



News from:
COMPTROLLER KEVIN LEMBO

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**COMPTROLLER LEMBO PROJECTS \$43.4-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 \$43.4-million surplus, as reported last month.

In a letter to Gov. Dannel P. Malloy, Lembo reported that while revenue is running below original budget targets, spending controls have successfully kept the budget balanced.

Lembo said General Fund revenue for Fiscal Year 2014 is expected to be \$40.6 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. This is a variance from the original budget of about 2 percent. Both the sales tax and corporation tax are exceeding initial budget estimates by \$65.6 million and \$42.5 million respectively, Lembo said.

Overall General Fund expenditures for Fiscal Year 2014 are projected to be \$79.6 million below the budget plan.

The General Fund surplus will be deposited to the Budget Reserve Fund, as Lembo has advocated, to help guard against future financial challenges.

“I have emphasized that the state faces new financial challenges in the outlying years,” Lembo said. “It is critically important that we directly deposit any surplus into the Budget Reserve Fund. I have advocated for a reserve level of 15 percent of spending. Sufficient dollars in reserve will guard against future tax increases and service reductions during inevitable future recessionary cycles.”

The reserve balance – often referred to as the “Rainy Day Fund” -- at the end of Fiscal Year 2013 was \$270.7 million, which represents approximately 1.6 percent of net appropriations.

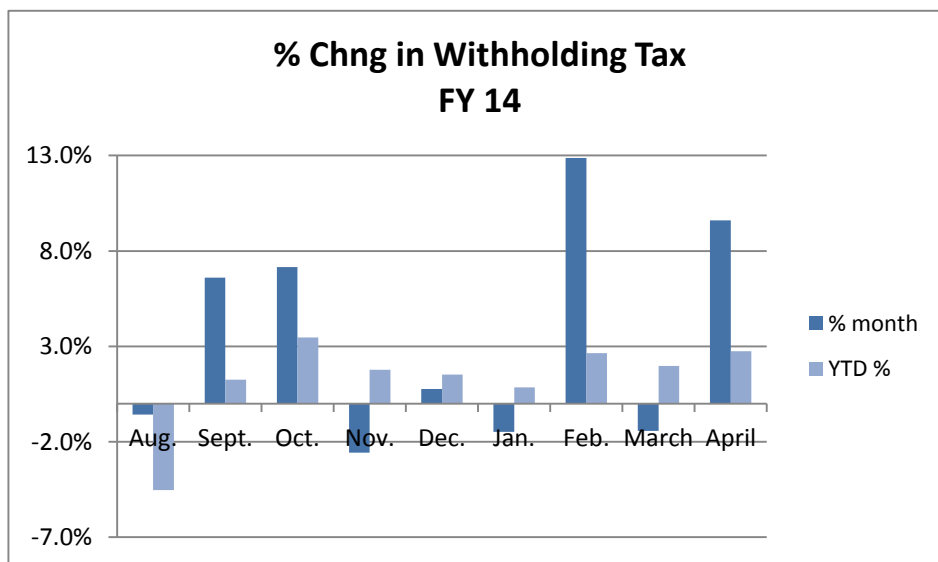
“It’s important to note that, despite our struggle to find the economic lift that we should expect, the state’s economy is improving overall ,” Lembo said, pointing to a third consecutive month of employment growth.

“Gradually diminishing state unemployment, which fell to 6.9 percent in April, and rising home sales, are promising signs for Connecticut’s economic outlook,” Lembo said. “Three months of job growth must be continued – and followed by improved wages and worker productivity.”

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 April, growing 2.7 percent from a year ago.
- The monthly growth in year-to-date withholdings has averaged 1.2 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.



- Connecticut gained 2,200 payroll jobs in April. This is the third consecutive month of employment growth in the state. According to the Department of Labor,

Connecticut has regained 66,300 payroll positions, or 55.7 percent of the 119,100 positions lost to the March 2008 - February 2010 employment recession. Nationally, all of the jobs lost to the recession had been recovered by March 2014.

- The table below shows the distribution of employment gains and losses by super sector over the latest 12-month period.

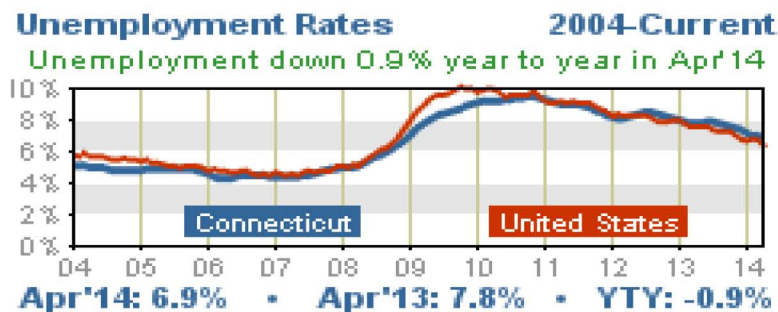
Job Gains Latest 12 Months

Sector	Job Gains
Education & health	5,600
Leisure and Hospitality	4,400
Construction	3,000
Transp. & Utilities	2,400

Job Losses Latest 12 Months

Sector	Job Losses
Government	-3,900
Manufacturing	-2,600
Prof. & Business Service	-800
Financial Activities	-500
Other Services	-500
Information	-200

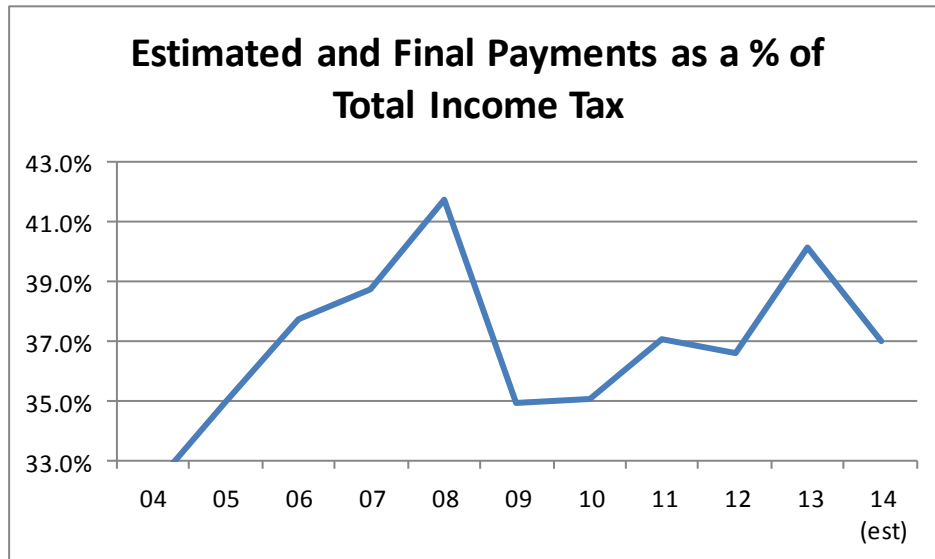
- Connecticut's unemployment rate was 6.9 percent in April; the national unemployment rate was 6.3 percent that month.
- The charts below are a time series view of Connecticut employment and the unemployment rate.



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

as we reported last month, resulting in a \$389.1 million downward revision in the income tax projection last month.

- 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 8.16 percent; however, on a calendar year-to-date basis the market has seen little growth.

