

News From:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO SAYS PROJECTED \$83.7 MILLION SURPLUS COMES WITH RISK FACTORS

Comptroller Kevin Lembo today said the latest year end surplus projection for Fiscal Year 2012 is \$83.7 million, but he warned that number carries several risk factors.

In a letter to Gov. Dannel P. Malloy, Lembo said that he agrees with the Office of Policy and Management's (OPM) surplus projection, which is an increase of \$4.6 million from last month.

"The good news is that Connecticut is currently headed for a fiscal year-end surplus – but the bad news is that there are several asterisks attached to that number," Lembo said. "The health and pension savings associated with the 2011 SEBAC agreement must still be assessed."

Lembo agrees with OPM's assessment that a "significant shortfall" is possible in the employee health accounts. While robust enrollment in the Health Enhancement Program is a critical step for long-term savings and diminished costs from chronic care, the immediate impact must be monitored.

"I am especially concerned that the aggressive allotment reduction applied to the retiree health account does not appear to be fully attainable," Lembo said. "Additionally, we await actuarial findings related to estimated pension savings.

"My office will continue to monitor these programs and overall state spending and savings targets."

Lembo said he is hopeful that any shortfalls in the SEBAC savings can be offset by other statewide savings.

Lembo said General Fund spending is expected to end the year \$14.4 million under budget; and that agency deficiencies of \$7.2 million are more than offset by anticipated forced savings of \$21.6 million.

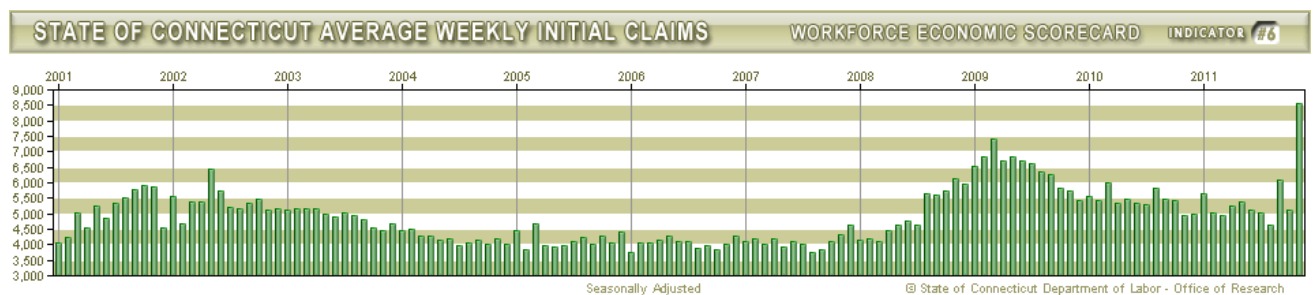
General Fund revenues are currently estimated to fall \$11.6 million short of initial projections, although the largest revenue gain is in the sales tax, which is estimated to exceed the budget projection by \$66 million based on current trends.

The projected surplus is largely accounted for, as the original budget plan for Fiscal Year 2012 contained \$75 million to offset an anticipated increase associated with the transition to a GAAP (Generally Accepted Accounting Principles) accounting basis. The remaining balance is reserved to pay down debt associated with 2009 Economic Recovery Notes.

“Connecticut’s economy continues to show slow and erratic growth,” Lembo said. Recent economic indicators from the state Department of Labor and other sources include:

Employment, Wage and Salary

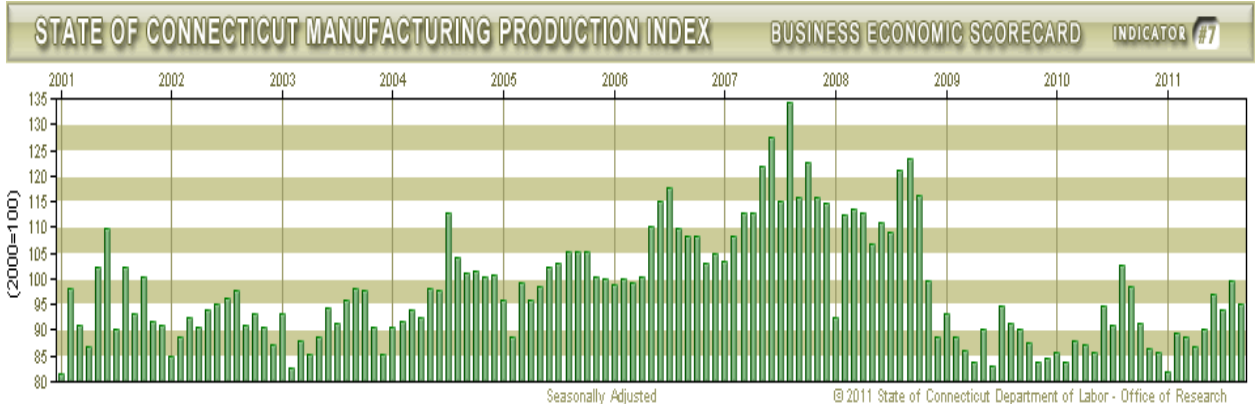
- For the 12 months ending in November, the state added 7,500 payroll jobs
- The November unemployment rate in Connecticut dropped to 8.4 percent; and Connecticut was one of 43 states that posted a drop in November.
- 159,200 state residents are unemployed.
- National unemployment fell to 8.6 percent.
- The period ending in October, wage and salary income in Connecticut was up 4.3 percent.



