



STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
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Kevin Lembo
State Comptroller

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July 2, 2012

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

Dear Governor Malloy:

I write to provide you with financial statements for the General Fund and the Transportation Fund through May 31, 2012.

OPM is projecting that the General Fund will end Fiscal Year 2012 with a deficit of \$192.3 million on a budgetary accounting basis. OPM has estimated that on a GAAP accounting basis the General Fund deficit would be \$267.3 million. The change in these estimates from last month reflects an improvement of \$5.2 million.

It should be noted that in accordance with Section 46 of Public Act 11-48, at the close of the fiscal year up to \$75 million of budgetary basis surplus in the General Fund was reserved to offset any Fiscal Year 2012 increase in the fund's GAAP basis unassigned balance, which is referred to as the GAAP deficit. In the absence of a budgetary surplus, this provision is not operable.

The projected Fiscal Year 2012 General Fund deficit detailed in this letter is to be eliminated through the use of the necessary portion of \$222.4 million in General Fund reserves from prior years that were originally designated for the early retirement of 2009 Economic Recovery Notes. The change in the distribution of these prior year reserves is in accordance with the provisions of Section 28 of Public Act 12-104.

OPM is expecting the Transportation Fund to close Fiscal Year 2012 with a balance of \$138.0 million. Operations are expected to increase the fund balance by \$29.9 million during the fiscal year. The improvement is largely due to lower than budgeted spending.

I am in general agreement with the estimates provided by OPM. The attached financial statements reflect the OPM projections. Although we are at the end of Fiscal Year 2012, accruals and adjustments will continue to alter these estimates. Unaudited results for Fiscal Year 2012 will be available on the first business day of September.

In total, Fiscal Year 2012 General Fund revenue is forecast to fall \$250.7 million short of the original budget target. The two largest revenue shortfalls are in gross income tax collections and tax refunds. These two categories are expected to lower General Fund revenue by \$172.9 million and \$173.0 million respectively. The declines are partially offset by gains in other categories.

The income tax, which is the largest single General Fund revenue source, performed well in two of its three components. The payroll generated withholding component was up 18.3 percent from last year and the final payments that adjust against withholding were up 19.3 percent.

The Honorable Dannel F. Malloy

July 2, 2012

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However, the estimated payment portion of the tax, which correlates with capital gains and bonus payment experience, was up just 5.9 percent. If the estimated payment portion of the income tax had followed a more historically consistent post recession pattern, the current deficit would have been significantly reduced or eliminated. Complete revenue estimates are detailed on Exhibit C.

Total General Fund spending in Fiscal Year 2012 is expected to exceed original appropriations by \$22.5 million.

Partially offsetting the higher than budgeted spending and lower than projected revenues is \$80.9 million in planned budgeted reserves, of which up to \$75 million had been set-aside to fund a potential increase in the Fiscal Year 2012 GAAP deficit. As discussed above, based on current projections, reserves will not be available for that purpose.

Both the revenue and spending side of the state budget are highly correlated with overall economic growth. Slower than anticipated economic growth results in depressed revenue collections and accelerating demand for state services. Unfortunately, economic growth is not yet at normal recovery levels.

In May, Connecticut added 1,400 payroll jobs. For the year to date, the state has gained 6,100 payroll positions. At present, the state has recovered slightly less than one-third of the jobs lost to the March 2008 to February 2010 recession. The state's unemployment rate edged up slightly in May to 7.8 percent compared to the national rate of 8.2 percent. Connecticut's personal income growth for 2011 was 5 percent ranking the state 21st nationally. First quarter growth in 2012 has continued at close to that rate. The U.S. Census Bureau reported that new home sales in the Northeast grew at a 36.7 percent rate in May from the prior month. However, existing home sales in the Northeast as reported by the National Realtors Association were down 4.8 percent over last month. Home prices in the region were up 3.8 percent over last year. The national economy grew at a slower than expected 1.9 percent in the first quarter of 2012 as reflected by real gross national product.

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 perspective the GAAP shortfall or unreserved fund balance in the General Fund was \$1.7 billion as of June 30, 2011. This was a small increase from 2010.

