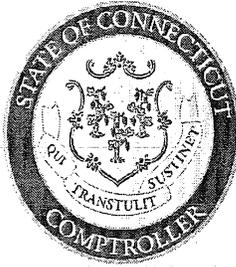


KEVIN LEMBO
STATE COMPTROLLER

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DEPUTY COMPTROLLER



STATE OF CONNECTICUT
OFFICE of the STATE COMPTROLLER
55 Elm Street
Hartford, CT 06106-177

April 1, 2015

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 February 28, 2015.

The Office of Policy and Management (OPM) is projecting a General Fund deficit of \$132.8 million for Fiscal Year 2015, and an ending balance in the Transportation Fund of \$165.1 million. This represents an increase in the estimated General Fund deficit of \$71.6 million from last month. The higher deficit is due to a \$63 million reduction in the revenue projection and an \$8.6 million increase in spending estimates. The revenue decline results from the federal settlement of DSS Medicaid claims that are \$45 million lower than anticipated and an \$18 million reduction in health provider tax payments due to higher than anticipated utilization of transferrable tax credits.

I am in general agreement with OPM's Transportation Fund projection for Fiscal Year 2015; however, my General Fund deficit projection for the current fiscal year is \$172.8 million. This is a \$40 million deficit increase from the OPM projection that arises from lower estimated income tax collections as I reported last month.

Connecticut General Statutes, Section 4-85 Subsection (b) requires you to prepare a deficit mitigation plan for submission to the legislature when the General Fund deficit certified in my monthly letter exceeds one percent of total appropriations, which amounts to \$176 million this fiscal year. Because my current estimate is so close to the mitigation trigger and only three months remain in the fiscal year, I recommend that deficit reduction planning with the legislature should proceed without delay.

I am also reporting a \$14.3 million cash shortfall in the retiree health insurance fiduciary fund. This fund holds employer, employee and retiree health contributions and pays medical claims for eligible retirees. The cash shortfall in the fiduciary fund is an additional requirement that will exist after adjusting for \$12.3 million in anticipated FAC (Finance Advisory Committee) transfers and a \$15 million dollar deficiency appropriation. The FAC transfers and deficiency appropriation are already part of the General Fund deficit projections. However, the remaining \$14.3 million cash shortfall has not been included in those projections since it is outside of the General Fund. Typically, cash shortfalls in non-General Fund activities are eliminated by transfers from the General Fund in years of surplus if they cannot be addressed through other policy options.

I also note that my original budget request for retiree health insurance in Fiscal year 2015 contained sufficient funding to avoid a cash deficiency within the fiduciary fund. However, my requested funding level was reduced in the final version of the budget. Had I received the requested funding, no cash shortfall would exist.

The Honorable Dannel P. Malloy
April 1, 2015
Page 2

My General Fund revenue estimate is \$165.5 million below the original budget projections. The most significant shortfalls are federal grants (-\$106.2 million), the health provider tax (-\$49.4 million) and the income tax (-\$40 million). The most notable gains in projected revenues are in the sales tax (\$58.8 million) and the corporation tax (\$30 million).

OPM has estimated that deficiencies will exceed lapses by \$7.7 million. The largest single deficiency (\$108.8 million) is within the Medicaid account. Based on current spending trends and realized lapses over the past five fiscal years, I believe that the OPM savings target for the General Fund that now totals \$272 million is attainable. Over the past five fiscal years, annual realized lapses have averaged \$511.2 million. Although the current lapse target is a significant challenge, it is consistent with past performance in difficult budget circumstances.

The Transportation Fund is expected to close Fiscal Year 2015 with an operating deficit of \$3.9 million leaving an ending balance of \$165.1 million. The most significant shortfall are in the Department of Transportation's Rail Operations account related to Metro North costs and payroll costs arising from winter storm expenditures.

According to the Department of Labor, Connecticut gained 7,500 jobs in January, but lost 3,700 payroll positions in February. Connecticut has now recovered 87,900 positions, or 73.9% of the now 119,000 seasonally adjusted total nonfarm jobs that were lost in the state during the March 2008 - February 2010 employment recession. Average hourly earnings at \$28.26, not seasonally adjusted, were down 21 cents, or -0.7%, from January 2014. However, because of an increase in hours worked, average private sector weekly pay was calculated at \$952.36, up \$28.07, or 3.0% over the year.

According to a report from the Warren Group released on March 9th, January single-family home sales in Connecticut fell 6.3% from January of last year. This ended four months of consecutive increases in state sales data. The median price of a single-family home held steady at \$230,000. Condominium sales statewide also declined in January with a drop of 6.2% from the same month last year. Condominium prices were up slightly from \$162,500 to \$163,800.

According to the March 27th third estimate by the Bureau of Economic Analysis, real GDP for the national economy increased at a rate of 2.2% in the 4th quarter of 2014. In the 3rd quarter of 2014 real GDP increased at a 5% rate.

I also issue a Comprehensive Annual Financial Report (CAFR) as an accounting supplement to the budgetary report. The CAFR includes financial statements for all state funds and component units 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 \$727.2 million as of June 30, 2014. GAAP deficit reduction bonds in the amount of \$598,500,000 were issued in Fiscal Year 2014 to reduce the shortfall.

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

Sincerely,



Kevin Lembo
State Comptroller