



**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, 2014

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 May 31, 2014.

OPM is projecting a Fiscal Year 2014 General Fund surplus of \$33.2 million. This is a surplus reduction of \$10.1 million from last month's estimate. The Transportation Fund is expected to close Fiscal Year 2014 with a balance of \$167 million. I am in general agreement with these estimates.

This month's revenue projection is down \$75.5 million from last month. The vast majority of the reduction relates to federal reimbursements claimed by the state that have not been received. The state is actively seeking \$65.5 million in federal recoveries for costs incurred by the departments of Developmental Services and Mental Health and Addiction Services. OPM has indicated that they remain hopeful that these federal dollars will ultimately be recovered. However since this matter may not be resolved within this fiscal Year, OPM has not included these receipts within the current revenue projection. This is a sound approach in accounting for these unresolved receivables.

A large portion of this month's projected General Fund revenue decline is offset by a \$65.1 million increase in anticipated budget savings. The largest dollar savings increase of \$36.1 million is within the Department of Social Services. A comparison of OPM's Statement 4 lapse projection from last month to this month is attached hereto.

In accordance with existing law, the General Fund surplus will be deposited to the Budget Reserve Fund on the date that the books have been audited and closed for Fiscal Year 2014. The reserve balance at the end of Fiscal Year 2013 was \$270.7 million. This represents approximately 1.6 percent of net appropriations.

Total General Fund revenue for Fiscal Year 2014 is expected to be \$116 million below the original budget plan. The largest shortfall is in the income tax, which is estimated to underperform the budget plan by \$176 million. This is a variance from the original budget of about 2 percent. Both the sales tax and corporation tax are exceeding initial budget estimates by \$65.6 million and \$42.5 million respectively. Federal grant revenue was reduced by \$67 million to reflect the movement of the Department of Social Services' Disproportionate Share Hospitals (DSH) program to the Restricted Grants Fund. The related program spending was also transferred resulting in no net impact on the General Fund balance. In addition, as discussed above federal revenues have been further reduced to account for a reduction in anticipated collected receivables at year end. Complete revenue detail can be found on Exhibit C.

The Honorable Dannel P. Malloy

July 1, 2014

Page 2

Overall General Fund expenditures for Fiscal Year 2014 are projected to be more than \$144 million below the budget plan. This projection reflects deficiency appropriations (net of the release of holdback allotments) and carryforward provisions approved in Public Act 14-47 as well as transfer activity. The variance from the original budget plan is less than one percent of General Fund appropriations. The budget plan provided for General Fund spending growth of 3.8 percent in Fiscal Year 2014.

The Transportation Fund surplus at the end of Fiscal Year 2013 was \$164.6 million. Fiscal Year 2014 is expected to close with a Transportation Fund surplus of \$167 million, an increase of \$2.4 million. The slight increase in the balance is primarily the result of lower than expected spending.

Connecticut's overall economy has shown signs of gradual but erratic improvement. State employment data for May posted an increase of 5,800 payroll jobs. This is the fourth consecutive month of employment growth. The state's unemployment rate held steady at 6.9 percent in May. According to the Department of Labor, Connecticut has regained 71,600 payroll positions, or 60.1 percent of the 119,100 positions lost to the March 2008 - February 2010 employment recession. Single-family home sales in Connecticut fell by 7.9 percent in April according to a June 5th report from The Warren Group. This was the first year-over-year sales decline in thirteen months. The National Association of Realtors also reported declining national and northeast regional existing home sales in May compared to the same month last year. Based on the most current release by the Bureau of Economic Analysis, U.S. real GDP decreased at a rate of 2.9 percent in the first quarter of 2014. In the fourth quarter of 2013 real GDP advanced 2.6 percent.

I also issue a Comprehensive Annual Financial Report (CAFR) that includes financial statements for all state funds that are prepared in accordance with Generally Accepted Accounting Principles (GAAP). From a balance sheet perspective, the GAAP shortfall or unassigned fund balance deficit in the General Fund was \$1.217 billion as of June 30, 2013. This represented a deficit increase of \$71 million from last fiscal year.

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

Sincerely,

Kevin Lembo
State Comptroller