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

Sincerely,



Kevin Lembo
State Comptroller

STATE OF CONNECTICUT GENERAL FUND
BALANCE SHEET
AS OF MAY 31, 2012
(In Thousands)

Exhibit A

ASSETS

Loans Receivable	3,419
Unrealized Revenue - Exhibit C	<u>3,044,314</u>
Total Assets	<u>\$ 3,047,733</u>

LIABILITIES, RESERVES, APPROPRIATIONS AND SURPLUS

LIABILITIES

Deficiency in Cash and Short Term Investments	\$ 1,535,227
Due to Other Funds	446
Accounts Payable	<u>11,998</u>
Total Liabilities	<u>1,547,671</u>

RESERVES

Reserve for Petty Cash	807
Statutory Surplus Reserves for Fiscal Year 2011-2012	236,923
Reserve for Receivables	3,419
Unexpended Appropriations - Exhibit D	1,451,557
Unappropriated Surplus (Deficit) - Exhibit B	<u>(192,644)</u>

Total Liabilities, Reserves, Appropriations and Surplus **\$ 3,047,733**

STATE OF CONNECTICUT GENERAL FUND
ANALYSIS OF UNAPPROPRIATED SURPLUS
AS OF MAY 31, 2012

(In Thousands)

Exhibit B

	<u>Budget Plan</u>	<u>Budgetary Increases (Decreases)</u>	<u>Other Increases (Decreases)</u>	<u>Revised Estimates</u>
BUDGETED REVENUE - EXHIBIT C				
Taxes	\$ 14,019,100	\$ (202,800)	\$ -	\$ 13,816,300
Other Revenue	1,226,500	(57,100)	-	1,169,400
Other Sources	<u>3,543,000</u>	<u>9,200</u>	<u>-</u>	<u>3,552,200</u>
Total Budgeted Revenue	<u>18,788,600</u>	<u>(250,700)</u>	<u>-</u>	<u>18,537,900</u>
APPROPRIATIONS - EXHIBIT D				
Budgeted Appropriations	19,686,631	-	375	19,687,006
Continued from Prior Year	<u>200,985</u>	<u>-</u>	<u>-</u>	<u>200,985</u>
Current Year Appropriations	19,485,646	-	375	19,486,021
Estimated Lapses	<u>(777,912)</u>	<u>22,548</u>	<u>-</u>	<u>(755,364)</u>
Net Appropriations	<u>18,707,734</u>	<u>22,548</u>	<u>375</u>	<u>18,730,657</u>
Surplus (Deficit) from Operations	80,866	(273,248)	(375)	(192,757)
Miscellaneous Adjustments	-	-	113	113
Surplus (Deficit), July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Projected Surplus (Deficit), June 30, 2012	<u>\$ 80,866</u>	<u>\$ (273,248)</u>	<u>\$ (262)</u>	<u>\$ (192,644)</u>

STATE OF CONNECTICUT GENERAL FUND
STATEMENT OF ESTIMATED AND REALIZED REVENUE
FOR THE ELEVEN MONTHS ENDED MAY 31, 2012
(In Thousands)

