News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS BALANCED BUDGET AFTER RESCISSIONS; URGES CAUTION ON TIMING OF PLANNED CUTS

Comptroller Kevin Lembo announced today that – following announced rescissions – the state could feasibly end Fiscal Year 2016 with a balanced budget, though he urged caution in the timing of those $102.8 million in planned cuts.

In a letter to Gov. Dannel P. Malloy, Lembo said the Office of Policy and Management's (OPM) latest projection is on target – however, he warned that it is still very early in the fiscal year and that significant rescissions might be better timed after the state reaches its non-partisan consensus revenue forecast next month.

All three mitigation plans submitted in Fiscal Year 2015 came after Nov. 19 and totaled a cumulative $100 million, Lembo said.

"Spending cuts may be warranted – but the economic impact of cuts, in this case mostly affecting hospitals, their most vulnerable patients and surrounding communities, may warrant a brief pause until after the state reaches its non-partisan consensus revenue forecast," Lembo said. "Such a delay will allow for additional financial data as October is an important revenue month, while also allowing ample time to control spending as necessary.

"Past practice has been to delay implementation of rescissions until late November – when a clearer picture of revenue receipts emerges through the consensus forecast. I understand the desire to avoid reacting too late and again ending the year in deficit. However, this must be weighed against implementing large cuts to critical programs serving state residents, which may also have an adverse impact on Connecticut's economy as it finally begins to gain traction."

OPM revised its own General Fund revenue projections for Fiscal Year 2016 downward by $96.1 million from last month. Lembo said the largest adjustment is to the income tax, which is reduced by $86.4 million primarily reflecting the recent stock market correction. This, coupled with $6.9 million in additional spending requirements, resulted in the $102.8 million in rescissions. Lembo said the revenue shortfall identified by OPM represents about one-half of 1 percent of anticipated Fiscal Year 2016 General Fund revenue.

"There is no question that current volatility in financial markets has complicated the budget outlook for Fiscal Year 2016," Lembo said. "OPM is utilizing past historical trends to project the impact of the market decline on income tax receipts. This is an accepted and reasonable approach. However, I would note that there has been a dramatic decline in trading volume since the market crash of 2008-09. Households have increasingly moved into index funds and Exchange Traded Funds (ETFs) that some analysts have attributed to the general decline in trading volumes.

"This decline may result in less volatile fluctuations in receipts going forward. I would also note that the fundamentals of the Connecticut economy are strengthening."

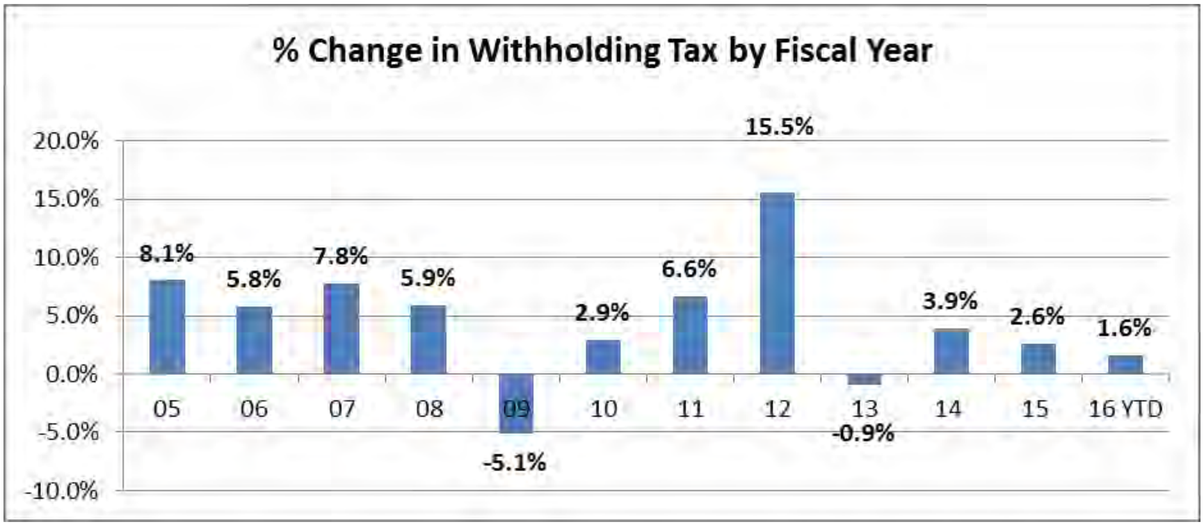
Lembo added that, to mark the closing of Fiscal Year 2015, he will host a Fiscal Year 2015 Briefing on Thursday, Oct. 8. Additional details will follow.

