



## STATE OF WISCONSIN

Notice of Listed **Material Event** #2004-02  
Dated May 24, 2004

Some of the bonds listed in this Notice (the "Bonds") **are subject to the requirements of SEC Rule 15c2-12(b)(5)** regarding an agreement to provide continuing disclosure. The following constitutes a listed material event as defined by the rule.

**Issuer:** State of Wisconsin

**CUSIP Numbers:** 977053 Prefix (All)  
977055 Prefix (All)  
977056 Prefix (All)  
97705L Prefix (All)

**Type of Filing:** Filed in both electronic and paper form with each Nationally Recognized Municipal Securities Information Repository. This notice is also available on the State of Wisconsin Capital Finance web site at:

[www.doa.state.wi.us/capitalfinance](http://www.doa.state.wi.us/capitalfinance)

**Type of Information:** Notice of Material Event  
Rating Change; General Obligation Bonds

Attached to this notice is the **press release issued by Fitch Ratings** and the **most recent rating report**.

I am authorized to distribute this information publicly.

/s/ FRANK R. HOADLEY

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## Fitch Lwrs Wisconsin's GO Rtg to 'AA-', Appropriation Debt to 'A+'; Removes Rating Watch Negative

02 Mar 2004 4:22 PM (EST)

Fitch Ratings-New York-March 2, 2004: Fitch Ratings lowers the general obligation bond rating of the state of Wisconsin to 'AA-' from 'AA'. The action affects about \$4.5 billion outstanding general obligation bonds. Concurrently, Fitch Ratings also lowers the ratings on General Fund Annual Appropriation Bonds to 'A+' from 'AA-' and Master Lease certificates of participation to 'A+' from 'AA-'. Rating Watch Negative is removed. No other securities are affected.

The 'AA-' rating on Wisconsin's general obligation bonds reflects a slower than anticipated return to economic growth, which has led to the failure to achieve revenue estimates. In addition, there is a net medical assistance shortfall of \$330 million as federal payments are not likely. Remedial actions to avert closing the biennium on June 30, 2005 with a negative general fund balance include the state's second round of debt restructuring. However, strong security is still afforded general obligation debt from a first claim on all state revenues by a statutory irrevocable appropriation as well as the state's moderate but rising debt burden and considerable economic resources.

Economic performance has lagged, leading to weakened financial operations. Revenues in the 2001-03 biennium repeatedly fell below estimates that were steadily revised downward. The budget gaps were principally patched by non-recurring measures including the full use of the tobacco settlement bond proceeds. As a result, the state ended the biennium with a \$282 million general fund deficit at June 30, 2003. The 2003-05 biennial budget closed what had been a \$2.8 billion projected funding gap. A structural imbalance continues through the biennium, with some \$1.4 billion in one-time measures in the first year dropping to under \$700 million in the second.

Revenue estimates were recently lowered by \$219 million or about 1%, with a \$32 million deficit now projected for the June 30, 2005 end of the biennium instead of a \$186 million balance. Estimates of individual income tax growth were halved, partly offset by increased corporate income and other taxes. A Medicaid funding shortfall has now been projected for the biennium, largely due to the assumption of federal funds for which approval of more than \$70

million is in doubt. Remedial actions include plans to restructure about \$175 million in current bond maturities coming due this fiscal year to free up a like amount for current operations, including \$32 million for the deficit and \$124 million for Medicaid. Program adjustments are expected to address the rest of the Medicaid problem, although the amount involved is challenging.

The state debt burden rose some 25% as a result of \$1.8 billion appropriation backed pension bonds sold in early December 2003. At 5.1% of personal income, it is still moderate but considerable additional borrowings are planned, about \$450 million annually.

