



News from:
COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO SAYS FINANCIAL OUTLOOK CONTINUES TO IMPROVE, BUT URGES CAUTION

Comptroller Kevin Lembo today announced that – due to increasing state revenue flow and a tax amnesty program -- the state’s financial outlook has continued to improve, positioning the state to end Fiscal Year 2014 with a surplus of \$245.9 million.

In a letter to Gov. Dannel P. Malloy, Lembo said that his projection is \$110 million above the Office of Policy and Management’s (OPM) earlier projection due to the inclusion of additional revenue from the state’s tax amnesty program that ended Nov. 15.

While the tax amnesty program partly contributed to the state’s improving outlook this year, various sources of tax revenue have also continued to improve, Lembo said. The sales and corporation taxes are each up by \$30 million from initial budget targets, and the real estate conveyance tax is \$15.6 million over initial estimates.

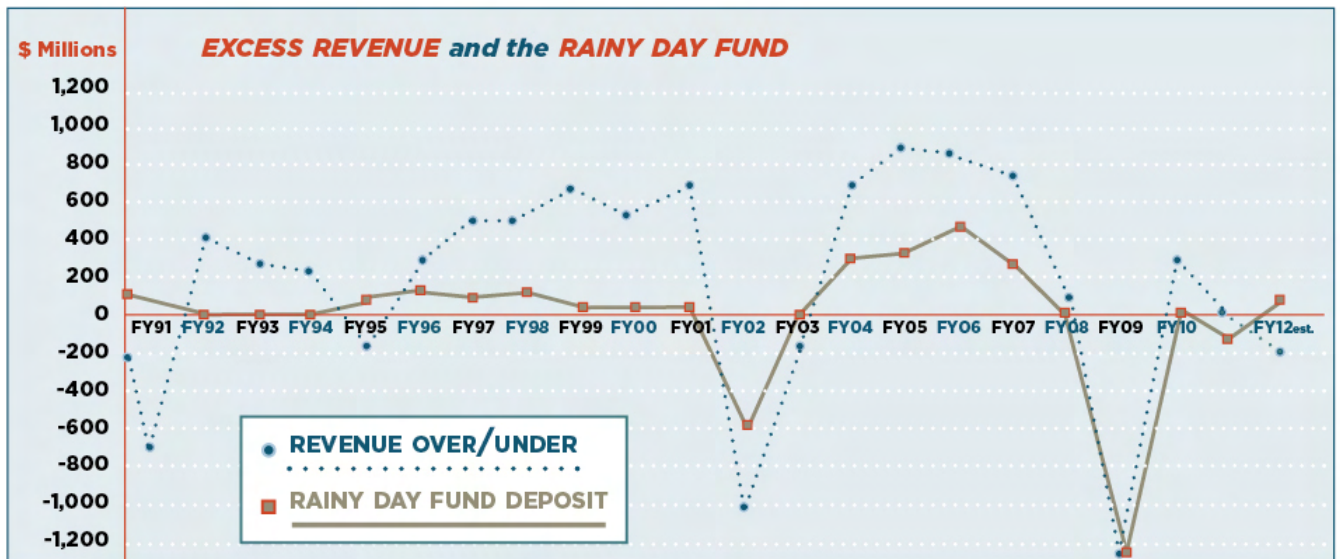
The Department of Revenue Services estimated that the tax amnesty program resulted in additional revenue in Fiscal Year 2014 in excess of \$175 million – exceeding the budget target of \$35 million.

“Month after month the state’s financial outlook for the current fiscal year is improving,” Lembo said. “This is a great sign for Connecticut’s economic recovery – but there are also uncertainties and future liabilities that we need to brace for. I strongly recommend that any General Fund surplus amount should be transferred to the state’s Budget Reserve Fund at the close of the current fiscal year.”

The Budget Reserve Fund balance – commonly referred to as the “Rainy Day Fund” – was \$270.7 million at the end of Fiscal Year 2013, or 1.6 percent of planned spending.

“I have called for a reserve level of 15 percent of spending – beyond the 10 percent statutory requirement,” Lembo said. “It is essential to the state’s long-term fiscal stability that sufficient reserves be established as soon as possible. Too often in the past, opportunities to build reserves have been missed as other perceived budget priorities were pursued.”

In the chart below, Lembo juxtaposes state surpluses and deficits with Budget Reserve funding levels from Fiscal Years 1991 to recent years. The chart reveals that, since 1990, the General Fund has realized almost \$5 billion in revenue windfalls – most of which did not go to build reserves.



“Connecticut would have weathered the 2009 recession far better had we prepared for it by fully funding our Budget Reserve Fund at 15 percent,” Lembo said.

