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State Comptroller**

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November 1, 2011

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 September 30, 2011.

OPM is projecting that the General Fund will end Fiscal Year 2012 with a balance of \$75.6 million, a reduction of \$3.3 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 in recognition 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 \$109.2 million for Fiscal Year 2012 in the Transportation Fund, an increase of \$1.8 million from last month. Debt service savings is offsetting revenue reductions associated with lower than anticipated fuel tax receipts.

I am in general agreement with OPM's analysis, and have similar qualifications on the current General Fund projections. Specifically, as OPM notes, the savings associated with the 2011 SEBAC agreement are still being assessed. With only one quarter of expenditure data available in the current fiscal year for the retired and active employee health service accounts, it is premature to quantify a potential savings shortfall; however, the current trend reflects robust enrollment in the Health Enhancement Program (HEP) that will help to yield future savings. In addition, we await actuarial findings related to estimated pension savings. On the revenue side of the budget projections, the tax filing extension provided as a result of Tropical Storm Irene has altered the trend analysis. Most significantly the filing date for estimated income tax revenues, which contributed \$2.7 billion last fiscal year or almost 40 percent of income tax receipts, was extended to the end of October for the September quarter. Therefore, complete data will not be available for another week. Current budget estimates will be revised as data becomes available.

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General Fund spending is expected to exceed the budget plan by \$33 million. A \$30 million deficiency is projected in the Department of Social Services' Medicaid account. This deficiency is attributed to continued growth in the low income adult population. The Teachers' Retirement Board is experiencing a \$2.4 million deficiency in its health service account due to higher membership. Finally, Public Defender Services is experiencing a \$555,000 deficiency in payments to contracted attorneys. The deficiencies are largely offset by \$30.3 million in lapse savings. The opportunity for deficiency appropriations is limited by the spending cap. The General Fund budget is within \$1 million of its allowable appropriation limit under the constitutional cap.

The General Fund Revenue projections represent consensus numbers generated by OPM and the Office of Fiscal Analysis. Revenues are projected to be \$2.6 million short of the original budget estimates.

Connecticut's economy continues to show slow and erratic growth. For the twelve months ending in September the state added 10,400 payroll jobs, about one-third the rate of job growth in a normal recovery period. The September unemployment rate dropped to 8.9 percent. Based on the first two quarters of 2011, personal income in Connecticut is growing at a rate of just over 4 percent. Nationally, corporate profits were up 8.5 percent in the second quarter of 2011. Housing permits were down 6 percent from 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 remained posted some improvement in 2011 and the export sector remains especially strong.

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,

Kevin Lembo
State Comptroller