



**STATE OF CONNECTICUT
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State Comptroller**

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November 3, 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 September 30, 2014.

OPM is projecting that the General Fund is in balance at present with the adopted budget plan for Fiscal Year 2015. The budget plan anticipates a General Fund balance of \$0.3 million. Analyzing available data through the close of the first quarter of Fiscal Year 2015 operations, I am in general agreement with OPM's projection. The Transportation Fund is expected to generate an operating surplus in Fiscal Year 2015 of approximately \$7.8 million and to end the fiscal year with a cumulative balance of \$176.8 million.

As part of the current budget forecast, OPM has again reported on the deferral of certain federal Medicaid reimbursements anticipated to be received in Fiscal Year 2015. The deferred funds relate primarily to the Medicaid expansion population covered under provisions of the Affordable Care Act. At this writing, the federal government has released half of the deferred dollars. The Department of Social Services is working directly with the federal Centers for Medicare & Medicaid Services with regard to its claim methodology. I will continue to monitor progress in securing the outstanding state claims.

General Fund spending in Fiscal Year 2015, inclusive of expenditure authority carried forward from the prior fiscal year, is expected to grow 3.3 percent over last fiscal year. Based on spending patterns through the first quarter of Fiscal Year 2015, total General Fund expenditures are within attainable budget targets. As this fiscal year progresses, it is likely that various budget line-items will see either additions or reductions that will total to the forecasted aggregate General Fund spending level.

General Fund revenue in Fiscal Year 2015 is projected to grow 2.6 percent over the prior fiscal year. This growth level includes \$75 million in the miscellaneous tax category related to enhanced collection activities by the Department of Revenue Services. I am pleased to report better than expected receipts in both the withholding portion of the income tax and the sales tax, which are two of the largest revenue components of the General Fund. Withholding receipts were up 4.6 percent and sales tax revenue was up 6.7 percent in September from the same month last year. While these trends are not yet sufficiently established to justify a change in the current forecast, they provide additional assurance that the budget remains in balance.

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The state posted strong job growth in September. The Department of Labor's preliminary payroll employment number for September shows the addition of 11,500 positions. The state has posted job gains in seven of the past eight months reversing an earlier trend of inconsistent job additions. Over the twelve-month period ending in September, Connecticut employment was advancing at a 1.6 percent rate and is approaching the national growth rate of 2 percent. Connecticut's unemployment rate dropped slightly to 6.4 percent in September.

The Department of Labor reported that Connecticut's average hourly earnings in September rose 1.2 percent over September of 2013. Average private weekly pay in September was \$958.01, up \$5.60, or 0.6 percent over the same month one-year ago.

Connecticut's real estate market posted weaker than expected results in August. According to a report from the Warren Group issued on September 30th, August single-family home sales in the state dropped 5.6 percent from August of 2013. Home prices, which have been weak, fell 5.3 percent in August to a median price of \$269,900. This marked the sixth consecutive month of price decline.

Based on the October 30th release by the Bureau of Economic Analysis, real GDP increased at a rate of 3.5 percent in the 3rd quarter of 2014. In the 2nd quarter of 2014 real GDP increased 4.6 percent.

I also issue a Comprehensive Annual Financial Report (CAFR) as an accounting supplement to the GAAP 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