



*News from:*  
**COMPTROLLER KEVIN LEMBO**

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## **COMPTROLLER LEMBO REPORTS \$398.79-MILLION SURPLUS FOR FISCAL YEAR 2013**

Comptroller Kevin Lembo today announced that the state's financial status has continued to improve and that Fiscal Year 2013 will end with a surplus of approximately \$398.79 million.

A final audited statement for Fiscal Year 2013 will be transmitted on Dec. 31.

In a letter to Gov. Dannel P. Malloy, Lembo attributed the surplus to low spending growth and revenue growth that exceeded expectations.

Of the surplus total, \$220.8 million has been reserved for future fiscal year activity and \$178 million will be deposited into the Budget Reserve Fund – or “Rainy Day Fund” – bringing the Budget Reserve Fund balance to \$271.5 million.

“This payment is a great first step towards replenishing the Budget Reserve Fund,” Lembo said. “The ultimate goal for funding the Rainy Day Fund should be approximately \$3 billion – or 15 percent of the current General Fund – in order to fully protect taxpayers against future economic downturns.

“The state's surplus should be a sign of cautious optimism for the future – a good outcome, but potentially the result of one-time revenue windfalls. The growth was largely driven by strong stock market performance and an increase in the federal capital gains tax rate that pushed future year gains into Fiscal Year 2013. The payroll component of the income tax, which accounts for 60 percent of the total income tax receipts, was down slightly from last year.”

Lembo noted that General Fund spending for Fiscal Year 2013 was up \$244.1 million – or

1.3 percent – over the prior fiscal year.

“To put this level of growth into historical context,” Lembo said. “In the four fiscal years leading up to the 2008 recession, average annual General Fund budget growth was 7.3 percent.”

Looking back on Fiscal Year 2013, Lembo also highlighted the following:

- General Fund revenues advanced 4.5 percent of \$844.3 million in Fiscal Year 2013 – exceeding original budget target by \$262.8 million.
- The income tax, the largest single revenue source in the General Fund, grew 4.9 percent over last fiscal year and was \$164.9 million in excess of initial budget estimates.
- The more volatile components of the tax, estimated and final payments, grew 17.9 percent and 12.6 percent respectively.
- The inheritance and estate tax also experienced a significant revenue windfall in Fiscal Year 2013.
- The sales tax continued to post slow growth in Fiscal Year 2013, up 1.7 percent – falling \$148.9 million short of the budget target.
- General Fund payroll line-item expenditures in Fiscal Year 2013 were at their lowest level since Fiscal Year 2006.
- Payroll spending was \$103.1 million or 3.8 percent below the Fiscal Year 2012 level.
- Favorable interest rates helped lower debt service costs. Debt service spending from the General Fund in Fiscal Year 2013 was \$49.9 million or 3.1 percent below the previous fiscal year.
- The state’s largest agency, the Department of Social Services (DSS), posted spending growth of \$113.7 million or 2 percent in Fiscal Year 2013. This is well below the growth of over 7 percent that had occurred in each of the two previous fiscal years.
- The General Fund contribution to the State Employees Retirement System (SERS) was up by \$68.9 million or 10.5 percent in Fiscal Year 2013.

“This accelerated contribution rate (to SERS) will help lower long-term liabilities in the pension fund,” Lembo said.

In terms of the outlook for Fiscal Year 2014, Lembo said he agrees with concerns raised by the Office of Policy and Management (OPM) regarding Medicaid spending at risk of exceeding budget targets.

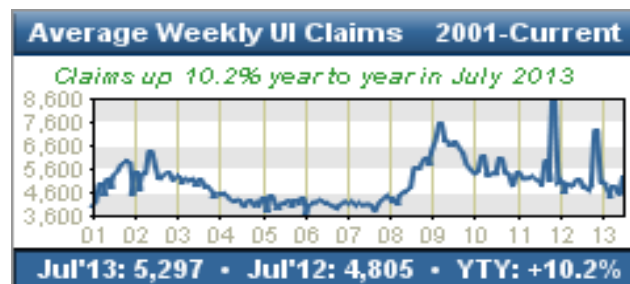
“The Fiscal Year 2014 is predicated on significant savings being realized in the Medicaid program,” Lembo said. “Current spending patterns do not reflect the budgeted level of

savings.”