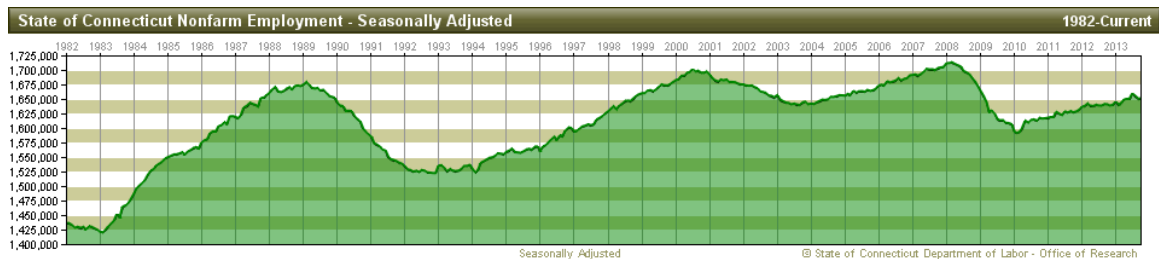
Rebuilding the Budget Reserve Fund with this year’s surplus is imperative in light of mounting future liabilities expected to spike in Fiscal Year 2016, as projected by both the Office of Fiscal Analysis and OPM. Lembo said federal instability and uncertainties could also jeopardize the state’s outlook at any time – including any potential cuts to the defense industry and nonprofits, as well as impacts on Wall Street, and consequently tax receipts from capital gains.

“The bottom line is that Connecticut should use any opportunity now to protect taxpayers from future financial threats and uncertainties,” Lembo said.

As far as economic indicators, information from federal and state Departments of Labor and other sources show:

Employment

- According to Department of Labor data, the state lost 4,200 jobs through September and October (-4,100 in September, -100 in October). Despite the disappointing job numbers, the withholding portion of the income tax is up by over 3 percent through October. The state's unemployment rate fell to 7.9 percent, the first time that it has dropped below 8 percent since April of 2009.
- Over the 12-month period ending in October, Connecticut employment has increased by 10,000 non-farm positions.



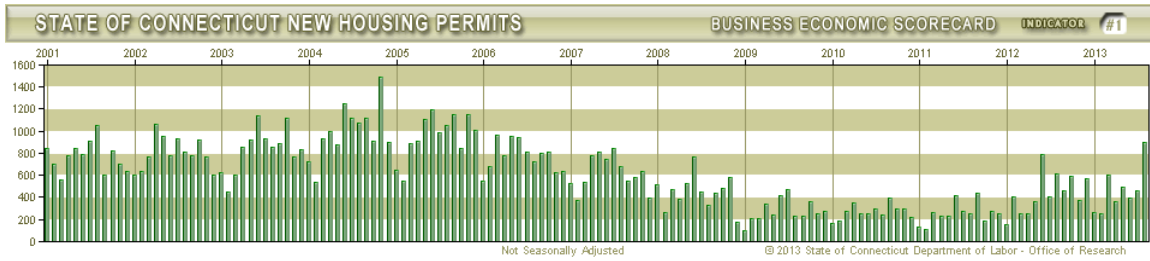
- According to the Connecticut Department of Labor, the state has recovered 48.6 percent or 58,900 of the 121,200 jobs lost during the recession. Nationally, about 80 percent of recessionary job losses have been recovered.
- The strongest job gains over the past twelve months have been in education and health services (+ 7,200), while the largest losses have occurred in manufacturing (-3,500) and financial activities (-3,400).

Wage and **\$**Salary income

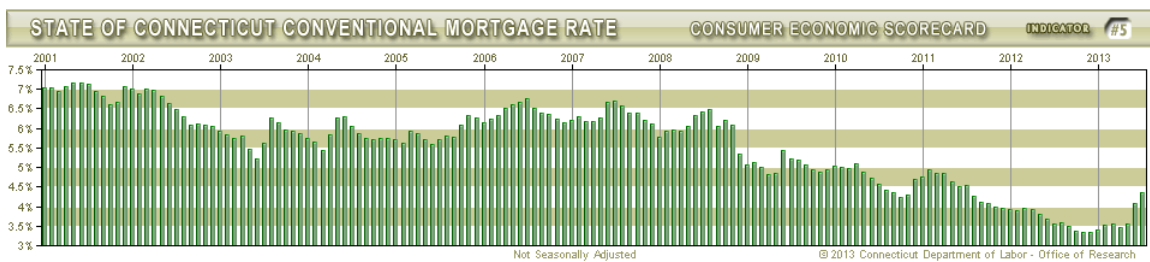
- Personal income in Connecticut grew at a rate of 0.9 percent between the first and second quarters of 2013. This ranked Connecticut 30th nationally in income growth. On an annualized basis growth was 3.6 percent, which is well above the 1.3 percent growth that was posted for 2012. Data for the third quarter will be released on Dec. 19.
- According to the Department of Labor, average hourly earnings declined 0.8 percent from last October and weekly pay was down 1.9 percent for the same period.
- The year-to-year change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average) in August 2013 was 1.0 percent.



