Wisconsin State Legislature

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Joint Committee on Finance
100TH ANNIVERSARY 1911 - 2011

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative Robin Vos

Date: July 15, 2011

Re: DOA Report to JFC

Attached is a report required by subsection (7) of 18.77 of the Wisconsin Statutes and specifies the reason for not complying with subsection (2) to (5) of the same section for a specific issue of obligations from the Department of Administration.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

AD:RV:jm

WISCONSIN DEPARTMENT OF
ADMINISTRATION

SCOTT WALKER
GOVERNOR
MIKE HUEBSCH
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Office of the Secretary
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July 15, 2011

RECEIVED
JUL 15 2011
BY: Jt. Finance

The Honorable Alberta Darling, Senate Chair
The Honorable Robin Vos, Assembly Chair
Joint Committee on Finance
Madison, WI 53702

Dear Senator Darling, Representative Vos, and Members:

This report is required by subsection (7) of 18.77 of the Wisconsin Statutes and specifies the reason for not complying with subsections (2) to (5) of the same section for a specific issue of obligations

On June 22, 2011, the Building Commission approved an authorizing resolution that provided for the sale of $800,000,000 State of Wisconsin Operating Notes of 2011 (**Notes**). Pursuant to this authorization, the Capital Finance Director conducted a public sale on July 6, 2011 for the Notes. This was a public sale conducted pursuant to Subchapter III of Chapter 18. The attached Official Notice of Sale set the terms and conditions of the sale and was available to all potential bidders. The State received 45 bids from 15 firms for all or part of the Notes.

The award of the Notes was based on the lowest net interest cost rate to the State. The Capital Finance Director awarded Notes to Wells Fargo Bank, National Association and Goldman, Sachs & Co.; neither firm is certified by the Department of Commerce as a minority-owned or disabled veteran-owned investment firm.

Underwriting participation by minority- and disabled veteran-owned firms is encouraged. There are sections entitled "Minority Participation" and "Disabled Veteran-Owned Business Participation" in the Official Notice of Sale, and a list of certified minority owned firms (which includes address, phone number, and contact person) was included in the bidding materials made available to each prospective bidder.

Sincerely,

Mike Huebsch
Secretary

OFFICIAL NOTICE OF SALE[a]

$800,000,000

STATE OF WISCONSIN

OPERATING NOTES OF 2011

ELECTRONIC BIDS will be received by the Capital Finance Director, who is authorized to act on behalf of the State of Wisconsin Building Commission (**Commission**), until 10:00 a.m. (Central Time) on July 6, 2011, for the purchase of $800,000,000 State of Wisconsin Operating Notes of 2011 (**Notes**). The Notes are being sold pursuant to the terms and conditions stated below. Bids must be submitted through the PARITY® electronic bid submission system (**PARITY®**). See "Electronic Bidding".

Terms of Notes. The Notes will be dated their date of delivery (expected to be July 19, 2011) and will mature on June 15, 2012. The Notes will bear interest (payable at maturity) at the rate determined by the Capital Finance Director, who will announce this interest rate no later than 2:00 p.m. (Central Time) on July 5, 2011. See "Announcement of Interest Rate". Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months (a 326-day term on a 360-day basis).

Bidding Terms. A bid may be for all or part of the Notes and each bid shall specify a purchase price. If a bidder makes multiple bids, then the bidder must specify a separate purchase price for each bid. Each bid must be for at least $10,000,000 par amount of Notes and include a purchase price of not less than 99.5% of the par amount of the Notes bid.

Each bid must include the initial reoffering price at which the bidder reasonably expects to sell the Notes awarded to it to the general public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) (**Public**), and each successful bidder must agree that those Notes will be offered to the Public at such prices. In the interest of price transparency in the market, the State of Wisconsin (**State**) encourages each successful bidder to promptly disseminate the initial offering prices for Notes without the use of "NRO".

No Redemption. The Notes are not subject to redemption prior to maturity.

Book-Entry-Only Form. The Commission will appoint The Depository Trust Company (DTC) as securities depository for the Notes. The Notes will initially be issued in book-entry-only form, and note certificates will be registered in the name of Cede & Co., as nominee for DTC. The State has filed with DTC a blanket issuer letter of representations for all obligations to be issued by the State. Ownership of the Notes by the purchasers is shown in the records of brokers and other organizations participating in the DTC book-entry system (DTC **Participants**). Individual purchases will be made in book-entry-only form pursuant to the rules and procedures established between DTC and DTC Participants, in the principal amount of $25,000 and multiples of $25,000.

