



**STATE OF CONNECTICUT  
OFFICE OF THE STATE COMPTROLLER  
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State Comptroller**

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May 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 March 31, 2014.

OPM is projecting a Fiscal Year 2014 General Fund surplus of \$43.4 million. This is a decrease of \$461.5 million from last month's estimate. I am in general agreement with this updated projection that reflects the April 30<sup>th</sup> consensus forecast.

The Transportation Fund is expected to close Fiscal Year 2014 with a balance of \$159.0 million.

April is a significant month for revenue collection. Last fiscal year almost 17 percent of total General Fund revenue was realized in April. This April, the income tax experienced a significant decline from last month's forecast. The income tax estimate has been revised downward by \$389.1 million from last month. This single change explains most of the erosion in the surplus estimate. Other revenue revisions are responsible for the remaining \$72.4 million decline. Exhibit C provides complete revenue detail.

Last month's income tax projection assumed that estimated and final income tax payments in Fiscal Year 2014 would continue to follow well established historical trends. Over the past ten fiscal years, estimated income tax payments and final income tax payments trended in the same direction in all but one fiscal year. If estimated payments trended higher, then final payments followed a similar upward trend. The only deviation from this pattern was in Fiscal Year 2010 when a new income tax bracket was added.

Unfortunately, this fiscal year final income tax payments deviated significantly from the historical pattern utilized in the last projections and created the significant income tax shortfall. While estimated payments were increasing this fiscal year, final payments posted a double-digit decline. It is likely that part of the decline was due to a 2012 change in the federal capital gains tax rate. This change shifted future year gains-taking by taxpayers into Fiscal Year 2013 in order to take advantage of the lower tax rate structure. In the absence of this federal change, some of the prior year gains would have been realized this fiscal year. In addition, profit taking in equity markets has been softening as trading volume has declined even as market value has increased.

The entire General Fund surplus adjustment this month is attributable to revenue changes. Net General Fund spending remained unchanged this month.

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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.

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. I continue to recommend that any Fiscal Year 2014 surplus dollars be deposited to the reserve fund.

Despite the decline in the General Fund surplus, there are some bright spots in Connecticut's overall economy. State employment data for March posted an increase of 4,900 payroll jobs. The state's unemployment rate was 7 percent. For the twelve month period ending in March, the state had gained 9,400 positions. State private sector weekly pay was also up by 1.4 percent in March to \$942.82. 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 February, but still sales were up 2.8 percent and home prices gained 4.4 percent to an average of \$235,000. Overall the national economy as measured by Gross Domestic Product was growing at an annualized rate of 0.1 percent through the first quarter of 2014 based on initial advance estimates.

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,

A handwritten signature in cursive script that reads "Kevin Lembo".

Kevin Lembo  
State Comptroller