State of Wisconsin
Additional/Voluntary Filing #2013-21
Dated November 15, 2013

This Additional/Voluntary Filing does not concern an event described in Securities and Exchange Act Rule 15c2-12, as amended. The State of Wisconsin provides this information as it may be material to financial evaluation of one or more obligations of the State of Wisconsin.

Issuer: State of Wisconsin
General Obligation Bonds

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

Type of Information: Additional/Voluntary Disclosure
Other Event-Based Disclosures; Additional Rating

Kroll Bond Rating Agency, Inc. has assigned a long-term rating of "AA" with a stable outlook to the State of Wisconsin's General Obligation Bonds. Attached is the rating report, dated October 8, 2013, from Kroll Bond Rating Agency, Inc.

The State of Wisconsin is providing this Additional/Voluntary Filing with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. This Additional/Voluntary Filing is also available on the State of Wisconsin Capital Finance Office web site at:

www.doa.state.wi.us/capitalfinance

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing additional/voluntary filings, annual reports, and Event Filings pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010), and is authorized to distribute this information publicly.

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KBRA rating: AA

Outlook: Stable

U.S. Public Finance

State Rating Report

State of Wisconsin

General Obligation Refunding Bonds

2013, Series 1 and 2

2014, Series 1

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October 8, 2013

Kroll BondRatings™

Table of Contents

Executive Summary

Kroll Bond Ratings Agency ("KBRA") has assigned a long-term rating of AA with a stable outlook to the State of Wisconsin's General Obligation Bonds. This rating applies to all of the State's outstanding General Obligation Bonds, including General Obligation Refunding Bonds of 2013 Series 1 and Series 2 (taxable) and General Obligation Refunding Bonds of 2014 Series 1, but excluding Bonds backed by a letter of credit or liquidity facility.

This rating is based on KBRA's U.S. State General Obligation Rating Methodology, published on March 28, 2012. In the process of assigning the rating, KBRA reviewed multiple sources of information and met with State management.

Security

The Bonds are general obligations of the State and are secured by its full faith, credit and taxing power. The Wisconsin Constitution specifically requires that the Legislature appropriate funds for payment of general obligation (GO) debt. Additionally, Wisconsin Statutes establish a first claim on all revenues of the State for debt service, with no subsequent legislative action needed to use these funds for this purpose. KBRA views the security provisions on Wisconsin's general obligation debt as very strong.

Use of Proceeds

Proceeds from the Bonds will refund certain portions of the State's outstanding GO Bonds. The proceeds of the 2013 Bonds, Series 1 & 2 will be used to advance refund outstanding GO debt. The Series 2014 Bonds, Series 1 Bonds will be issued as forward delivery bonds, to be delivered in February 2014. Proceeds of the 2014 Bonds, Series 1 will be used for a current refunding of GO debt on May 1, 2014. The 2013 Bonds, Series 1 are scheduled to mature in 2030 and the 2013 Bonds, Series 2 and the 2014 Bonds, Series 1 are scheduled to mature in 2021.

Key Rating Strengths
▪ Strength of security provisions of the State General Obligation pledge
▪ State pension system continues to be one of the best funded public employee retirement systems in the nation with a funded ratio of 99.9%.
▪ Increased budget discipline imposed under the current administration, resulting in decreased use one time revenues
▪ Increase in level of Budget Stabilization Fund (BSF) to an amount equal to 2% of FY 2013 operating expenditures
▪ Available cash balances provide good liquidity for operations, without utilization of external borrowing.

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Key Rating Concerns
▪ State budget not yet structurally balanced as evidenced by use of FY 2013 surplus in current biennium budget.
▪ Transfers to Budget Stabilization Fund solely dependent on growth in revenues over projections
▪ Need for continued economic growth to support budget
▪ State debt burden moderately high on a per capita, personal income and GSP basis
▪ Long term General Fund GAAP deficit of $2.2 billion.

Rating Summary

Wisconsin's recovery from the national recession has been moderately strong and is continuing, as evidenced by ongoing increases in employment, lower unemployment rates than the nation, and three years growth in GDP. KBRA views the financial condition of Wisconsin as improving as a result of ongoing recovery of the revenue base from the recession and the increased budget discipline imposed in the last two years under the current administration. The State has a history of operating with structurally imbalanced budgets, dependence on the use of one time revenues and minimal reserves. Under the current administration significant progress has been made towards structural budget balance, reflected in reduced use of one time revenues and two years of improving General Fund operating results. FY 2013 is projected to end the year with an operating surplus of approximately $700 million. The balance in the Budget Stabilization Fund (BSF) has increased significantly to an amount equal to 2% of projected FY 2013 operating expenditures, which KBRA views as an acceptable level. Funding of the Budget Stabilization Fund (BSF), which serves as the State's operating reserve, depends solely on receipt of revenues over budget projections. The State's General Fund liquidity position is strong, ending FY 2013 with an available cash balance of $1.8 billion. Going forward, the fully funded status of the State pension fund will reduce budget pressure for State finances.

Budget reforms, which began with the passage of budget adjustment legislation for FY 2011 and provisions of 2011 Wisconsin Act 10 and included closing a $3.6 billion deficit in the FY 2012-FY2013 biennium budget, demonstrated the resolve of the Walker administration to impose fiscal discipline and stabilize the State's budget. The elimination of collective bargaining rights under 2011 Act 10 will increase financial flexibility on both a state and local level. These reforms are continuing through the passage of the FY 2014-FY 2015 biennium budget. The major centerpiece of the FY 2014-FY 2015 budget is income tax relief for individuals. Reduction in income tax rates across all tax brackets will provide $650 million in tax relief for individuals, which reflects a priority of the Walker administration. The assumptions for revenue growth in the FY 2014-FY 2015 biennium budget are reasonable and the State has a history of conservative revenue projections. Though this budget does include the use of the FY 2013 operating surplus as a resource, it does not depend on additional one time revenues. The existence of a significant GAAP deficit in the General Fund is also a factor in the rating.

KBRA views Wisconsin's management structure and policies as providing a strong framework for managing its financial operations. The procedures and policies which support the financial management process are long established practices which have been consistently followed over time. The State's finances are closely monitored by the State's Legislative Fiscal Branch (LFB) and the Department of Administration (DOA) and the State maintains a robust revenue forecasting process.

KBRA views Wisconsin's debt and continuing obligations profile as being very strong. While KBRA views the absolute level of tax-supported debt as moderately high, when compared against other states, KBRA views the level of burden placed on State finances by debt service to be low. KBRA views the fact that the State's pension system is essentially fully funded and operates with the ability to recoup investment losses through contribution and benefit adjustments as a strong positive rating factor. KBRA also views as very positive the State's minimal level of OPEB liabilities.

KBRA views Wisconsin's economy as moderately strong based on an unemployment rate that is lower than the nation, continued growth in employment and three years of growth in GDP. However, the State has shown slower job growth than the U.S. with a post-recession rate of job growth at 63.1% compared to 78.8% for the U.S. The State's personal income per capita is lower than the nation at 94.9% of the U.S. average. The State's employment is more concentrated in manufacturing at 16.3% compared to 8.9% for the U.S. However, manufacturing continues to play a strong role in the State's job recovery rate and the State is poised to benefit from the forecasted growth in this sector which KBRA views positively.

Outlook: Stable

The stable outlook reflects KBRA's expectation that the State will continue to maintain fiscal discipline and balance future biennium budgets largely with recurring revenues. The outlook also reflects the expectation that economic growth will continue at a rate to support the current FY 2014-FY 2015 budget and future budgets. KBRA also expects that the State fiscal and political management will act to maintain budget balance.

In KBRA's view, the following factors may contribute to a rating upgrade:

- Several years of structurally balanced budgets with positive operating results.
- Implementation of a policy to fund an operating reserve on an annual basis up to a level of at least 5% of operating expenditures.
- Continued growth in the economic base, resulting in employment and personal income increases.

In KBRA's view, the following factors may contribute to a downgrade of the rating:

- Passage of biennium budgets which rely on significant levels of one time revenues.
- Failure to take action necessary to maintain budget discipline and balanced operations.
- Drawdown on the Budget Stabilization Fund with no plan for restoring reserve levels.

