



**STATE OF CONNECTICUT
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**Kevin Lembo
State Comptroller**

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August 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 June 30, 2014. GAAP based budget accruals will continue to be posted to Fiscal Year 2014 through the middle of August. Therefore, the projections contained within the financial statements attached hereto will be revised on September 30th to reflect that accrual activity and any additional adjustments to the current estimates.

OPM is projecting a Fiscal Year 2014 General Fund surplus of \$121.3 million. This is an increase in the surplus projection of \$88.1 million from last month's estimate. The Transportation Fund is expected to close Fiscal Year 2014 with a balance of \$168.8 million. I am in general agreement with these estimates.

In accordance with existing law, the General Fund surplus will be deposited to the Budget Reserve Fund on the on or about December 30th when the final audit is completed. The reserve balance at the end of Fiscal Year 2013 was \$270.7 million. This represents approximately 1.6 percent of net appropriations. The deposit of the Fiscal Year 2014 projected surplus to the fund would bring the balance to \$392.0 million, or 2.3 percent of net budget plan appropriations.

This month's revenue projection has increased by \$63.0 million from last month. The majority of the increase relates to federal reimbursements for the Medicaid program. As final adjustments to federal Medicaid receipts were processed and the proper General Fund portion of the federal dollars were calculated, estimated federal grant receipts in the General Fund rose by \$42.1 million. Changes in federal reimbursement policy and the implementation of the Affordable Care Act in January have complicated projections of federal receipts and created monthly variances in this revenue category throughout Fiscal Year 2014.

The other significant increase in this month's projected General Fund revenue results from the income tax. As the state has experienced five consecutive months of job growth, the withholding portion of the income tax has been trending upward. At the end of the first quarter of Fiscal Year 2014, the withholding tax was increasing at a rate of 1.3 percent. As the fiscal year came to a close the rate of increase was 2.9 percent. Based on a continuation in June of this positive trend, the income tax projection is up \$37.2 million from last month.

Total General Fund revenue projections for Fiscal Year 2014 are \$53 million below the initial budget plan. Complete revenue gains and losses projected for the year are contained on Exhibit C.

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Estimated lapses have increased by \$25.1 million this month. Overall budget savings in Fiscal Year 2014 are expected to exceed the original plan by \$154.8 million.

The Transportation Fund surplus at the end of Fiscal Year 2013 was \$164.6 million. Fiscal Year 2014 is expected to close with a Transportation Fund surplus of \$168.8 million, an increase of \$4.2 million.

Connecticut's overall economy has shown gradual improvement. State employment data for June posted an increase of 1,700 payroll jobs. The state's unemployment rate declined to 6.7 percent in June. According to the Department of Labor, Connecticut has regained 73,500 payroll positions, or 61.7 percent of the 119,100 positions lost to the March 2008 - February 2010 employment recession. Single-family home sales in Connecticut fell by 14 percent in May while median home prices remained fairly stable according to a July 15th report from The Warren Group. Average hourly earnings in Connecticut rose by less than one percent in June over the same month last year. Based on the most current release by the Bureau of Economic Analysis, U.S. real GDP advanced at a rate of 4.0 percent in the second quarter of 2014. In the first quarter GDP declined 2.1 percent.

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