



**STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT
06106-1775**

**Kevin Lembo
State Comptroller**

**Martha Carlson
Deputy Comptroller**

October 1, 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 August 31, 2012.

OPM is projecting that the General Fund will end Fiscal Year 2013 with a deficit of \$26.9 million on a budgetary accounting basis. A balance of \$146.8 million is projected in the Transportation Fund. I am in general agreement with the trends that OPM has identified, and the resulting projections.

In addition, reserves of \$47.5 million were budgeted for General Fund GAAP conversion. However, in accordance with the provisions of Public Act 11-48, Section 46 (a), these reserves are required only to the extent that there is an increase in the General Fund's unreserved fund balance in Fiscal Year 2012. The reserves are to be released in the amount of that increase, not to exceed \$50 million. The unreserved fund balance for Fiscal Year 2012 will not be available until January. Therefore, an accurate estimate of the GAAP conversion deficit is not available at this time. OPM has assumed for projection purposes that \$47.5 million will be required.

Fiscal Year 2013 General Fund revenue is currently projected to be \$50 million above initial budget totals. The increase is attributable in full to federal Medicaid recoveries resulting from higher state spending as discussed below. OPM has also noted early weakness in the sales tax and casino gaming payments. I am especially concerned with the sales tax trend in light of slower personal income growth in the state. Based on second quarter 2012 results released by the Bureau of Economic Analysis, Connecticut's personal income growth slowed from 1.4 percent in the first quarter of 2012 to 0.9 percent in the second quarter. The state's income growth ranking fell from thirteenth highest in the nation to thirty-fourth. Sales tax receipts have historically shown a correlation to personal income, so this trend is of concern. At present, positive movement in other revenue categories such as the income tax are sufficient to offset the slower growth areas.

Total General Fund spending in Fiscal Year 2013 is expected to exceed original appropriations by \$80 million. The most significant spending in excess of the original budget target is in the Department of Social Services, which is \$100 million over budget. The Medicaid account has continued to experience strong caseload growth. The department's active assistance report for August indicates a jump of more than seventeen hundred participants. An upward trend has continued in Medicaid's low income adult population. The higher anticipated Medicaid expenditure is partially offset by \$20 million in lower debt service payments resulting from a favorable interest rate environment.

The Honorable Dannel P. Malloy
October 1, 2012
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Another area of budget concern moving forward is the potential sequestration of federal funds and the expiration of tax reductions in January. The implications of this action are significant for the state's economy and will exacerbate an already historically slow national recovery.

In August, Connecticut lost 6,800 payroll jobs. For the full twelve month period ending in August, the state has added a scant 1,100 jobs. Since the recovery commenced at the beginning of 2010, Connecticut has regained about one quarter of the jobs lost to recession. The state's unemployment rate rose to 9 percent in August compared to the national rate of 8.1 percent. Connecticut's average hourly earnings were down 1.1 percent from August of last year, and weekly private sector pay fell 1.4 percent over the same period. The Consumer Price Index for all urban consumers was up 1.7 percent in August. Existing home sales in August were up nationally 7.8 percent from the previous month and were up 9.3 percent from August of last year. Home prices were up 9.5 percent from one year ago. Existing home sales in the Northeast rose 8.6 percent on both a month over month and twelve month period basis in August. Home prices in the Northeast were up less than one percent for the year.

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. The GAAP numbers for Fiscal Year 2012 will be provided in January.

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

Sincerely,

A handwritten signature in cursive script that reads "Kevin Lembo".

Kevin Lembo
State Comptroller

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

Exhibit A

ASSETS

Loans Receivable	\$	3,419
Unrealized Revenue - Exhibit C		<u>17,806,498</u>
Total Assets	\$	<u>17,809,917</u>

LIABILITIES, RESERVES, APPROPRIATIONS AND SURPLUS

LIABILITIES

Deficiency in Cash and Short Term Investments	\$	1,532,379
Due to Other Funds		360
Accounts Payable		<u>524,253</u>
Total Liabilities		<u>2,056,992</u>

RESERVES

Reserve for Petty Cash		806
Reserve for Receivables		3,419
Unexpended Appropriations - Exhibit D		15,776,158
Unappropriated Surplus (Deficit) - Exhibit B		<u>(27,458)</u>
Total Liabilities, Reserves, Appropriations and Surplus	\$	<u>17,809,917</u>