Key Rating Determinants

Rating Determinant 1: Management Structure, Budgeting Practices and Policies

KBRA views Wisconsin's management structure and policies as providing a strong framework for managing its financial operations. The procedures and policies which support the financial management process are long established practices which have been consistently followed over time, rather than procedures codified in state statute. The State's finances are monitored by the State's Legislative Fiscal Branch (LFB) and the Department of Administration (DOA). The LFB develops annual revenue projections in January and the DOA and the LFB monitor performance on a monthly basis. However, formal reporting on budget to actual financial performance is infrequent. The Secretary of Administration is required to notify the Governor in the event budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues. The Governor then must submit a bill to the Legislature adjusting the budget to correct the imbalance.

Bankruptcy

Under Chapter 9 of the U.S. Bankruptcy Code, State governments are not permitted to petition courts for protection from creditors, including holders of their general obligation debt.

Organization of Wisconsin State Government

The State of Wisconsin's government is divided into three branches: the executive branch, legislative branch, and the judicial branch. The executive branch is headed by Governor Scott Walker, who became governor in January 2011, and includes five other elected constitutional officers (four-year term). The Wisconsin Constitution grants the Governor the power of partial veto for any appropriation bill. The Legislature may, with a two-thirds vote by each house, override a partial veto and enact the vetoed portion into law. Other key departments and groups include:

- Department of Administration manages the State budget process and manages the State finances on an ongoing basis.

- Legislative Fiscal Bureau is a nonpartisan service agency of the Wisconsin Legislature and provides fiscal and program information and analyses to the Legislature and the DOA, including revenue projections.

- Joint Committee on Finance is a 16-member Committee, which includes the LFB serving as staff, which reviews and deliberates on legislation affecting state revenues and appropriations; the primary focus of the Committee is the biennial budget.

- State Building Commission is composed of eight members and chaired by the Governor, is the only State body that can authorize State general obligation and revenue obligations; the Building Commission oversees the State Building Program and State facilities.

- State Capital Finance Office is a division of the DOA and advises the Building Commission and the governor on the issuance of state debt and administers finances for the clean water revolving loan fund program

Constitutional Provisions

The State operates on a biennium budget which begins on July 1st of each odd-numbered year. The Wisconsin Constitution requires the adoption of a balanced budget. It also requires that, if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take actions to fund the deficiency in the succeeding fiscal year.

Financial Management Policies

Wisconsin operates under a comprehensive framework of financial management procedures which are long established and consistently followed, though not necessarily codified in statue. The State's framework for financial management policies and procedures include the following components:

- Annually in January and May in odd-numbered years, the LFB prepares general fund revenue and expenditure projections. The LFB also does informal monitoring throughout the year and may use its discretion to provide updated revenue estimates at any time.

- Monthly monitoring on the State's budget performance is done by the DOA. Additionally the DOA is statutorily required to provide a report with information on actual and estimated revenues for the current and forthcoming biennium to the Governor and the Legislature by November 20th in even-numbered years.

- Traditionally, the LFB and the DOA work closely together to monitor and manage the State's finances on a monthly basis.

- By statute, if the Secretary of Administration (DOA) determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues then no approval of expenditure estimates can occur. The Secretary of Administration must notify the Governor and the Legislature, and the Governor must submit a bill correcting the imbalance.

- In the event of budgetary imbalance the Secretary of Administration has statutory power to order reductions in the appropriations of state agencies, temporarily reallocate free balances of certain funds and may prorate or defer certain payments.

- Department of Revenue (DOR) provides quarterly forecasts of income and employment for the State.

- Capital Finance Board reports monthly on the State's projected General Fund results, estimated tax revenues and general cash flow.

All general obligations issued by the State fall within a debt limit set forth in the Wisconsin Constitution and the Wisconsin Statutes. There is an annual limit of three-quarters of one percent, and a cumulative limit of five percent, of the aggregate value of all taxable property in the State. Currently, the annual limit is $3.5 billion.

Budget Stabilization Fund

Statutory provisions require, for each fiscal year, the transfer of 50% of general purpose revenues received over the original budget estimate to the State's Budget Stabilization Fund, provided that the statutory required balance for that fiscal year is maintained. The transfers to the Budget Stabilization Fund, only occur when general purpose revenues exceed the original budget estimates, and are required to continue until the balance in the Budget Stabilization Fund is at least equal to 5% of the estimated expenditures from the General Fund.

State statutes require a minimum General Fund balance specified as an amount or percentage of the general purpose revenue appropriations. The specified amount for each year of the FY 2014-FY 2015 biennium budget is $65 million. The specified amount, or percentage of general purpose revenue appropriations, is included in Wisconsin Statutes.

State Budget Process

The State's biennial budget is prepared on a statutory basis of accounting as set forth in Wisconsin statutes. Pursuant to the statutes, by November 20th in even-numbered years the Secretary of Administration is required to provide to the Governor and Legislature a compilation of the total amount of each agency's biennial budget request and the Department of Revenue (DOR) must compile and provide information on the actual and estimated revenues for the current and forthcoming biennium. In January of odd-numbered years, the LFB reports on estimated revenues and expenditures for the current fiscal year and tax collection projections for legislative deliberations on the State's budget. The Governor uses these revenue estimates develop his budget proposal.

The assumptions made in the budget process are based on the DOR's econometric model which assesses the future of the State's economy, measured primarily by income and employment. In the model, the State uses national forecast data from IHS Global Insight, Inc. on measures of industry output, factor costs, tax levels and rates, interest rates, inflation, etc. The LFB and the DOA also use the forecasted information from Global Insight when monitoring budget performance. KBRA views the State's robust forecasting process as a credit strength.

Based on the foregoing, KBRA views Wisconsin's management structure, budgeting practices, and policies as being consistent with an AA rating. This rating level reflects the State's strong general obligation pledge, robust forecasting process, comprehensive framework of financial management procedures, which are long established and consistently followed. This rating also reflects infrequent formal reporting on budget to actual financial performance, lack of formal codification of State policies and procedures in statute and the need for significant budget adjustments to be passed by the Legislature.

Rating Determinant 2: Debt and Additional Continuing Obligations

KBRA views Wisconsin's level of tax-supported debt as moderately high, compared to other states, and based on measures of debt relative to population, personal income and gross state product (GSP). However, KBRA views the level of burden that debt service places on State finances to be low, which allows for budget flexibility. The level of the State's long-term pension and post retiree healthcare liabilities are very low, based on a fully funded status of the State pension system and its ability to recoup investment losses as well as the State's minimal other post-employment benefit (OPEB) liability.

State Tax-Supported Debt

Wisconsin's total tax-supported debt is $13.4 billion, as of September 15, 2013. This includes approximately $8.03 billion of general obligation (GO) bonds, $1.8 billion in annual appropriation pension obligation bonds; $1.5 billion in additional annual appropriation tobacco bonds and $66 million in annual appropriation master lease debt. Of the $8.03 billion in GO Bonds, $2.8 billion is payable from sources outside the General Fund, including the Transportation Fund, University of Wisconsin operations and housing revenues. The total tax-supported debt number also includes $1.99 billion of Transportation Fund motor vehicle revenue bonds and petroleum inspection fee revenue bonds.

KBRA views Wisconsin's state tax-supported debt per capita at $2,332 per capita as moderately high, as this level puts the State in the top 23% percentile when compared with other states. State tax-supported debt as a percentage of personal income and GSP at 5.8% and 5.1%, respectively is also considered to be moderately high, putting the State in the top 20% and 18% percentile, respectively, when compared to other states. These debt ratios reflect the issuance of pension obligation bonds in 2003, to increase funding of pension liabilities.

Table 1: Wisconsin Debt Ratios[1]

	Wisconsin 2012[2]	Avg of U.S. States, 2012	Wisconsin, 2012 U.S. Percentile
Tax-Supported Debt per capita	$2,332	$1,604	Top 23%
Tax-Supported Debt as a % of Personal Income	5.8%	3.8%	Top 20%
Tax-Supported Debt as a % of GSP	5.1%	3.2%	Top 18%

[1] Source of tax-supported debt of other U.S. states is from Credit Scope.

[2] Population, personal income, and GSP are as of 2012. Wisconsin's 2012 GSP is $261.5 billion; this number does not account for inflation.

Debt Amortization

While KBRA views the State's debt to be moderately high on the basis of the measures discussed above, KBRA views the level of debt service burden on the State budget to be low. Total GO and annual appropriation debt service accounts for a relatively small percentage of operating expenditures, even before other sources outside the General Fund are considered. Total GO and annual appropriation debt service in FY 2012 was $650.5 million (prior to restructuring in the FY 2012-FY2013 biennium), which represents 1.6% of total governmental expenditures. On a historical basis, approximately 30%-50% of GO debt service, excluding annual appropriation payments, is paid from revenues and fees from sources other than the General Fund.

