



News from:
COMPTROLLER KEVIN LEMBO

FOR IMMEDIATE RELEASE

TUESDAY, JULY 1, 2014

Contact: Tara Downes
860-702-3308
Tara.Downes@ct.gov

COMPTROLLER LEMBO PROJECTS \$33.2-MILLION SURPLUS FOR FISCAL YEAR 2014

Comptroller Kevin Lembo today announced that the state is currently on track to end Fiscal Year 2014 with a \$33.2-million surplus.

While Fiscal Year 15 officially begins today, a final surplus for Fiscal Year 14 will be determined later this year after the books have been audited and closed for Fiscal Year 2014, Lembo said.

In a letter to Gov. Dannel P. Malloy, Lembo said he agrees with the Office of Policy and Management's (OPM) latest projection, which is a reduction of \$10.1 million from last month's estimate.

This month's revenue projection is down \$75.5 million from last month – the vast majority related to outstanding federal reimbursements that the state has claimed, but not yet received. The state is actively seeking \$65.5 million in federal recoveries for costs incurred by the Departments of Developmental Services and Mental Health and Addiction Services, Lembo said.

A large portion of this month's projected General Fund revenue decline is offset by a \$65.1-million increase in anticipated budget savings. A list of General Fund estimated lapses are included here.

"The state's budget, ending in surplus, is reflective of the overall economic outlook – a saw-tooth recovery that is headed in the right direction, but slowly," Lembo said, pointing to the state's fourth consecutive month of employment growth. "Connecticut's overall economy

has shown signs of gradual but erratic improvement.”

In accordance with existing law, the surplus will be deposited to the Budget Reserve Fund – as Lembo has long advocated – on the date that the books have been audited and closed for Fiscal Year 2014. The reserve balance at the end of Fiscal Year 2013 was \$270.7 million, or approximately 1.6 percent of net appropriations.

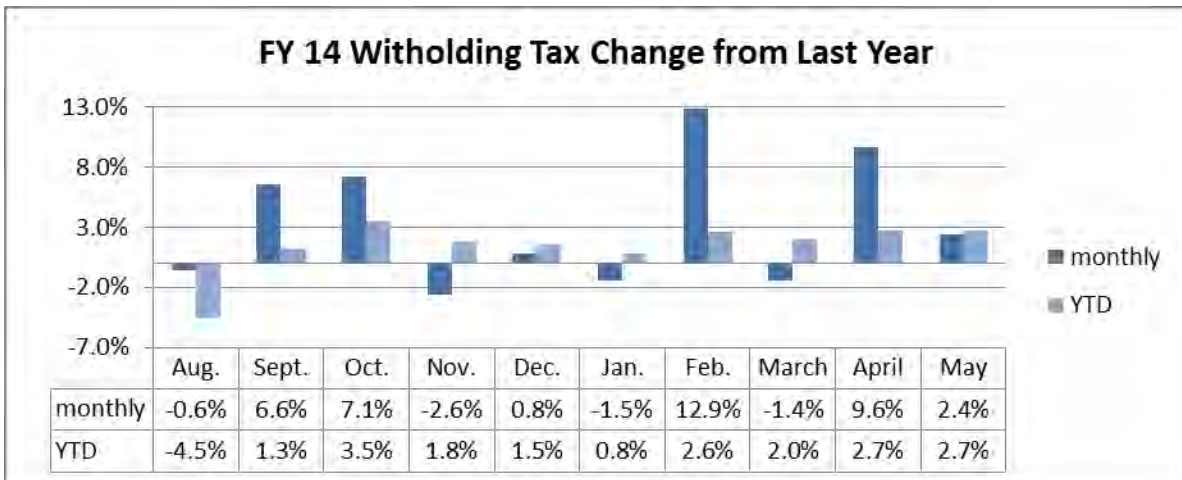
Total General Fund revenue for Fiscal Year 2014 is expected to be \$116 million below the original budget plan. The largest shortfall is in the income tax, which is estimated to underperform the budget plan by \$176 million. Both the sales tax and corporation tax are exceeding initial budget estimates by \$65.6 million and \$42.5 million respectively.

Overall General Fund expenditures for Fiscal Year 2014 are projected to be more than \$144 million below the budget plan.