**STATE OF CONNECTICUT GENERAL FUND
ANALYSIS OF UNAPPROPRIATED SURPLUS
AS OF AUGUST 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	\$ 14,408,165	\$ -	\$ -	\$ 14,408,165
Other Revenue	1,158,319	-	-	1,158,319
Other Sources	<u>3,576,685</u>	<u>50,000</u>	<u>-</u>	<u>3,626,685</u>
Total Budgeted Revenue	<u>19,143,169</u>	<u>50,000</u>	<u>-</u>	<u>19,193,169</u>
APPROPRIATIONS - EXHIBIT D				
Budgeted Appropriations	19,386,758	100,000	2	19,486,760
Continued from Prior Year	<u>130,351</u>	<u>-</u>	<u>-</u>	<u>130,351</u>
Current Year Appropriations	19,256,407	100,000	2	19,356,409
Estimated Lapses	<u>(116,349)</u>	<u>(20,000)</u>	<u>-</u>	<u>(136,349)</u>
Net Appropriations	<u>19,140,058</u>	<u>80,000</u>	<u>2</u>	<u>19,220,060</u>
Surplus (Deficit) from Operations	3,111	(30,000)	(2)	(26,891)
Miscellaneous Adjustments	-	-	(567)	(567)
Surplus (Deficit), July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Projected Surplus (Deficit), June 30, 2013	<u>\$ 3,111</u>	<u>\$ (30,000)</u>	<u>\$ (569)</u>	<u>\$ (27,458)</u>

**STATE OF CONNECTICUT GENERAL FUND
STATEMENT OF ESTIMATED AND REALIZED REVENUE
FOR THE TWO MONTHS ENDED AUGUST 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	\$ 8,554,300	\$ -	\$ 8,554,300	\$ 345,720	\$ 8,208,580
Sales and Use	4,045,935	-	4,045,935	282,874	3,763,061
Corporations	793,000	-	793,000	14,425	778,575
Public Service Corporations	275,200	-	275,200	4,873	270,327
Inheritance and Estate	166,200	-	166,200	30,241	135,959
Insurance Companies	234,400	-	234,400	7,520	226,880
Cigarettes and Tobacco	411,130	-	411,130	55,864	355,266
Real Estate Conveyance	100,300	-	100,300	3,595	96,705
Oil Companies	182,600	-	182,600	836	181,764
Electric Generation	71,000	-	71,000	752	70,248
Alcoholic Beverages	59,300	-	59,300	4,655	54,645
Admissions, Dues and Cabaret	39,600	-	39,600	7,212	32,388
Miscellaneous	550,800	-	550,800	4,616	546,184
Totals	15,483,765	-	15,483,765	763,183	14,720,582
Less Refunds of Taxes	(950,600)	-	(950,600)	(67,846)	(882,754)
Less R & D Credit Exchange	(125,000)	-	(125,000)	(533)	(124,467)
Net Taxes	14,408,165	-	14,408,165	694,804	13,713,361
OTHER REVENUE					
Transfers - Special Revenue	305,100	-	305,100	44,004	261,096
Indian Gaming Payments	336,200	-	336,200	27,831	308,369
Licenses, Permits and Fees	258,821	-	258,821	34,911	223,910
Sales of Commodities and Services	34,800	-	34,800	6,866	27,934
Rents, Fines and Escheats	107,698	-	107,698	3,064	104,634
Investment Income	2,800	-	2,800	224	2,576
Miscellaneous	162,900	-	162,900	33,051	129,849
Total Other Revenue	1,208,319	-	1,208,319	149,951	1,058,368
Less Refunds of Payments	(50,000)	-	(50,000)	(14,155)	(35,845)
Net Other Revenue	1,158,319	-	1,158,319	135,796	1,022,523
OTHER SOURCES					
Federal Grants	3,629,044	50,000	3,679,044	556,071	3,122,973
Transfer from the Tobacco Settlement Fund	93,100	-	93,100	-	93,100
Transfer to/from the Resources of the General Fund	(83,659)	-	(83,659)	-	(83,659)
Transfers to Pequot Mohegan Fund	(61,800)	-	(61,800)	-	(61,800)
Total Other Sources	3,576,685	50,000	3,626,685	556,071	3,070,614
Total Budgeted Revenue	\$ 19,143,169	\$ 50,000	\$ 19,193,169	\$ 1,386,671	\$ 17,806,498

