News From:

COMPTROLLER KEVIN LEMBO

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Contact: Tara Downes
860-702-3308
Tara.Downes@po.state.ct.us

COMPTROLLER LEMBO PROJECTS SURPLUS, BUT WARNS THERE IS REALLY A STRUCTURAL DEFICIT

Comptroller Kevin Lembo today said that, after the state repealed planned borrowing of $646.1 million, he projects a General Fund surplus of $85.5 million for fiscal year 2011 – but said this surplus would have been a more than $1 billion deficit had the state not relied on significant one-time financial fixes.

Lembo's latest surplus projection is an increase of $51.8 million over last month's projection due to unanticipated revenue gains in the income tax, insurance companies tax and oil companies tax.

The $85.5 million General Fund surplus has largely been accounted for going forward.

Pursuant to a 2009 SEBAC (State Employees Bargaining Agent Coalition) agreement, $14.5 million of that must be deposited into the state's trust fund for retiree health benefits (or OPEB – Other Post-Employment Benefits). The remaining $71 million will be applied towards $915.8 million in 2009 Economic Recovery Notes.

Lembo cautioned against viewing the year-end "surplus" with any sense of relief, particularly after Moody's Investors Service this week revised the state's financial outlook to negative – although Moody's maintained the state's Aa2 rating. Unemployment also remains historically high, while foreclosures continue to grow.

"This is an example of when a surplus is not a surplus," Lembo said. "Last year, our state was forced to do the financial equivalent of gluing petals back onto a flower in order to address a budget crisis. This repair carried us through the year, but our state needs significant budgetary reform to permanently repair Connecticut's finances.

“The bad news is that this fiscal year surplus – $85.5 million – is a mirage built on one-time fixes. The good news is that revenues have surged far beyond our expectations, providing promise for next year if we sustain this upward trend.”

In a monthly report to Gov. Dannel P. Malloy, Lembo said revenues exceeded expectations in fiscal year 2011, but the state still would have faced a deficit if Connecticut had not relied on $739.6 million in federal stimulus money; $103.2 million from the Budget Reserve Fund; $114.9 million from other non-General Fund sources; and an assessment on electric ratepayers.

The state had also planned to borrow $646.1 million, but recently reversed that plan in light of the unexpected revenues.

“As for the state’s future, economic indicators are mixed,” Lembo said. “Unemployment remains historically high and thousands of homes are in foreclosure – while tens of thousands more homes are on the verge of foreclosure. Home equity was once the centerpiece of middle-class families’ retirement savings plans. That has changed, as more and more homeowners face foreclosure following unexpected job loss.”

On the positive side, retail sales, corporate profits and personal income have indicated positive, though slow, growth. The Federal Reserve Bank statistics also show that household debt has declined steadily over the last nine quarters. At the end of 2010, household debt was 116 percent of disposable income – down from a peak of 130 percent.

However, more troubling signs remain. In May, Connecticut lost 2,900 payroll jobs and was one of 27 states posting May job losses. The state’s slow job growth has kept Connecticut’s unemployment rate at a historically high 9.1 percent, which is equal to the national unemployment rate.

According to RealtyTrac, 7,280 homes in Connecticut were in foreclosure in May 2011, with the average foreclosure sale price at $99,262. An additional 1,280 homes went into foreclosure in May (which is one in every 1,130 homes).

A total of 21,762 Connecticut homes are 90 days or more behind in payments and headed for foreclosure. According to LPS Applied Analytics, it will take Connecticut 10 years to clear out its foreclosures.

Furthermore, existing home sales have declined by more than 9 percent in the first quarter of 2011 and home prices have dropped.

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