Lembo highlighted data and other information from federal and state Departments of Labor and other sources that show:

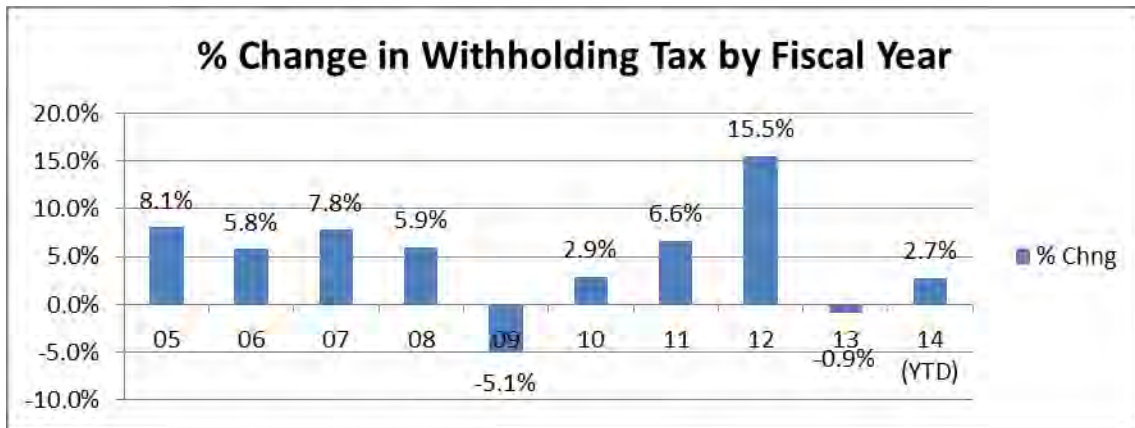
Employment

- Year-to-date gains in the employment-driven withholding portion of the state income tax remained positive through May growing 2.7 percent from a year ago. The monthly growth in year-to-date withholdings has averaged 1.4 percent so far in Fiscal Year 2014. As can be seen from the graph below, monthly receipts accelerated during the second half of the year.



- Taking a longer view, in the four years leading up to the last recession, the annual increase in income tax withholdings averaged 6.9 percent. In Fiscal Year 2011 and 2012, the withholding receipts spiked due to an increase in the income tax rates.

Factoring out the rate increase, withholdings have not yet attained post-recession growth levels.



- Connecticut gained 5,800 payroll jobs in May. This is the fourth consecutive month of employment growth in the state. According to the Department of Labor, Connecticut has regained 71,600 payroll positions, or 60.1 percent of the 119,100 positions lost to the March 2008 - February 2010 employment recession. The state has regained 73.2 percent of the private sector jobs lost during the recession.
- Nationally, all of the private jobs lost to the recession had been recovered by March 2014 and all of the recessionary loss was recovered by May.
- The table below shows the distribution of employment gains and losses, by supersector, over the latest 12-month period ending in May.

Job Gains Latest 12 Months		Job Losses Latest 12 Months	
<u>Sector</u>		<u>Sector</u>	
Transp. & Utilities	5,000	Government	-2,600
Leisure and Hospitality	4,900	Financial Activities	-1,500
Education & Health	4,800	Manufacturing	-1,300
Construction	1,800	Information	-500
Professional & Business	1,800		
Other Services	100		

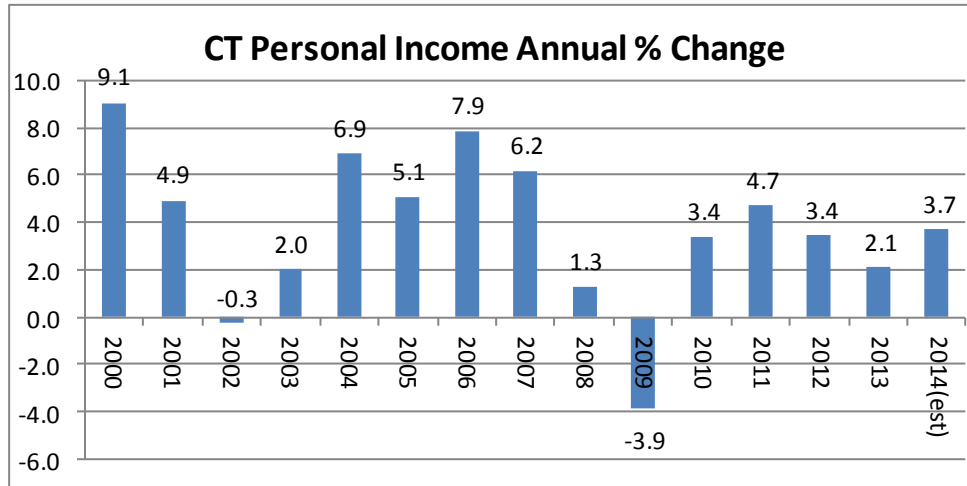
- Connecticut's unemployment rate was 6.9 percent in May; the national unemployment rate was 6.3 percent that month.
- There are approximately 129,800 unemployed workers in Connecticut. A low of 36,500 unemployed workers was recorded in October of 2000.