Payments and Notices. Deutsche Bank National Trust Company (**Trustee**), as the paying agent, will make payments of principal of, and interest on, the Notes on their maturity date to DTC in same-day funds. Similarly, the State and the Trustee will provide notices and other communications, if any, about the Notes to DTC. Owners of the Notes will receive payments and notices, if any, through the DTC Participants. The State and the Trustee are not responsible for a failure by DTC or any DTC Participant to transfer payments or notices to owners of the Notes or to follow the procedures established by DTC for its book-entry system.

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[a] The Capital Finance Director reserves the right, before the time bids are due, to modify or amend this Official Notice of Sale, including but not limited to changing the par amount and bidding terms. See "Right to Modify or Amend Notice of Sale".

Physical Certificates. In the event that the relationship with DTC were terminated and the Commission did not appoint a successor securities depository, the Commission would, at its expense, prepare, authenticate, and deliver to DTC Participants, fully registered certificated Notes in the denominations of $25,000 and multiples of $25,000, in the aggregate principal amount of Notes then outstanding.

Authority and Security. The Notes are authorized by Chapters 16 and 18 of the Wisconsin Statutes, and will be issued pursuant to a preliminary resolution approved by the Commission on May 18, 2011 and an authorizing resolution to be considered by the Commission on June 22, 2011. The Notes are payable from, and secured solely by, revenues deposited into the Operating Note Redemption Fund, which is irrevocably pledged only for the payment of the Notes. The State is obligated to use all General Fund revenues, other than those required to pay the State's general obligations, in a sum sufficient to make impoundment payments into the Operating Note Redemption Fund. The Operating Note Redemption Fund is a separate fund established with the Trustee. *The Notes are not general obligations of the State, and the Notes do not constitute "public debt" of the State as that term is used in the Constitution and the Wisconsin Statutes.*

Minority Participation. It is the policy of the Commission to take efforts to ensure that at least 6% of the Notes are underwritten by minority investment firms (as certified by the State). The Commission urges each prospective bidder to obtain from the Capital Finance Director a list of firms so certified and to include such firms as participants in the account formed to bid on the Notes and as members of any selling group formed for the account. The Commission further encourages certified minority investment firms to submit bids directly and to form accounts to bid on the Notes. Any firm that wishes to be certified by the State as a minority investment firm may contact the Wisconsin Department of Commerce, Bureau of Minority Business Development at 608.267.9550 or comMBD@wisconsin.gov.

Disabled Veteran-Owned Business Participation. It is the policy of the Commission to take efforts to ensure that a portion of the Notes are underwritten by disabled veteran-owned investment firms (as certified by the State). Any firm that wishes to be certified by the State as a disabled veteran-owned investment firm may contact the Wisconsin Department of Commerce, Bureau of Minority Business Development at 608.267.9550 or comMBD@wisconsin.gov.

Offering of Securities. The State offers to sell these securities by competitive bid. In the jurisdictions of Georgia, Illinois, Louisiana, Nebraska, New York, North Dakota, and Texas, offers of these securities are being made only to, and bids will be accepted only from, those persons who are dealers, brokers, savings institutions, trust companies, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit sharing trusts, and other financial institutions, where the purchaser is acting for itself or in a fiduciary capacity.

Electronic Bidding. Bids must be submitted through PARITY®, which is an independent service offered by i-Deal LLC. Each bidder is responsible for making any arrangements and paying any fees needed to submit its bid through PARITY®. i-Deal LLC is not an agent of the Commission. In addition, the Commission has not reviewed, and is not responsible for, any information provided by PARITY® concerning the Notes or the terms of sale; the Preliminary Official Statement dated June 21, 2011 (**Preliminary Official Statement**) is the only document authorized to provide information about the Notes, and this Official Notice of Sale (as it may be amended and restated) is the only document authorized to provide information about the terms of sale. The Commission assumes no responsibility or liability based on a bidder's submission of a bid, including (but not limited to) any failure by PARITY® to correctly and timely transmit information contained in the bid. Further information about PARITY® may be obtained from:

i-Deal LLC
1359 Broadway, FLR 2
New York, NY 10018
212-849-5021
parity@i-Deal.com
www.newissuehome.i-deal.com

The Capital Finance Director intends to share directly with i-Deal LLC all announcements contemplated within this Official Notice of Sale with the expectation that any modifications and supplements to this

Official Notice of Sale (as it may be amended and restated) will be reflected in PARITY® prior to the time bids are to be received.

Binding Contract. Each bid for any of or all the Notes submitted through PARITY® shall constitute a valid offer that, if accepted by the Commission, will form a binding contract.