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Tax Supported  
New Issue

## State of Wisconsin

### Ratings

General Obligation Extendible	
Municipal Commercial Paper .....	F1+
Operating Notes .....	F1+
General Obligation Bonds .....	AA-
(Downgraded from 'AA-' on 3/2/04; removed from Rating Watch Negative)	
General Fund Annual	
Appropriation Bonds .....	A+
(Downgraded from 'AA-' on 3/2/04; removed from Rating Watch Negative)	
Master Lease Certificates	
of Participation .....	A+
(Downgraded from 'AA-' on 3/2/04; removed from Rating Watch Negative)	
Transportation Bonds .....	AA
Transportation Commercial Paper .....	F1+

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### New Issue Details

\$307,435,000 State of Wisconsin General Obligation Bonds of 2004, Series A, sold competitively on March 30. The bonds, due May 1, 2005–2024, are callable beginning May 1, 2015 at 100% of par.

**Security:** The bonds are general obligations of the state to which it has pledged its full faith, credit, and taxing power.

### Outlook

The 'AA-' rating on Wisconsin's general obligation bonds reflects strong security from a first claim on all state revenues by a statutory irrevocable appropriation as well as the state's moderate but rising debt burden and considerable economic resources. However, return to economic growth has been slower than anticipated. This has resulted in the failure to meet revenue projections and led to the lowering of revenue estimates. In addition, there is a net medical assistance shortfall. The anticipated general fund surplus for June 30, 2005 has evaporated. Recently, remedial actions were taken to avert closing the biennium with a deficit. These actions included the state's second round of debt restructuring to provide fiscal relief and close the deficit.

### Rating Considerations

Wisconsin's manufacturing-oriented economy has been under pressure following its sound performance in the last decade. Both economic and revenue gains in recent years have fallen short of expectations. Gains in personal income were almost half of previous gains a decade earlier. By the end of fiscal 2003, employment losses were sustained for two consecutive years, with sluggish gains in the third, affected by continuing declines in manufacturing employment. Revenue losses were compounded by the continuing effects of measures enacted in the last decade, including personal income and sales tax relief, coupled with the assumption of higher levels of education spending. However, remedial actions relied heavily on nonrecurring revenues, including tobacco securitization, to close a budget gap that approximated 7% of annual revenues. Surplus balances were depleted, and the statutory reserve went unfunded. The state ended the 2001–2003 biennium with a \$282 million general fund deficit.

The 2003–2005 biennial budget addressed what had been a \$2.8 billion projected funding gap. However, the large structural imbalance continues through the biennium, with some \$1.4 billion in one-time measures in the first year, falling to less than \$700 million in the second year. The budget contains spending cuts, projected economic and revenue improvements, and statutory reserve contributions. A balance of \$185 million was initially projected at June 30, 2005.

However, the budget was based on more rapid economic gains than have occurred. The February 2004 legislative fiscal review lowered revenue estimates by \$219 million, or about 1%, with a \$32 million deficit now projected for the June 30, 2005 end of the biennium. When the statutory reserve requirement is included, the balance is a negative \$72.2 million.

Net tax-supported debt amounts to \$8.9 billion, equal to \$1,666 per capita and 5.5% of personal income. The state debt burden rose some 25% as a result of \$1.8 billion appropriation-backed pension bonds. Debt burden is still moderate, but considerable future borrowing, about \$450 million annually, is planned.

April 16, 2004

## ■ Strengths

- General obligation debt has a first claim on all state revenues from statutory irrevocable appropriations.
- Strong centralized governmental structure with line-item executive veto for appropriation bills.
- Considerable economic resources.

## ■ Risks

- Current budget relies on nonrecurring items, creating structural imbalance.
- Sluggish economy, with manufacturing employment down.
- Increasing debt burden.

## ■ Debt Position

The legislature enjoys broad powers to authorize general obligation debt and determine the purposes for which it may be issued. The amount of annual general obligation debt that may be issued is restricted to the lesser of two amounts:  $\frac{3}{4}\%$  of 1% the state's taxable value or 5% of aggregate taxable property value less net debt as of Jan. 1 and refunding bonds. For calendar 2003, the lesser amount is \$2.7 billion. The state's annual debt issuance remains well below the limit.