The State's GO debt has a short average life. Approximately 62% of GO principal is retired within 10 years and all but a minimal amount of debt is retired by 2034. The State has a relatively small amount of exposure to variable rate debt and swap transaction and these exposures do not pose a risk to the State's liquidity position. Approximately 7.2% of total State obligations are variable rate. There is approximately $500 million of notional amount of swaps outstanding related to the pension obligation bonds. The mark to market on these swaps, as of September 30, 2013 was a negative $131.8 million to the State.

The State has a total of $836 million in commercial paper (CP) outstanding; $141 million is traditional CP backed by a line of credit for liquidity purposes. The remaining $695 million is issued as Extendible Municipal Commercial Paper (EMCP). In EMCP, if the payment of principal and interest is not paid on the CP maturity date, the State has the option of extending the maturity to the maximum CP maturity of 270 days. There is no liquidity facility on the EMCP. All of the State's CP and EMVP is backed by the full faith and credit GO of the State. The State uses its CP program as part of its overall debt management program.

Capital Program

The State has a centralized building program under the State Building Commission. The Building Commission is the authorizing body for State GO and revenue bond issuance. The State Building Program authorized in FY 2014-FY 2015 Biennium Budget $1.3 billion in new GO bonding authority. The State expects to issue up to $59 million of general obligation commercial paper notes and up to $76 million of Transportation Fund commercial paper notes in the fourth quarter of calendar 2013.

Wisconsin Retirement System

The Wisconsin Retirement System (WRS) was created in 1982. The system covers state and local public employees, including the University of Wisconsin system, local police and firefighters and all publicly employed teachers in the State. Employees of the City of Milwaukee and Milwaukee County are not included in the State system. Currently, the WRS is composed of 27% state employees and 72% local employees.

The WRS continues to be one of the best funded public employee retirement systems in the nation. It is essentially fully funded with a funded ratio of 99.9%, as of December 31, 2011. The State issued annual appropriation pension obligation debt in 2003 and used a portion of the proceeds to fund the WRS. For the WRS system, investment losses do not create a long-term unfunded liability because the risk of investment performance is shared by all members and employers. Investment losses are addressed by a combination of adjustments to future contribution rates by active members or employers and adjustments to retiree benefit levels. Retirees do not receive cost of living increases; rather they receive dividends based on investment performance. These dividends are adjusted to compensate for investment losses, smoothed over a five-year period, as are adjustments to contributions. The WRS blended discount rate is 5.5%, which KBRA views as very conservative compared to other state systems.

The State's annual actuarially required contribution (ARC) payment consists of the annual costs of funding the pension system plus any adjustments to the employer contribution to address investment losses. Prior to 2011, the State paid 100% of both employer and employee contributions for many State employees. Pursuant to 2011 Act 10, the annual cost of funding the WRS must be shared 50%/50% by the employee and the employer. The State's ARC contribution in FY 2011 was $347.5 million. This amount represents a partial year of 2011 Act 10 cost sharing and the State ARC should decrease in FY 2012 and thereafter. The FY 2011 State pension ARC represents less than 1% of FY 2012 total governmental expenditures. The State has historically fully funded its ARC contribution.

KBRA views both the high funded ratio of the WRS and the structure which ensures that the system will fund its investment losses quickly as very positive factors in the rating assessment of the State.

Other Post-Employment Benefits (OPEB)

The State provides access to postretirement medical benefits to qualifying retirees in the WRS. Retirees must pay 100% of the premium rate, which is the same premium rate as that paid by active members. Any available sick leave conversion credit may be used to pay a retiree's premium. The State used a portion of the proceeds of the 2003 pension obligation bonds to fully fund its sick leave conversion fund.

Under GASB rules, an OPEB liability is created by the implicit rate subsidy of the retiree's premiums by the active members of the State's health plan, given that a retiree's premium would generally be higher due to age. This OPEB liability is valued at $953 million, as of January 1, 2011, a level KBRA considers minimal for a State.

In summary, KBRA views Wisconsin's debt and continuing obligations profile as being consistent with an AA+ rating. While KBRA views the absolute level of tax-supported debt as moderately high, when compared against other U.S. states, KBRA views the level of burden placed on State finances by debt service to be low. KBRA views the fact that the State's pension system is essentially fully funded and operates with the ability to recoup investment losses through contribution and benefit adjustments as a strong positive rating factor. The rating also reflects the State's minimal OPEB liability.

Rating Determinant 3: Financial Performance and Liquidity Position

KBRA views the financial condition of Wisconsin as improving as a result of continuing recovery of the revenue base from the national recession and the increased budget discipline imposed in the last two years under the current administration. The State has a history of operating with minimal reserves and structurally imbalanced budgets which depend on the use of one time revenues. Under the current administration significant progress has been made towards structural budget balance, reflected in reduction in the use of one time revenues and two years of improving General Fund operating surpluses. The balance in the Budget Stabilization Fund (BSF) has increased significantly to an amount equal to 2% of preliminary FY 2013 operating expenditures, due to increases in revenues over projections. The State's General Fund liquidity position has also improved significantly in that period.

Budget reforms which began with the passage of 2011 Act 10 and the closing of a $3.6 billion deficit in the FY 2012-FY2013 biennium budget demonstrated the new administration's resolve to stabilize the budget and the State's finances. Improvement in financial condition will continue with the passage of the FY 2014-FY 2015 biennium budget. This budget does continue use of prior year operating surpluses for FY 2014-FY 2015 operations, however, it does not include other one-time revenues to achieve balance. Areas of uncertainty include the level of spending for human service costs and the cost of implementation of changes in the State's Medical Assistance program. The State has a history of conservative forecasting of revenues which provides a measure of flexibility in managing tight budgets.

The State of Wisconsin budgets, operates and monitors its financial operations on a statutory or budgetary basis of accounting, as set forth in Wisconsin Statutes, for a fiscal year which begins July 1. The statutory basis is essentially a modified cash basis of accounting with certain revenues and expenditures accrued through July 31 or August 15 of the following fiscal year. The State reports its financial operations on a statutory basis in its Annual Fiscal Report (AFR), required to be completed by October 15 of every year. The State budgets on a biennial basis and began the FY 2014/FY 2015 biennium on July 1. The State also reports its annually financial operations using generally accepted accounting principles (GAAP).

The General Fund is the major operating fund of the State. Except where indicated, financial operations will be discussed using the statutory or budgetary basis. For the purposes of this analysis, KBRA focuses on the portion of the General Fund operations which the State presents as general purpose revenues and expenditures (GPR) that are subject to the budget development process and impact the level of budgetary balances, as included in the AFR. The GPR revenues include the range of tax revenues and certain departmental revenues received by the State and the GPR expenditures reflect the operations of the State funded by these revenues. As presented in the FY 2012 AFR, the GPR revenues totaled approximately $14.1 million and GPR expenditures totaled $13.9 million.

Wisconsin's General Fund GPR revenue sources are fairly diverse. Based on FY 2012 operations, the major sources of revenues include individual income taxes (51%), sales taxes (31%), corporate income taxes (7%) and excise taxes (5%). Excise taxes include taxes on cigarettes, other tobacco products and liquor. Major GPR expenditure categories include education (45%), human services (30%) and general government (17%). Analyzing this same GPR budget by overall purpose, local assistance programs (including local school aid) accounts for 53%, aid to individuals accounts for 22%, state operations accounts for 17% and the University of Wisconsin system operations accounts for 7% of spending.

Impact of the Great Recession

The financial operations of the State of Wisconsin were significantly impacted by the Great Recession, as were state finances across the country. Tax revenues declined and human service costs rose in response to national economic conditions. As can be seen in Table 2 and 3, GPR tax revenues declined across the board in FY 2009, with significant declines in individual income taxes, sales taxes and corporate income taxes for an overall decline of 6.2% in total GPR revenues. FY 2009 GPR expenditures also declined as a result of spending cuts, however federal fiscal relief for education and medical programs received under the American Recovery and Reinvestment Act of 2009 (ARRA) increased overall spending. The receipt of ARRA funding is not reflected in the GPR General Fund statements. The State ended FY 2009 with an unreserved budgetary balance of $85.6 million. FY 2009 operations also reflect the use of various one time revenues to balance operations, including transfers from internal insurance funds and temporary tax increases.

