



**STATE OF CONNECTICUT
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**Kevin Lembo
State Comptroller**

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June 2, 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 April 30, 2014.

OPM is projecting a Fiscal Year 2014 General Fund surplus of \$43.4 million. This is unchanged from last month. The Transportation Fund is expected to close Fiscal Year 2014 with a balance of \$162.1 million. I am in general agreement with these estimates.

In accordance with existing law, the General Fund surplus will be deposited to the Budget Reserve Fund on the date that the books are 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.

General Fund revenue for Fiscal Year 2014 is expected to be \$40.6 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. Complete revenue detail can be found on Exhibit C.

Overall General Fund expenditures for Fiscal Year 2014 are projected to be \$79.6 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. 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 \$162.1 million, a decrease of \$2.5 million. The slight erosion in the surplus is primarily the result of higher than expected spending after a difficult winter season.

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Connecticut's overall economy has shown signs of gradual improvement. State employment data for April posted an increase of 2,200 payroll jobs. This is the third consecutive month of employment growth. The state's unemployment rate fell to 6.9 percent in April. According to the Department of Labor, Connecticut has regained 66,300 payroll positions, or 55.7 percent of the 119,100 positions lost to the March 2008 - February 2010 employment recession. Single-family home sales in Connecticut rose 3.2 percent in March according to a May 8th report from The Warren Group. This is a slight acceleration over February sales and is the eleventh consecutive month of home sale gains in the state. Based on the most current release by the Bureau of Economic Analysis, U.S. real GDP increased at a rate of 0.1 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