Announcement of Interest Rate. The Capital Finance Director will determine the interest rate for the Notes and announce this interest rate through *Thomson Municipal News,* offered as part of *Thomson Municipal Market Monitor (TM3)* (www.tm3.com), no later than 2:00 p.m. (Central Time) on July 5, 2011. If any prospective bidder does not have access to this service, the bidder is urged to immediately request telephone notification by contacting the Capital Finance Office at (608) 267-0374 or DOACapitalFinanceOffice@wisconsin.gov.

Right to Modify or Amend Notice of Sale. The Capital Finance Director reserves the right before the time bids are due, to modify or amend this Official Notice of Sale, including but not limited to changing the par amount and bidding terms. If any modifications or amendments occur, supplemental information with respect to the Notes and this Official Notice of Sale will be announced through *Thomson Municipal News,* offered as part of TM3 (www.tm3.com), not later than 8:00 a.m. (Central Time) on July 6, 2011. As stated above, if any prospective bidder does not have access to this service, the bidder is urged to immediately request telephone notification by contacting the Capital Finance Office at (608) 267-0374 or DOACapitalFinanceOffice@wisconsin.gov. An amendment or restatement of this Official Notice of Sale may be provided as part of this announcement.

Right to Postpone Sale. The Capital Finance Director reserves the right to postpone the date established for receipt of bids. Any postponement of the sale will be announced through *Thomson Municipal News,* offered as part of TM3 (www.tm3.com), not later than 9:00 a.m. (Central Time) on July 6, 2011. As stated above, if any prospective bidder does not have access to this service, the bidder is urged to immediately request telephone notification by contacting the Capital Finance Director at (608) 267-0374 or DOACapitalFinanceOffice@wisconsin.gov. In the event of a postponement, the Capital Finance Director may announce the new date and time that bids for the purchase of the Notes will be opened, along with any revised bidding terms and date of expected delivery.

Award. The Notes will be awarded on the basis of the lowest net interest cost rate to the State. The net interest cost will be determined by computing the total dollar interest cost from the date of the Notes to the maturity date, and then from that amount, deducting the amount of the premium, if any, or adding the amount of the discount, if any.

In the event two or more bids result in the same net interest cost rate, the award will be made to the one with the largest participation by certified minority investment firms and certified disabled veteran-owned investment firms (measured by the participation amounts in the account formed to bid on the Notes). In the event two or more of those bids have an equal amount of participation by certified minority investment firms and certified disabled veteran-owned investment firms, the award will be made to the bid that includes the greatest number of such firms in its selling group. In the event two or more of those bids include the same number of certified minority investment firms and certified disabled veteran-owned investment firms in its selling group, the award will be made by the Capital Finance Director by lot.

The Capital Finance Director reserves the right to award to any bidder only a part of the Notes which such bidder offers to purchase in its bid.

All bids shall remain firm for five hours after the time bids are due, and within this five-hour period the Capital Finance Director will provide an oral notification of the acceptance of all or part of a successful bid or bids (to be subsequently confirmed in writing) or will reject all bids. The Capital Finance Director may waive any informality or irregularity in any bid or condition of this Official Notice of Sale (as it may be further amended and restated) or reject any or all bids.

Bid Deposit. As a condition to the award, each successful bidder, upon acceptance of all or part of its bid by the Commission, must provide a good-faith deposit, in the amount of 1% of the par amount of the Notes awarded to it, by wire transfer not later than 1:30 p.m. (Central Time) on July 7, 2011, using instructions

provided by the Capital Finance Office. The timely provision of the good-faith deposit shall be a contractual obligation of each successful bidder.

Other Required Information. Each bidder agrees that, if requested by the Capital Finance Director before the award of the Notes, it will provide information concerning participation in the account by, and inclusion in any selling group of, minority investment firms and disabled veteran-owned investment firms. The winning bidders agree to provide, by no later than close of business on July 7, 2011, a list of all firms that are (i) participating in the underwriting of the Notes and the amount of each firm's participation (measured by the participation amounts in the account formed to bid on the Notes), or (ii) members of any selling group that the bidder forms with respect to the Notes.

Good-Faith Deposit. No interest will be allowed on the amount of the good-faith deposits. The proceeds of the good-faith deposits of the successful bidders will be applied to the respective purchase price of the Notes. In the event that a successful bidder should fail to take up and pay for the Notes in compliance with the terms of its bid, the Commission, at its option, may retain the good-faith deposit as liquidated damages or, at its further option, may retain the good-faith deposit as partial payment of actual damages or as security for any other remedy available to the Commission. The Commission shall return to each respective successful bidder the amount of its good-faith deposit on the failure of the Commission to perform in accordance with the terms of this Official Notice of Sale (as it may be amended and restated) and the bid.