The State entered the recessionary period with minimal reserves in the Budget Stabilization Fund (BSF) at a $1.3 million balance. At the end of FY 2007, the BSF level was $54.2 million, which represented the highest historical BSF level since the mid 1990's.

FY 2010 and FY 2011 Biennium Financial Operations

FY 2010 continued to reflect the impact of the recession. Total GPR revenues for FY 2010 were essentially flat from FY 2009 levels; individual income taxes and sales tax collections were down 2.1% and 3.4%, respectively. GPR expenditures, including transfers, for FY 2010 were also essentially flat to FY 2009 levels. Spending under the Medical Assistance program was higher than anticipated as a result of higher Medicaid caseloads due to the economic recession. ARRA funding was received at comparable levels to FY 2010. FY 2010 ended the fiscal year with an unreserved balance of $71 million, which was significantly lower than projected due to the increased Medicaid costs. A minor deposit was made to the BSF.

The impact of the recession continued in FY 2011 in terms of increased human services costs. GPR total revenues increased 6.3% from FY 2010 levels, with individual income taxes up 10% and sales tax collections up 4.2%. The revenue increases reflect a 1% increase in income taxes for high income earners, an increase in corporate income taxes and an increase in taxes on cigarette and other tobacco products, as well the beginnings of economic recovery. GPR expenditures, including transfers, increased 5.9 %, which reflects both the continued increase in demand for assistance as well as the end of the ARRA funding which necessitated resumption of State funding of certain education and medical assistance programs in the General Fund. In FY 2011, the State held spending for most agencies at FY 2010 levels and state agencies were required to absorb the cost of salary increases. The State required employees to take eight furlough days and school aid was cut 2.5%. The General Fund had an undesignated balance of $85.6 million, at the end of FY 2011, which is somewhat lower than January 2011 LFB projections and reflects the impact of 2011 Act 10. A modest $16.6 million transfer was made to the BSF in FY 2011, due to receipt of revenues at a higher level than projected.

Financial results for FY 2010 and FY 2011 also reflect actions taken by the Legislature to balance the budget before the start of the FY 2010-FY 2011 biennium. In addition to action taken to increase revenues and reduce spending discussed above, the final FY 2010-FY 2011 budget included the use of significant levels of one time revenues from debt restructurings, shifts of program costs from GPR funds to other funding sources and transfers from the Transportation Fund.

Table 2: General Purpose Revenues (GPR) Taxes for FY 2008 -FY 2012 (budgetary basis)

	2012	% Chg	2011	% Chg	2010	% Chg	2009	% Chg	2008
Taxes	13,514,631	4.7%	12,911,865	6.4%	12,131,659	0.2%	12,113,151	-7.1%	13,042,943
Individual Income	7,041,673	5.1%	6,700,647	10.0%	6,089,170	-2.1%	6,222,735	-7.3%	6,713,681
Corporate Income	906,575	6.3%	852,863	2.2%	834,479	32.6%	629,523	-24.9%	837,807
Sales & Use	4,288,739	4.4%	4,109,019	4.2%	3,944,187	-3.4%	4,083,959	-4.3%	4,268,045
Excise	709,553	-1.6%	720,846	-4.9%	757,947	17.0%	647,621	19.9%	540,259
Inheritance & Gift	323	-352.3%	-128	-114.7%	871	-95.8%	20,853	-86.9%	158,789
Public Utility	365,912	7.2%	341,344	6.9%	319,377	-0.2%	320,110	7.6%	297,460
Insurance	148,082	5.8%	139,951	7.1%	130,718	-4.1%	136,291	-13.0%	156,606
Miscellaneous	53,774	13.6%	47,323	-13.8%	54,910	5.5%	52,059	-25.9%	70,296
Departmental Revenues	319,629	-1.5%	324,462	0.5%	322,861	-23.4%	421,496	29.5%	325,540
Indian Gaming Revenue	24,252	-1.7%	24,665	-1.7%	25,095	-73.3%	93,946	422.0%	17,998
Other	295,377	-1.5%	299,797	0.7%	297,766	-9.1%	327,550	6.5%	307,542
Total GPR Revenue	**13,834,260**	**4.5%**	**13,236,327**	**6.3%**	**12,454,520**	**-0.6%**	**12,534,647**	**-6.2%**	**13,368,483**

Table 3: General Purpose Revenue (GPR) Expenditures for FY 2008 -FY 2012 (budgetary basis)

	2012	% Chg	2011	% Chg	2010	% Chg	2009	% Chg	2008
Commerce	55,103	-5.3%	58,157	48.6%	39,133	-35.7%	60,855	19.0%	51,136
Education	6,136,267	-9.6%	6,789,596	5.7%	6,424,665	0.6%	6,387,674	-5.3%	6,744,473
Environmental Resources	96,381	-23.5%	125,977	36.4%	92,372	-63.1%	250,519	3.2%	242,867
Human Relations & Resources	4,169,592	10.3%	3,780,968	8.1%	3,498,356	2.1%	3,427,096	-14.2%	3,995,722
General Executive	420,657	6.0%	396,707	-2.4%	406,330	39.5%	291,330	-0.5%	292,662
Judicial	115,877	-4.0%	120,766	4.1%	116,054	0.8%	115,078	3.3%	111,373
Legislative	62,610	-2.6%	64,282	0.3%	64,075	0.9%	63,517	-0.4%	63,775
General	2,324,180	4.3%	2,228,066	2.1%	2,183,009	1.6%	2,148,231	6.1%	2,024,311
Transfer	370,376	2405.6%	14,782		0		0		0
Total GPR Expenditures	**13,751,043**	**1.3%**	**13,579,301**	**5.9%**	**12,823,994**	**0.6%**	**12,744,300**	**-5.8%**	**13,526,319**

Source: Wisconsin Annual Fiscal Reports

Change of Administration

In November of 2010, Scott Walker was elected Governor of Wisconsin and took office in January of 2011. Walker, a Republican, ran on a platform of job creation and tax cuts for individuals and businesses and reductions in government spending. Walker's administration was faced with a $3.6 billion budget deficit for the FY 2012-FY 2013 biennium, which began on the July 1, 2011 following him taking office. In the spring of 2011, Governor Walker proposed the budget adjustment bill for FY 2011 and 2011 Act 10 for the purpose of resolving short-term imbalances and addressing long-term structural balance. The Bill included provisions for savings of $30 million in the current FY 2011 with additional savings over the following two years. The proposed legislation impacted collective bargaining, public pension contributions, public employee health insurance and sick leave.

2011 Act 10 eliminated most collective bargaining rights, other than for wages, for government workers. Additionally, public sector employees' unions would be unable to seek pay increases above the rate of inflation, unless approved by voters. Under the Bill, unions would have to win yearly votes to continue representing government workers, and could no longer have dues automatically deducted from government workers' paychecks. Law enforcement personnel and firefighters would be exempt from the bargaining changes. 2011 Act 10 also required that all active employees under the state retirement fund make contributions equal to 50% of the annual pension's costs. Previously, the State paid 100% of the cost of the state employee contributions to the state pension plan.

Controversy about 2011 Act 10 attracted national attention as public unions and other groups organized large protests in and around the state capital to protest the Bill. The Bill was passed by the Legislature on June 29, 2011. The change in collective bargaining and pension contributions increased fiscal flexibility for local governments, as well as the State. Opponents of Walker's actions launched a push for a recall election, and received enough support to force an election on June 5, 2012. Walker successfully kept his seat as governor after winning the Wisconsin recall election against opponent Milwaukee Mayor Tom Barrett.

FY 2012/ FY 2013 Biennium Budget

On June 26, 2011, the Wisconsin Legislature passed the budget for the FY 2012/FY 2013 Biennium. The purpose of this budget, as stated by State management was to stabilize operations. The $3.6 billion budget gap was resolved by increased revenue estimates due to economic recovery, spending cuts of approximately $2.7 billion and the use of the proceeds from debt restructuring in FY 2012. The budget did not raise general taxes but continued certain tax increases from the prior biennium. Spending cuts included a $1 billion reduction in funding for education and local government assistance. The budget reduced reliance on one time revenues from prior budgets but did include use of proceeds of a debt restructuring and includes use of operating surpluses from prior years. The budget also includes repayment of approximately $200 million to an internal insurance fund, which had been transferred to the General Fund in a prior budget.