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

## *Employment*

- The State added 11,500 payroll jobs in July, the largest single month job gain since May 2010 when temporary census worker jobs inflated that number.
- The monthly employment figures have experienced some large swings over the past several years, but this is an especially notable jump. It marks the fifth consecutive month of job additions. Over the 12-month period ending in July, the state’s employment total has increased by 23,100 non-farm positions. Connecticut’s unemployment rate is 8.1% -- which compares to a national rate of 7.4%.



- According to the Department of Labor, Connecticut has now recovered 70,100 positions, or 57.8 percent of the 121,200 seasonally adjusted total non-farm jobs that were lost in the state in the March 2008 to February 2010 recession.
- The Connecticut jobs recovery is now 41 months old and is averaging roughly 1,700 jobs per month since February 2010. The strongest job sectors on a year-to year basis have continue to be education & health services (+8,000), leisure & hospitality (+6,600), business services (5,100) and construction (+2,300). The government sector is also beginning to post gains (+5,200). The sectors experiencing the largest job losses are manufacturing (-3,900), and financials (-1,700).

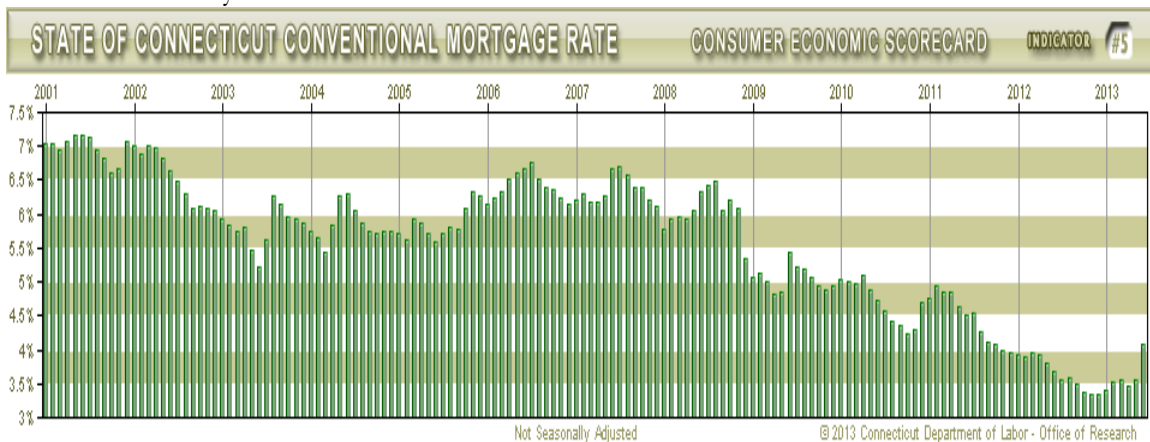
## Wage and **\$**Salary income

- Based on preliminary results, Connecticut's personal income in the first quarter of 2013 declined by 1.7 percent from the previous quarter.
- Connecticut was ranked 44<sup>th</sup> in quarterly income growth. Nationally, income fell by 1.2 percent in the first quarter. Over the 12-month period ending in March 2013, Connecticut personal income grew by 2.7 percent. The next quarterly income data will be released by the Bureau of Economic Analysis on September 30.
- According to the Department of Labor, average hourly earnings at \$27.77, not seasonally adjusted, were down 14 cents, or -0.5 percent from the July 2012 hourly pay estimate. The resulting average private sector weekly pay was estimated at \$933.07, down \$15.87, or 1.7 percent over the year.
- The year-to-year change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average) in July 2013 was 2.0 percent.



## Housing

- The Census Bureau reported that U.S. new home sales increased 6.8 percent from July of last year. Sales in the Northeast were up 10 percent for the same period.
- Results for the larger existing home sales market were as follows based on numbers from to the National Association of Realtors (NAR): Nationally, July sales were up 6.5 percent from the previous month, and sales were up 17.2 percent from last July. Home prices at \$213,500 were up a solid 13.7 percent from one year ago.
- Regionally, existing-home sales in the Northeast surged 12.7 percent to an annual rate of 710,000 in July and are 20.3 percent above July 2012. The median price in the Northeast was \$271,200, up 6.7 percent from a year ago.
- Conventional mortgage rates are showing some upward movement, but remain at historically low levels.