Exhibit C

	<u>Estimated Revenue</u>	<u>Increases or (Decreases)</u>	<u>Revised Estimates</u>	<u>Realized Revenue</u>	<u>Unrealized Revenue</u>
TAXES					
Personal Income	\$ 8,550,600	\$ (266,600)	\$ 8,284,000	\$ 7,084,790	\$ 1,199,210
Sales and Use	3,789,000	62,500	3,851,500	3,149,343	702,157
Corporations	707,700	14,200	721,900	553,784	168,116
Cigarettes and Tobacco	443,800	(17,300)	426,500	366,904	59,596
Insurance Companies	237,200	800	238,000	184,263	53,737
Public Service Corporations	268,700	(6,000)	262,700	198,034	64,666
Real Estate Conveyance	90,300	6,700	97,000	77,498	19,502
Inheritance and Estate	158,000	18,500	176,500	163,232	13,268
Oil Companies	93,100	62,100	155,200	111,136	44,064
Electric Generation	71,000	-	71,000	52,770	18,230
Alcoholic Beverages	56,900	2,000	58,900	48,806	10,094
Admissions, Dues and Cabaret	39,600	(4,200)	35,400	31,707	3,693
Miscellaneous	542,200	3,800	546,000	410,180	135,820
Totals	15,048,100	(123,500)	14,924,600	12,432,447	2,492,153
Less Refunds of Taxes	(1,020,000)	(84,800)	(1,104,800)	(1,059,891)	(44,909)
Less R & D Credit Exchange	(9,000)	5,500	(3,500)	(3,309)	(191)
Net Taxes	14,019,100	(202,800)	13,816,300	11,369,247	2,447,053
OTHER REVENUE					
Indian Gaming Payments	375,500	(30,700)	344,800	288,625	56,175
Transfers - Special Revenue	288,400	24,900	313,300	286,915	26,385
Licenses, Permits and Fees	271,200	(1,300)	269,900	250,162	19,738
Investment Income	2,900	(500)	2,400	2,669	(269)
Rents, Fines and Escheats	127,400	(7,200)	120,200	116,483	3,717
Sales of Commodities and Services	36,400	(4,400)	32,000	27,001	4,999
Miscellaneous	163,000	7,000	170,000	156,820	13,180
Total Other Revenue	1,264,800	(12,200)	1,252,600	1,128,675	123,925
Less Refunds of Payments	(38,300)	(44,900)	(83,200)	(80,162)	(3,038)
Net Other Revenue	1,226,500	(57,100)	1,169,400	1,048,513	120,887
OTHER SOURCES					
Federal Grants	3,589,700	9,200	3,598,900	3,134,576	464,324
Transfer to/from the Resources of the General Fund	(81,000)	-	(81,000)	(93,050)	12,050
Transfer from the Tobacco Settlement Fund	96,100	-	96,100	96,100	-
Transfers to Pequot Mohegan Fund	(61,800)	-	(61,800)	(61,800)	-
Total Other Sources	3,543,000	9,200	3,552,200	3,075,826	476,374
Total Budgeted Revenue	\$ 18,788,600	\$ (250,700)	\$ 18,537,900	\$ 15,493,586	\$ 3,044,314

STATE OF CONNECTICUT GENERAL FUND
 STATEMENT OF APPROPRIATIONS AND EXPENDITURES
 FOR THE ELEVEN MONTHS ENDED MAY 31, 2012
 (In Thousands)