FY 2012 and FY 2013 Financial Operations

FY 2012 ended the fiscal year with an undesignated balance on a budgetary basis of $342.1 million in the General Fund, or 2.5% of expenditures. GPR total revenues increased 4.7% over FY 2011, with individual income taxes increasing 5.1% and sales taxes increasing 4.4%. Total GPR expenditures increased 1.3% over FY 2011 levels. This modest increase reflects the deep spending cuts in the biennium budget and additional savings enabled under 2011 Act 10, especially given that human service costs continued to increase. FY 2012 results also included use of approximately $440 million in budget savings from debt restructuring referred to above and use of the FY 2011 budget surplus for FY 2012 operations. A transfer of $108.7 million was made to the BSF.

Based on DOA estimates as of June 2013, FY 2013 is projected to end the fiscal year with an undesignated balance of $669.6 million in the General Fund. Based on May 2013 LFB revenue projections, total GPR tax revenues are projected to increase 3.7% over FY 2012; however preliminary August 2013 projections indicate that total GPR tax revenues will increase 4.2% over FY 2012 levels, with income tax growth of 6.5% and sales tax growth of 2.8%. A portion of the growth in the income tax receipts can be attributed to acceleration of revenues into calendar year 2012 (FY 2013) caused by anticipation of changes in federal tax rates on capital gains, corporate dividends and sale of assets. DOA currently estimates that between $150 million and $180 million of FY 2013 income tax revenues is related to the acceleration of these revenues. If $180 million is netted out from August 2013 estimates of FY 2013 income tax receipts, the income tax growth rate is reduced to 3.9% for FY 2013 on a preliminary basis. FY 2013 financial results do not include budget savings from debt restructuring or other one time transfers. The FY 2013 deposit to the BSF is currently estimated to be $153 million, bringing the balance of the BSF to $279 million, which represents 2% of estimated FY 2013 expenditures.

Table 4: General Fund FY 2008-FY 2013
General-Purpose Revenues (GPR), GPR Expenditures and Changes in Fund Balance
(budgetary basis)

(In thousands)	2013[1]	2012	2011	2010	2009	2008
Beginning Undesignated Balance	342,008	85,567	70,980	89,564	130,696	66,288
percent change	299.7%	20.6%	(20.%)	(31.5%)	97.2%	
GPR Revenues	14,690,900	13,834,260	13,236,327	12,454,520	12,534,647	13,368,483
percent change		4.5%	6.3%	(0.6%)	(6.2%)	
GPR Expenditures	14,363,400	13,751,043	13,579,301	12,823,994	12,744,300	13,526,319
percent change		1.3%	5.9%	0.6%	(5.8%)	
Net Operating Surplus (Deficit)	327,500	83,217	(342,974)	(369,474)	(209,653)	(157,836)
Transfers (to) from General Fund	-	237,441	333,563	418,787	151,686	242,855
Total Unreserved Balance	$669,600	$414,461	$93,803	$149,476	$100,163	$158,130
Designated for Continuing Balances	-	(72,373)	(8,236)	(78,496)	(10,599)	(27,434)
Undesignated Balance	669,600	342,088	85,567	70,980	89,564	130,696
Undesignated Balance as a % of Expenditures	4.7%	2.5%	0.6%	0.6%	0.7%	1.0%

Source: Wisconsin FY 2008-FY 2012 Annual Fiscal Report

[1] The information on FY 2013 are preliminary estimates and subject to final review and change prior to publication of the Annual Fiscal Report (budgetary basis) for the 2012-13 fiscal year. Preliminary fiscal year 2013 information does not provide the same break down of information provided in other years.

FY 2014-FY 2015 Biennium Budget

The budget act for the FY 2014-FY 2015 biennium was signed by the Governor on June 30, 2013. The major centerpiece of this budget is income tax relief for individuals. Income tax rates are reduced across tax brackets with the largest reductions for income ranges between $15,000 and $50,000. These changes, which are effective for 2013 tax year, are expected to reduce income tax revenues by $650 million in FY 2014. Based on May 2013 LFB revenue projections, GPR tax revenues are projected to show 2.1% growth in FY 2014 and 3.6% growth in FY 2015. Based on modification of revenue assumptions based on tax changes in the biennium budget, FY 2014 GPR tax revenues are now projected to be flat from FY 2013 to FY 2014 and increase 3.6% from FY 2014 to FY 2015. KBRA views these revenue assumptions as reasonable, based on the history of revenue growth since the recession.

Under the biennium budget, FY 2014 is projected to end with a budgetary surplus of $398.5 million and FY 2015 is projected to end with a $91.3 million surplus. The budget does not include any new revenue sources and no one time revenues in the form of proceeds of debt restructuring or transfers from the transportation fund or other funds. However, the State has included the $669.6 million in FY 2013 surplus as a source of funds in the biennium budget.

Wisconsin has implemented a number of reforms in its Medical Assistance program over a number of years, including increased state funding of over $2 billion over the last two budgets for its Medicaid program. Wisconsin has opted out of the Medicaid expansion program under the American Affordable Care Act (ACA), as have a number of other states. Effective January 1, 2014, under its Medical Assistance program, the State will reduce eligibility by income for certain groups of low income adults from 200% to 100% of federal poverty level (FPL) and expand medical coverage for certain adults with children. Adults no longer eligible will be transitioned into federally facilitated insurance exchanges. Management projects that the net effect of these changes will be a minor decrease in enrollment under Medicaid but states that the biennium budget contains sufficient funding for cost overruns due to higher than expected administrative costs or enrollment increases. Cost of the Medical Assistance program is projected to account for 14.7% of the GPR budget in FY 2014 and 15.4% in FY 2015, as compared to 13.9% in FY 2013, which reflects nationwide growth in healthcare costs.

Liquidity Position

KBRA views the cash position of the State as very strong, especially when the combined cash balances for the General Fund and other available funds in the State are considered. The cash position of the General Fund has improved in the last several years with the FY 2013 ending cash balance at $1.83 billion, as compared to $975 million in FY 2012. The cash flow the General Fund is such that a large portion of receipts are received in the second half of the fiscal year while disbursements are fairly even throughout the fiscal year, which creates the potential for negative cash balances on a given day.

Wisconsin statutes provide certain administrative remedies to handle periods when the General Fund may be in a negative cash position. In a given year, the Secretary of Administration may allocate cash in other funds to the General Fund in an amount up to 9% of total general purpose revenue appropriations with an additional 3% for a period up to 30 days. The resulting amounts for temporary allocation in FY 2014 are approximately $1.3 billion and $450 million, respectively. The cash balances available for temporary reallocation include a range of state funds, including the Local Government Investment Pool (LGIP), which serves as an investment vehicle for local governments and is thus outside State control. Cash balances available for temporary reallocation, not including the LGIP, totaled $1.7 billion at the end of FY 2013. Cash balances available for temporary reallocation, including the LGIP, totaled $4.4 billion at the end of FY 2013.

The State also has authority to issue operating notes for cash flow purposes. The State issued operating notes in FY 2007 through FY 2012 and did not issue operating notes in FY 2013 and, thus far, in FY 2014.

GAAP Deficit

Wisconsin has reported a General Fund GAAP deficit since the 1980's. Audited GAAP financial statements for FY 2012 show an unreserved fund balance deficit of $2.2 billion in the General Fund. The General Fund GAAP deficit reflects a legacy of historical funding decisions to shift certain program expenditures from one fiscal year to a subsequent fiscal year, thereby creating an unfunded liability on a GAAP basis in the current year. The aggregate unfunded liability for all of these shifted program expenditures increased annually as the annual program expenditures increased, resulting in a slowly increasing GAAP deficit over time. Though there is a range of expenditures that have been subject to these shifts, approximately two-thirds of the GAAP deficit is due to funding shifts for local government and school aid programs, where local assistance and school payments were shifted from one fiscal year to the next to provide budgetary relief for the State. Approximately one-third of the GAAP deficit is due to similar shifts of income tax refunds for State budget relief. Given that the statutory basis of accounting used by the State is fairly close to modified accrual, the mismatch between a modified cash statutory basis of accounting and GAAP accounting has not been a significant factor in the growth of the GAAP deficit.

The State has no plans to specifically fund this GAAP deficit. Management states that, over time, it is expected that budgetary surpluses will reduce the GAAP deficit. In FY 2012, approximately eight states ended the year with negative GAAP deficits. While KBRA views the existence of the GAAP deficit as a negative rating factor, KBRA recognizes the historical nature of the liability and is of the view that it does not significantly impact current operations.

