



News from:
COMPTROLLER KEVIN LEMBO

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Contact: Tyler Wilkinson
860-702-3325
Tyler.Wilkinson@ct.gov

**COMPTROLLER LEMBO REPORTS \$312.1-MILLION
SURPLUS FOR FISCAL YEAR 2013**

Comptroller Kevin Lembo today announced that the state's financial status has continued to improve and that, pending final calculations, Fiscal Year 2013 will likely end with a surplus of approximately \$312.1 million, based on Generally Accepted Accounting Principles (GAAP).

The surplus could reach approximately \$359.6 million on a modified cash basis of accounting.

In a letter to Gov. Dannel P. Malloy, Lembo said that his office agrees with the Office of Policy and Management's (OPM) report, confirming that the General Fund's fiscal position has improved by about \$123 million from last month, and more than \$700 million from December, when deficit-mitigation efforts began.

In accordance with Section 58 of Public Act 13-184, up to \$220.8 million of the Fiscal Year 2013 General Fund operating surplus is reserved in fund balance for future year budgetary needs. The remainder of the surplus, currently estimated at \$138.8 million, will be deposited to the Budget Reserve Fund ("Rainy Day Fund") – which will bring the budget reserve balance to \$232.2 million.

"This surplus restores money to the Budget Reserve Fund – which should be a first step towards fully funding this 'Rainy Day Fund,'" Lembo said. "Our goal – to better protect taxpayers against volatilities on Wall Street and the economy – should be a fully funded Rainy Day Fund at 10 percent or \$1.9 billion."

While Fiscal Year 2013 ended last month, the final surplus will likely be ready in September

to account for any late revenue accruals.

Lembo attributed the state's financial improvement to one-time revenue windfalls – but also significant efforts by Gov. Malloy's administration to control spending.

“General Fund spending adjustments to the original budget plan, inclusive of mitigation efforts, transfers and carry forward funding, lowered anticipated expenditures by approximately \$138 million,” Lembo said. “One of the largest components of the budget, wages and salaries of employees, showed no growth over last fiscal year after adjusting for the 27th payroll, and is \$105.6 million below the Fiscal Year 2011 expenditure level.

“Overall, General Fund spending was held to growth of 1.3 percent against the prior fiscal year. This compares to annual average growth of 7.3 percent over the four years leading up to the 2008 recession.”

General Fund revenues are expected to end the year \$222.8 million above initial budget estimates. The most significant revenue gain occurred in the inheritance and estate tax, which is \$273.3 million over budget. The income tax is trending \$164.7 million above budget estimates primarily based on the strength of the non-payroll driven components of the tax. The payroll component of the income tax is currently 1.4 percent below fiscal year.

The sales tax and corporation tax are expected to underperform budget estimates by about \$189.4 million and \$51 million respectively. Overall, Fiscal Year 2013 General Fund revenue is projected to close the year 4.3 percent above last fiscal year.

“Despite the state's improved financial outlook, the economic recovery proceeded at a slower-than-expected pace during Fiscal Year 2013,” Lembo said.

Economic data from federal and state Departments of Labor and other sources show:

Employment

- The state added 500 payroll jobs in June, the fourth consecutive month of job additions. Over the 12-month period ending in June, the state's employment total has increased by 10,000 non-farm positions.
- Connecticut's unemployment rate edged up slightly to 8.1 percent. This compares to a national rate of 7.6 percent.



- According to the Department of Labor, Connecticut has now recovered 58,700 positions, or 48.4 percent of the 121,200 seasonally adjusted total non-farm jobs that were lost in the state in the March 2008-February 2010 employment recession. The Connecticut jobs recovery is now 40 months old and is averaging roughly 1,468 jobs per month since February 2010.
- The private sector has been somewhat more positive and has recovered 63,900 (56.1 percent, 1,598 per month) of the 114,000 private jobs that were lost during the same employment downturn.
- The strongest job sectors on a year-to-year basis have continue to be education & health services (+5,400), leisure & hospitality (+6,400) and construction (+2,900). The government sector is also beginning to post gains (+2,200). The sectors experiencing the largest job losses are manufacturing (-3,800), and financials (-2,500).