Exhibit D

	Continued and Initial Appropriations	Increases or (Decreases)	Estimated Additional Requirements	Total Appropriations	Expenditures	Estimated Lapses	Unexpended Appropriations
LEGISLATIVE							
Legislative Management	\$ 65,281	\$ 163	\$ -	\$ 65,444	\$ 47,255	\$ 4,020	\$ 14,169
Auditors of Public Accounts	13,106	-	-	13,106	10,053	800	2,253
Commission on Aging	269	-	-	269	223	-	46
Commission on the Status of Women	527	-	-	527	414	-	113
Commission on Children	553	-	-	553	448	-	105
Commission on Latino & Puerto Rican Affairs	332	-	-	332	268	-	64
African-American Affairs Commission	220	-	-	220	171	-	49
Asian Pacific American Affairs	158	-	-	158	41	-	117
Total Legislative	80,446	163	-	80,609	58,873	4,820	16,916
GENERAL GOVERNMENT							
Governor's Office	2,837	-	-	2,837	2,340	-	497
Secretary of the State	9,105	-	-	9,105	6,467	180	2,458
Lieutenant Governor's Office	929	-	-	929	677	-	252
State Treasurer	4,130	-	-	4,130	3,071	260	799
State Comptroller	28,496	-	-	28,496	22,109	500	5,887
Revenue Services	73,797	100	-	73,897	56,995	1,550	15,352
Governmental Accountability	9,299	-	-	9,299	7,034	650	1,615
Office of Policy and Management	274,345	-	-	274,345	261,204	3,000	10,141
Veterans' Affairs	31,809	-	-	31,809	24,986	-	6,823
Administrative Services	133,883	(150)	-	133,733	101,672	2,400	29,661
Construction Services	9,730	-	-	9,730	7,249	450	2,031
Attorney General	30,758	25	-	30,783	25,159	670	4,954
Division of Criminal Justice	52,399	-	-	52,399	44,083	-	8,316
Total General Government	661,517	(25)	-	661,492	563,046	9,660	88,786
REGULATION AND PROTECTION							
Emergency Services and Public Protection	172,629	-	-	172,629	149,885	-	22,744
Motor Vehicles	501	-	-	501	454	-	47
Military Department	6,980	-	-	6,980	5,448	-	1,532
Consumer Protection	16,185	-	-	16,185	12,986	580	2,619
Department of Labor	78,456	-	-	78,456	54,820	380	23,256
Human Rights & Opportunities	7,057	-	-	7,057	4,652	150	2,255
Advocacy for Persons with Disabilities	2,681	-	-	2,681	2,168	-	513
Total Regulation and Protection	284,489	-	-	284,489	230,413	1,110	52,966
CONSERVATION AND DEVELOPMENT							
Department of Agriculture	5,216	-	-	5,216	4,204	-	1,012
Energy and Environmental Protection	79,396	-	-	79,396	62,042	990	16,364
Environmental Quality Council	171	-	-	171	144	-	27
Economic & Community Development	60,275	-	-	60,275	43,524	140	16,611
Agricultural Experiment Station	7,372	-	-	7,372	6,145	-	1,227
Total Conservation and Development	152,430	-	-	152,430	116,059	1,130	35,241
HEALTH AND HOSPITALS							
Department of Public Health	91,682	-	-	91,682	69,239	4,480	17,963
Medical Examiner	6,200	-	-	6,200	4,565	100	1,535
Developmental Service	1,047,822	-	-	1,047,822	882,899	8,840	156,083
Mental Health & Addiction Services	750,192	-	-	750,192	604,994	5,100	140,098
Psychiatric Security Review Board	364	-	-	364	270	-	94
Total Health and Hospitals	1,896,260	-	-	1,896,260	1,561,967	18,520	315,773
TRANSPORTATION							
Department of Transportation	609	-	-	609	-	-	609
Total Transportation	609	-	-	609	-	-	609
HUMAN SERVICES							
Department of Social Services	5,820,575	-	-	5,820,575	5,588,106	7,350	225,119
Bureau of Rehabilitative Services	22,097	-	-	22,097	17,090	-	5,007
Total Human Services	5,842,672	-	-	5,842,672	5,605,196	7,350	230,126

STATE OF CONNECTICUT GENERAL FUND
 STATEMENT OF APPROPRIATIONS AND EXPENDITURES
 FOR THE ELEVEN MONTHS ENDED MAY 31, 2012

Exhibit D

(In Thousands)

