of interest on the Notes.

This section does not present an exhaustive discussion of collateral tax consequences arising from ownership of the Notes. There may be other provisions of the Code that could adversely affect the value of an investment in the Notes for particular owners. Investors should consult their own tax advisors with respect to the tax consequences of owning a Note.

State Income and Franchise Taxes

Interest on the Notes is subject to State of Wisconsin income and franchise taxes. Investors should consult their own tax advisors with respect to the state and local tax consequences of owning a Note.

CONTINUING DISCLOSURE

The State has made an undertaking, for the benefit of the beneficial owners of the Notes, to provide notices of the occurrence of certain events specified in the undertaking to each nationally recognized municipal securities information repository **(NRMSIR)**, or the Municipal Securities Rulemaking Board **(MSRB)**, and to any state information depository **(SID)**. As of the date of this Official Statement, no SID has been established. Part I of the 2002 Annual Report, which contains information on the undertaking, is included by reference as part of this Official Statement.

Copies of the notices may be obtained from:

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

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: September 3, 2003

STATE OF WISCONSIN

/s/ JIM DOYLE
Governor Jim Doyle, Chairperson
State of Wisconsin Building Commission

/s/ MARC J. MAROTTA
Marc J. Marotta, Secretary
State of Wisconsin Department of Administration

/s/ ROBERT G. CRAMER
Robert G. Cramer, Secretary
State of Wisconsin Building Commission

APPENDIX A

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 A.

This appendix also includes information on the following:

- Projected ending condition of General Fund for the 2002-03 fiscal year, as released by the Legislative Fiscal Bureau in a memorandum dated January 23, 2003.
- Budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1).
- 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).
- Preliminary general purpose revenue collections for the 2002-03 fiscal year as reported by the Department of Revenue.

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 fiscal year 2001-02
- 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)**. Copies of the 2002 Annual Report are available from the Capital Finance Office web site and may also be obtained from:

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

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.state.wi.us/capitalfinance

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 A-7 to A-23 of this Official Statement.

Budget Emergency Bill for 2002-03

On February 27, 2003, the Governor 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. *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 copy of 2003 Wisconsin Act 1 may be obtained from:

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

Results of 2002-03 Fiscal Year

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 franschise and public utility tax collections exceeded projections by $37 million and $16 million, respectively.

The Annual Fiscal Report (Budgetary Basis) for the fiscal year ended June 30, 2003 will be published by October 15, 2003. The Annual Fiscal Report is expected to include revenues that are close to those reported by the Department of Revenue along with expenditures for the 2002-03 fiscal year, which are not yet available, and the ending balance on a budgetary basis for the 2002-03 fiscal year.

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

Budget for 2003-05

The Governor'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.

The budget for the 2003-04 and 2004-05 fiscal years (2003 Wisconsin Act 33) is summarized on pages A-3 through A-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 A-7 to A-23 of this Official Statement.

Additional information on 2003 Wisconsin Act 33 can be obtained from:

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

Updated Budget Tables

The tables on pages A-3 and A-4 provide a general summary, and the tables on pages A-5 and A-6 provide a more detailed summary of (1) the budget for the 2002-03 fiscal year, through the budget emergency bill for that fiscal year (2003 Wisconsin Act 1) and (2) 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)

	Budget 2002-03	Budget 2003-04	Budget 2004-05
Beginning Balance	$ 54	$ (284) [c]	$ 144
Tax Revenues	10,223	10,742	11,346
Tobacco Settlement Payments	149	n/a	n/a
Tribal Gaming Revenues	n/a	78	79
Nontax Revenues	8,240	7,561	9,294
Total Amount Available	$18,666	$ 18,097	$ 20,863
Total Disbursements/Reserves	$18,950	$ 17,988	$ 20,717
Estimated Gross Balance	$ (284)	$ 144	$ 186[d]
Required Statutory Reserve	0[a]	35	40
Net Balance	$ (284)[b]	$ 109	$ 146

All-Funds Basis [e]
(Amounts in Millions)