Lembo pointed to some of the latest economic indicators from federal and state Departments of Labor and other sources that show:

Employment

- Through August, year-to-date income tax withholding receipts were running 1.6 percent above the same period last year. Implementation of the new tax rate tables incorporating the higher rate structure, as adopted in PA 15-244, was required by the end of August. Therefore, the August 2015 receipts do not fully incorporate the higher rates.
- Withholding receipts are the largest single source of state tax revenue, accounting for 61 percent of total income tax receipts in Fiscal Year 2015 and almost 40 percent of total General Fund tax receipts in that year. As the graph below shows, with the exception of the increases in Fiscal Years 2011 and 2012 that resulted from tax increases, withholding growth has been well below normal post-recession levels.
- The average annual growth in the withholding tax is approximately 3.5 percent below the level attained during the last economic recovery period. The below average wage

growth resulted in a state revenue loss of almost $200 million in Fiscal Year 2015 based on actual receipts data.



- According to the Department of Labor, preliminary figures show that Connecticut gained 3,200 payroll positions in August. This follows a revised July gain of 3,800 jobs. Over the past 12-month period ending in August, the state has added 33,200 positions due to a steady acceleration in job growth.
- Connecticut has now recovered 104,900 positions, or 88.2 percent of the 119,000 seasonally adjusted total nonfarm jobs that were lost in the state during the March 2008 - February 2010 employment recession. Connecticut's jobs recovery is now 66 months old and is averaging about 1,589 jobs per month since February 2010.
- The state must reach the 1,713,000 job level to enter a full nonfarm employment expansionary phase. This requires an additional 14,100 nonfarm jobs. A total of just 1,800 more private-sector positions are needed to have a fully recovered private sector.

Job Gains Latest 12 Months		**Job Losses/No Change Latest 12 Months**	
<u>Sector</u>		<u>Sector</u>	
Transp. & Public Utilities	7,100	Information	-300
Ed. and Health Services	7,000		
Leisure and Hospitality	5,300		
Prof. & Business Svc.	5,200		
Manufacturing	2,500		
Government	2,100		
Financial Activities	1,800		
Construction	1,700		

Other Services	900		

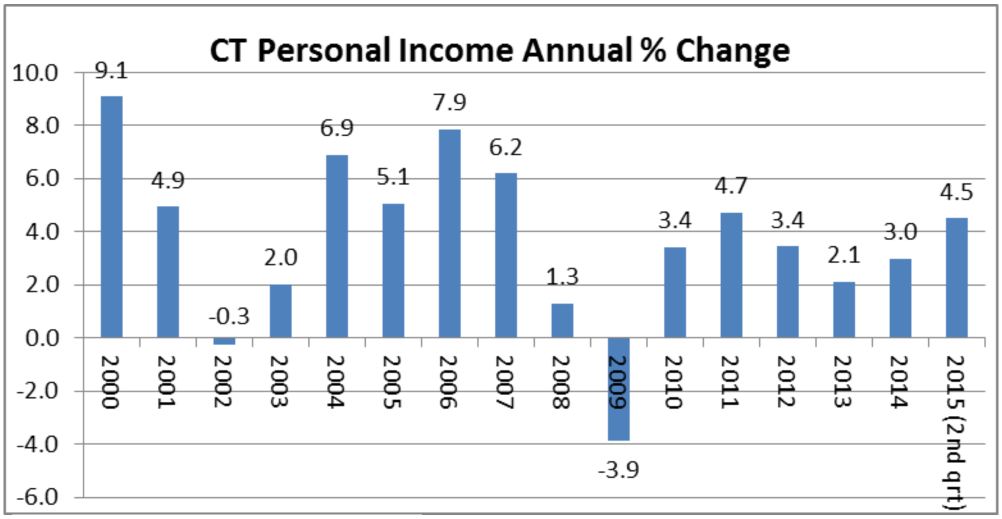
- U.S. employment has been advancing at a rate of 2.1 percent over the 12-month period ending in August; Connecticut's employment growth was 2 percent for the same period.
- Connecticut's unemployment rate was 5.3 percent in August; the national unemployment rate was 5.1 percent. Connecticut's unemployment rate has continued to decline from a high of 9.5 percent in October 2010.
- There are 100,200 unemployed job seekers in Connecticut. A low of 36,500 unemployed workers was recorded in October of 2000. The number of unemployed state workers hit a recessionary high of 177,200 in December of 2010.