All general obligation bonds and notes are secured by the state's full faith, credit, and taxing powers, as well as the statutory "irrevocable appropriation" of a first lien on all state revenues for debt service. Certain

general obligation bonds have user and/or service fees attached or receive program revenues and, thus, do not need general fund support. Among such bonds are veterans mortgage loans, which are deducted as self-supporting. Also, \$352.3 million of bonds are secured by revenues not deducted as self-supporting, including the University of Wisconsin, the state fair park, and the state's historical society. Appropriation-backed pension bonds are issued under legislation that provides for a continuing appropriation statute.

The debt structure includes transportation revenue bonds and transportation commercial paper (CP) for bond anticipation purposes, which are secured by license and vehicle registration fees. Coverage of maximum annual debt service (\$143.5 million in fiscal 2006), based on 2002–2003 actual collections, is about 2.23 times (x), including assumed future issuance to fund the CP program. The additional bonds test is 2.25x, while internal policy calls for 2.50x. A surety bond provides for the reserve requirement. The CP, originally secured by a letter of credit, is now secured by a line of credit.

Appropriation pension bonds in the amount of \$1.8 billion were sold in December 2003. The bonds are payable from annual legislative appropriations to fund the remaining amount of unfunded state pension and sick leave obligations. The enabling legislation recognized the state's moral obligation to make timely appropriations from the general fund sufficient to pay debt service on the bonds and expressed its expectation and intent to do so.

Wisconsin also uses certificates of participation under a master lease agreement to finance equipment. In 1999, Wisconsin became the first municipal issuer to undertake a program of extendible CP, allowing up to a 90-day extension should remarketing fail. The extendible municipal CP and the general obligation (takeout) refunding bonds are authorized together in a supplemental resolution of the Wisconsin Building Commission. The full faith, credit, and taxing power of the state are irrevocably pledged to the punctual payment of principal and interest on the CP notes. The state has irrevocably appropriated a first charge upon all revenues of the state, a sum sufficient for payment of principal and interest on the notes as they mature and become due. The notes are payable from proceeds of rollover notes and the issuance of general obligation bonds.

Other debt liabilities include bonds and CP issued for a petroleum storage remedial program that are secured by a dedication of petroleum inspection fees and are not general obligations of the state. The state also supports

## Debt Statistics

(\$'000, As of Dec. 1, 2003, including new debt)

General Obligation (GO) Bonds and Notes*	4,677,597
Appropriation Pension Bonds	1,794,850
Transportation Revenue Bonds	1,315,250
Clean Water Revenue Bonds	620,480
Total Bonded Debt	8,408,177
Petroleum Facility Bonds and Notes	362,290
Master Lease	115,140
Commercial Paper BANs – GO Bonds	339,900
Commercial Paper BANs – Transportation	125,828
Operating Notes	400,000
Total Debt	9,751,335
Less: Operating Notes	400,000
GO Veterans Mortgage Bonds	413,275
Total Tax-Supported Debt	8,938,060

## Debt Ratios

Per Capita (\$)	1,666 (5,363,675 [2000])
% of Full Value	2.5 (\$360,710,211,300 [2003])
% of Personal Income	5.5 (\$163,216,000,000 [2002])

## Amortization: GO Bonds (%)

Due in Five Years	30
Due in 10 Years	59

BANs – Bond anticipation notes.

clean water bonds through direct contributions and subsidies for loans to subdivisions.

Wisconsin generally has used operating notes since 1983. After a two-year hiatus, \$400 million in notes (rated 'F1+' by Fitch Ratings) was issued in September 2003 for fiscal 2004 cash flow.

The state also has reserve fund deficiency makeup agreements with the Wisconsin Housing and Economic Development Authority (\$439.2 million in bonds) and three local exposition districts for up to \$200 million in bonds. Only the Wisconsin Center District has issued \$126 million in bonds under this authority. Debt of the other districts does not carry the reserve fund deficiency makeup agreement. There is also bond authority for \$170 million to develop or redevelop public school sites and facilities. The state has not been called on to make up reserve fund deficiencies.

After the current sale, net tax-supported debt amounts to \$8.9 billion, equal to \$1,666 per capita and 5.5% of personal income. The state's debt burden rose some 25% as a result of the \$1.8 billion appropriation-backed pension bonds. The debt burden is still moderate, although considerable additional borrowing is planned (about \$450 million annually).