## *Business Activity and Consumer Spending*

- At this writing, the Dow was advancing at a double-digit rate over last year. Most major indices were following a similar trend.

### **Dow Industrial Average**



### **Consumers**

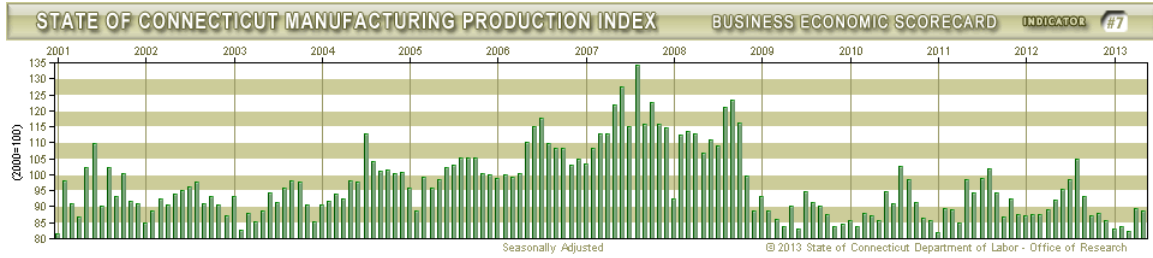
- In July, advance retail sales were up 5.4 percent from the same period last year. Double-digit growth was posted in the motor vehicle sales and non-store retailers were up 8.8 percent. Building material and garden supply store sales also continued to advance at a solid 7.9 percent.
- After a strong June, The Conference Board reported that consumer confidence fell in July. The confidence index remains well above level experienced last year. The long-term outlook of consumers was better than their short-term expectations.
- According to the Federal Reserve, consumer credit advanced at 6-percent rate in the second quarter of 2013. Revolving credit increased at a sluggish 2 percent, while non-revolving credit was up 7.5 percent.

### **Business and Economic Growth**

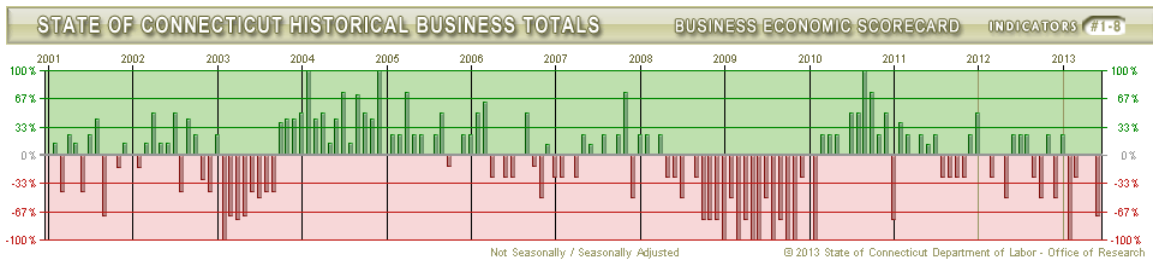
- Based on the current estimates, real GDP increased at a rate of 2.5 percent in the second quarter of 2013. This follows growth of 1.1 percent in the first quarter. According to the Bureau of Economic Analysis, the acceleration in real GDP in the second quarter primarily reflected upturns in non-residential fixed investment and in exports, a smaller decrease in federal government spending, and an upturn in state and local government spending that were partly offset by an acceleration

in imports and decelerations in private inventory investment and in personal consumption expenditures.

- Corporate profits advances 7.0 percent in 2012 after growth of 7.9 percent in 2011. Corporate profits rebounded in the second quarter after a weak first quarter showing. Profits are running 5 percent above the second quarter of last year.
- Connecticut's manufacturing production index assembled by the labor department remains well below pre-recession levels.



- The Labor Department's scorecard of business activity was mixed in 2012 and has been down in 2013.



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