Wage and $alary income

- The Department of Labor reports that average hourly earnings at $29.24, not seasonally adjusted, were up $1.26, or 4.5 percent, from the August 2014 estimate. The resultant average private-sector weekly pay was figured at $991.24, up $45.52, or 4.8 percent higher than a year ago. While this is an improvement over prior month gains, Connecticut, like the nation, has yet to establish a pattern of expansionary wage growth.
- The graph below shows the monthly percent change from the prior year in Connecticut weekly earnings. Connecticut and the nation as a whole have struggled with stagnant wage growth. This graph provides monthly data through August 2015.

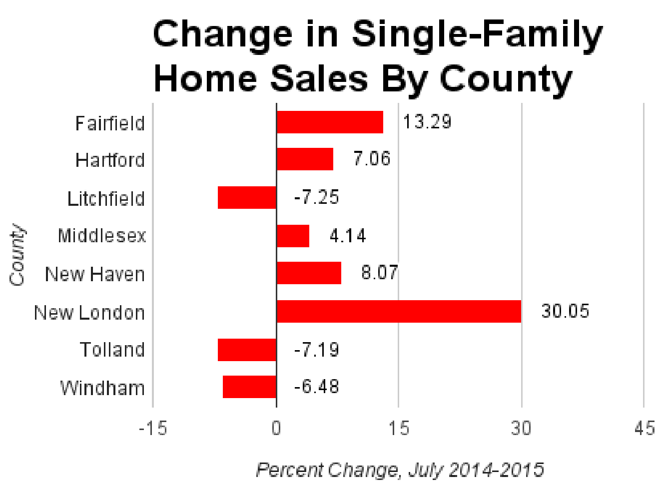
- Slow wage growth has placed pressure on the state budget, and on the growth of the larger economy. Household consumption accounts for roughly two-thirds of the U.S. economy as measured by GDP. During this latest recovery period, GDP has not attained an annual growth rate of 3 percent or better (although this level has been attained in certain quarters). Stagnant wage growth has produced lower than expected gains in consumer spending.

- Based on second-quarter data from the Bureau of Economic Analysis released on Sept. 30, Connecticut ranks 14th nationally in income growth. The chart below shows the annual trend in Connecticut personal income over time.



Housing

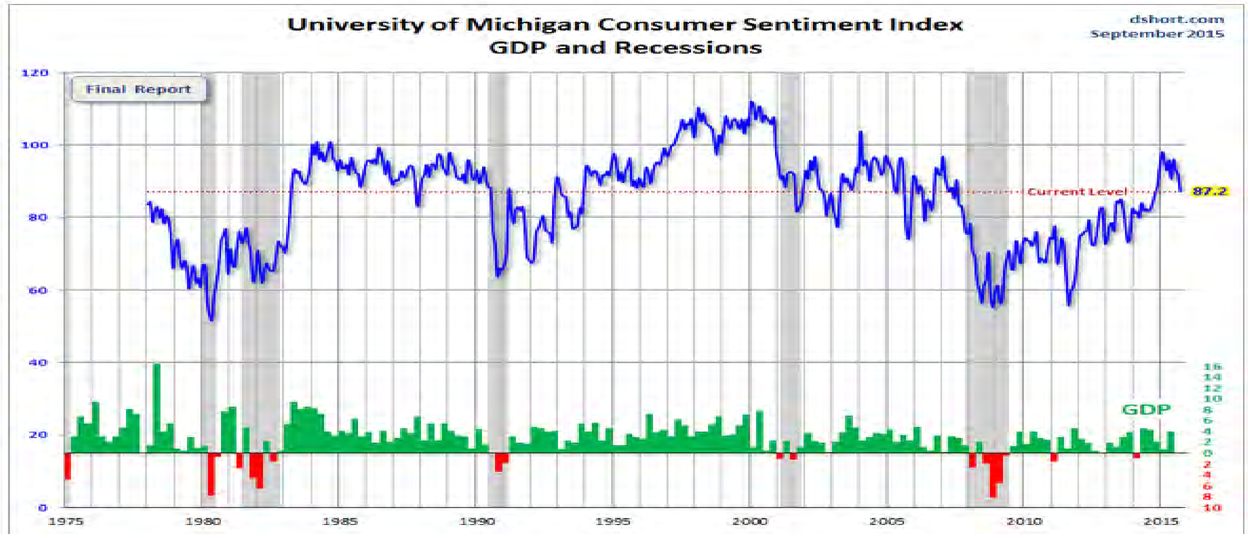
- According to a report from the Warren Group released on Sept. 9, Connecticut single family home sales increased 11.9 percent in July from the prior year. The median sales price for single-family homes in Connecticut in July was $271,000, a 1.4-percent decrease from July 2014's median of $275,000. Sales varied significantly by county.