## ■ Financial Operations

Constitutionally, Wisconsin is required to have a balanced budget, raising an annual tax sufficient to meet all estimated expenditures and debt service. Debt service is a first claim on all revenues. Several actions were taken in fiscal 2003 to remedy recent financial

problems. The measures included a spending cap, limited to the increase in personal income, as well as the funding of the stabilization fund through the use of one-half of revenues in excess of estimates (with the other half devoted to tax relief). Full disclosure budgeting was also enacted. Considerable control can be exercised by the executive, including a constitutional line-item veto for appropriation bills. Furthermore, the secretary of administration has statutory powers to reduce state agency appropriations, reallocate certain free balances up to \$400 million, defer payments, or cause the building commission to issue operating notes up to 10% of budgeted appropriations.

There is a statutory reserve requirement that has varied and is now scheduled to reach 2% of general purpose revenue appropriations by fiscal 2007. Fiscal stress has prevented the planned funding of this reserve in recent years as deficits have occurred.

Financial reporting is annual, based on generally accepted accounting principles (GAAP). Wisconsin carries a GAAP deficit due to the timing and treatment of local aid payments. The state has a biennial budget and provides monthly updates on revenues and expenditures. Monthly reports are prepared on a cash and agency recorded basis. Agency recorded basis reporting closely approximates the budget.

The general fund is broad. Total general purpose revenue fund revenues were \$10.2 billion in fiscal 2003. Among the largest revenue sources are individual income and general sales and use taxes, representing 50% and 37%, respectively, of total general purpose tax revenues. Fiscal 2003 general purpose expenditures

## General Fund\*

(\$ Mil., Fiscal Years Ended June 30)

	2001	2002	2003
Income Tax	5,156.5	4,979.7	5,052.5
Sales Tax	3,609.9	3,695.8	3,738.0
Corporate Income Tax	537.2	503	526.5
Total General Purpose Revenues	10,063.4	10,020.2	10,199.7
Federal	5,499.4	6,347.4	6,668.3
Other	3,722.9	4,482.5	3,815.9
Total Revenues	19,285.7	20,850.1	20,683.9
Education	8,353.2	8,603.7	9,087.0
Human Resources	7,287.6	8,538.8	8,630.0
General (Shared Revenues)	2,490.5	2,881.6	1,935.9
Other	1,317.1	1,224.5	1,303.6
Total Disbursements	19,448.4	21,248.6	20,956.5
Operating Balance	(663.0)	(166.0)	(430.0)
Undesignated Surplus	207.0	53.8	(282.0)

\*Budgetary basis.

## Financial Trends — Statutory Basis

(% Change, Fiscal Years Ended June 30)

	2001*	2002*	2003*	2004**†	2005**†
Personal Income Tax	(13.5)	(3.4)	1.5	3.3	6.5
Sales Tax	3.1	2.4	1.1	4.3	5.0
Corporate Income Tax	(16.7)	(6.4)	4.7	20.6	(3.1)
General Purpose Revenue Tax	(8.1)	(0.4)	1.8	4.6	4.9
Total General Purpose Revenues	(8.5)	(6.6)	(4.3)	1.7	8.1
Total General Purposes Expenses	(1.9)	1.7	(1.9)	(2.9)	9.2

\*Audited. \*\*Estimated. †Financials revised to reflect lower revenues estimates.

totaled \$11 billion. Local assistance is the largest expenditure item, at 58% of total general purpose expenses, followed by the University of Wisconsin system at almost 10%, medical assistance at 9%, corrections at 8%, and property tax credits at 4%. Debt service as a percentage of revenues is about 3.2%.

The state's economic strength in the 1990s helped support successful financial operations, with the general fund's buildup of sizable balances allowing for the absorption of increased state education funding equal to two-thirds of expenses in 1995–1997. The focus has shifted to tax relief, with substantial sales tax rebates given in fiscal 2000 and reduction of the personal income tax rate. Nonetheless, the general fund had a balance of \$836 million at June 30, 2000, close to 8% of general purpose revenues.