In summary, KBRA views Wisconsin's financial performance and liquidity position as consistent with an AA rating. The rating reflects the continuing improvement of the financial condition of the State over the last two years under the fiscal discipline imposed by the current administration and the progress the State has made toward achieving structural budget balance. The State has a history of conservative forecasting of revenues which provides a measure of flexibility in managing tight budgets. The General Fund has shown operating surpluses, with reduced use of one time revenues, and the BSF increased to an amount equal to 2% of projected FY 2013 General Fund expenditures. KBRA views the liquidity position of General Fund as very strong, especially when availability of other State cash balances is considered. The rating reflects the continued use of operating surpluses as revenue sources in subsequent budgets and the dependence on revenue receipts over revenue projections to fund the BSF, which serves as the State's operating reserve. The existence of a significant GAAP deficit in the General Fund is also a factor in the rating.

Rating Determinant 4: State Resource Base

KBRA views Wisconsin's economy as moderately strong based on an unemployment rate which has been lower than the U.S. since 2008, growth in employment over the past two years, and three years of growth in GDP. While KBRA views these as positive indicators of the State's economy, Wisconsin has a slower post-recession rate of job growth compared to the U.S., a lower level of personal income per capita than the U.S. at 94.9% of the U.S. average, and the State's employment base is more concentrated in manufacturing than the U.S. However, the State continues to have strong growth in manufacturing employment and this sector is forecasted to grow. KBRA will continue to monitor the impact of federal sequestration on the State; however, it is KBRA's view that the State is not overly sensitive to the effects of the sequestration.

Population

The State of Wisconsin is located in the Midwest, situated between Lake Michigan to the east and the Mississippi River to the west, covers 54,310 square miles and serves a population of 5.7 million. The State's largest city is Milwaukee and accounts for 10.6% of the State's population; the State's capital and second largest city is Madison accounting for 4.1% of the State's population.

Over the past 10 years, Wisconsin's population has grown 5.2% which is a higher a growth rate than the Great Lakes region at 2.2% but slower than the U.S. at 9.1%. The level of educational attainment, defined as the population holding received a Bachelor's degree or higher, has grown at a faster past since 2000 than both the region and the nation, however, Wisconsin's 2012 educational attainment at 27.1% still trails the U.S. at 29.1%. The State's poverty level at 13.2% is lower than both the region and the U.S. The State's age dependency ratio, which measures the nonworking population to the working population, was 59.8% in 2012 compared to 57.7% for the U.S. This represents a decline in the State's age dependency ratio of 2.8% since 2002 which is lower than the U.S. decline of 4.6%. KBRA views the decline in this ratio positively as it indicates the working population had a higher growth rate relative to the nonworking population.

Table 5	Wisconsin			Great Lakes[1]				U.S.		
	2012	% Chg from 2002[2]	2012 U.S. Percentile	2012	% Chg from 2002*	2012 U.S. Percentile	WI as % of GL Avg	2012	% Chg from 2002*	WI as % of U.S. Avg
Population	5,726,398	5.2%		46,566,572	2.2%		**12.3%**	313,914,040	9.1%	**1.8%**
Age Dependency Ratio[3]	59.8%	(2.8%)		60.0%	(2.4%)			57.7%	(4.6%)	
Population with B.A. Degree or higher[4]	27.1%	21.0%	57%	26.7%	18.7%	61%	**101.5%**	29.1%	19.3%	**93.1%**
Poverty Level	13.2%	51.7%		15.4%	51.0%		**85.7%**	15.9%	28.2%	**83.0%**
Personal Income (in billions)	$232.1	38.4%		$1,874.5	33.0%			$13,402	48.0%	
Personal Income per capita	$40,537	31.6%	52%	$40,255	30.1%	54%	**100.7%**	$42,693	35.6%	**94.9%**
Real Gross Domestic Product (in billions)	$225.1	10.1%		$1,858.9	4.8%			$13,431	16.2%	
Real GDP per capita	$39,308	4.7%	58%	$39,919	2.5%	56%	**98.5%**	$42,784	6.5%	**91.9%**

Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis

[1] Great Lakes region is defined as Illinois, Indiana, Michigan, Ohio and Wisconsin.

[2] Population with a B.A. degree or higher and the poverty levels are percent changes from 2000 due to lack of data for these two variables in 2002.

[3] Age dependency ratio is the sum of the population under 18 yrs and 65 yrs and older divided by persons age 18 to 64 yrs

[4] Percent of the population aged 25 and over

Employment Base

Wisconsin has a diverse employment base anchored by manufacturing at 16.3% of total non-farm employment, education and health services at 15.0%, government at 14.8% and wholesale and retail trade at 14.8%. The State is more concentrated in manufacturing compared to the U.S. where it accounted for 8.9% of 2012 total non-farm employment.

Manufacturing and agriculture have historically been the twin drivers of Wisconsin's economy. Historically, the State's manufacturing base has been heavy manufacturing and has since diversified. Today, the State's manufacturing base is broad and robust with growth in many areas including advanced technology sectors, industrial controls, robotics, healthcare services data systems, and medical imaging. The State is poised to benefit from forecasted growth in high technology manufacturing as well as additional growth from re-shoring. Re-shoring is a process where firms are moving work back to the U.S., or closer to it, from overseas. Manufacturing in particular will benefit from re-shoring as it becomes more complicated and challenging to manage from overseas. The University of Wisconsin is also one of the world's leading centers for the research and development of biotechnology. Wisconsin also has a network of technical schools throughout the State. In 2011, Wisconsin's $2.85 billion in agricultural exports ranked 16th among U.S. states, moving up one spot from 2010. Top export markets were Canada, Mexico, South Korea, China and Japan and top product categories included cereal grains, dairy products, and bakery related items, preserved foods, ginseng, cranberries, leather products and prepared meats.

The Walker administration is instituting a tax credit against corporate income tax for manufacturing and agriculture which will be phased in over four years to strengthen and encourage growth in these two sectors. The multiplier effect of this particular tax credit should help other sectors of the economy thrive. This tax credit is part of a broad-based, sustained effort to reduce taxes and improve Wisconsin's tax structure. KBRA views this as continuing to make Wisconsin competitive in its core employment sectors as well as increasing employment in other sectors.

Companies headquartered in Wisconsin include Harley Davidson, Trek Bicycles, Northwestern Mutual, Johnson Controls, Oshkosh, and Rockwell Automation and American Family Insurance Group. However, the majority of the State's employers are small businesses. The 10 largest employers in the State for 2012 can be seen in Table 6.

Table 6: Wisconsin's 10 Largest Employers as of 2012

Company	Number of Employees	Rank in 2003
Wal-Mart Associate Inc.	Greater than 9,999	1
University of Wisc-Madison	Greater than 9,999	3
US Postal Service	Greater than 9,999	2
Milwaukee Public School	Greater than 9,999	4
Department of Corrections	7,500-9,999	5
Menard Inc.	7,500-9,999	6
Marshfield Clinic	7,500-9,999	7
Department of Veterans Affairs	7,500-9,999	8
City of Milwaukee	5,000-7,499	9
Aurora Health Care Metro, Inc.	5,000-7,499	10

Source: State of Wisconsin 2012 CAFR

Gross Domestic Product and Income

The State's 2012 real gross domestic product (GDP), defined as the current market value of all final goods and services produced in the state adjusted for inflation, was $225.1 billion and has a real GDP per capita of $39,308. This ranks 29 out of the 50 U.S. states. Wisconsin's real GDP has grown 10.1% since 2002 which is faster than the region at 4.8% but still lags the nation at 16.2%. Financial activities account for the largest portion of the State's 2012 GDP at 22.5%, followed by manufacturing at 19.1% and trade (wholesale and retail) at 11.9%. While the composition of the State's GDP is similar to the U.S., there are a few key differences. Similar to the State's employment base, manufacturing makes up a greater component of GDP at 19.1% compared to 12.0% for the nation. The services sector (professional, business services and other services) accounts for 7.0% of Wisconsin's GDP which is less than the U.S. where it accounts for 10.1%.

The State's 2012 personal income was $232.1 billion and its personal income per capita for 2012 is $40,537 which is 94.9% of the national level. Personal income per capita has grown 31.6% between 2002 and 2012 which is slightly below growth in the U.S. of 35.6% during this same period. In 2012, the State's personal income per capita grew 2.4% from the prior year which was slightly lower than both the U.S. and the region at 2.7% and 3.1%, respectively.