Wage and **\$**Salary income

- The Department of Labor calculates that average private sector weekly pay was \$935.09 in May, down \$2.01, or -0.2 percent over from the same period a year ago.
- Average hourly earnings of private sector workers have struggled to establish a consistent growth trend over the last two years.



- The year-to-year change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in May 2014 was 2.1 percent.
- Based on data released by the Bureau of Economic Analysis on June 24, personal income in Connecticut grew at an annualized rate of 3.7 percent in the 1st quarter of 2014. This ranked Connecticut 16th in quarterly personal income growth. State personal income grew at a rate of 2.1 percent between 2012 and 2013 ranking Connecticut 37th nationally in personal income growth.
- The chart below shows the annual trend in Connecticut personal income over time. The 2014 estimate is based on annualizing 1st quarter results.

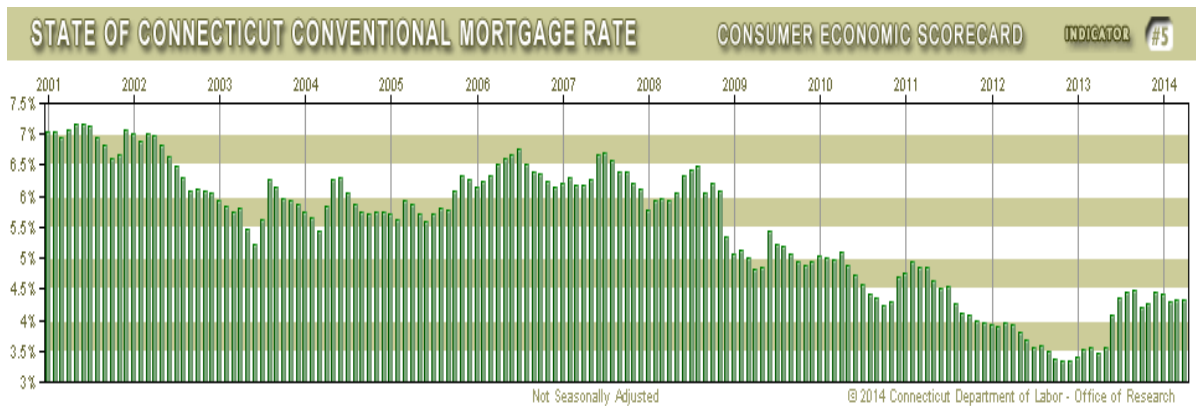



Housing

- A strong housing market has lifted Connecticut's real estate conveyance tax receipts. Through May, total receipts are running more than 68 percent above last fiscal year's level. Adjusting for the elimination of the transfer of almost \$40 million to the municipal revenue sharing account from this revenue source, underlying activity growth is about 18 percent over last fiscal year.
- Current data shows continued softening in the housing market. Federal Reserve Chair Janet Yellen reported to Congress in May that "The recent flattening out in housing activity could prove more protracted than currently expected, rather than resuming its earlier pace of recovery."
- It appears that much of the housing recovery was driven by investors taking advantage of low housing prices after the housing bubble burst. According to the Department of Economic and Community Development's June *Economic Digest*, Connecticut's housing market bottomed out in March of 2012. In that month, 45.3 percent of state homes were sold at a loss. By March 2014 that number had dropped to 31 percent, which still made Connecticut the sixth highest state for homes sold at a loss of the 36 states and District of Columbia on which Zillow reported. And in a study by the HAAS Institute at the University of California, of the cities with metro areas with a population of one million or more, Connecticut had two cities that ranked in the top 10 with the highest percent of homeowners with a mortgage underwater. Number one is Hartford (56 percent underwater), and tenth is Bridgeport (42 percent underwater).
- According to a report from the Warren Group released on June 5, single-family