	Budget 2002-03	Budget 2003-04	Budget 2004-05
Beginning Balance	$ 54	$ (284) [c]	$ 144
Tax Revenues	10,223	10,747	11,346
Tobacco Settlement Payments	149	n/a	n/a
Tribal Gaming Revenues	n/a	78	79
Nontax Revenues	20,988	20,557	20,462
Total Amount Available	$31,414	$31,093	$32,031
Total Disbursements/Reserves	$31,698	$30,984	$31,885
Estimated Gross Balance	$ (284)	$ 109	$ 146
Required Statutory Reserve	0[a]	35	40
Net Balance	$ (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] Does not include a $4 million tobacco settlement payment received June 30, 2003 and deposited in the General Fund.

[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] 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]

	Actual 2001-2002 [b]	Budget 2002-2003	Budget 2003-2004	Budget 2004-2005
RECEIPTS				
Fund Balance from Prior Year	$ 207,508,000	$ 53,782,000	$ (283,633,300) [f]	$ 144,469,900
Tax Revenue				
State Taxes Deposited to General Fund				
Individual Income	4,979,662,000	5,120,000,000	5,405,800,000	5,795,900,000
General Sales and Use	3,695,796,000	3,760,000,000	3,915,400,000	4,107,200,000
Corporate Franchise and Income	503,008,000	490,000,000	539,750,000	554,350,000
Public Utility	252,237,000	260,400,000	268,000,000	278,000,000
Excise				
Cigarette/Tobacco Products	302,701,000	307,900,000	305,200,000	302,600,000
Liquor and Wine	35,984,000	36,300,000	37,200,000	38,500,000
Malt Beverage	9,597,000	9,700,000	9,800,000	9,900,000
Inheritance, Estate & Gift	82,635,000	67,000,000	105,000,000	95,000,000
Insurance Company	96,055,000	105,000,000	85,000,000	90,000,000
Other	79,028,000	67,200,000	71,300,000	74,700,000
Subtotal	10,036,703,000	10,223,500,000	10,742,450,000	11,346,150,000
Nontax Revenue				
Departmental Revenue				
Tobacco Settlement	156,215,305	149,081,600	n/a	n/a
Tobacco Securitization	681,000,000	n/a	n/a	n/a
Tribal Gaming Revenues	n/a	n/a	78,305,500	79,172,100
Other	216,528,695	278,613,700	331,285,900	329,447,800
Program Revenue-Federal	6,372,653,000	4,860,982,500	5,707,550,800	5,435,423,200
Program Revenue-Other	3,386,974,000	3,100,962,000	1,521,606,300	3,529,154,200
Subtotal	10,813,371,000	8,389,639,800	7,638,748,500	9,373,197,300
Total Available	$ 21,057,582,000	$ 18,666,921,800	$ 18,097,565,200	$ 20,863,817,200
DISBURSEMENTS AND RESERVES				
Commerce	$ 212,449,000	$ 228,319,500	$ 267,951,200	$ 270,736,800
Education	8,603,653,000	8,849,025,300	7,372,173,100	9,369,734,400
Environmental Resources	227,949,000	248,745,100	252,915,200	251,677,800
Human Relations and Resources	8,538,786,000	7,552,695,500	7,704,344,000	8,355,526,200
General Executive	614,520,000	637,880,200	622,251,300	627,647,400
Judicial	107,534,000	103,786,900	110,945,700	110,988,200
Legislative	62,114,000	57,649,200	62,468,300	62,479,800
General Appropriations	2,881,603,000	1,386,187,500	1,687,946,100	1,690,239,300
Subtotal	21,248,608,000	19,064,289,200	18,080,994,900	20,739,029,900
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	0 [d]	35,000,000	40,000,000
Transfer to Tobacco Control Board	n/a	15,345,100	-	-
Changes in Continuing Balance	(268,454,000)	n/a	n/a	n/a
Total Disbursements & Reserves	$ 20,980,154,000	$ 18,950,555,100	$ 17,988,095,300	$ 20,717,462,800
Fund Balance	$ 77,428,000	$ (283,633,300) [e]	$ 109,469,900	$ 146,354,400
Undesignated Balance	$ 44,469,000 [c]	$ (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) The General Fund balance reported in the Annual Fiscal Report, Budgetary Basis, for the fiscal year ending June 30, 2002, includes a negative $9 million ending balance in the Program Revenue portion of the General Fund.