STATE OF CONNECTICUT GENERAL FUND
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
FOR THE TWO MONTHS ENDED AUGUST 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	\$ 63,135	\$ -	\$ -	\$ 63,135	\$ 7,770	\$ -	\$ 55,365
Auditors of Public Accounts	11,564	-	-	11,564	1,617	-	9,947
Commission on Aging	260	-	-	260	36	-	224
Commission on the Status of Women	504	-	-	504	66	-	438
Commission on Children	532	-	-	532	102	-	430
Commission on Latino & Puerto Rican Affairs	318	-	-	318	39	-	279
African-American Affairs Commission	210	-	-	210	25	-	185
Asian Pacific American Affairs	153	-	-	153	23	-	130
Total Legislative	76,676	-	-	76,676	9,678	-	66,998
GENERAL GOVERNMENT							
Governor's Office	2,828	-	-	2,828	435	-	2,393
Secretary of the State	7,743	-	-	7,743	946	-	6,797
Lieutenant Governor's Office	918	-	-	918	127	-	791
State Treasurer	3,561	-	-	3,561	596	-	2,965
State Comptroller	25,029	-	-	25,029	3,667	-	21,362
Revenue Services	63,890	-	-	63,890	9,351	-	54,539
Governmental Accountability	8,602	-	-	8,602	1,160	-	7,442
Office of Policy and Management	266,727	-	-	266,727	2,530	-	264,197
Veterans' Affairs	28,030	-	-	28,030	4,157	-	23,873
Administrative Services	123,575	807	-	124,382	16,926	-	107,456
Construction Services	9,940	-	-	9,940	1,244	-	8,696
Attorney General	30,457	-	-	30,457	4,445	-	26,012
Division of Criminal Justice	48,836	-	-	48,836	7,453	-	41,383
Total General Government	620,136	807	-	620,943	53,037	-	567,906
REGULATION AND PROTECTION							
Emergency Services and Public Protection	151,573	-	-	151,573	28,477	-	123,096
Motor Vehicles	459	-	-	459	22	-	437
Military Department	6,140	-	-	6,140	591	-	5,549
Consumer Protection	14,622	-	-	14,622	2,424	-	12,198
Department of Labor	75,031	-	-	75,031	10,363	-	64,668
Human Rights & Opportunities	6,086	-	-	6,086	838	-	5,248
Advocacy for Persons with Disabilities	2,431	-	-	2,431	337	-	2,094
Total Regulation and Protection	256,342	-	-	256,342	43,052	-	213,290
CONSERVATION AND DEVELOPMENT							
Department of Agriculture	4,662	-	-	4,662	632	-	4,030
Energy and Environmental Protection	68,724	-	-	68,724	12,162	-	56,562
Environmental Quality Council	164	-	-	164	23	-	141
Economic & Community Development	60,265	-	-	60,265	8,701	-	51,564
Department of Housing	180	-	-	180	-	-	180
Agricultural Experiment Station	6,830	-	-	6,830	1,097	-	5,733
Total Conservation and Development	140,825	-	-	140,825	22,615	-	118,210
HEALTH AND HOSPITALS							
Department of Public Health	100,151	-	-	100,151	12,958	-	87,193
Medical Examiner	5,046	-	-	5,046	646	-	4,400
Developmental Service	1,038,993	-	-	1,038,993	167,424	-	871,569
Mental Health & Addiction Services	693,499	-	-	693,499	133,939	-	559,560
Psychiatric Security Review Board	280	-	-	280	41	-	239
Total Health and Hospitals	1,837,969	-	-	1,837,969	315,008	-	1,522,961