	Continued and Initial	Increases or	Estimated Additional	Total		Estimated	Unexpended
	Appropriations	(Decreases)	Requirements	Appropriations	Expenditures	Lapses	Appropriations
EDUCATION, MUSEUMS, LIBRARIES							
Department of Education	2,804,237	-	-	2,804,237	2,731,355	730	72,152
State Library	11,750	-	-	11,750	9,586	419	1,745
Financial & Academic Affairs for Higher Ed	59,260	-	-	59,260	55,859	560	2,841
University of Connecticut	225,354	-	-	225,354	184,591	-	40,763
University Health Center	121,515	-	-	121,515	106,783	-	14,732
Teachers' Retirement Board	792,027	-	-	792,027	789,265	200	2,562
Board of Regents for Higher Education	315,677	-	-	315,677	262,385	-	53,292
Total Education, Museums, Libraries	4,329,820	-	-	4,329,820	4,139,824	1,909	188,087
CORRECTIONS							
Department of Correction	695,352	-	-	695,352	610,884	7,300	77,168
Children and Families	881,318	-	-	881,318	735,061	17,390	128,867
Total Corrections	1,576,670	-	-	1,576,670	1,345,945	24,690	206,035
JUDICIAL							
Judicial Department	512,170	98	-	512,268	438,979	-	73,289
Public Defender Services Commission	64,771	-	-	64,771	57,913	-	6,858
Total Judicial	576,941	98	-	577,039	496,892	-	80,147
NON-FUNCTIONAL							
Governor's Contingency	-	-	-	-	-	-	-
Debt Service	1,894,081	-	-	1,894,081	1,610,436	75,000	208,645
Reserve for Salary Adjustments	142,602	(107)	-	142,495	-	76,800	65,695
Workers' Compensation Claims	27,727	-	-	27,727	26,390	250	1,087
Adjudicated Claims	4,000	-	-	4,000	7,254	-	(3,254)
Death Benefits for State Employees	-	11	-	11	11	-	-
Unemployment Compensation	12,482	-	-	12,482	8,443	-	4,039
State Employees Retirement Contributions	722,137	-	-	722,137	594,618	-	127,519
Higher Education Alternative Retirement	37,959	-	-	37,959	20,859	-	17,100
Other Statutory Retirement	1,823	-	-	1,823	1,577	-	246
Judges & Compensation Commissioners Retirement	15,095	-	-	15,095	13,838	-	1,257
Group Life Insurance	8,586	-	-	8,586	7,025	-	1,561
Tuition Reimbursement - Training & Travel	5,829	235	-	6,064	2,673	-	3,391
Employers Social Security	244,897	-	-	244,897	188,831	-	56,066
State Employees Health Service	602,409	-	-	602,409	452,287	-	150,122
Retired State Employees Health Service	565,146	-	-	565,146	427,622	-	137,524
Insurance Recoveries	4	-	-	4	3	-	1
Unallocated	-	-	-	-	-	534,125	(534,125)
Total Non-Functional	4,284,777	139	-	4,284,916	3,361,870	686,175	236,871
Total Budgeted Appropriations	\$ 19,686,631	\$ 375	\$ -	\$ 19,687,006	\$ 17,480,085	\$ 755,364	\$ 1,451,557

STATE OF CONNECTICUT TRANSPORTATION FUND
BALANCE SHEET
AS OF MAY 31, 2012
(In Thousands)

Exhibit E

ASSETS

Cash and Short Term Investments	\$	121,978
Unrealized Revenue - Exhibit G		<u>183,913</u>
Total Assets	\$	<u>305,891</u>

APPROPRIATIONS, LIABILITIES AND SURPLUS

Unexpended Appropriations - Exhibit H	\$	167,460
Liabilities		580
Unappropriated Surplus - Exhibit F		<u>137,851</u>
Total Appropriations, Liabilities and Surplus	\$	<u>305,891</u>

STATE OF CONNECTICUT TRANSPORTATION FUND
ANALYSIS OF UNAPPROPRIATED SURPLUS
AS OF MAY 31, 2012

(In Thousands)

Exhibit F

	<u>Budget Plan</u>	<u>Budgetary Increases (Decreases)</u>	<u>Other Increases (Decreases)</u>	<u>Revised Estimates</u>
BUDGETED REVENUE - EXHIBIT G				
Taxes	\$ 798,600	\$ (10,900)	\$ -	\$ 787,700
Other Revenue	<u>463,900</u>	<u>(20,000)</u>	<u>-</u>	<u>443,900</u>
Total Budgeted Revenue	<u>1,262,500</u>	<u>(30,900)</u>	<u>-</u>	<u>1,231,600</u>
APPROPRIATIONS - EXHIBIT H				
Budgeted Appropriations	1,356,022	-	-	1,356,022
Continued from Prior Year	<u>40,554</u>	<u>-</u>	<u>-</u>	<u>40,554</u>
Current Year Appropriations	1,315,468	-	-	1,315,468
Estimated Lapses	(53,536)	(60,818)	-	(114,354)
Restricted Grants Affecting Surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Appropriations	<u>1,261,932</u>	<u>(60,818)</u>	<u>-</u>	<u>1,201,114</u>
Surplus from Operations	568	29,918	-	30,486
Miscellaneous Adjustments	-	-	-	-
Surplus, July 1, 2011	<u>107,365</u>	<u>-</u>	<u>-</u>	<u>107,365</u>
Projected Surplus, June 30, 2012	<u>\$ 107,933</u>	<u>\$ 29,918</u>	<u>\$ -</u>	<u>\$ 137,851</u>