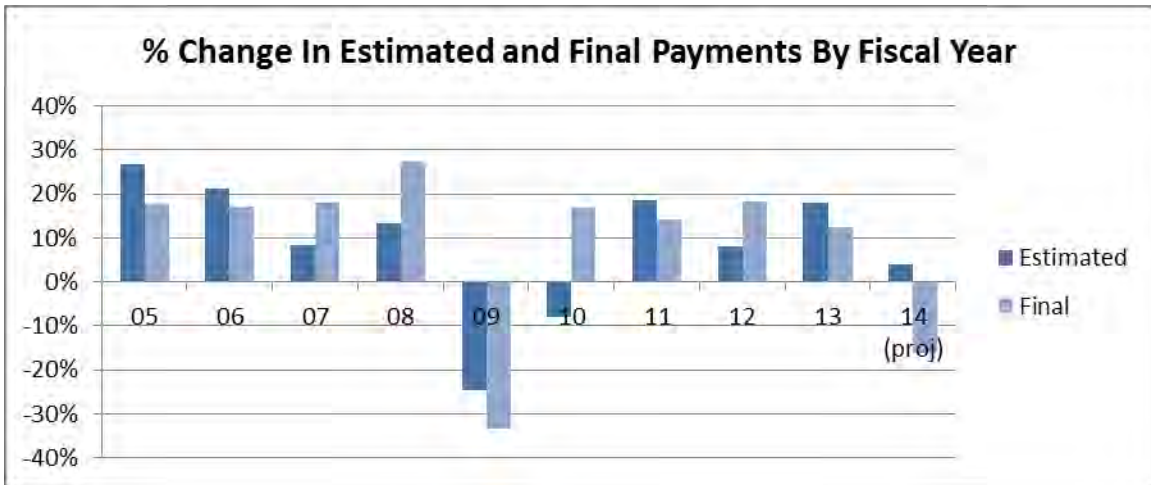
home sales in Connecticut fell 7.9 percent in April. This is the first year-over-year sales decline in 13 months. The report also shows median home prices in the state declining by 2 percent from \$250,000 to \$245,000. Statewide condominium sales decreased in April by 7 percent after two consecutive months of solid increases. The median price of condominiums remained fairly stable at \$174,000. The next several months will be critical for sales as spring and summer are high points for market activity.

- The National Association of Realtors reported total U.S. existing home sales in May were 5 percent below May of 2013. The median price of a home rose 5.1 percent to \$213,400 from May of last year. Regionally, existing home sales in the Northeast fell 3.1 percent from last May and prices were relatively unchanged at \$256,700.
- Conventional mortgage rates have been on an upward trend since June of 2013, which places a drag on housing market activity.