(d) A required balance for the 2002-03 fiscal year was not specified.

(e) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, which did occur for the 2002-03 fiscal year (2001 Wisconsin Act 109). 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). 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.

(f) Does not include a $4 million tobacco settlement payment received June 30, 2003 and deposited in the General Fund.

(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. This 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 2001-2002 [(b)]	Budget 2002-2003	Budget 2003-2004	Budget 2004-2005
RECEIPTS				
Fund Balance from Prior Year	$ 207,508,000	$ 53,782,000	$ (283,633,300) [(c)]	$ 144,469,900
Tax Revenue				
Individual Income	4,979,662,000	5,120,000,000	5,405,800,000	5,795,900,000
General Sales and Use	3,695,796,000	3,760,000,000	3,915,400,000	4,107,200,000
Corporate Franchise and Income	503,008,000	490,000,000	539,750,000	554,350,000
Public Utility	252,237,000	260,400,000	268,000,000	278,000,000
Excise				
Cigarette/Tobacco Products	302,701,000	307,900,000	305,200,000	302,600,000
Liquor and Wine	35,984,000	36,300,000	37,200,000	38,500,000
Malt Beverage	9,597,000	9,700,000	9,800,000	9,900,000
Inheritance, Estate & Gift	82,635,000	67,000,000	105,000,000	95,000,000
Insurance Company	96,055,000	105,000,000	85,000,000	90,000,000
Other	1,134,073,000	67,200,000 [(d)]	71,300,000 [(d)]	74,700,000 [(d)]
Subtotal	11,091,748,000	10,223,500,000	10,742,450,000	11,346,150,000
Nontax Revenue				
Departmental Revenue				
Tobacco Settlement	156,215,305	149,081,600	n/a	n/a
Tobacco Securitization	681,000,000	n/a	n/a	n/a
Tribal Gaming Revenues	n/a	n/a	78,305,500	79,172,100
Other	216,528,695	278,613,700	331,285,900	329,447,800
Total Federal Aids	7,203,159,000	5,687,824,500	6,341,233,000	6,098,611,900
Total Program Revenue	3,386,974,000	3,101,975,200	3,385,952,400	3,529,154,200
Total Segregated Funds	4,847,843,000	3,647,172,000	3,187,386,300	2,815,900,300
Bond Authority	785,364,000	383,000,000	475,000,000	485,000,000
Employee Benefit Contributions [(e)]	(1,598,517,000)	7,889,603,973	6,835,282,000	7,203,432,000
Subtotal	15,678,567,000	21,137,270,973	20,634,445,100	20,540,718,300
Total Available	$ 26,977,823,000	$ 31,414,552,973	$ 31,093,261,800	$ 32,031,338,200
DISBURSEMENTS AND RESERVES				
Commerce	$ 428,003,000	$ 417,323,800	$ 459,932,200	$ 466,314,600
Education	8,863,016,000	8,921,866,800	9,334,721,500	9,492,726,500
Environmental Resources	2,803,318,000	2,750,095,800	2,333,184,400	2,474,026,200
Human Relations and Resources	10,147,579,000	8,230,228,400	8,607,732,800	8,803,584,600
General Executive	5,007,479,000	771,359,700	775,791,000	782,718,500
Judicial	107,866,000	104,496,000	111,659,000	111,701,500
Legislative	62,114,000	57,649,200	62,468,300	62,479,800
General Appropriations	4,224,747,000	2,286,296,700	2,080,920,300	2,024,567,200
General Obligation Bond Program	542,938,000	383,000,000	475,000,000	485,000,000
Employee Benefit Payments [(e)]	3,963,334,000	3,830,081,149	4,028,899,000	4,428,317,000
Reserve for Employee Benefit Payments [(e)]	n/a	4,059,522,824	2,806,383,000	2,775,115,000
Subtotal	36,150,394,000	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	0 [(g)]	35,000,000	40,000,000
Transfer to Tobacco Control Board	n/a	15,345,100	-	-
Change in Continuing Balance	(9,249,999,000)	n/a	n/a	n/a
Total Disbursements & Reserves	$ 26,900,395,000	$ 31,698,186,273	$ 30,983,791,900	$ 31,884,983,800
Fund Balance	$ 77,428,000	$ (283,633,300) [(h)]	$ 109,469,900	$ 146,354,400
Undesignated Balance	$ 44,469,000 [(f)]	$ (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) Does not include a $4 million tobacco settlement payment received June 30, 2003 and deposited in the General Fund.