Financial strain became evident in fiscal 2001, with a 13.5% drop in personal income tax revenues due to recession and the tax cut. Two-thirds of the general fund balance was used to support financial operations in fiscal 2001. The general fund closed on June 30, 2001 with a \$207 million balance. Fiscal 2002 required further remedial actions, as personal income tax receipts declined over 3%. In May 2002, \$1.6 billion in tobacco securitization bonds were issued, with \$681 million of the proceeds used to close with a \$54 million balance in the general fund at year-end. Fiscal 2003 again required remedial actions to cut spending, thus reducing a projected deficit. Fiscal 2003 total tax revenues were \$10.2 billion, increasing 1.5% over fiscal 2002 but down 2% from revised projections. Due to the combined effects of the recession and personal income tax relief, total personal income taxes were down 15.3% from the \$5.9 billion collected in fiscal 2000. The state closed June 30, 2003 with a \$282 million deficit, and no contribution was made to the statutory reserve.

The 2003–2005 biennium budget closed the fiscal 2003 deficit. Also closed was a \$2.8 billion projected funding gap. However, the large structural imbalance

continues through the biennium, with some \$1.4 billion in one-time measures in fiscal 2004 (including another \$600 million from proceeds of the 2002 tobacco securitization) projected to decline to under \$700 million in fiscal 2005. The budget not only contained spending cuts but also projected robust revenue gains. Both years of the 2003–2005 biennium were originally projected to close with positive balances, reaching \$185 million at June 30, 2005.

Revenue estimates for fiscal years 2004 and 2005 were recently lowered in February 2004 by \$219 million, or about 1.0%. Major tax revenues in fiscal 2004 are now projected to rise 4.6% from the previous year, down from 5.3%. Personal income tax growth rates have been cut to 3.3% from 7%. Sales tax collections were only slightly lower and are now expected to rise 4.3% from fiscal 2003 instead of 4.7%. Healthy gains of over 20% in corporate income and franchise tax receipts have been maintained. Through the first eight months of fiscal 2004, growth rates for major tax revenues are lagging the revised estimates. Led by sluggish personal income tax receipts, revenues rose 2.8% from the same period a year ago. While improved from a year earlier, growth is slower than the fiscal 2004 growth rate of 4.6%. The personal income tax is down 1% from the same period in the previous year. Uncertainty over the state's ability to meet revised estimates remains. Revisions also revealed a medical funding deficit of \$330 million due primarily to non-attainment of expected federal funds. The general fund is now projected to end June 30, 2004 with a balance of \$74 million.

Fiscal 2005 projections lowered growth rates for major tax revenues, with a \$32 million deficit estimated at the end of the biennium (June 30, 2005). To close the fiscal 2005 shortfall, the state completed a \$175 million debt restructuring through the issuance of general obligation refunding notes in mid-March 2004. Note proceeds provided \$123 million toward increased medical assistance expenses and funded the anticipated gap.

## ■ Economic Base

Economic shifts have been under way in the state, with the service sector gaining importance as the manufacturing and trade sectors sustain declines. Nonetheless, Wisconsin's economy remains among the most heavily concentrated in manufacturing in the nation, although, overall, agriculture is still more important. While the manufacturing component of earnings is still large, it is declining.

Employment losses since 2000 have reversed important gains made in earlier years. In 1994, manufacturing employment returned to its prior peak level of 1979, principally reflecting the growth of the nondurables sector, 13% over 1991. This level was maintained until 2000, but manufacturing employment losses have proved severe, with this sector losing 11% of employment from 2000–2002.

In 2002, two sectors accounted for over 38% of total employment, with 19.3% from trade, transportation, and utilities and 19% from manufacturing, followed 15% from government, 13% from educational and health services, 9% from professional and business services, 6% from financial activities, and 4% from construction. Total state employment in February 2004 was up 1.2% from a year earlier. Manufacturing jobs still declined but at a slower pace, down 1% from February 2003, with government losing 1.2%

over the same period. Gains in all other sectors were around 3%, including the 3.8% rise in construction and 3% in education and health services. The state's unemployment rate in February 2004 was 6.4%, above the 5.6% national unemployment rate.

