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May 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 March 31, 2015.

This analysis is based upon the Office of Policy and Management's (OPM) April 30th updated letter. OPM is projecting a Fiscal Year 2015 General Fund deficit of \$161.7 million, a change of \$28.9 million from last month's deficit estimate of \$132.8 million. The Transportation Fund is expected to end Fiscal Year 2015 with a balance of \$168.2 million, an improvement of \$3.1 million from last month's projected balance of \$165.1 million. I am in general agreement with these numbers.

Last month, my Fiscal Year 2015 General Fund projection anticipated revenue would be \$40 million lower than the number that OPM was projecting at the time. Accordingly, my General Fund deficit estimate last month was \$172.8 million. As a result of the April 30th consensus revenue forecast, OPM's net revenue projection is now \$0.5 million below my estimate of last month. I have accounted for the small net revenue change as well as an additional \$11.6 million in net spending reductions due to your April rescissions. These adjustments bring my estimate from last month into agreement with the current OPM projection.

Overall, General Fund revenue in Fiscal Year 2015 is projected to fall \$166.1 million short of original budget projections. The largest shortfalls are in federal grants (-\$73.5 million), the health provider tax (-\$68.1 million) and the income tax (-\$65.5 million). The most significant revenue gains are in the sales tax (\$53.8 million) and the corporation tax (\$51.7 million). A complete revenue analysis is provided on Exhibit C attached hereto.

OPM's projection anticipates that active budget management will result in General Fund spending in Fiscal Year 2015 falling \$3.9 million below the original budget plan. OPM's current lapse estimate of \$285.8 million is well within the range of lapses experienced over the past five fiscal years. Over those five fiscal years, annual realized lapses have averaged \$511.2 million. Agency deficiency requirements of \$149.8 million are also within historical averages. The largest single deficiency of \$108 million is in the Medicaid account.

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

The accumulated balance in the Transportation Fund is expected to change little from the close of last fiscal year. Operations in Fiscal Year 2015 are projected to lower the Transportation Fund balance by \$0.8 million to a balance of \$168.2 million.

As I have been reporting, the state's overall economic climate has been gradually improving. According to the Department of Labor, preliminary figures show that Connecticut gained 4,000 payroll positions in March. Seasonally adjusted year-to-date employment growth in the first quarter of 2015 was estimated at 8,600, compared to 6,600 jobs over the same period in 2014. Average hourly earnings at \$29.06, not seasonally adjusted, were up 91 cents, or 3.2%, from the March 2014 estimate. The resulting average private sector weekly pay was estimated at \$976.42, up \$30.58, or 3.2% higher over the year. Wages appear to be establishing a more consistent upward trend. According to a report from the Warren Group released on April 8th, Connecticut single-family home sales rose 13.8% in February from the same month last year. The state has experienced sales increases in five of the last six months. This was the strongest February increase since 2008. The national economy continued to show positive growth in the first quarter despite a difficult winter.

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.

Sincerely,

Kevin Lembo
State Comptroller