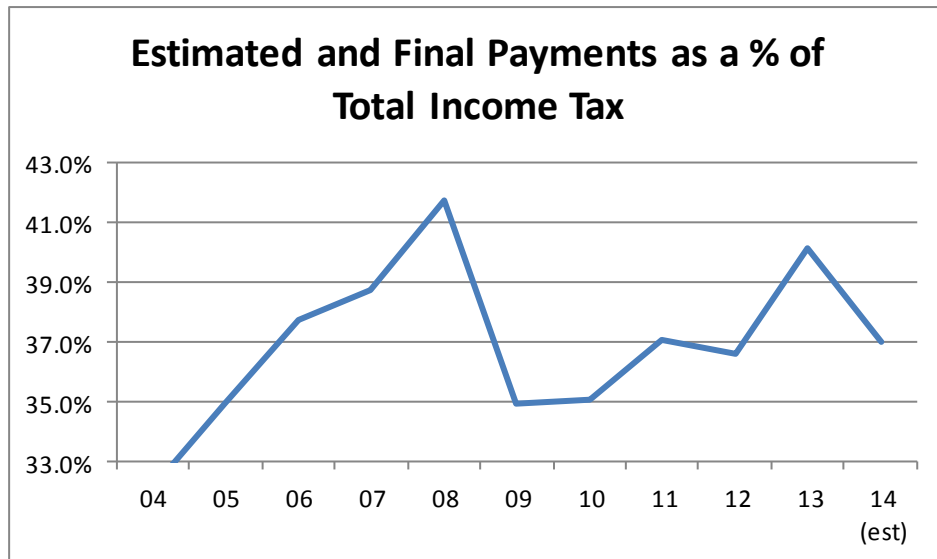


Business Activity and Consumer Spending

- The capital gains driven estimated payment portion of the income tax grew by almost 18 percent last fiscal year. This Fiscal Year, it has advanced at a 4.3-percent rate through May. The large increase in Fiscal Year 2013 was partially attributable to a capital gains tax change that went into effect at the end of 2012 and resulted in an acceleration of capital gains receipts into Fiscal Year 2013. Absent the tax change, these gains would have been realized in future years with some of the revenue occurring in the current fiscal year.
- The budget plan anticipated a softening of estimated payments in Fiscal Year 2014 based on the tax incentives. However, final income tax receipts due by April dropped far more than expected, declining 16.3 percent through May. As illustrated by the time series graph below, it is highly unusual for estimated and final payments to move so dramatically in opposite directions.



- During periods of economic growth, estimated and final payments represent an increasing percentage of total income tax receipts. These receipts are correlated to equity market activity and are especially volatile. As can be seen from the graph below, the percentage of the total income tax expected to be realized in Fiscal Year 2014 from estimated and final payments approximates the Fiscal Year 2012 results. This was unexpected since growth over Fiscal Year 2012 would be typical of a recovery period.



- It is difficult at this point in time to accurately determine the cause of the deviation in final income tax payments from the historical trend. Certainly the forward shift in capital gains discussed above played a role. It is also significant that profit taking has been on a downward trend since the height of the financial crisis as trading volume has receded even as the market has risen.

DOW

- At this writing the Dow Jones Industrial Average has posted a 12-month gain of 14.7 percent; however, on a calendar-year-to-date basis the market has been less robust.



Consumers

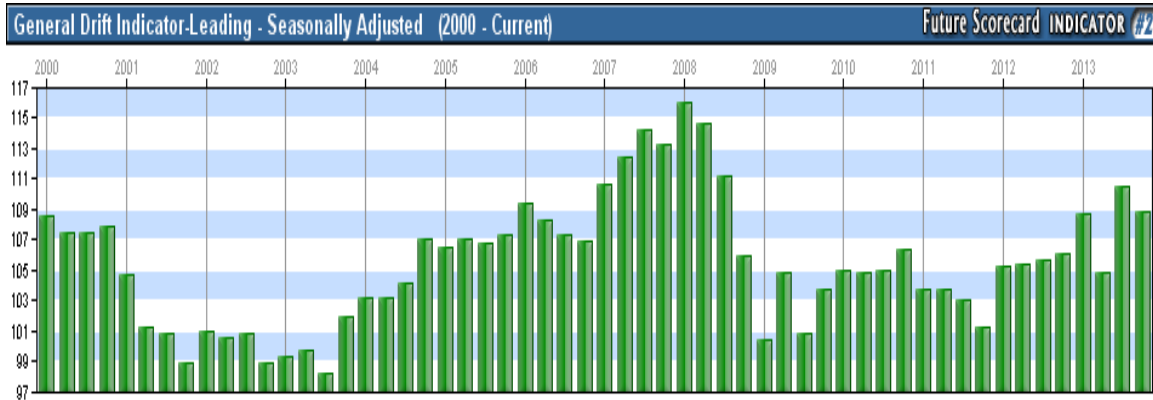
- Through May sales tax receipts were advancing at a rate of over 3.1 percent on a fiscal year-to-date basis.
- May advance retail sales were up 4.3 percent from the same month last year. For the first five months of calendar year 2014, sales are up 3.4 percent from last year. In calendar year 2013, sales were 4.2 percent higher than in 2012.
- Automobile and other motor vehicle dealers posted solid growth of 11.1 percent

over May of last year. Non-store retailers posted growth of 7.4 percent and home furnishing stores were up 6.5 percent.

- According to the Federal Reserve, in April consumer credit expanded 10.2 percent. Revolving credit was up 12.3 percent; while non-revolving credit posted a gain of 9.5 percent. These are some of the strongest annualized gains in consumer credit experienced since the recession.

