



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

**Kevin Lembo
State Comptroller**

**Martha Carlson
Deputy Comptroller**

May 1, 2013

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 March 31, 2013.

OPM is currently projecting a Fiscal Year 2013 General Fund GAAP surplus of \$150.1 million and a budgetary surplus of \$197.6 million. This is an improvement in the General Fund's fiscal position of \$231.2 million from last month, which incorporates April 30th consensus revenue projections. The Transportation Fund is estimated to end Fiscal Year 2013 with a balance of \$160.8 million. I am in general agreement with these projections.

Since last month, revenues are up \$247.1 million. This is slightly offset by a projected \$15.9 million increase in spending. The sources of the improved revenue outlook are largely non-recurring in nature.

The increase in the capital gains tax rate for 2013 that resulted from the expiration of the Bush-era tax cuts provided an incentive to distribute gains before the end of calendar 2012. According to Bureau of Economic Analysis data, net dividend distributions in the fourth quarter of 2012 were 23.2 percent higher than in the same period last year. Therefore, taxable gains have been realized in Fiscal Year 2013 that otherwise would have been paid in future fiscal years. In addition, the stock market has experienced double-digit growth that may not continue into the next biennium.

These factors have resulted in the income tax exceeding budget projections by \$109.6 million. Estimated income tax payments are up more than 20 percent from last year, and final payments are up almost 16 percent. In addition, the inheritance and estate tax, which had been expected to exceed original budget estimates by \$150 million, is now projected to generate \$262.4 million over the original budget.

These one-time revenue gains in Fiscal Year 2013 are tempered by losses in other major recurring revenue sources. The sales tax is projected to fall \$189.3 million short of initial projections, showing almost no growth over last year's receipts. While the combined income tax exceeds budget projections, the payroll driven withholding component of the tax, which is the largest component, is not growing.

Overall, Fiscal Year 2013 revenue is projected to exceed last year by 3.5 percent. However, I am in agreement with OPM that approximately 2 percent of this growth results from non-recurring receipts.

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General Fund spending in Fiscal Year 2013 is expected to be about 2 percent above the prior year. This is a historically slow rate of budget growth. Agency deficiency requirements of \$306.3 million are more than offset by \$423.9 million in savings above the initial budget targets.

Continued slow economic growth raises budget concerns moving into the next biennium. In March, the state added 2,600 non-farm payroll positions following a February loss of 5,700 jobs. To date, the state has regained 42.2 percent of the 120,000 jobs lost during the recession. Connecticut's unemployment rate remains high at 8 percent. State personal income is underperforming national growth. Connecticut's personal income grew 2 percent in 2012 ranking the state 49th in the nation. Private sector weekly pay in the state was down 2.6 percent from March of last year. Advance retail sales in March were up 2.8 percent over the same period last year, which is well below the growth experienced throughout most of 2012. New business starts in Connecticut have seen double-digit declines in each of the first three months of 2013 compared to the same periods in 2012. On a positive note, the housing market is rebounding. In March Connecticut housing permits were up more than 50 percent over last year. Home sales and price data are also showing solid improvement.

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 perspective, the GAAP shortfall or unreserved fund balance in the General Fund was \$1.146 billion as of June 30, 2012. This represents an improvement in the unassigned fund balance deficit of just over \$600 million from last year.

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

Financial Statements in Excel Format: [General Fund](#) | [Transportation Fund](#)