



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

**Kevin Lembo  
State Comptroller**

**Martha Carlson  
Deputy Comptroller**

September 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 July 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 the close of Fiscal Year 2015. OPM currently estimates that the Transportation Fund will also remain in balance with the budget plan for Fiscal year 2015, and will close the current fiscal year with a balance of \$175.5 million. With the qualifying comments presented below, I am in general agreement with these estimates.

OPM cautions that certain federal reimbursements anticipated to be received in Fiscal Year 2015 have been deferred. This information has been disclosed as a supplement to the state's Official Statement for bond issuance purposes as follows: "[T]he State draws reimbursements for Medicaid expenditures on a current basis, and the State and the federal Department of Health and Human Services, through its Centers for Medicare & Medicaid Services ("CMS"), reconcile expenditures and reimbursements in a subsequent quarter. Recently, CMS notified the State that it is deferring certain claims including \$249.2 million in reimbursement to the State for the period January 1, 2014 through March 31, 2014 and is requiring the State to further document the allowability of claims submitted for services provided individuals as part of the Medicaid expansion under the federal Affordable Care Act. Pending resolution, CMS has withheld such amount from the State's reimbursements. The State, with CMS approval, moved forward with a partial Medicaid expansion in 2010. The State believes that because the types of claims which are the subject of this deferral were reimbursed in the past at 50%, under the new Medicaid regulations, such claims are now eligible for reimbursement at 100% and has since provided additional documentation to CMS to support the claims. While the deferral applies only to the claims covering the referenced three-month period, the State continues to provide services to the expansion population and anticipates submitting similar claims for these services for future periods as well. If CMS determines in the reconciliation process that the State has drawn more in a period than it was entitled to, CMS could offset future reimbursements. Even though the State believes that such claims are fully allowable under the various Medicaid regulations, no assurances can be given that such matter will resolve favorably for the State and will not have an impact on the final results of the operations of the State or the State's available cash position. Currently, the State's available cash remains adequate."

I will join 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.

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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. Connecticut recorded its sixth consecutive month of job growth in July. The unemployment rate is 6.6 percent. The state has regained 76,400 of the 119,100 jobs lost during the recession. Wage income has been relatively stagnant. Connecticut single family home sales grew on a month-to-month basis from February through June. Home prices have seen moderate declines over the period. The stock market has remained strong entering the new fiscal year. The national economy as measured by Gross Domestic Product grew in the second quarter after experiencing a first quarter decline.

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