(d) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected $865 million of motor fuel taxes in the 2001-02 fiscal year.

(e) State law separates the accounting of employee benefits from the budget. They are included for purposes of comparability to the figures presented in this table and Tables II-1 and II-2 in Part II of the 2002 Annual Report.

(f) The General Fund balance reported in the Annual Fiscal Report, Budgetary Basis, for the fiscal year ending June 30, 2002, includes a negative $9 million ending balance in the Program Revenue portion of the General Fund.

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

(h) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, which did occur for the 2002-03 fiscal year (2001 Wisconsin Act 109). 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). 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.

(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. This results in a balance at June 30, 2005 of $205 million.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

Legislative Fiscal Bureau Robert Wm. Lang, Director

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State of Wisconsin

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

	2002-03
Revenues	
Opening Balance, July 1	$53,782,000
Taxes	10,223,500,000
Departmental Revenues	
Tobacco Settlement	149,081,600
Other	216,673,800
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	-200,490,700
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 counties 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)

	2002	2003	2004	2005
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)

	2001-03 Biennium		2003-05 Biennium	
	2001-02 Actual	2002-03 Estimated	2003-04 Estimated	2004-05 Estimated
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	62.5	67.2	71.3	74.7
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,

Bob

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 A 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.

Updates to Table II-7 of the 2002 Annual Report (Part II–Page 39; General Fund Cash Flow) are provided on pages 10 and 11 of this Official Statement. These tables provide General Fund cash flow information for the 2002-03 and 2003-04 fiscal years.

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)

	FY02 through June 2002	FY03 through June 2003			
	Actual	Actual	Estimate[(b)]	Variance	Difference FY02 Actual to FY03 Actual
RECEIPTS					
Tax Receipts					
Ind. 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
Corp. 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)
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 July 31, 2003
(Amounts in Thousands)

	FY03 through July 2002	FY04 through July 2003			
	Actual	Actual	Estimate[(b)]	Variance	Difference FY03 Actual to FY04 Actual
RECEIPTS					
Tax Receipts					
Ind. Income	$ 515,747	$ 478,461	$ 545,600	$ (67,139)	$ (37,286)
Sales	360,882	368,518	364,800	3,718	7,636
Corp. Income	14,037	15,220	19,800	(4,580)	1,183
Public Utility	197	296	-	296	99
Excise	32,420	38,152	32,500	5,652	5,732
Insurance	1,086	828	1,300	(472)	(258)
Inheritance	6,834	5,660	5,400	260	(1,174)
Total Tax Receipts	$ 931,203	$ 907,135	$ 969,400	$ (62,265)	$ (24,068)
Non-Tax Receipts					
Federal	$ 451,110	$ 420,678	$ 451,400	$ (30,722)	$ (30,432)
Other and Transfers	318,163	348,638	309,400	39,238	30,475
Note Proceeds	-	-	-	-	-
Total Non-Tax Receipts	$ 769,273	$ 769,316	$ 760,800	$ 8,516	$ 43
TOTAL RECEIPTS	$ 1,700,476	$ 1,676,451	$ 1,730,200	$ (53,749)	$ (24,025)
DISBURSEMENTS					
Local Aids	$ 903,055	$ 890,873	$ 906,379	$ 15,506	$ (12,182)
Income Maintenance	357,630	439,565	363,262	(76,303)	81,935
Payroll & Related	289,522	317,741	303,249	(14,492)	28,219
Tax Refunds	46,735	68,585	63,196	(5,389)	21,850
Debt Service	-	-	-	-	-
Miscellaneous	298,330	280,982	326,812	45,830	(17,348)
Note Repayment	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 1,895,272	$ 1,997,746	$ 1,962,898	$ (34,848)	$ 102,474
VARIANCE FY03 YEAR-TO-DATE				$ (88,597)	

(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.

