



**STATE OF CONNECTICUT
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April 1, 2014

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 February 28, 2014.

OPM is projecting a Fiscal Year 2014 General Fund surplus of \$504.9 million. This is a slight increase of \$0.5 million from last month's estimate. The Transportation Fund is expected to close Fiscal Year 2014 with a balance of \$160.9 million, a decrease of \$3.7 million from last month. I am in general agreement with these estimates.

April is a significant month for revenue collection. Last fiscal year almost 17 percent of total General Fund revenue was realized in April. Current revenue trends are positive as discussed below. If these trends carry into the last quarter of the fiscal year without offsetting spending increases, the current General Fund surplus projection would be expected to grow.

This month's projection by OPM utilizes the consensus revenue estimate total. There have been some revisions to specific revenue categories that net to zero. Both the insurance company tax and casino payments have been revised down this month by \$15 million and \$4 million respectively as a result of weaker collections experience. Upward revisions include \$10 million in the public services tax, \$5 million in lottery revenue and \$4 million throughout other categories.

Total General Fund revenue for 2014 is expected to exceed initial budget targets by \$421.2 million. According to the Department of Revenue Services, the tax amnesty program yielded \$175 million in Fiscal Year 2014. The program was initially budgeted to add \$35 million in revenue. The three largest tax categories, which are income, sales and corporations, are all exceeding initial budget expectations. The largest gain, \$213.1 million, is in the income tax. The stock market gains have fueled estimated income tax payments. All major revenue categories are exceeding or are close to original budget estimates. Exhibit C provides complete revenue detail.

After netting out the impact of the transfer of \$67 million in spending from the General Fund to the Restricted Grants Fund for the Department of Social Services' Disproportionate Share Hospitals (DSH) program, spending projections still remain below initial budget targets. The original budget provided for General Fund spending growth of 3.8 percent in Fiscal Year 2014. The transfer of DSH funds also reduced General Fund federal revenue by \$67 million; therefore the transfer had no impact on the surplus.

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As you know, I have advocated for the deposit of General Fund surplus dollars to the state's Budget Reserve Fund in accordance with current law. The reserve balance at the end of Fiscal Year 2013 was \$270.7 million. This represents 1.6 percent of net appropriations. If the legislature enacts your plan to allocate the current estimated surplus and \$30 million reserve for Fiscal Year 2015, an additional \$279.9 million would be deposited to the Budget Reserve Fund bringing the balance to \$550.6 million or just over 3 percent of planned spending.

I have advocated for a reserve level of 15 percent of spending, which is also endorsed within your surplus distribution plan. Sufficient dollars in reserve will guard against future tax increases and service reductions during inevitable future recessionary cycles.

As the disposition of the surplus is debated, policy makers should remember that the Fiscal Year 2014 General Fund budget relies on \$190.8 million in nonrecurring revenue reserved from the prior year and \$112.4 million in carry forward funding. In addition, the majority of the surplus dollars in Fiscal Year 2014 result from a one-time tax amnesty program, and from the most volatile component of the income tax, which relies on strong stock market performance. Finally, both OFA and OPM have estimated budget shortfalls beginning in Fiscal Year 2016 if current policies remain unchanged. I recommend that any General Fund surplus realized by the close of Fiscal Year 2014 in excess of this month's estimate be deposited directly to the Budget Reserve Fund.

State employment data for February posted an increase of 800 payroll jobs and a reduction in the state's unemployment rate to 7 percent. For the twelve month period ending in February, the state had gained 10,300 positions. On March 25th the Bureau of Economic Analysis released state personal income figures for 2013. Connecticut's personal income advanced 2.1 percent for the year, ranking the state 37th nationally in income growth. Both average hourly earnings and private sector weekly pay held relatively steady in February. The housing market has been gaining strength in the state. According to a report by the Warren Group, single-family home sales were up by 6 percent in 2013 and home prices grew 8.3 percent for the year. Difficult winter weather conditions slowed market activity in January. Overall the national economy as measured by Gross Domestic Product was growing at an annualized rate of 2.6 percent through the fourth quarter of 2013.

I also issue a Comprehensive Annual Financial Report (CAFR) that includes financial statements for all state funds that are prepared in accordance with Generally Accepted Accounting Principles (GAAP). From a balance sheet perspective, the GAAP shortfall or unassigned fund balance deficit in the General Fund was \$1.217 billion as of June 30, 2013. This represented a deficit increase of \$71 million from last fiscal year.

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

Sincerely,



Kevin Lembo
State Comptroller

Click to view data in Excel format: [General Fund](#) | [Transportation Fund](#)