



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

**Kevin Lembo
State Comptroller**

**Martha Carlson
Deputy Comptroller**

January 2, 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 November 30, 2013.

OPM is projecting a Fiscal Year 2014 General Fund surplus of \$273.3 million. This is an increase of \$137.4 million from last month's estimate. The Transportation Fund is expected to close Fiscal Year 2014 with a balance of \$172.0 million. I am in general agreement with these estimates.

This month's projections by OPM have incorporated the full impact of the tax amnesty program on state revenues. The November 8th consensus revenue forecast used by OPM last month accounted for \$65 million of the amnesty receipts. It is now estimated that the program yielded in excess of \$175 million in Fiscal Year 2014 revenue. The budget target for the amnesty program was \$35 million.

Total General Fund revenue for 2014 is expected to exceed initial budget targets by \$201.7 million. While the largest portion of this excess revenue is the result of the tax amnesty program, there are also generally positive trends developing in overall state revenue. Improvements in the state's employment numbers, continued strength in the housing market, and strong equity markets are contributing to a more favorable revenue outlook as we enter 2014.

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 is estimated at close to initial budget targets. The original budget target was for General Fund spending growth of 3.8 percent. The transfer of DSH funds also reduced General Fund federal revenue by \$67 million; therefore the transfer has no impact on the surplus projection.

As I stated last month, I strongly recommend that any General Fund surplus amount should be reserved for transfer to the state's Budget Reserve Fund. The reserve balance at the end of Fiscal Year 2013 was \$270.7 million. This represents 1.6 percent of planned spending. I have called for a reserve level of 15 percent of spending. It should be noted that the Fiscal Year 2014 General Fund budget relies on \$190.8 million in revenue reserved from the prior year and \$112.4 million in carry forward funding from the prior year. In addition, both OFA and OPM have estimated budget shortfalls beginning in Fiscal Year 2016 if current policies remain unchanged. Therefore, it is essential to the state's long-term fiscal stability that sufficient reserves be established as soon as possible. Too often in the past, opportunities to build reserves have been missed as other perceived budget priorities were pursued.

The Honorable Dannel P. Malloy
January 2, 2014
Page 2

For the twelve month period ending in November, the state had added 16,500 payroll jobs. The state's unemployment rate fell to 7.6 percent. According to the State Labor Department, Connecticut has recovered 52.4 percent or 63,500 of the 121,200 jobs lost during the 2008 recession. Hourly earnings and weekly pay have experienced slight declines. Existing home sales in Connecticut were up 13.4 percent in the 3rd quarter compared to the same period last year and the median price was up 3.6 percent. Nationally, in November advance retail sales were up 4.7 percent from one year ago. Auto dealers, home furnishing stores and non-store retailers posted the strongest gains. Overall, the national economy grew at a rate of 4.1 percent in the third quarter of 2013. This follows second quarter growth of 2.5 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 unreserved fund balance in the General Fund was \$1.146 billion as of June 30, 2012. This represented an improvement in the unassigned fund balance deficit of just over \$600 million from last year. A final audited CAFR for Fiscal Year 2013 will be available in January.

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

To view the data in Excel format, click here: [General Fund](#) | [Transportation Fund](#)