- Year to date there have been 4,215 condo sales, a 9.7-percent increase compared to the 3,832 transactions through the first seven months of 2014. The median price year to date has dropped 3.5 percent to $164,000 this year; it was $170,000 through July 2014.
- Mortgage rates remain at historically low levels.

Consumers

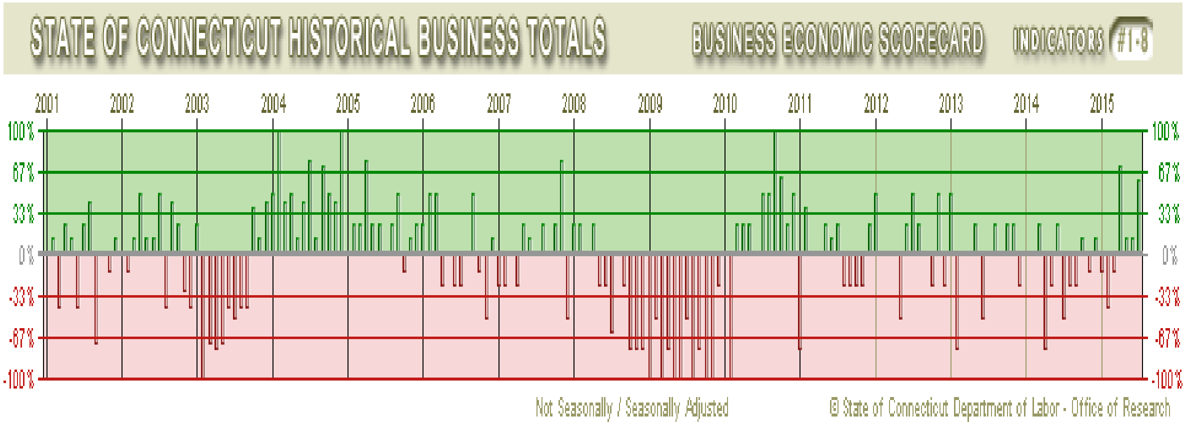
- The Commerce Department reported that retail sales, excluding automobiles, gasoline, building materials and food services—or core retail sales—increased 0.4 percent in August after an upwardly revised 0.6-percent increase in July. Core sales correspond most closely with the consumer spending component of GDP and are one indicator that the Federal Reserve examines in setting interest rate policy. The recent strengthening in core sales point to an improving economic outlook, and indicate that stock market volatility has not significantly eroded consumer spending.
- Total retail sales rose 0.2 percent in August as strong gains in auto sales were offset by a 1.8-percent drop in the value of sales at service stations due to a decline in gasoline prices. Retail sales for July were revised upward posting a 0.7-percent gain.
- The University of Michigan Consumer Sentiment Index rose in September. Consumers increasingly concluded that the stock market declines had more to do with international conditions than the domestic economy. While the September Sentiment Index was at the lowest level in 11 months, the trend continues to point to more confident consumers.



- The Federal Reserve in its Sept. 8 report stated that in July, consumer credit increased at a seasonally adjusted annual rate of 6.75 percent. Revolving credit increased at an annual rate of 5.75 percent, while non-revolving credit increased at an annual rate of 7 percent. This continues an ongoing expansion in consumer borrowing.

