

---

**State of Wisconsin**  
**Event Filing #2017-16**  
Dated October 19, 2017

---

This Event Filing concerns 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) 97705M Prefix (All)

**Type of Information:** Event Filing; Rating Change

Fitch Rating Agency has upgraded the State's General Obligation bonds from AA to AA+, with a "stable" outlook. Attached is a [release issued by Fitch Rating Agency](#).

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

[doa.wi.gov/capitalfinance](http://doa.wi.gov/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.

/s/ DAVID R. ERDMAN  
David R. Erdman, Capital Finance Director  
State of Wisconsin Capital Finance Office  
Wisconsin Department of Administration  
101 East Wilson Street, FLR 10  
Madison, WI 53703  
Phone: (608) 267-0374  
Fax: (608) 266-7645  
E-mail: [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
Website: [www.doa.state.wi.us/capitalfinance](http://www.doa.state.wi.us/capitalfinance)

## **FITCH UPGRADES WISCONSIN'S GOS TO 'AA+'; OUTLOOK STABLE**

Fitch Ratings-New York-19 October 2017: Fitch Ratings has upgraded Wisconsin's Issuer Default Rating (IDR) and general obligation (GO) rating to 'AA+' from 'AA'. In addition, Fitch has assigned a 'AA+' rating to the following GO bonds:

--\$272.595 million GO refunding bonds of 2017, series 2.

The bonds will be offered by negotiated sale the week of Oct. 23, 2017.

In addition, Fitch upgrades following outstanding state ratings:

--IDR to 'AA+' from 'AA';

--\$8.1 billion GO bonds to 'AA+' from 'AA';

--\$116 million master lease certificates of participation (COPs) to 'AA' from 'AA-';

--\$3.1 billion general fund annual appropriation bonds to 'AA' from 'AA-'.

Fitch affirms the following rating:

--\$218.7 million GO extendible commercial paper notes at 'F1+'.

The Rating Outlook is Stable.

### **SECURITY**

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, secure the GO bonds.

### **ANALYTICAL CONCLUSION**

The upgrade to 'AA+' from 'AA' of Wisconsin's IDR and GO rating recognizes the state's considerable financial flexibility derived from its broad and diverse resource base and legal authority to control its budget, as well as a unique pension structure that contributes both to a low liability burden and lower risk of a significant increase in spending requirements in the future. Fiscal performance has improved in recent biennia with reduced reliance on one-time resources and a stronger liquidity position. These leave the state well-positioned to address a moderate cyclical downturn.

### **Economic Resource Base**

Wisconsin benefits from a generally diverse economy, although there is some concentration in manufacturing. A key feature of the state's manufacturing sector is its diversity, with relatively little exposure to automotive versus most Midwestern states. The state's economic growth during much of the current expansion has been slow and uneven, although gains have accelerated more recently. Personal income is average, with the state in the middle of the pack relative to the U.S.

### **KEY RATING DRIVERS**

#### **Revenue Framework: 'aa'**

Wisconsin's sound revenue framework relies on broad based taxes that have generally reflected economic performance and have demonstrated growth in line with inflation. Future revenue growth

is expected to be consistent with historical performance. Wisconsin has an unlimited ability to independently raise revenues, providing significant legal flexibility to raise operating revenues as needed.

#### Expenditure Framework: 'aaa'

The pace of spending growth is expected to be in line with to slightly above annual revenue growth, reflecting the primary drivers of Medicaid and education, and requiring ongoing spending control. The state benefits from low fixed carrying costs for debt and retiree benefits and has ample ability to cut spending if needed.

#### Long-Term Liability Burden: 'aaa'

Long-term liabilities are low and approximate the U.S. state median. The state benefits from strong pension funding and a benefit structure that shares the risk of investment underperformance with beneficiaries. Other post-employment obligations (OPEB) are limited.

#### Operating Performance: 'aa'

State fiscal performance in recent biennia has improved, with less reliance on one-time resources and stronger liquidity. Reserves are modest as compared to the state's operating budget although the state maintains considerable flexibility through careful spending management.

### RATING SENSITIVITIES

**MAINTENANCE OF FINANCIAL RESILIENCE:** Wisconsin's rating is sensitive to shifts in its fundamental credit characteristics and to continued successful maintenance of financial resilience in light of ongoing efforts to reduce the tax burden and a policy of maintaining low reserves.

### CREDIT PROFILE

#### Revenue Framework

Wisconsin's revenue structure is based on broad based taxes, including a personal income tax (approximately half of general fund revenues) and sales and use taxes (about 30% of general fund revenues). The state has taken extensive tax reduction actions in previous fiscal biennia, although more recent budgets have included only limited policy actions.

Historical revenue growth, adjusted for the estimated impact of policy changes, slightly exceeded the inflation rate over the 10 years ending 2015. Year-over-year changes have been relatively modest, even during the recession. Fitch expects future organic revenue growth to be in line with historical performance and reflective of a slowly growing economy.

Wisconsin has no legal limitations on its ability to raise revenues through base broadenings, rate increases, or the assessment of new taxes or fees.

#### Expenditure Framework

As with most states, education and health and human services are Wisconsin's largest operating expenses. State funding for local school districts and the public university and technical college system accounts for almost half of state general fund expenditures. Medicaid and other social services make up an additional one-third. Federal action to revise Medicaid's programmatic and financial structure remains a possibility given recent federal legislative and administrative efforts. Most proposals to date include a basic restructuring of federal Medicaid funding to a capped amount. Whether a change in federal Medicaid funding has consequences for Fitch's assessment of a state's credit quality would depend on the state's fiscal response to those changes. Responses that create long-term structural deficits or increase liability burdens could negatively affect both the expenditure framework assessment and the IDR.