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 July 31, 2003 — Actual
August 1, 2003 through June 30, 2004 — Estimated[b]
(Amounts in Thousands)

	Starting Date	Starting Balance		Receipts[c]	Disbursements[c]
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)	1,581,100	1,164,786
	September	(206,104)	(d)	2,163,900	1,810,154
	October	147,642		1,837,900	1,338,355
	November	647,187		1,683,700	1,813,698
	December	517,189	(d)	1,668,500	2,176,735
2004	January	8,954	(d)	2,330,100	1,456,451
	February	882,603		1,743,000	1,572,767
	March	1,052,836	(d)	1,663,000	2,840,764
	April	(124,928)	(d)	2,203,100	1,688,632
	May	389,540		1,770,300	1,633,009
	June	526,831	(d)	2,068,100	2,923,751

(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 August 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).

(c) The amounts shown in September 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 July 31, 2003 — Actual
August 31, 2003 to June 30, 2004— Estimated[b]
(Amounts in Millions)

Month (Last Day)	2001	2002	2003	2004
January		$ 5,360	$ 5,025	$ 1,885
February		5,463	5,235	1,957
March		5,628	5,438	2,050
April		5,135	5,113	1,929
May		4,819	4,674	1,884
June		5,001	5,001	1,990
July	$ 5,275	5,401	5,135	
August	4,785	4,785	1,807[b]	
September	4,897	4,898	1,784	
October	4,328	4,328	1,634	
November	4,242	4,242	1,696	
December	4,737	4,737	1,792	

[a] Consists of the following funds:

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

[b] Estimated balances for August 31, 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, 2002 to June 30, 2003 compared with previous year [a]

	Annual Fiscal Report Revenues 2001-02FY[b]	Projected Revenues 2002-03 FY [c]	Recorded Revenues July 1, 2001 to June 30, 2002 [d]	Recorded Revenues July 1, 2002 to June 30, 2003 [e]
Individual Income Taxes.........	$ 4,979,662,000	$ 5,120,000,000	$ 4,509,662,599	$ 4,624,383,520
General Sales and Use Taxes..	3,695,796,000	3,760,000,000	3,330,181,973	3,374,524,671
Corporate Franchise and Income Taxes...............	503,008,000	490,000,000	508,899,944	532,568,868
Public Utility Taxes	252,237,000	260,400,000	251,854,265	276,514,853
Excise Taxes	348,282,000	353,900,000	316,034,464	320,871,210
Inheritance Taxes	82,635,000	67,000,000	82,710,488	68,815,752
Insurance Company Taxes…..	96,055,000	105,000,000	74,163,503	90,087,405
Miscellaneous Taxes	79,028,000	67,200,000	73,827,005	90,085,274
SUBTOTAL......................	10,036,703,000	10,223,500,000	9,147,334,241	9,377,851,554
Federal and Other Inter-governmental Revenues[f].......	6,372,653,000	4,860,982,500	6,391,020,318	6,523,563,033
Dedicated and Other Revenues [g]................	4,440,718,000	3,528,657,300	4,207,064,982	3,823,197,770
TOTAL............................	$ 20,850,074,000	$ 18,613,139,800	$ 19,745,419,541	$ 19,724,612,357

[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 2001-02 fiscal year, dated October 15, 2002.

[c] Projected revenues are based on all fiscal bills through 2003 Wisconsin Act 1 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 2001-02 fiscal year revenues as recorded by state agencies.