The Recession's Effect on Wisconsin

The U.S. entered the Great Recession in December 2007 and approximately two months later Wisconsin felt the effects of the recession as evidenced by declining employment levels, increasing unemployment rates and two years of declines in GDP. The recession in Wisconsin persisted until February 2010 in which time the State lost approximately 172,200 jobs or 6.0% of its employment base, its unemployment rate increased from 4.8% in 2007 to 8.8% in 2009, its real GDP had steep declines of 2.2% and 2.8% in 2008 and 2009, respectively, and personal income declined 3.0% in 2009. This closely mirrored trends in the U.S. which during the same period lost 8.7 million non-farm jobs or 6.3% of its employment base, the unemployment rate grew to 10.6% in 2009, real GDP declined and personal income declined in 2009 by 3.1% and 4.8%, respectively.

All of Wisconsin's employment sectors, with exception of education and health services, experienced job losses during the recession as can be seen in Table 7. Manufacturing was the sector hit hardest during the recession accounting for 43.3% of the total non-farm employment job losses. This was higher than the U.S. where manufacturing losses accounted for 25.6% of total non-farm employment losses in the recession. However, this is due to the higher level of manufacturing in the State's employment base compared to the U.S. Wholesale and retail trade, construction and professional and business services were also hit hard in the recession accounting for 44.3% of total non-farm employment job losses.

Table 7: The Recessions Effects on Wisconsin's Employment Sectors

(in thousands)	Jobs Lost (Recovered) Jan '08-Feb '10	% of Total Non-Farm Jobs Lost	Jobs Recovered (Lost) Since Feb '10	% of Total Non-Farm Jobs Recovered
Manufacturing	74.5	43.3%	31.5	29.0%
Trade	30.8	17.9%	5.8	5.3%
Construction	26.7	15.5%	0.1	0.1%
Professional and Business Services	18.7	10.9%	34.0	31.3%
Leisure and Hospitality	11.8	6.9%	25.8	23.7%
Transportation and Utilities	8.3	4.8%	(2.7)	(2.5%)
Financial Activities	5.3	3.1%	4.2	3.9%
Government	4.4	2.6%	(4.2)	(3.9%)
Information	3.7	2.1%	0.3	0.3%
Other Services	1.0	0.6%	2.4	2.2%
Mining and Logging	0.6	0.3%	0.5	0.5%
Education and Health Services	(13.6)	(7.9%)	11.0	10.1%
Total Nonfarm	**Jobs Lost 172.2**	**100.0%**	**Jobs Recovered 108.7**	**100.0%**
Job Recovery Rate	**63.1%**			

Source: U.S. Bureau of Labor Statistics

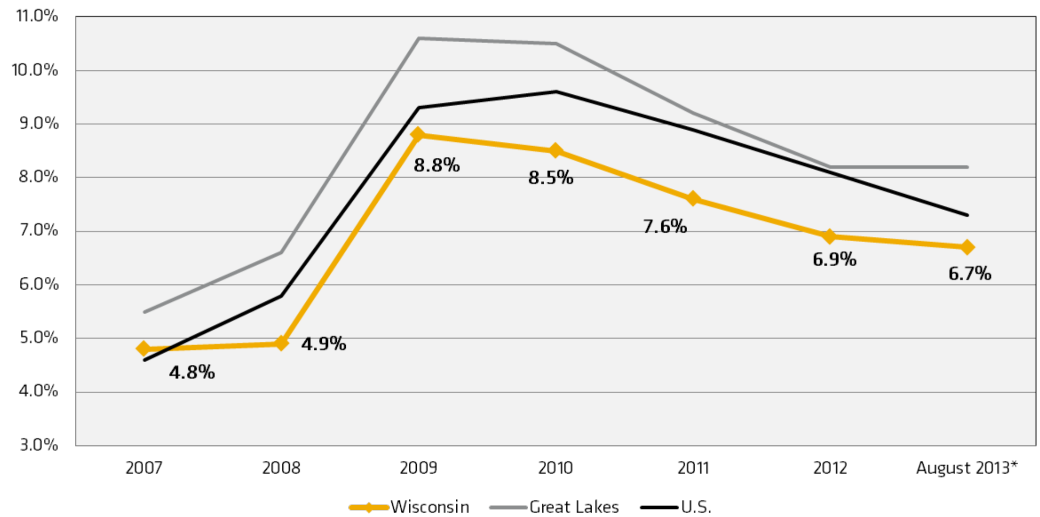
The State's unemployment rate rose significantly during the recession, however, it was consistently below both the U.S. and the Great Lakes as can be seen Chart 1. In 2008 unemployment rates began to rise and in 2009 the State's unemployment rate was 8.8% compared to 9.3% for the U.S. and 10.6% for the region.

Based on real GDP declines, the Great Lakes was the hardest hit region in the U.S. during the Great Recession. The severity of the recession on the Great Lakes and the State was evidenced by an early economic slowdown in 2006 compared to the U.S. as well as steep declines in real GDP in 2008 and 2009. As can be seen Chart 2, in 2007 the State as well as the Great Lakes region showed signs of an economic slowdown earlier than the U.S. with real GDP growth of 0.6% for the State, 0.9% for the region compared to 1.9% for the U.S. In 2008, the region and Wisconsin both had steep declines in real GDP at 2.8% and 2.2%, respectively, compared a

0.3% decline in the U.S. In 2009 the severity of the recession was more evident in the U.S. with real GDP declining of 3.1%; the State's 2009 real GDP declined 2.8% which was less severe than the region's decline of 5.3%.

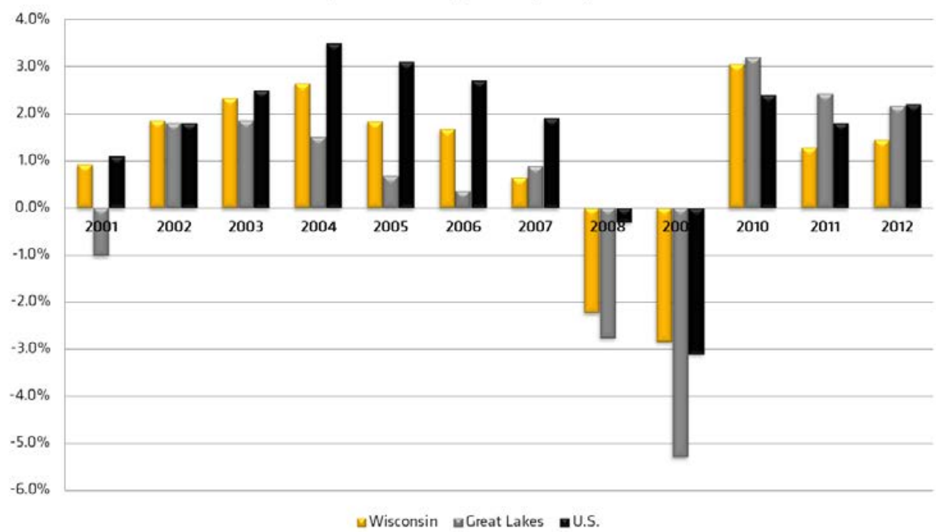
Personal income in the State also experienced declines in the recession. Between 2005 and 2008 the average annual growth in Wisconsin's personal income was 4.5% which was slightly lower than the U.S. at 5.8%. In 2009 personal income in Wisconsin declined 3.0% which was better than both the U.S. at 4.8% and the Great Lakes at 4.9%.

Chart 1: Annual Unemployment Rate
(seasonally adjusted)



*Preliminary numbers
Source: U.S. Bureau of Labor Statistics

Chart 2: Real GDP
percent change from prior year



Source: U.S. Bureau of Economic Analysis

Moderate Economic Growth Post-Recession

Since the Great Recession, Wisconsin has had moderate economic growth compared to the U.S. as evidenced by gains in total non-farm employment, unemployment rates lower than the U.S., and three years of growth in GDP; however, the State has had slower growth in terms of job recovery and GDP. Total non-farm employment in Wisconsin increased 1.1% in 2011 and 1.2% in 2012 compared to increases in the U.S. of 1.2% and 1.7%, respectively. As of August 2013, the State has recovered 63.1% of the jobs lost in the recession which is behind the U.S.' recovery rate of 78.8%. KBRA does take into account that job estimates from the U.S. Bureau of Labor Statistics (BLS) have previously underestimated job growth in the State. Therefore the number of jobs recovered in the State may be higher than currently reported. The sectors contributing the most to the State's job recovery are professional and business services accounting for 31.3% of the total non-farm jobs recovered, followed by manufacturing at 29.0% and education and health services at 10.1%. However, two sectors continue to hinder the State's job recovery rate: trade and construction. Together these two sectors account for 33.4% of the jobs lost but currently only account for 5.4% of the jobs recovered compared to the U.S. where these two sectors account for 21.3% of the jobs recovered.