Certification of Price. Before the delivery of the Notes, each successful bidder must provide such information as bond counsel may require to determine, for federal income tax purposes, the "issue price" of the Notes awarded to the bidder, including a certification concerning whether a bona fide public offering of those Notes was made and a certification of the reasonably expected public offering price of those Notes together with such additional representations as bond counsel may require to verify that it is reasonable to rely on that successful bidder's certification about the reasonably expected initial public offering price. This may include additional representations about the fair market value of those Notes and representations about the actual prices at which those Notes were first sold to the Public. For Notes for which a bona fide public offering was not made, each successful bidder must provide to the Capital Finance Director and bond counsel the prices at which all those Notes were sold.

Closing and Delivery. The closing will occur by telephone at or about 9:30 a.m. (Eastern Time), on or about July 19, 2011. By the day before closing, the Notes will be delivered through the Trustee to DTC using DTC's Fast Automated Securities Transfer (FAST) System. Each successful bidder must make payment for the respective amount of Notes by wire in immediately available funds, pursuant to instructions to be provided by the Capital Finance Director. In the event the closing is delayed beyond 45 days from the date of sale for any reason beyond the control of the State except failure of performance by a successful bidder, the State may cancel the award or a successful bidder may demand return of its good-faith deposit and thereafter its interest in and liability for the Notes will cease.

Bond Opinion. The legality of the Notes will be approved by Quarles & Brady LLP **(Bond Counsel)**, whose unqualified approving opinion, in the form shown in the Preliminary Official Statement, will be furnished to each successful bidder without cost upon the delivery of the Notes.

Closing Papers. There will also be furnished upon the delivery of the Notes the usual closing papers, including a letter stating that there is no litigation pending or threatened in writing, known to the Attorney General, restraining or enjoining the issuance, sale, execution, or delivery of the Notes or in any way contesting or affecting the validity of or security for the Notes. The closing papers will also include a certificate to the effect that the Official Statement, as of its date and the date of delivery of the Notes, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Tax Exemption. In the opinion of Bond Counsel, interest on the Notes is, for federal income tax purposes, excludable from gross income, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on corporations and individuals, but is included in adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations.

Interest on the Notes is not exempt from State of Wisconsin income or franchise taxes.

Continuing Disclosure. In order to assist bidders in complying with Section (b)(5) of Rule 15c2-12 under the Securities Exchange Act of 1934, the State will enter into a continuing disclosure undertaking. The undertaking will consist of an existing document—Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010)—along with a Supplemental Agreement. The Supplemental Agreement will specify that Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010) applies to the Notes. Both of these documents are available to prospective bidders and will be included in the closing papers.

CUSIP Number. The Notes will contain a CUSIP number, but any error or omission with respect to the CUSIP number shall not constitute cause for refusal by a successful bidder to accept delivery of and pay for the Notes in accordance with the terms of its bid.

Bidding Documents. The Preliminary Official Statement, which is in a form that the State deems final as of June 21, 2011, except for the omission of information described in Rule 15c2-12(b)(1) under the Securities Exchange Act of 1934, is subject to revision, amendment, and completion in a final Official Statement. The Preliminary Official Statement and continuing disclosure undertakings are available electronically from the Capital Finance Office web site at the following address:

www.doa.wi.gov/capitalfinance

Paper copies of these documents may be obtained by contacting the Capital Finance Office by telephone at 608.266.2305, 608.267.0374, by e-mail at DOACapitalFinanceOffice@wisconsin.gov, or by mail at the Department of Administration, Administration Building, 101 East Wilson Street – 10th Floor, Madison, Wisconsin 53703.

Official Statements. The Commission will, within seven business days after award of the Notes, and by no later than the expected date of closing and delivery of the Notes, and without cost, furnish to each successful bidder up to 25 copies of the Official Statement for each $10,000,000 of Notes purchased. A successful bidder may request, not later than 1:30 p.m. (Central Time) on July 7, 2011, additional copies of the final Official Statement from the Commission, which request shall not be unreasonably withheld or denied. The Commission will also furnish to each successful bidder an electronic copy of the final Official Statement, which will be in Adobe (PDF) format. Until the date the closing occurs, the State may amend or supplement the Official Statement (and without cost, furnish each successful bidder copies any such amendment or supplement) if it is necessary to do so to make the Official Statement not misleading in light of the circumstances then existing.

Dated: June 21, 2011

Frank R. Hoadley
Capital Finance Director