



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

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October 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 August 31, 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 GAAP basis, General Fund balance of \$0.3 million. At this early point in 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 \$7.7 million and to end the fiscal year with a cumulative balance of \$176.8 million.

OPM notes that certain federal Medicaid reimbursements anticipated to be received in Fiscal Year 2015 have been partially deferred. 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 continues to work with the federal Centers for Medicare & Medicaid Services with regard to its claim methodology. I have joined with OPM and the State Treasurer in carefully monitoring the federal reimbursement issue and will report on any change in the current situation and the potential budgetary impact.

General Fund spending is expected to grow by an estimated 2 percent in Fiscal Year 2015, while revenue growth is projected at 2.6 percent. These budget targets will be influenced by changes in economic conditions as the fiscal year progresses. In addition, the miscellaneous tax category contains \$75 million in receipts related to enhanced collection activities by the Department of Revenue Services. In future months I will detail changes in existing projections.

The state's economy continues to post moderate monthly growth. After six months of consecutive job gains, the state lost 3,600 jobs in August. This is a one month reversal based on preliminary numbers. The state has been averaging 1,322 job additions a month since the recovery began. This is about four percent below the rate of job additions after the 2001 recession. Connecticut's unemployment remained at 6.6 percent in August; the national unemployment rate was 6.1%. Connecticut's unemployment rate has continued to decline from a high of 9.5 percent in October 2010.

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The Department of Labor calculates that Connecticut's average hourly earnings rose a modest 0.11 percent over August of 2013. Average private weekly pay rose to \$944.37, up \$10.63, or 1.1 percent over the year.

Connecticut home sales volume has been moving in a positive direction since March of 2014. However, year-over-year, home prices fell 3.9 percent in July. The median sales price of a single-family home statewide dropped to \$275,000 in July, down from \$286,000 in July 2013.

Based on the September 26th release by the Bureau of Economic Analysis, real GDP increased at a rate of 4.6 percent in the 2nd quarter of 2014. In the 1st quarter of 2014 real GDP declined 2.1 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