



**STATE OF CONNECTICUT  
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February 3, 2014

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 December 31, 2013.

OPM is projecting a Fiscal Year 2014 General Fund surplus of \$506.1 million. This is an increase of \$232.9 million from last month's estimate. The Transportation Fund is expected to close Fiscal Year 2014 with a balance of \$173.1 million. I am in general agreement with these estimates.

This month's projections by OPM have incorporated the January 15<sup>th</sup> consensus revenue estimates. The most significant increase in the General Fund surplus from last month is attributable to the new revenue estimates. Specifically, the consensus forecast has increased anticipated income tax receipts by \$213.1 million.

The estimated payment portion of the income tax is driving the higher income tax projection. Estimated payments grew by almost 25 percent through January of last fiscal year. This large increase was partially attributable to a capital gains tax change that went into effect at the end of calendar year 2012 and resulted in a roll-forward of taxable gains to Fiscal Year 2013. Absent the tax change, these roll-forward gains would have been realized in future years. The budget plan anticipated a softening of estimated payments in Fiscal Year 2014 based on the roll-forward activity. However, estimated payments through January of this fiscal year continued to post year-over-year growth in excess of 4.5 percent. This positive performance in the estimated payment component of the income tax is expected to continue throughout Fiscal Year 2014.

Total General Fund revenue for 2014 is expected to exceed initial budget targets by \$421.2 million. According to the Department of Revenue Services, the tax amnesty program yielded \$175 million in Fiscal Year 2014. The program was initially budgeted to add \$35 million in revenue. In addition, the stock market has continued to post double-digit gains that have fueled estimated income tax payments as discussed above. All major revenue categories are exceeding or are close to original budget estimates.

After netting out the impact of the transfer of \$67 million in spending from the General Fund to the Restricted Grants Fund for the Department of Social Services' Disproportionate Share Hospitals (DSH) program, spending projections are below initial budget targets. The original budget provided for General Fund spending growth of 3.8 percent in Fiscal Year 2014. The transfer of DSH funds also reduced General Fund federal revenue by \$67 million; therefore the transfer had no impact on the surplus.

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As you know, I have advocated for the deposit of General Fund surplus dollars to the state's Budget Reserve Fund in accordance with current law. The reserve balance at the end of Fiscal Year 2013 was \$270.7 million. This represents 1.6 percent of net appropriations. If the legislature enacts your plan to allocate the current estimated surplus, an additional \$250 million would be deposited to the Budget Reserve Fund bringing the balance to \$520.7 million or just over 3 percent of planned spending. I have advocated for a reserve level of 15 percent of spending, which is also endorsed within your surplus distribution plan. Sufficient dollars in reserve will guard against future tax increases and service reductions during inevitable future recessionary cycles.

As the disposition of the surplus is debated, policy makers should remember that the Fiscal Year 2014 General Fund budget relies on \$190.8 million in nonrecurring revenue reserved from the prior year and \$112.4 million in carry forward funding. In addition, the majority of the surplus dollars in Fiscal Year 2014 result from a one-time tax amnesty program, and from the most volatile component of the income tax, which relies on strong stock market performance. Finally, both OFA and OPM have estimated budget shortfalls beginning in Fiscal Year 2016 if current policies remain unchanged. I recommend that any General Fund surplus realized by the close of Fiscal Year 2014 in excess of this month's estimate be deposited directly to the Budget Reserve Fund.

For the twelve month period ending in December, the state had added 11,500 payroll jobs. The state's unemployment rate fell to 7.4 percent. According to the State Labor Department, Connecticut has recovered 49.0 percent or 69,400 of the 121,200 jobs lost during the 2008 recession. Hourly earnings and weekly pay have experienced slight declines. Single family home sales in Connecticut were up 12.3 percent in 2013 compared to last year and the median price was up 2.8 percent. Nationally, in December advance retail sales were up 4.1 percent from one year ago. Auto dealers and non-store retailers posted the strongest gains. Overall, the national economy grew at a rate of 3.2 percent in the fourth quarter of 2013 based on preliminary estimates. This follows third quarter growth of 4.1 percent.

I also issue a Comprehensive Annual Financial Report (CAFR) that includes financial statements for all state funds that are prepared in accordance with Generally Accepted Accounting Principles (GAAP). From a balance sheet perspective, the GAAP shortfall or unreserved fund balance in the General Fund was \$1.146 billion as of June 30, 2012. This represented an improvement in the unassigned fund balance deficit of just over \$600 million from last year. A final audited CAFR for Fiscal Year 2013 will be available in February.

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

Sincerely,



Kevin Lembo  
State Comptroller

To view files in Excel format, click here: [General Fund](#) | [Transportation Fund](#)