In 2001, personal income from services represented 25% of total earnings, with 24% from manufacturing and 15% each from trade and government. Manufacturing in the state is more than 1.5x more important than in the nation. In 2001, the durable component represented 15% of earnings for the state, compared with only 9% for the nation. Since 1996, the service sector has surpassed manufacturing as the largest sector. Trade, on par with manufacturing in 1996, now accounts for the same proportion of earnings as in the nation.

Personal income in the state rose more rapidly than regional and national averages between 1998–2002. The annual growth rate from 2001–2002 was 3.4%, ahead of the U.S. rate of 2.5%. The rate of growth in personal income was reduced to 3.1% for fiscal 2004, which should be sustainable, as personal income rose 3.6% between third-quarter 2002–2003. For fiscal 2005, personal income is now estimated to rise 4.8%, down from the original 6.5% increase. Personal income per capita for the state in 2002 was \$29,996, ranking it 21st in the nation.



## Economic Trends

### Employment

(000)

### Unemployment Rates

(%)

	WI	% Change	U.S.	% Change	WI	U.S.	WI as % of U.S.
1980	1,938	—	90,406	—	—	7.1	101
1985	1,949	0.6	97,387	7.9	7.2	7.2	100
1988	2,168	11.2	105,210	8	4.3	5.5	78
1989	2,236	3.1	107,884	2.5	4.4	5.3	83
1990	2,292	2.5	109,403	1.4	4.4	5.6	79
1991	2,302	0.4	108,249	(1.1)	5.4	6.8	79
1992	2,358	2.4	108,601	0.2	5.1	7.5	68
1993	2,413	2.3	110,713	2.0	4.7	6.9	68
1994	2,491	3.2	114,163	3.0	4.7	6.1	77
1995	2,559	2.7	117,191	2.9	3.7	5.6	66
1996	2,601	1.6	119,608	2.0	3.5	5.4	65
1997	2,656	2.1	122,690	2.6	3.7	4.9	76
1998	2,718	2.3	125,826	2.6	3.4	4.5	76
1999	2,784	2.4	128,916	2.4	3.0	4.2	71
2000	2,834	1.8	131,728	2.2	3.6	4.0	90
2001	2,814	(0.7)	131,922	0.2	4.5	5.8	78
2002	2,779	(1.2)	130,791	(0.9)	5.5	6.4	86
February 2004*	2,750	(0.1)	128,773	0.1	6.4	5.6	114

### Personal Income

(Change from Prior Year)

### Per Capita Income

(Change from Prior Year)

	% Change		WI as % of U.S.	% Change		WI as % of U.S.
	WI	U.S.	U.S. Growth	WI	U.S.	% of U.S.
1993	4.9	4.1	120	3.9	3.0	130
1994	6.0	5.0	120	5.1	4.0	128
1995	4.9	5.3	92	4.0	4.3	94
1996	5.1	5.6	92	4.3	4.6	93
1997	5.8	6.0	97	5.2	5.0	104
1998	6.2	7.1	97	6.2	5.8	107
1999	4.2	4.9	87	3.5	3.7	97
2000	6.3	8.0	79	5.4	6.7	81
2001	3.4	3.3	103	2.8	2.2	127
2002	3.4	2.5	136	2.7	1.4	193

### Components of Personal Income: Earnings

	WI		% Change	U.S.		% Change
	1999	2001	1999-2001	1999	2001	1999-2001
Manufacturing	26	24	0	16	15	2
Durables*	16	15	(3)	10	9	1
FIRE	7	7	9	9	10	14
Services	24	25	12	29	30	14
Trade	15	15	8	15	15	9
Construction	7	7	9	7	6	14
Government	14	15	13	15	16	11

State Population: 5,363,675 (2000)

Population Change 1990-2000: WI 9.4%; U.S. 13.2%

Personal Income Per Capita 2002: \$29,996 = 97% of U.S.; rank 21st

\*Preliminary. FIRE – Financial services, insurance, and real estate.

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