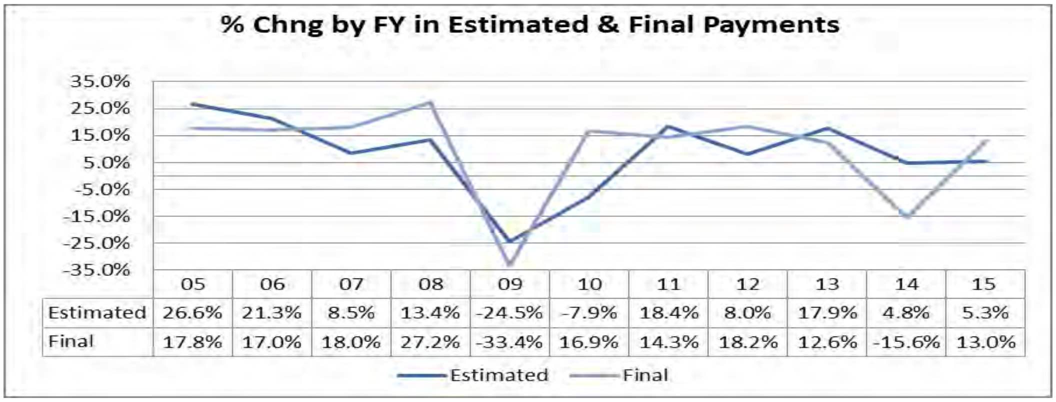
Business and Economic Growth

- On Sept. 25, the Bureau of Economic Analysis reported that the third estimate of GDP in the second quarter of 2015 showed growth of 3.9 percent (up from the second estimate of 3.7 percent). Growth in the first quarter of 2015 was 0.6 percent. Due to the poor economic performance in the winter, it may be difficult for GDP to attain a growth rate of 3 percent or better for the year.
- Corporate profits grew by less than 1 percent in the second quarter of 2015 compared to the same quarter last year. Growth in corporate profits did not exceed 2 percent in 2013 or 2014.
- The Department of Labor's Connecticut Business Totals measures: monthly movement in housing permits, exports, manufacturing production and hours, air passenger counts, and gaming slot receipts. As can be seen from the graph below, during the last recovery the index was uniformly in positive territory. During this recovery, the results have been mixed.



Stock Market

- Estimated and final income tax payments account for approximately 40 percent of total state income tax receipts. These payments show a correlation to activity in equity markets relating to capital gains.
- Estimated income tax receipts increased 5.3 percent in Fiscal Year 2015 compared to the prior fiscal year. The first significant month of estimated payment receipts for Fiscal Year 2016 is September. Deposit activity for September has not been completed as of this writing; however, based on daily activity to date the estimated payments in Fiscal Year 2016 are close to the pattern seen in Fiscal Year 2015.
- Over the past several years, the state has experienced significant fluctuations in capital gains related receipts. In late 2012, investors turned over a large volume of long-term capital gains to take advantage of the expiring 15-percent tax rate, which increased to a top long-term rate of 23.8 percent (20-percent rate plus 3.8 percent on AGI above $200,000 related to the ACA) on Jan. 1, 2013. As a result, the state realized a windfall on the capital gains driven portion of the income tax in Fiscal Year 2013. Because this left little in unrealized gains, this component of the income tax experienced a sharp drop in Fiscal Year 2014. As the market surged, investors were reluctant to take short-term gains because such gains are taxed at the higher ordinary income rate. Fiscal Year 2015 estimated and final tax receipts were below initial budget estimates.



	05	06	07	08	09	10	11	12	13	14	15
Estimated	26.6%	21.3%	8.5%	13.4%	-24.5%	-7.9%	18.4%	8.0%	17.9%	4.8%	5.3%
Final	17.8%	17.0%	18.0%	27.2%	-33.4%	16.9%	14.3%	18.2%	12.6%	-15.6%	13.0%

- It is difficult to assess the impact that the current market correction will have on state revenue given the behavior adjustments that investors have made in the face of federal tax changes. December/January estimated payment activity will provide additional data to assess the impact of market activity on state receipts.
- It is notable that trading volume has been generally declining over the past decade as can be seen on the chart below. This lower volume provides less opportunity for dramatic swings in gains. The market correction to date is far less dramatic than the 2008-2009 collapse. More recently, trading volume has typically been highest at lower market levels.

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