



**STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT
06106-1775**

**Kevin Lembo
State Comptroller**

**Martha Carlson
Deputy Comptroller**

January 3, 2012

The Honorable Dannel P. Malloy
Governor of the State of Connecticut
State Capitol
Hartford, Connecticut

Dear Governor Malloy:

I write to provide you with financial statements for the General Fund and the Transportation Fund through November 30, 2011.

OPM is projecting that the General Fund will end Fiscal Year 2012 with a balance of \$83.7 million, an increase of \$4.6 million from last month. As discussed below, OPM has identified various risk factors relating to its current estimates. These risk factors may significantly alter the present financial outlook as the fiscal year progresses.

The original budget plan for Fiscal Year 2012 contained a \$75 million reserve to offset an anticipated increase in the unreserved General Fund balance on a GAAP accounting basis. This new practice of reserving a portion of General Fund revenue in fund balance is the result of the state's move toward GAAP based budgeting. Any remaining projected General Fund balance is reserved for payment of 2009 Economic Recovery Notes in accordance with PA 09-3 JSS.

OPM is estimating an ending balance of \$119.2 million for Fiscal Year 2012 in the Transportation Fund. This is an increase of \$10 million from last month, which is the result of lower debt service costs due to a favorable debt financing environment.

I am in general agreement with OPM's analysis, and I have similar qualifications on the current General Fund projections. Specifically, as OPM notes, the savings associated pension and health care components of the 2011 SEBAC agreement are still being assessed. OPM has stated that a "significant shortfall" is possible in the employee health accounts. I am especially concerned that the aggressive allotment reduction applied to the retiree health account does not appear to be fully attainable. Additionally, we await actuarial findings related to estimated pension savings. Based on current General Fund expenditure trends, I am hopeful that any shortfalls in the SEBAC savings can be offset by other statewide savings. I will continue to monitor overall state spending and to assess the impact of necessary savings targets on the delivery of state services and related legal requirements.

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General Fund spending is expected to end the year \$14.4 million under budget. Agency deficiencies of \$7.2 million are more than offset by anticipated forced savings of \$21.6 million. Many of the anticipated line-item agency shortfalls are expected to be addressed through transfers thus not requiring a deficiency appropriation. Anticipated additional requirements by agency can be found on Exhibit D of the financial statements.

General Fund revenues are currently estimated to fall \$11.6 million short of initial budget projections. The largest revenue gain is in the sales tax, which is estimated to exceed the budget projection by \$66 million based on current trends. The most significant shortfalls are in the refund categories, which are anticipated to end the year with outlays \$70 million in excess of the original budget estimates. Tax refunds and refunds of escheated property are the cause of the higher payments.

Connecticut's economy continues to show slow and erratic growth. For the twelve months ending in November the state added 7,500 payroll jobs. The November unemployment rate dropped to 8.4 percent. For the period ending in October, wage and salary income in Connecticut was up 4.3 percent from last year. Nationally, corporate profits were up 7.9 percent in the third quarter of 2011. Housing permits were down 8.3 percent from October a year ago and off 75 percent from the peak level reached in 2004. This is consistent with the downward trend experienced in existing home sales. The Connecticut Manufacturing Production Index has held steady against last year. Connecticut's export sector continues to perform well.

I also issue a Comprehensive Annual Financial Report (CAFR) that converts the budgetary based financial reporting to Generally Accepted Accounting Principles (GAAP). From a balance sheet prospective, the GAAP shortfall or unreserved fund balance in the General Fund was \$1.7 billion as of June 30, 2010. This figure will be updated in January 2012 for Fiscal Year 2011.

If you have any questions on this report, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Kevin Lembo".

Kevin Lembo
State Comptroller