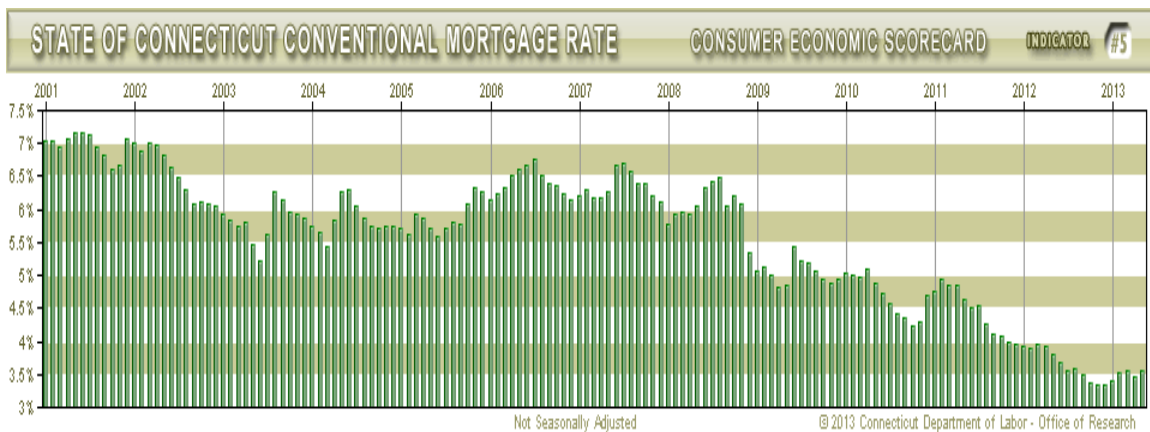
*Wage and **\$**Salary income*

- Based on preliminary results, Connecticut's personal income declined 1.7 percent in the 1st quarter of 2013 ranking the State 44th in income growth. Connecticut's personal income performance in the 1st quarter trailed behind all other New England states.
- On June 6, the Bureau of Economic Analysis, a division of the U.S. Department of Commerce, released state-specific Gross Domestic Product (GDP) figures. Based on advanced data for 2012, Connecticut was the only state in the nation to experience a decline in GDP. Real GDP growth in the New England region averaged 1.2 percent; Connecticut posted a drop of 0.1 percent. Nationally, state based GDP advanced 2.5 percent in 2012. The most significant erosion to Connecticut GDP was in the finance and insurance sector. The strongest gain was in durable goods manufacturing.
- Average hourly earnings at \$28.11, not seasonally adjusted, were up 34 cents, or 1.2 percent from the June 2012. The resulting average private sector weekly pay was estimated at \$955.74, up \$17.11, or 1.8 percent over the year.
- The Consumer Price Index (CPI) for all urban consumers was advancing at a 1.8 percent rate in June.



Housing

- The Census Bureau reported that U.S. new home sales increased 31.8 percent from last June. Sales in the Northeast more than doubled in June.
- Results for the larger existing home sales market were as follows based on numbers from the National Association of Realtors (NAR): Nationally, June sales were down 1.2 percent from the previous month, but sales were up 15.2 percent from June of last year. Home prices at \$214,200 were up a solid 13.5 percent from one year ago. Regionally, existing-home sales in the Northeast declined 1.6 percent to an annual rate of 630,000 in June, but are 16.7 percent above June 2012. The median price in the Northeast was \$270,400, which is 6.8 percent above a year ago.
- According to a second-quarter report from Prudential Connecticut Realty, sales of single family homes in the state were up 10.5 percent from the second quarter of last year. The median price is up 2.7 percent to 249,000. Nationally, home prices are advancing at a faster rate than in Connecticut.
- Conventional mortgage rates are showing some slight upward movement, but remain at historically low levels.



Business Activity and Consumer Spending

- At this writing, the Dow was advancing at a rate of almost 20 percent over last year. Most major indices were following a similar trend.

Dow Industrial Average

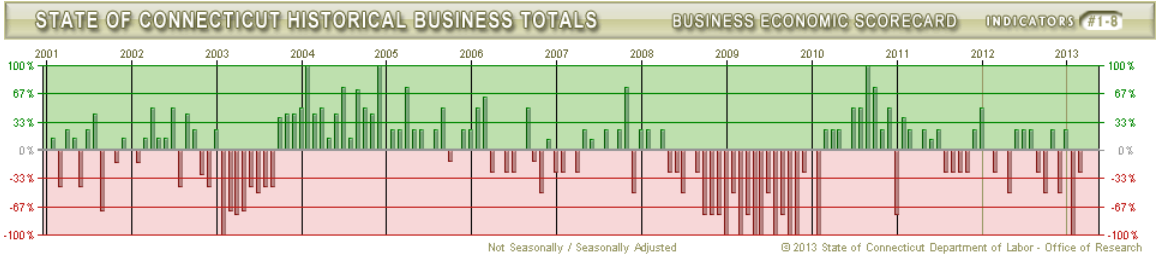


Consumers

- In June, advance retail sales were up 5.7 percent from the same period last year. Double-digit growth was posted in the motor vehicle markets and non-store retailers. Building material and garden supply stores also saw near double-digit growth. Department stores experienced sale losses.
- Nationally, consumer confidence held strong in June after hitting a five-year high in May according to the Conference Board. It is currently at its highest level since January 2008. Rising home property values and higher stock returns are credited with much of the gain. These factors have helped offset the impact of the payroll tax increase. Consumer sentiment is closely monitored because it accounts for about 70 percent of economic activity.
- According to the Federal Reserve, consumer credit increased at an annual rate of 8.25 percent in May. Both revolving and non-revolving credit showed solid growth. These are the strongest consumer lending numbers since the recession began.
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Business and Economic Growth

- Based on the current estimates, real Gross Domestic Product grew at an annual rate of 1.8 percent in the 1st quarter of 2013 (2nd quarter numbers will be released on 7/31). This follows 4th quarter growth of just 0.4 percent.
- Corporate profits advanced 6.8 percent in 2012 after growth of 7.3 percent in 2011. For the 1st quarter of 2013, corporate profits are up 4.5 percent from the same quarter last year.
- The Labor Department's scorecard of business activity was mixed in 2012 and has continued to perform well below pre-recession performance.



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