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State Comptroller**

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December 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 October 31, 2014.

The Office of Policy and Management (OPM) is projecting a potential deficit of \$44.8 million in the General Fund for Fiscal Year 2015. The change from last month, which had the budget in balance, result from a \$59.1 million reduction to revenue and a \$14 million decrease in net spending after accounting for your \$54.7 million in planned rescissions. I am in general agreement with OPM's projections. Exhibits C and D provide detailed statements of revenue and expenditures.

The revenue reductions this month arise from the November 10th consensus forecast developed by OPM and the Office of Fiscal Analysis. The largest single reduction to revenue was \$61.2 million within the federal grants category. Approximately \$25 million of the total reduction was due to issues arising from the deferral of Medicaid revenue attributable to the expansion population covered under provisions of the Affordable Care Act. I have identified this as an area of concern in past letters. The remaining shortfall resulted from delays in federal waivers sought by the Department of Mental Health and Addiction Services and from delayed implementation of adoptive and foster care initiatives. I am deeply concerned that this significant decline in federal revenue was not identified earlier in the fiscal year.

As you are aware, OPM has developed an automated grant process that extends to federal programs. This will provide the state with a centralized data base of grant activity across all agencies within specific grant program areas. My office provided administrative accounting assistance to OPM in support of this effort. We need to build on this work to create improvements and greater transparency with respect to federal revenue billing and claims. It is critical that we have timely and accurate reporting of all planned and realized federal claims during a fiscal year. A recurrence of last month's shortfall projection is unacceptable and prevents me from accurately reporting on the state's fiscal condition. I would like to build on this work to create improvements and greater transparency with respect to federal revenue billing and claims. I would like to, again, offer my support in working toward a process that will better identify potential federal claims problems as we move forward.

Statewide expenditures within the General Fund in Fiscal Year 2015 have begun to trend somewhat higher than the targeted budget growth of just over 3 percent. You are starting to reverse this excess growth in spending through targeted allotment reductions. The remaining projected General Fund deficit amounts to 0.26 percent of the total General Fund budget. A deficit of that size can be eliminated through continued active management of spending and an improving economy. As outlined below, major economic indicators have been strengthening in recent months. I am hopeful that the upward trend continues and provides some additional budget relief.

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The Transportation Fund is expected to close Fiscal Year 2015 with a balance of \$182.7 million. This is an improvement of \$13.7 million through Fiscal Year 2015 operations.

The state posted another month of job growth in October. The Department of Labor's preliminary payroll employment number for October shows the addition of 3,600 positions. The state has posted job gains in eight of the past nine months reversing an earlier trend of inconsistent job additions. Connecticut has regained 87,900 or 73.8 percent of the jobs lost to the 2008 recession. Wages in Connecticut are also beginning to show some upward movement after a long period of stagnation. Average private weekly pay in the state was up 2.8 percent in October from the same month last year. Wages outpaced inflation, which rose 1.7 percent in October.

According to the Warren Group, Connecticut has posted six months of single-family home sales gains during 2014. September's gain was a modest 0.4 percent. The median price of a single-family home in the state fell from \$250,000 to \$248,000 in October from the same month last year.

At this writing the stock market is posting a double-digit gain over the past twelve months. Gross Domestic Product was up 3.9 percent in the 3rd quarter after posting a strong gain of 4.6 percent in the second quarter. Corporate profits remained positive in the 3rd quarter rising 2.1 percent from the 2nd quarter.

I also issue a Comprehensive Annual Financial Report (CAFR) as an accounting supplement to the budgetary report. The CAFR 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 unreserved fund balance in the General Fund was \$1.217 billion as of June 30, 2013. GAAP deficit reduction bonds in the amount of \$598,500,000 were issued in Fiscal Year 2014 to reduce the shortfall.

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

Sincerely,

Kevin Lembo
State Comptroller