As with most states, the natural pace of spending growth is likely to be marginally above the natural growth in the state's revenue stream, requiring regular budget management to ensure balance. The state has, over several years, brought its expenditures to within its ongoing revenues through cost cutting measures.

Wisconsin's has ample flexibility within its expenditure framework, a key credit strength. The state has reduced spending when necessary to maintain budgetary balance, even in core spending areas, such as school aid. The state's carrying costs for debt and pensions are below the U.S. state median and are expected to remain low given the state's well-funded pensions and expectations for moderate debt issuance.

#### Long-Term Liability Burden

Wisconsin has a low burden of long-term liabilities characterized by above-average level of bonded debt and virtually no unfunded pension liability, based on the retirement systems' actuarial assumptions. The combined burden of net tax-supported debt and unfunded pension obligations, as adjusted from the 7.2% rate assumed under the state's accounting valuation to a more conservative 6% return assumption for pensions, totals a low 6.3% of 2016 personal income.

Debt grew during the recession, including \$1.5 billion in general fund annual appropriation bonds issued in early 2009 to provide budget relief by purchasing tobacco settlement revenues previously sold to the Badger Tobacco Asset Securitization Corporation. More than half of the approximately \$13.4 billion in tax-supported debt is GO, with the remainder consisting of various revenue and appropriation obligations.

The state's limited retiree obligations are a key credit strength. The state benefits from a uniquely strong pension structure that shares exposure to investment risk with beneficiaries. On an accounting basis, the Wisconsin Retirement System (WRS), which covers employees of the state government and most local governments in the state, was 98% funded as of Dec. 31, 2016, based on the state's assumptions. WRS' high ratios of pension assets to obligations have kept its required contributions exceptionally low. OPEB obligations are limited.

#### Operating Performance

Wisconsin is better positioned to address a moderate downturn scenario than it was prior to the last recession, having brought structural balance to its budget and made contributions to its budget stabilization (rainy day) fund. Wisconsin faced sizeable budget gaps during the recession, which it closed using a variety of non-recurring and ongoing measures that affected both expenditures and revenues. Revenue measures included an increase in cigarette taxes and an income tax increase for high earners. Budget reductions were enacted across several fiscal years. The budget stabilization fund was depleted and available balances in other funds were also utilized. It is Fitch's expectation that Wisconsin would take similar action to address the impact of a future downturn.

The state's fiscal performance was historically challenged by structural imbalances and a reliance on one-time resources to cover budgetary needs. The fiscal 2011-2013 budget marked a turning point, with extensive structural budget actions and the resolution of several lingering fiscal challenges. The state used the resulting fiscal momentum to cushion the impact of extensive tax cuts it enacted in its fiscal 2013-2015 biennium. Although performance was challenged through much of the fiscal 2013-2015 biennium given the tax cuts and unexpected revenue weakness, the state responded with spending cuts and other actions.

The budget for the fiscal 2015-2017 biennium was balanced as enacted with a surplus anticipated in each fiscal year. After previously revising revenue estimates downward, the January 2017 revenue forecast, which was unchanged as of May 2017, indicated a slightly stronger revenue picture. The forecast for the three year period that included fiscal 2017 as well as the current fiscal 2017-2019 biennium was increased by \$454.6 million, reflecting a slightly stronger economic

outlook and improved collections. With lower than expected appropriations, particularly in Medicaid, the general fund ended fiscal 2017 with an increase to its fund balance, bringing it to \$579 million. The state's solid cash balances have made it unnecessary to borrow for cash flow purposes since fiscal 2012.

The fiscal 2017-2019 biennial budget was enacted after the start of the fiscal year, although spending continued during the delay under continuing appropriations. The enacted budget assumes slightly stronger tax revenue growth of 3.6% in both fiscal years 2018 and 2019 and does not make changes in personal income tax rates as proposed by the governor other than to eliminate the state alternative minimum tax, a minor tax reduction. The budget also eliminates the state portion of the property tax, which previously funded state forestry programs. The budget provides 2% salary increases for state employees in July 2018 and January 2019, funds increases in education, including K-12, university, and technical schools and overall increases spending at a slightly faster pace than the growth in revenues. This indicates a need for ongoing budget management and likely use of general fund balance.

Building up large budgetary reserves has not historically been prioritized in the state. The budget stabilization fund (BSF) benefitted from sizable deposits in the fiscal 2011-2013 biennium but currently holds a modest \$283 million, equal to about 1.8% of fiscal 2017 tax revenues. As an offset, Fitch notes that additional budgetary flexibility is considerable and has been repeatedly demonstrated; mechanisms include the secretary of administration's power to reallocate balances, reduce agency appropriations or prorate or defer certain payments.

Contact:

Primary Analyst  
Karen Krop  
Senior Director  
+1-212-908-0661  
Fitch Ratings, Inc.  
33 Whitehall Street  
New York, NY 10004

Secondary Analyst  
Douglas Offerman  
Senior Director  
+1-212-908-0889

Committee Chairperson  
Marcy Block  
Senior Director  
+1-212-908-0239

Media Relations: Benjamin Rippey, New York, Tel: +1 646 582 4588, Email: [benjamin.rippy@fitchratings.com](mailto:benjamin.rippy@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001