STATE OF CONNECTICUT TRANSPORTATION FUND
STATEMENT OF ESTIMATED AND REALIZED REVENUE
FOR THE ELEVEN MONTHS ENDED MAY 31, 2012
(In Thousands)

Exhibit G

	<u>Estimated Revenue</u>	<u>Increases or (Decreases)</u>	<u>Revised Estimates</u>	<u>Realized Revenue</u>	<u>Unrealized Revenue</u>
TAXES					
Motor Fuels Tax	\$ 507,300	\$ (15,500)	\$ 491,800	\$ 406,731	\$ 85,069
Oil Companies	226,900	-	226,900	170,175	56,725
Sales Tax DMV	71,600	4,400	76,000	69,221	6,779
Totals	805,800	(11,100)	794,700	646,127	148,573
Less Refunds of Taxes	(7,200)	200	(7,000)	(6,355)	(645)
Net Taxes	798,600	(10,900)	787,700	639,772	147,928
OTHER REVENUE					
Motor Vehicle Receipts	237,500	(2,500)	235,000	213,162	21,838
Licenses, Permits and Fees	143,800	(7,200)	136,600	122,426	14,174
Interest Income	12,500	(10,400)	2,100	1,886	214
Federal Grants	13,100	-	13,100	12,915	185
Transfer from Other Funds	81,900	-	81,900	81,550	350
Transfer to Emissions Enterprise Fund	(6,500)	-	(6,500)	(6,500)	-
Transfer to TSB Projects Account	(15,300)	-	(15,300)	(15,000)	(300)
Totals	467,000	(20,100)	446,900	410,439	36,461
Less Refunds of Payments	(3,100)	100	(3,000)	(2,524)	(476)
Net Other Revenue	463,900	(20,000)	443,900	407,915	35,985
Total Budgeted Revenue	<u>\$ 1,262,500</u>	<u>\$ (30,900)</u>	<u>\$ 1,231,600</u>	<u>\$ 1,047,687</u>	<u>\$ 183,913</u>

STATE OF CONNECTICUT TRANSPORTATION FUND
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
FOR THE ELEVEN MONTHS ENDED MAY 31, 2012
(In Thousands)

Exhibit H

	<u>Continued and Initial Appropriations</u>	<u>Increases or (Decreases)</u>	<u>Estimated Additional Requirements</u>	<u>Total Appropriations</u>	<u>Expenditures</u>	<u>Estimated Lapses</u>	<u>Unexpended Appropriations</u>
Department of Transportation	\$ 613,147	\$ -	\$ -	\$ 613,147	\$ 489,948	\$ 10,800	\$ 112,399
Motor Vehicle Department	69,965	-	-	69,965	45,744	500	23,721
Debt Service	478,835	-	-	478,835	404,001	38,200	36,634
Reserve for Salary Adjustments	18,847	-	-	18,847	-	17,500	1,347
Bureau of Rehabilitative Services	131	-	-	131	119	-	12
Workers' Compensation Claims	6,756	-	-	6,756	6,337	-	419
Department of Administrative Services	7,158	-	-	7,158	4,539	-	2,619
Unemployment Compensation	459	-	-	459	369	-	90
State Employees Retirement	99,636	-	-	99,636	82,042	-	17,594
Group Life Insurance	327	-	-	327	219	-	108
Employers Social Security	18,632	-	-	18,632	11,560	-	7,072
State Employees Health Service	42,129	-	-	42,129	29,330	-	12,799
Insurance Recoveries	-	-	-	-	-	-	-
Unallocated	-	-	-	-	-	47,354	(47,354)
Total Budgeted Appropriations	\$ 1,356,022	\$ -	\$ -	\$ 1,356,022	\$ 1,074,208	\$ 114,354	\$ 167,460