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The Honorable Dannel P. Malloy
Governor of the State of Connecticut
State Capitol
Hartford, Connecticut

Dear Governor Malloy:

I write to provide you with General Fund and Transportation Fund financial statements for Fiscal Year 2011 based on final monthly activity through March 31, 2011.

Based on newly released April 30th consensus revenue figures, the Office of Policy and Management's (OPM) updated General Fund surplus projection for Fiscal Year 2011 is $509.6 million. This is an increase of $393.2 million from last month's estimates. Revenue projections are up $ 414.9 million this month and anticipated expenditures are up a net $21.7 million. The Transportation Fund estimate for Fiscal Year 2011 is up $1.5 million from last month with a projected end of year balance of $107 million.

Fiscal Year 2011 General Fund operating expenditures are expected to exceed normal annual recurring revenue sources by $1,584,100,000. This operating shortfall or deficit in the General Fund is more than eliminated by the following non-recurring resources available in Fiscal Year 2011: $739.6 million in federal stimulus assistance, $646.6 million in borrowing through the issuance of Economic Recovery Revenue Bonds, $552.6 million in prior year reserves inclusive of $103.2 million from the Budget Reserve Fund, $114.9 million in various transfers from non-General Fund sources, and $40 million from electric ratepayer charges levied between January and June.

After inclusion of $2.1 billion in one-time receipts and consideration of current projections, the large Fiscal Year 2011 General Fund deficit of almost $1.6 billion becomes an operating surplus of $509.6 million on the modified cash basis of accounting. I am in general agreement with the trends that OPM has identified in making this month's projections.

Under current law (Public Act 09-3 JSS, section 511) any unappropriated surplus in the General Fund at the end of Fiscal Year 2011 shall be reserved for the redemption of outstanding Economic Recovery Notes. However, in accordance with the 2009 SEBAC agreement, the first $14.5 million of such surplus must be deposited to the Other Post Employment Benefit Trust Fund.

At this writing, a legislative proposal is under consideration that would use any Fiscal Year 2011 General Fund surplus in excess of $14.5 million to reduce the issuance of Economic Recovery Revenue Bonds that will be funded through assessments on electric utility rate payers. I support the effort to reduce or eliminate the issuance of these bonds, which will help reduce the burden on consumers who already are paying the highest electric rates in the continental United States. Use of the available projected surplus for this purpose would reduce borrowing from $646.1 million to $151 million.

General Fund revenues for Fiscal Year 2011 are expected to exceed original budget estimates by $859.4 million. The largest gains are in the income tax ($446.3 million), the sales tax ($177.1 million), the inheritance tax ($139 million) and the corporation tax ($107.5 million). The income tax is showing its strongest gains in the estimated and final payment portion of receipts.

Connecticut's slowly improving economy is helping to increase revenues. For the twelve month period ending March the state has added 21,100 payroll jobs. While Connecticut's employment numbers have been trending upward, there has been significant fluctuation in the monthly figures. The state's unemployment rate remains historically high at 9.1 percent. Unemployment tends to be a lagging indicator of overall economic performance. Nationally, advance retail sales for March were up 7.1 percent following strong February growth of 8.9 percent. Equity markets have trended positive from the lows of July 2010. Since hitting cyclical lows in the fourth quarter of 2008, corporate profits have been growing at some of the fastest rates in history over the last seven quarters. Connecticut's housing market continues to struggle with existing home sales stagnant in 2010.

Tempering the revenue gains are projected Fiscal Year 2011 General Fund deficiencies of $345.2 million. The deficiencies are largely attributable to higher program caseloads and the inability to achieve budgeted savings targets. The largest single deficiency totals $262 million within the Department of Social Services (DSS). As the economy has faltered, DSS has seen dramatic caseload increases in basic support programs. The Medicaid Low Income Adult program has experienced a 27 percent increase in caseload through the first half of Fiscal Year 2011. Other programs are under similar pressures. A positive development is the recognition of $52.4 million in Medicaid outlays to nursing homes in June. The original budget delayed these payments and did not recognize the cost in Fiscal Year 2011. This recognition of expenses is in accordance with Generally Accepted Accounting Principles. The net impact after federal reimbursement is $22.6 million.

Fiscal Year 2010 ended with a Transportation Fund balance of $107.3 million. This year's operations are expected to decrease the balance by $0.3 million based on current revenue trends bringing the estimated balance for Fiscal Year 2011 to $107 million.

I also issue a Comprehensive Annual Financial Report (CAFR) that converts the budgetary based financial reporting to Generally Accepted Accounting Principles (GAAP). From a balance sheet prospective, the GAAP shortfall or unreserved fund balance in the General Fund was $1.7 billion as of June 30, 2010.

If you have any questions on this report, please do not hesitate to contact me.

Sincerely,

Kevin Lembo
State Comptroller