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

Kevin Lembo
State Comptroller

Martha Carlson
Deputy Comptroller

July 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 General Fund and Transportation Fund financial statements for Fiscal Year 2011 based on final monthly activity through May 31, 2011.

The Office of Policy and Management (OPM) is projecting a Fiscal Year 2011 General Fund surplus of $85.5 million. In the absence of Public Act 11-61, which repealed planned borrowing of $646.1 million supported through electric rates, this month's surplus estimate would have been $736.1 million. The net increase in surplus from last month, excluding the cancellation of borrowing, is $51.8 million. OPM is projecting that the Transportation Fund will close Fiscal Year 2011 with a balance of $106.4 million. I am in agreement with these estimates.

In accordance with the provisions of the 2009 SEBAC agreement and Public Act 09-3 of the June Special Session, $14.5 million of the 2011 General Fund surplus will be deposited in the retiree health insurance OPEB trust fund. The remaining $71 million will be applied to paying down $915.8 million in 2009 Economic Recovery Notes.

It is important to note that the General Fund surplus amount includes over $700 million in non-recurring federal stimulus assistance, $552.6 million in prior year reserves inclusive of $103.2 million from the Budget Reserve Fund, $114.9 million in various transfers from non-General Fund sources, and $40 million from electric ratepayer charges levied between January and June. Without these non-recurring revenues, the General Fund would be in deficit by more than one billion dollars.

General Fund revenues for Fiscal Year 2011 are expected to exceed original budget estimates by $368.5 million. The largest gains are in the income tax ($537.5 million), the sales tax ($177.1 million), the inheritance tax ($141 million) and the corporation tax ($107.5 million). The income tax is showing its strongest gains in the estimated and final payment portion of receipts, both with double-digit growth rates. The largest revenue loss is within transfers to the General Fund due to the elimination of $646.1 million in planned borrowing.

Connecticut's slowly improving economy is helping to increase revenues. For the twelve month period ending in May, the state has added 9,400 payroll jobs. The State has now regained about one quarter of the recessionary job losses. While Connecticut's employment numbers have been trending upward, there has been significant fluctuation in the monthly figures. The state's unemployment rate remains historically high at 9.1 percent. Unemployment tends to be a lagging indicator of overall economic performance. Nationally, advance retail sales for May were up 7.7 percent continuing a solid trend in growth. Since hitting cyclical lows in the fourth quarter of 2008, corporate profits have been growing at some of the fastest rates in history over the last eight quarters. In the first quarter of 2011, corporate profits expanded at an annualized rate of 8.5 percent. Connecticut's housing market continues to struggle and equity markets have experienced a month of downward pressure.

Tempering the revenue gains are projected Fiscal Year 2011 General Fund net spending increases. General Fund spending for Fiscal Year 2011 is expected to exceed original budget targets by $283.2 million. The excess spending is largely attributable to higher program caseloads and the inability to achieve budgeted savings targets. The largest single deficiency totals $277 million within the Department of Social Services (DSS). As the economy has faltered, DSS has seen dramatic caseload increases in basic support programs. A positive development is the recognition of $52.4 million in Medicaid outlays to nursing homes in June. The original budget delayed these payments and did not recognize the cost in Fiscal Year 2011. This recognition of expenses is in accordance with Generally Accepted Accounting Principles. The net impact after federal reimbursement is $22.6 million.

Fiscal Year 2010 ended with a reported Transportation Fund balance of $105.4 million. This year's operations and adjustments are expected to increase the balance to $106.4 million.

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 prospective, the GAAP shortfall or unreserved fund balance in the General Fund was $1.7 billion as of June 30, 2010.

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

Sincerely,

Kevin Lembo
State Comptroller