Business

- Nationally, corporate profits were up 7.9 percent in the third quarter of 2011.
- The Connecticut Manufacturing Production Index has held steady against last year, and Connecticut’s export sector continues to perform well.

- Air cargo shipments were up just over 3 percent in October.

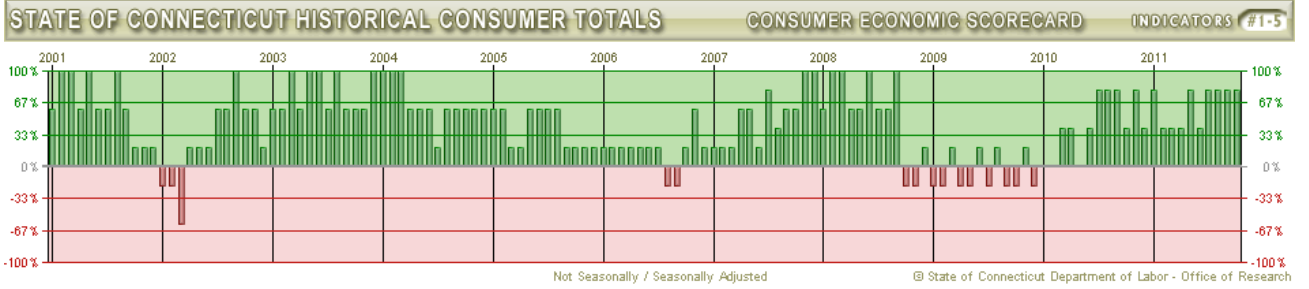


- The stock market has continued on a vacillating upward trend.



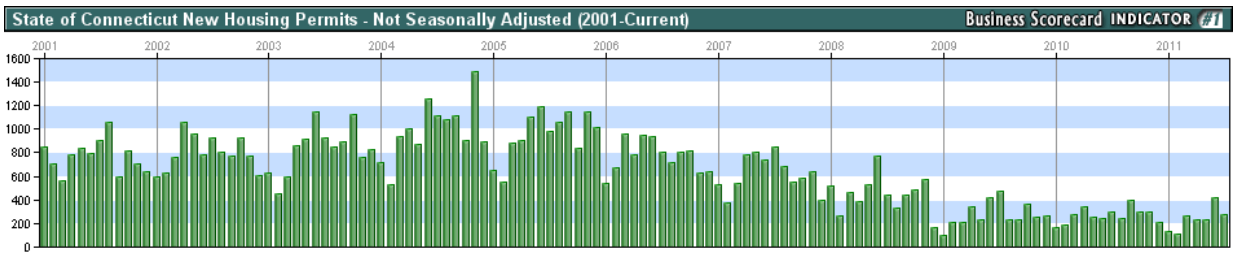
Consumer Spending

- Nationally, Advance Retail Sales for November were running 6.7 percent above last year. Non-retail sales saw gains of better than 13 percent.
- Consumer required debt payments as a percentage of income have declined steadily during the recession as consumers have paid down outstanding balances; however, total debt outstanding (including mortgage debt) remains high at 119 percent of after-tax income.
- Interest rates remain at historically low levels, and the Federal Reserve is intervening to push mortgage rates even lower.
- The Department of Labor's Consumer Economic Scorecard has continued in a positive direction.



Housing

- Housing permits were down 8.3 percent from October a year ago and off 75 percent from the peak level reached in 2004.



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