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

Exhibit D

	Continued and Initial Appropriations	Increases or (Decreases)	Estimated Additional Requirements	Total Appropriations	Expenditures	Estimated Lapses	Unexpended Appropriations
HUMAN SERVICES							
Department of Social Services	5,885,294	-	100,000	5,985,294	1,844,940	-	4,140,354
State Department on Aging	100	-	-	100	-	-	100
Department of Rehabilitative Services	22,492	-	-	22,492	3,006	-	19,486
Total Human Services	5,907,886	-	100,000	6,007,886	1,847,946	-	4,159,940
EDUCATION, MUSEUMS, LIBRARIES							
Department of Education	2,915,343	-	-	2,915,343	243,602	-	2,671,741
State Library	12,736	-	-	12,736	1,283	-	11,453
Financial & Academic Affairs for Higher Ed	52,685	-	-	52,685	262	-	52,423
University of Connecticut	205,632	-	-	205,632	32,135	-	173,497
University Health Center	112,667	-	-	112,667	18,069	-	94,598
Teachers' Retirement Board	811,897	-	-	811,897	202,168	-	609,729
Board of Regents for Higher Education	288,450	-	-	288,450	45,388	-	243,062
Total Education, Museums, Libraries	4,399,410	-	-	4,399,410	542,907	-	3,856,503
CORRECTIONS							
Department of Correction	619,005	-	-	619,005	111,624	-	507,381
Children and Families	831,939	-	-	831,939	147,078	-	684,861
Total Corrections	1,450,944	-	-	1,450,944	258,702	-	1,192,242
JUDICIAL							
Judicial Department	484,421	-	-	484,421	80,563	-	403,858
Public Defender Services Commission	60,574	-	-	60,574	9,879	-	50,695
Total Judicial	544,995	-	-	544,995	90,442	-	454,553
NON-FUNCTIONAL							
Governor's Contingency	-	-	-	-	-	-	-
Debt Service	1,870,923	-	-	1,870,923	59,559	20,000	1,791,364
Reserve for Salary Adjustments	52,101	(3,940)	-	48,161	-	-	48,161
Workers' Compensation Claims	26,964	-	-	26,964	7,110	-	19,854
Adjudicated Claims	4,000	-	-	4,000	462	-	3,538
Death Benefits for State Employees	-	3	-	3	3	-	-
Unemployment Compensation	8,902	-	-	8,902	1,211	-	7,691
State Employees Retirement Contributions	721,491	-	-	721,491	120,248	-	601,243
Higher Education Alternative Retirement	33,671	-	-	33,671	3,499	-	30,172
Other Statutory Retirement	1,843	-	-	1,843	275	-	1,568
Judges & Compensation Commissioners Retirement	16,006	-	-	16,006	2,668	-	13,338
Group Life Insurance	8,755	-	-	8,755	936	-	7,819
Tuition Reimbursement - Training & Travel	2,854	3,132	-	5,986	449	-	5,537
Employers Social Security	221,957	-	-	221,957	30,580	-	191,377
State Employees Health Service	568,013	-	-	568,013	70,870	-	497,143
Retired State Employees Health Service	614,095	-	-	614,095	92,996	-	521,099
Insurance Recoveries	-	-	-	-	-	-	-
Unallocated	-	-	-	-	-	116,349	(116,349)
Total Non-Functional	4,151,575	(805)	-	4,150,770	390,866	136,349	3,623,555
Total Budgeted Appropriations	\$ 19,386,758	\$ 2	\$ 100,000	\$ 19,486,760	\$ 3,574,253	\$ 136,349	\$ 15,776,158

**STATE OF CONNECTICUT TRANSPORTATION FUND
BALANCE SHEET
AS OF AUGUST 31, 2012**

(In Thousands)

Exhibit E

ASSETS

Cash and Short Term Investments	\$ 106,971
Accrued Interest Receivable	224
Unrealized Revenue - Exhibit G	<u>1,120,950</u>

Total Assets	<u><u>\$ 1,228,145</u></u>
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APPROPRIATIONS, LIABILITIES AND SURPLUS

