



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

**Kevin Lembo
State Comptroller**

**Martha Carlson
Deputy Comptroller**

September 1, 2011

The Honorable Dannel P. Malloy
Governor of the State of Connecticut
State Capitol
Hartford, Connecticut

Dear Governor Malloy:

I write to provide you with the unaudited General Fund and Transportation Fund financial statements for Fiscal Year 2011. Final audited statements for Fiscal Year 2011 will be transmitted by December 31, 2011. This letter also includes Fiscal Year 2012 statements based on activity through July 31, 2011.

After all transfers and release of fund balance reserves, Fiscal Year 2011 ended with a General Fund surplus of \$236,893,607. However, if prior year fund reserves had not been available for use in Fiscal Year 2011, the General Fund would have ended the year with a deficit of \$212,974,982. In addition, in the absence of non-recurring revenue sources such as federal stimulus dollars and one-time transfers the General Fund deficit would have exceeded one billion dollars. With the exception of \$14.5 million that is contractually obligated to the OPEB Trust Fund, the surplus balance is reserved for payment toward \$915.8 million of 2009 Economic Recovery Notes. The Transportation Fund ended Fiscal Year 2011 with a fund balance of \$107,365,132.

General Fund spending in Fiscal Year 2011 was up \$637.2 million or 3.7 percent over last fiscal year. General Fund grants to towns increased by just \$23.6 million or slightly less than 1 percent during the fiscal year. General Fund grants to other than towns, which include residential care payments, foster care services, homeless grants and health care services such as Medicaid, grew by \$417.8 million or 6.2 percent in Fiscal Year 2011. Personal Services such as wages and salaries rose by \$26.5 million or 1.2 percent over last fiscal year. All other General Fund program costs increased in Fiscal Year 2011 by \$162.6 million or just below 3 percent.

General Fund revenues were flat in Fiscal Year 2011 growing by 0.1 percent. The slow growth was primarily due to a reduction in one-time revenue sources. General Fund tax revenues in Fiscal Year 2011 were up a solid \$1.5 billion or 10.6 percent. The personal income tax, the largest single tax category, expanded by over \$660 million from the prior fiscal year due largely to strong financial markets. With the exception of the real estate conveyance tax, all major tax categories outperformed the prior year.

The national economy grew at a moderate rate in excess of 2 percent during the first two quarters of Fiscal Year 2011 before slowing sharply in the second half of the fiscal year. Second half growth was about half of the first half level. This is consistent with Connecticut's job performance, which expanded by 15,200 payroll jobs during Fiscal Year 2011 with most of the gain coming during the first six months of the fiscal year.

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In Fiscal Year 2011, Connecticut weekly earnings increased at a 3.3 percent rate. The State's personal income has been growing at a rate in excess of 4 percent.

The stock market realized double digit gains over the course of the fiscal year. The Dow increased by 25 percent as recessionary pressures eased. Historic growth was posted in corporate profits in calendar year 2010 with solid results continuing into the first quarter of 2011.

Retail sales were strong throughout Fiscal Year 2011 growing by more than 8 percent. The personal savings rate declined steadily during most of fiscal year. The higher store sales helped to boost Connecticut's Fiscal Year 2011 sales tax revenues by \$149.2 million or 4.7% from a year ago.

The State's housing sector continued to struggle in Fiscal Year 2011. New housing permits declined 5 percent from already depressed levels and existing home sales fell 19 percent during the fiscal year with quarterly sales at about half of the 2005 level.

After declining in 2009, Connecticut's export sector rebounded with solid growth in 2010 continuing into 2011. The latest export figures show annualized growth of 16 percent.

For Fiscal Year 2012, OPM is projecting that the General Fund budget will remain in balance. The budget plan contained a \$75 million fund reserve to offset an increase in the unreserved General Fund balance anticipated on a GAAP accounting basis. A remaining projected reserve of \$5.9 million would be used as payment toward 2009 Economic Recovery Notes. I am in agreement with OPM that it is too early in the new fiscal year to modify the budget plan projections. Collection patterns relating to revenue changes are not yet well established and savings targets included in the budget must be closely monitored. Estimated income tax payments collected during September will begin to provide an analytical basis for budget projections.

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, 2010. This figure will be updated in January 2012 for Fiscal Year 2011.

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

Sincerely,

Kevin Lembo
State Comptroller