[e] The amounts shown are 2002-03 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, 2002 to June 30, 2003 compared with previous year [(a)]

	Annual Fiscal Report Expenditures 2001-02 FY[(b)]	Appropriations 2002–03 FY[(c)]	Recorded Expenditures July 1, 2001 to June 30, 2002[(d)]	Recorded Expenditures July 1, 2002 to June 30, 2003[(e)]
Commerce..	$ 212,449,000	$ 228,319,500	$ 197,308,057	$ 214,782,322
Education...	8,603,653,000	8,849,025,300	8,543,302,073	9,077,294,168
Environmental Resources..................	227,949,000	248,745,100	218,978,589	256,210,177
Human Relations & Resources.........	8,538,786,000	7,552,695,500	8,491,437,223	8,450,668,962
General Executive............................	614,520,000	637,880,200	622,668,538	645,628,790
Judicial..	107,534,000	103,786,900	103,511,795	106,118,860
Legislative..	62,114,000	57,649,200	58,707,696	57,058,892
General Appropriations.....................	2,881,603,000	1,386,187,500	2,850,427,151	1,894,334,685
TOTAL.................................	$ 21,248,608,000	$ 19,064,289,200	$ 21,086,341,120	$ 20,702,096,855

(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 2001-02 fiscal year, dated October 15, 2002.

(c) Estimated appropriations based on all fiscal bills through 2003 Wisconsin Act 1.

(d) The amounts shown are 2001-02 fiscal year expenditures as recorded by state agencies.

(e) The amounts shown are 2002-03 fiscal year expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

Appendix B

EXPECTED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Notes, it is expected that Gonzalez, Saggio & Harlan, L.L.P. will deliver a legal opinion in substantially the following form:

[Letterhead of Gonzalez, Saggio & Harlan, L.L.P.]

$400,000,000

STATE OF WISCONSIN

OPERATING NOTES OF 2003

We have served as bond counsel in connection with the issuance by the State of Wisconsin (**State**) of its $400,000,000 Operating Notes of 2003, dated September 18, 2003 (**Notes**). The Notes are being issued pursuant to Chapters 16 and 18, Wisconsin Statutes **(Act)** and a resolution adopted by the State of Wisconsin Building Commission **(Commission)** on July 30, 2003 **(Resolution).**

We examined the law, a certified copy of the proceedings relating to the issuance of the Notes, and certifications of public officials and others. As to questions of fact material to our opinion, we relied upon those certified proceedings and certifications without independently undertaking to verify them.

Based upon this examination, it is our opinion that, under existing law:

1. The Notes are valid and binding limited obligations of the State, payable only from and secured solely by revenues pledged by the Commission and deposited into the Operating Note Redemption Fund established with BNY Midwest Trust Company, as Trustee. The Notes and the interest on the Notes are not a general obligation of the State and do not constitute "public debt" of the State as that term is used in the Constitution and the statutes of the State.

2. The Resolution has been duly adopted by the Commission and is a valid and binding obligation of the State enforceable upon the State as provided in the Resolution.

3. The Notes are secured equally with all other notes (if any) issued under the Resolution, subordinate only to the owners of the State's general obligations.

4. There has been appropriated from the General Fund of the State to the Operating Note Redemption Fund an amount for the payment of the principal and interest coming due on the Notes and for the payment of certain funds required to be impounded, from time to time, in the Operating Note Redemption Fund. There has been irrevocably appropriated from the Operating Note Redemption Fund an amount to pay the principal and interest coming due on the Notes.

5. Interest on the Notes is excluded from gross income for federal income tax purposes. It also is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. For the purpose of computing the alternative minimum tax imposed on certain corporations, however, interest on the Notes is taken into account in determining adjusted current earnings. The State must comply with all requirements of the Internal Revenue Code that must be satisfied after the Notes are issued for interest on the Notes to be, or continue to be, excluded from gross income for federal income tax purposes. The State has agreed to do so. A failure to comply may cause interest on the Notes to be included in gross income for federal income tax

purposes, in some cases retroactive to the date the Notes were issued. This letter expresses no opinion about other federal tax law consequences relating to the Notes.

6. The Notes are exempt from registration under the Securities Act of 1933, and the Resolution is exempt from qualification under the Trust Indenture Act of 1939. We have not passed upon matters pertaining to compliance with the Blue Sky laws of any state in connection with the offering and sale of the Notes.