Unexpended Appropriations - Exhibit H	\$ 1,078,567
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Liabilities	2,773
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Unappropriated Surplus - Exhibit F	<u>146,805</u>
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Total Appropriations, Liabilities and Surplus	<u><u>\$ 1,228,145</u></u>
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**STATE OF CONNECTICUT TRANSPORTATION FUND
ANALYSIS OF UNAPPROPRIATED SURPLUS
AS OF AUGUST 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	\$ 765,500	\$ -	\$ -	\$ 765,500
Other Revenue	<u>468,159</u>	<u>-</u>	<u>-</u>	<u>468,159</u>
Total Budgeted Revenue	<u>1,233,659</u>	<u>-</u>	<u>-</u>	<u>1,233,659</u>
APPROPRIATIONS - EXHIBIT H				
Budgeted Appropriations	1,285,285	-	-	1,285,285
Continued from Prior Year	<u>41,615</u>	<u>-</u>	<u>-</u>	<u>41,615</u>
Current Year Appropriations	1,243,670	-	-	1,243,670
Estimated Lapses	(11,000)	-	-	(11,000)
Restricted Grants Affecting Surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Appropriations	<u>1,232,670</u>	<u>-</u>	<u>-</u>	<u>1,232,670</u>
Surplus from Operations	989	-	-	989
Miscellaneous Adjustments	-	-	-	-
Surplus, July 1, 2012	<u>145,816</u>	<u>-</u>	<u>-</u>	<u>145,816</u>
Projected Surplus, June 30, 2013	<u>\$ 146,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,805</u>

**STATE OF CONNECTICUT TRANSPORTATION FUND
STATEMENT OF ESTIMATED AND REALIZED REVENUE
FOR THE TWO MONTHS ENDED AUGUST 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	\$ 497,500	\$ -	\$ 497,500	\$ 41,423	\$ 456,077
Oil Companies	199,400	-	199,400	-	199,400
Sales Tax DMV	<u>76,400</u>	<u>-</u>	<u>76,400</u>	<u>14,131</u>	<u>62,269</u>
Totals	773,300	-	773,300	55,554	717,746
Less Refunds of Taxes	<u>(7,800)</u>	<u>-</u>	<u>(7,800)</u>	<u>(1,407)</u>	<u>(6,393)</u>
Net Taxes	<u>765,500</u>	<u>-</u>	<u>765,500</u>	<u>54,147</u>	<u>711,353</u>
OTHER REVENUE					
Motor Vehicle Receipts	233,400	-	233,400	39,005	194,395
Licenses, Permits and Fees	137,900	-	137,900	21,210	116,690
Interest Income	6,000	-	6,000	302	5,698
Federal Grants	13,100	-	13,100	-	13,100
Transfer from Other Funds	102,659	-	102,659	-	102,659
Transfer to Emissions Enterprise Fund	(6,500)	-	(6,500)	(1,625)	(4,875)
Transfer to TSB Projects Account	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>
Totals	471,559	-	471,559	58,892	412,667
Less Refunds of Payments	<u>(3,400)</u>	<u>-</u>	<u>(3,400)</u>	<u>(330)</u>	<u>(3,070)</u>
Net Other Revenue	<u>468,159</u>	<u>-</u>	<u>468,159</u>	<u>58,562</u>	<u>409,597</u>
Total Budgeted Revenue	<u>\$ 1,233,659</u>	<u>\$ -</u>	<u>\$ 1,233,659</u>	<u>\$ 112,709</u>	<u>\$ 1,120,950</u>

STATE OF CONNECTICUT TRANSPORTATION FUND
 STATEMENT OF APPROPRIATIONS AND EXPENDITURES
 FOR THE TWO MONTHS ENDED AUGUST 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	\$ 579,944	\$ -	\$ -	\$ 579,944	\$ 83,183	\$ -	\$ 496,761
Motor Vehicle Department	67,181	-	-	67,181	7,560	-	59,621
Debt Service	457,974	-	-	457,974	77,440	-	380,534
Reserve for Salary Adjustments	3,032	-	-	3,032	-	-	3,032
Department of Rehabilitative Services	210	-	-	210	22	-	188
Workers' Compensation Claims	6,544	-	-	6,544	1,511	-	5,033
Department of Administrative Services	7,335	-	-	7,335	734	-	6,601
Unemployment Compensation	645	-	-	645	27	-	618
State Employees Retirement	107,869	-	-	107,869	17,978	-	89,891
Group Life Insurance	334	-	-	334	36	-	298
Employers Social Security	17,800	-	-	17,800	1,992	-	15,808
State Employees Health Service	36,417	-	-	36,417	5,235	-	31,182
Insurance Recoveries	-	-	-	-	-	-	-
Unallocated	-	-	-	-	-	11,000	(11,000)
Total Budgeted Appropriations	\$ 1,285,285	\$ -	\$ -	\$ 1,285,285	\$ 195,718	\$ 11,000	\$ 1,078,567