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July 1, 2015

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, 2015.

OPM is projecting a Fiscal Year 2015 General Fund deficit of \$115.7 million, a change of \$49.2 million from last month's deficit estimate. The Transportation Fund is expected to end Fiscal Year 2015 with a balance of \$179.4 million, an improvement of \$8.2 million from last month's projected balance. I am in general agreement with these numbers assuming that the provisions of Public Act 15-244 that impact Fiscal Year 2015 are ultimately signed into law.

These projections will undoubtedly undergo further adjustment as accounting corrections continue to be posted after June 30<sup>th</sup> and revenue and expenditure accruals are processed. Any remaining General Fund deficit for Fiscal Year 2015 will be eliminated through a transfer from the Budget Reserve Fund.

General Fund revenue projections for Fiscal Year 2015 have been revised upward by \$48.6 million this month. The corporation tax estimate has been increased by \$44 million due to exceptionally strong June receipts. This tax category had been expected to record a decline in revenue from last fiscal year due to expanded tax credits; however, the corporation tax is now expected to show a slight gain over last fiscal year. The projection for escheated property is up by \$36 million this month due to above average gains realized on the sale of securities. Partially offsetting these gains is a downward adjustment of \$35 million to the income tax resulting from lower than anticipated June receipts, especially with respect to the estimated payments portion of the tax. At the close of Fiscal Year 2015, total General Fund revenue is expected to fall \$141.7 million short of the original budget plan. Complete revenue projections can be found on Exhibit C.

There is little change to the Fiscal Year 2015 General Fund expenditure projections this month. OPM's projection anticipates that active budget management will result in General Fund spending in Fiscal Year 2015 falling \$25.6 million below the original budget plan.

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The accumulated balance in the Transportation Fund is expected to change little from the close of last fiscal year. Operations in Fiscal Year 2015 are projected to increase the Transportation Fund balance by \$10.1 million to a balance of \$179.1 million.

As I have been reporting, the state's overall economic climate has been gradually improving. According to the Department of Labor, preliminary figures show that Connecticut gained 6,400 payroll positions in May. Connecticut has added 26,100 jobs over the past twelve-month period. Over the entire calendar 2014 year, the state added 25,100 payroll positions.

Average hourly earnings at \$28.70, not seasonally adjusted, were up 88 cents, or 3.2 percent from the May 2014 estimate. The average private sector weekly pay was calculated at \$955.71, up \$23.74, or 2.5 percent higher than a year ago. Wage growth was exceeding 6 percent as the state entered the 2008 recession and has exhibited an erratic pattern in the post-recession period.

According to a report from the Connecticut Realtors released on June 25<sup>th</sup>, Connecticut single-family home sales rose 3.7 percent in May from the same month last year. The median home price fell slightly over that period from \$263,000 to \$262,000. The sale of townhouses and condominium in the state decreased by 1.9 percent from May of last year; however, the median price of those units increased by 3.2 percent during the period rising from \$158,500 to \$163,500.

On June 24<sup>th</sup>, the Bureau of Economic Analysis revised its growth figures for the national economy. The Bureau reports that GDP contracted by 0.2 percent in the first quarter of 2015. This followed 2.2 percent growth in the fourth quarter.

I also issue a Comprehensive Annual Financial Report (CAFR) as an accounting supplement to the budgetary report. The CAFR includes financial statements for all state funds and component units prepared in accordance with Generally Accepted Accounting Principles (GAAP). From a balance sheet perspective, the GAAP shortfall or unreserved fund balance in the General Fund was \$727.2 million as of June 30, 2014. GAAP deficit reduction bonds in the amount of \$598,500,000 were issued in Fiscal Year 2014 to reduce the shortfall.

Sincerely,

Kevin Lembo  
State Comptroller