Business and Economic Growth

- Based on the June 25 release by the Bureau of Economic Analysis, real GDP decreased at a rate of 2.9 percent in the 1st quarter of 2014. In the 4th quarter of 2013 real GDP advanced 2.6 percent.
- The negative GDP reflects decreases in private inventory investment, exports, state and local government spending, and both residential and non-residential investment. Partially offsetting these declines were an increase in personal consumption expenditures. Imports, which reduce GDP, also increased.
- In the 1st quarter of 2014, U.S. corporate profits posted a decline of 2.2 percent from one year ago. Profits grew by better than 7 percent in both 2011 and 2012.
- The Department of Labor's General Drift Indicators are composite measures of the four-quarter change in three coincident (Connecticut Manufacturing Production Index, nonfarm employment, and real personal income) and four leading (housing permits, manufacturing average weekly hours, Hartford help-wanted advertising, and initial unemployment claims) economic variables, and are indexed so 1986 = 100.



State of Connecticut
 General Fund
 Estimated Lapses
 Projected to June 30, 2014

			As of	As of		
			April 30,2014	May 31,2014	Difference	Percentage
			May 20,2014 Letter	June 20,2014 Letter		
Unallocated Lapse			\$5,000,000	0	(\$5,000,000)	-100.0%
Unallocated Lapse - Legislative			0	0	\$0	
Unallocated Lapse - Judicial			0	0	\$0	
General Other Expenses Reductions - Legislative			140,000	140,000	\$0	0.0%
General Other Expenses Reductions - Executive			2,457,453	2,457,453	\$0	0.0%
General Other Expenses Reductions - Judicial			548,000	548,000	\$0	0.0%
General Lapse - Legislative			56,251	56,251	\$0	0.0%
General Lapse - Executive			10,929,880	10,879,880	(\$50,000)	-0.5%
General Lapse - Judicial			401,946	401,946	\$0	0.0%
GAAP Lapse			0	0	\$0	
Transfer GAAP Funding			26,044,055	26,044,055	\$0	0.0%
Statewide Hiring Reduction - Legislative			190,309	190,309	\$0	0.0%
Statewide Hiring Reduction - Executive			3,825,213	3,825,213	\$0	0.0%
Statewide Hiring Reduction - Judicial			1,128,261	1,128,261	\$0	0.0%
Office of Legislative Management			8,500,000	9,500,000	\$1,000,000	11.8%
Auditors of Public Accounts			500,000	600,000	\$100,000	20.0%
Office of the Attorney General			1,500,000	2,000,000	\$500,000	33.3%
Office of the State Comptroller			1,000,000	1,000,000	\$0	0.0%
Office of Policy and Management			2,100,000	2,400,000	\$300,000	14.3%
Department of Administrative Services			2,000,000	2,400,000	\$400,000	20.0%
Department of Revenue Services			1,300,000	3,000,000	\$1,700,000	130.8%
Division of Criminal Justice			600,000	500,000	(\$100,000)	-16.7%
Department of Consumer Protection			1,100,000	1,100,000	\$0	0.0%
Department of Energy and Environmental Protection			1,600,000	1,600,000	\$0	0.0%
Department of Housing			5,800,000	5,900,000	\$100,000	1.7%
Department of Public Health			2,900,000	3,000,000	\$100,000	3.4%
Department of Mental Health and Addiction Services			500,000	1,000,000	\$500,000	100.0%
Department of Developmental Services			2,800,000	6,200,000	\$3,400,000	121.4%
Department of Social Services			33,000,000	69,100,000	\$36,100,000	109.4%
Department of Education			2,600,000	11,200,000	\$8,600,000	330.8%
Office of Early Childhood				2,800,000	\$2,800,000	
Office of Higher Education			700,000	800,000	\$100,000	14.3%
Teachers' Retirement Board			4,400,000	5,800,000	\$1,400,000	31.8%
Department of Children and Families			29,300,000	33,600,000	\$4,300,000	14.7%
OTT - Debt Service			57,800,000	63,800,000	\$6,000,000	10.4%
OSC - Fringe Benefits			26,500,000	29,300,000	\$2,800,000	10.6%
Total			\$237,221,368	\$302,271,368	\$65,050,000	27.4%

END