The rights of the owners of the Notes and the enforceability of the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or an equitable proceeding). This letter expresses no opinion as to the availability of any particular form of judicial relief.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Notes (except to the extent, if any, stated in the Official Statement), and we express no opinion relating thereto (except only the matters set forth as our opinion in the Official Statement). However, in serving as bond counsel, nothing has come to our attention that would lead us to believe that the Official Statement (except for the financial statements and other financial or statistical data included therein, as to which we express no view), as of the date of delivery of the Notes, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

This letter speaks as of its date. We assume no duty to update this letter to reflect any facts or circumstances that later come to our attention or any subsequent changes in law.

Very truly yours,

GONZALEZ, SAGGIO & HARLAN, L.L.P.

Appendix C

EXPECTED FORM OF OPINION OF TAX COUNSEL

Upon delivery of the Notes, it is expected that Foley & Lardner will deliver a legal opinion in substantially the following form:

[Letterhead of Foley & Lardner]

$400,000,000

STATE OF WISCONSIN

OPERATING NOTES OF 2003

We have served as tax counsel in connection with the issuance by the State of Wisconsin (**State**) of its $400,000,000 Operating Notes of 2003, dated September 18, 2003 (**Notes**). The Notes are being issued pursuant to Chapters 16 and 18, Wisconsin Statutes **(Act)** and a resolution adopted by the State of Wisconsin Building Commission **(Commission)** on July 30, 2003 **(Resolution).**

We examined the law, a certified copy of the proceedings relating to the issuance of the Notes, and certifications of public officials and others. As to questions of fact material to our opinion, we relied upon those certified proceedings and certifications without independently undertaking to verify them.

Based upon this examination, it is our opinion that, under existing law:

1. The Notes are valid and binding limited obligations of the State, payable only from and secured solely by revenues pledged by the Commission and deposited into the Operating Note Redemption Fund established with BNY Midwest Trust Company, as Trustee. The Notes and the interest on the Notes are not a general obligation of the State and do not constitute "public debt" of the State as that term is used in the Constitution and the statutes of the State.

2. The Resolution has been duly adopted by the Commission and is a valid and binding obligation of the State enforceable upon the State as provided in the Resolution.

3. The Notes are secured equally with all other notes (if any) issued under the Resolution, subordinate only to the owners of the State's general obligations.

6. There has been appropriated from the General Fund of the State to the Operating Note Redemption Fund an amount for the payment of the principal and interest coming due on the Notes and for the payment of certain funds required to be impounded, from time to time, in the Operating Note Redemption Fund. There has been irrevocably appropriated from the Operating Note Redemption Fund an amount to pay the principal and interest coming due on the Notes.

7. Interest on the Notes is excluded from gross income for federal income tax purposes. It also is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. For the purpose of computing the alternative minimum tax imposed on certain corporations, however, interest on the Notes is taken into account in determining adjusted current earnings. The State must comply with all requirements of the Internal Revenue Code that must be satisfied after the Notes are issued for interest on the Notes to be, or continue to be, excluded from gross income for federal income tax purposes. The State has agreed to do so. A failure to comply may cause interest on the Notes to be included in gross income for federal income tax

purposes, in some cases retroactive to the date the Notes were issued. This letter expresses no opinion about other federal tax law consequences relating to the Notes.

6. The Notes are exempt from registration under the Securities Act of 1933, and the Resolution is exempt from qualification under the Trust Indenture Act of 1939. We have not passed upon matters pertaining to compliance with the Blue Sky laws of any state in connection with the offering and sale of the Notes.

The rights of the owners of the Notes and the enforceability of the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or an equitable proceeding). This letter expresses no opinion as to the availability of any particular form of judicial relief.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Notes (except to the extent, if any, stated in the Official Statement), and we express no opinion relating thereto (except only the matters set forth as our opinion in the Official Statement). However, in serving as tax counsel, nothing has come to our attention that would lead us to believe that the Official Statement (except for the financial statements and other financial or statistical data included therein, as to which we express no view), as of the date of delivery of the Notes, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

This letter speaks as of its date. We assume no duty to update this letter to reflect any facts or circumstances that later come to our attention or any subsequent changes in law.

Very truly yours,

FOLEY & LARDNER