Following the recession in 2009, the State's unemployment rate has continued to decline and has outperformed both the region and the U.S. As can be seen in Chart 1, the unemployment rate for the State declined from 8.8% in 2009 to 8.5% in 2010 and 7.6% in 2011. This is lower than the U.S. unemployment rates of 9.6% in 2012 and 8.9% in 2011. In 2012 Wisconsin's unemployment rate was 6.9% which was lower than both the region at 8.2% and the U.S. at 7.3%. The State's unemployment rate has continued to decline throughout 2013 reaching 6.7% in August compared to 8.2% for the region and 7.3% for the U.S.

The State has shown economic growth in real GDP over the past three years. As can be seen in Chart 2, the State had a higher growth in 2012 real GDP at 3.1% compared to the U.S. at 2.4%. In 2011 and 2012 the State had growth of 1.3% and 1.5%, respectively, which were below the U.S. at 1.8% and 2.2%, respectively. The State's personal income also had strong growth in 2010 and 2011 at 3.5% and 4.5%, respectively, followed by moderate growth in 2012 at 2.7% which mirrored national trends.

Housing

After the housing bubble burst in 2007, both housing starts and median home prices declined significantly in Wisconsin which was in line with national trends. Housing starts during the recession declined 17.2% in 2008 and had minimal growth of 0.4% in 2009. During this same period median home prices in the State declined 6.1% and 7.8%, respectively.

The housing market is showing signs of recovery both nationally and in Wisconsin. Housing starts in the State in 2012 increased 21.0% which was up from 2011. The median home price for the State increased 1.0% in 2012 compared to a 6.9% decline in 2011. KBRA views both of these factors positively and sees the State's mirroring national trends of rising home prices.

KBRA views Wisconsin's resource base as being consistent with an AA rating based on an unemployment rate which has been lower than the U.S. since 2008, continued growth in the non-farm employment, and three years of growth in GDP. However, the rating also reflects the post-recession rate of job growth which is lower than the U.S., moderate levels of personal income per capita, and an employment base more concentrated than the U.S. However, manufacturing continues to play a strong role in the State's job recovery rate and the State is poised to benefit from the forecasted growth in this sector which KBRA views positively.

Conclusion

KBRA has assigned an AA rating with a stable outlook to the State of Wisconsin's general obligation debt based on the factors discussed above.

Appendix: Tear Sheet

Issuance

$208.6 million General Obligation (GO) Refunding Bonds of 2013 Series 1; $186.8 million GO Refunding Bonds of 2013 Series 2 (taxable); $167.7 million GO Refunding Bonds of 2014 Series 1. The rating report for the State was published on October 8, 2013.

Security

The Bonds are general obligations of the State and are secured by its full faith, credit and taxing power. The Wisconsin Constitution requires the Legislature appropriate funds for payment of GO debt. State statutes establish a first claim on all revenues of the State for debt service, with no subsequent legislative action needed. KBRA views the security provisions on Wisconsin's GO debt as very strong.

Use of Proceeds

The proceeds of the 2013 Bonds, Series 1 & 2 will be used to advance refund outstanding GO debt. The Series 2014, Series 1 Bonds will be issued as forward delivery bonds, to be delivered in February 2014, and proceeds of will be used for a current refunding of GO debt on May 1, 2014. The 2013 Series 1 Bonds are scheduled to mature in 2030 and the 2013 Series 2 Bonds and the 2014 Series 1 Bonds are scheduled to mature in 2021.

Key Rating Strengths
▪ Strength of security provisions of the State General Obligation pledge.
▪ State pension system is one of the best funded systems in the U.S. with a funded ratio of 99.9%.
▪ Increased budget discipline under the current administration, resulting in decreased use of one time revenues.
▪ Increase in level of Budget Stabilization Fund (BSF) to an amount equal to 2% of FY 2013 operating expenditures.
▪ Available cash balances provide good liquidity for operations, without utilization of external borrowing.

Key Rating Concerns
▪ State budget not yet structurally balanced as evidenced by use of FY 2013 surplus in current biennium budget.
▪ Transfers to Budget Stabilization Fund solely dependent on growth in revenues over projections.
▪ Need for continued economic growth to support budget.
▪ State debt burden moderately high on a per capita, personal income and GSP basis.
▪ Long-term General Fund GAAP deficit of $2.2 billion.

Wisconsin's recovery from the national recession has been moderately strong and is continuing, as evidenced by ongoing increases in employment, lower unemployment rates than the nation, and three years growth in GDP. KBRA views the financial condition of Wisconsin as improving as a result of ongoing recovery of the revenue base from the recession and the increased budget discipline imposed in the last two years under the current administration. Significant progress has been made towards structural budget balance, reflected in reduced use of one time revenues and two years of improving General Fund operating results. FY 2013 is projected to end the year with an operating surplus of approximately $700 million.

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Budget reforms, which began with the passage of budget adjustment legislation for FY 2011 and provisions of 2011 Wisconsin Act 10 and included closing a $3.6 billion deficit in the FY 2012-FY2013 biennium budget, demonstrated the resolve of the Walker administration to impose fiscal discipline and stabilize the budget. Elimination of collective bargaining rights under 2011 Act 10 increases financial flexibility on both a state and local level. These reforms are continuing through the passage of the FY 2014-FY 2015 biennium budget.

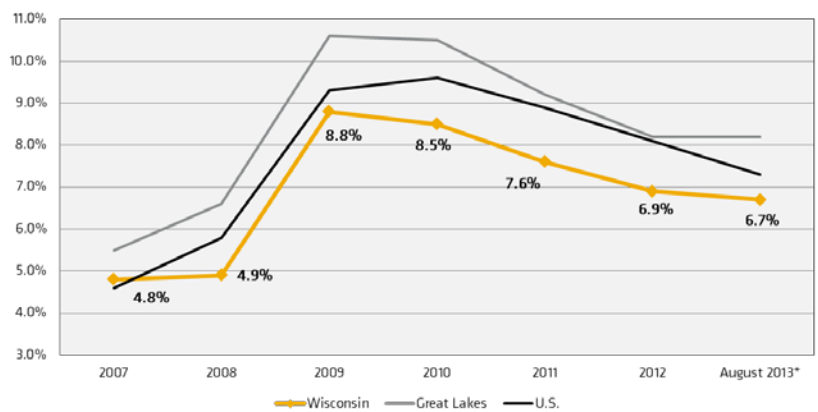
KBRA views Wisconsin's debt and continuing obligations profile as being very strong. While KBRA views the absolute level of tax-supported debt as moderately high, when compared against other states, KBRA views the level of burden placed on State finances by debt service to be low. KBRA views the fact that the State's pension system is fully funded and operates with the ability to recoup investment losses through contribution and benefit adjustments as a strong positive rating factor. KBRA also views as very positive the State's minimal level of OPEB liabilities.

Wisconsin has a diverse employment base anchored by manufacturing at 16.3% of total non-farm employment, education and health services at 15.0%, government at 14.8% and wholesale and retail trade at 14.8%. The State's manufacturing base is broad and robust with growth in many areas including advanced technology sectors, industrial controls, robotics, healthcare services data systems, and medical imaging. Manufacturing continues to play a strong role in the State's post-recession job recovery rate and the State is poised to benefit from the forecasted growth in this sector which KBRA views positively.

Outlook: Stable

The stable outlook reflects KBRA's expectation that the State will continue to maintain fiscal discipline and balance future biennium budgets largely with recurring revenues. The outlook also reflects the expectation that economic growth will continue at a rate to support the current FY 2014-FY 2015 budget and future budgets. KBRA also expects that the State fiscal and political management will act to maintain budget balance.

Chart 1: Annual Unemployment Rate (seasonally adjusted)



Source: U.S. Bureau of Labor Statistics

In KBRA's view, the following factors may contribute to a rating upgrade:

- Several years of structurally balanced budgets with positive operating results.
- Implementation of a policy to fund an operating reserve on an annual basis up to a level of at least 5% of operating expenditures.
- Continued growth in the economic base, resulting in employment and personal income increases.

In KBRA's view, the following factors may contribute to a downgrade of the rating:

- Passage of biennium budgets which rely on significant levels of one time revenues.
- Failure to take action necessary to maintain budget discipline and balanced operations.
- Drawdown on the Budget Stabilization Fund with no plan for restoring reserve levels.