- The number of housing permits issued has shown solid gains over the past two years, but remain well below the peak of 2004-2005.



- The Census Bureau reported that U.S. new home sales increased 12.6 percent from August of last year. Sales in the Northeast were up 27.6 percent for the same period.
- Results for the larger existing home sales market were as follows based on numbers from the National Association of Realtors (NAR): Nationally, October sales were down 3.2 percent from the previous month, but sales were up 6 percent from last October. Home prices at \$199,500 were up a solid 12.8 percent from one year ago. This is the 11th consecutive month of housing price increases.
- Regionally, existing-home sales in the Northeast were down 2.9 percent in October from last month, but were up 11.7 percent from last October. The median price in the Northeast was \$247,300, were up 7.4 percent from a year ago.
- According to a report from Berkshire Hathaway HomeServices, 3rd quarter data shows Connecticut home sales running 13.4 percent above last year. The median home price in the state was \$259,000, which is up 3.6 percent from the same period one year ago.
- Conventional mortgage rates are showing some upward movement, but remain at historically low levels.



Business Activity and Consumer Spending

- The stock market has continued to post solid gains. At this writing the Dow was up almost 23 percent on a year-to-date basis. Estimated income tax payments through October were up 13.2 percent from the same period last year, which is in part due to the continued strength in equity markets.



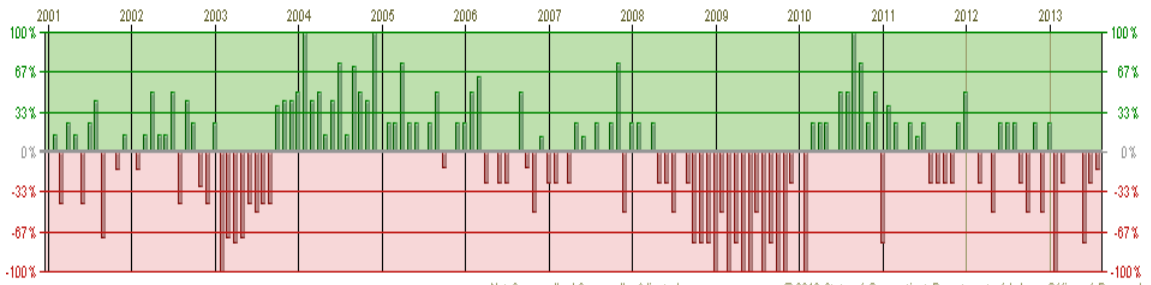
Consumers

- In October, advance retail sales were up 3.9 percent from one year ago, which is above the 3.2 percent pace set in September. Auto sales, which dipped in September, were posting double-digit gains in October. Non-store retail sales also recorded gains of just over 10 percent in October.
- The state's sales tax through October was up 8.6 percent over the same period last fiscal year. Part of the gain is related to the state's tax amnesty program.
- The Conference Board reported a sharp decline in consumer confidence in October. The index also fell in November. Consumers continue to express concern about the slow rate of job growth and stagnant or declining wages. The long-term outlook of consumers was better than their short-term view.
- According to the Federal Reserve, consumer credit increased at a seasonally adjusted annual rate of 5.25 percent during the 3rd quarter. Revolving credit decreased at an annual rate of 2.25 percent, while non-revolving credit increased at an annual rate of 8 percent. In September, consumer credit increased at a seasonally adjusted annual rate of 5.25 percent.

Business and Economic Growth

- Based on current estimates, real GDP increased at a rate of 2.8 percent in the 3rd quarter of 2013. This follows growth of 2.5 percent in the 2nd quarter. According to the Bureau of Economic Analysis, the acceleration in real GDP in the 3rd primarily reflected a deceleration in imports and accelerations in private inventory investment and in state and local government spending that were partly offset by decelerations in exports, in nonresidential fixed investment, and in personal consumption expenditures.
- Corporate profits advanced 7.0 percent in 2012 after growth of 7.9 percent in 2011. Corporate profits rebounded in the 2nd quarter after a weak 1st quarter showing. Profits are running 4.5 percent above the 2nd quarter of last year.
- The Labor Department's scorecard of business activity was mixed in 2012 and been down in 2013.

STATE OF CONNECTICUT HISTORICAL BUSINESS TOTALS BUSINESS ECONOMIC SCORECARD INDICATORS #1-8



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