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June 1, 2015

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 April 30, 2015.

OPM is projecting a Fiscal Year 2015 General Fund deficit of \$164.9 million, a change of \$3.2 million from last month's deficit estimate. The Transportation Fund is expected to end Fiscal Year 2015 with a balance of \$171.2 million, an improvement of \$2.2 million from last month's projected balance. I am in general agreement with these numbers.

This month, a significant downward adjustment of \$35 million was made to oil company tax revenue within the General Fund. Retail gasoline sales receipts have fallen by more than 20 percent over the past several months due a series of rapid declines in oil prices. The depressed price level is now expected to impact oil company tax collections for the remaining months of Fiscal Year 2015. The decline in the oil tax was partially offset by a \$20 million dollar gain in tax refunds. The refunds, primarily in non-income tax related areas, have averaged less than initial budget estimates. Other adjustments to General Fund revenue netted to a decline of \$8.7 million.

While the General Fund experienced a net downward revenue adjustment of \$24.3 million this month, projected General Fund spending was lowered by a net \$21.1 million. The spending reduction resulted primarily from a \$26 million adjustment to anticipated deficiency requirements for the Department of Social Services.

Overall, General Fund revenue in Fiscal Year 2015 is projected to fall \$190.4 million short of original budget projections. The largest shortfalls are in federal grants (-\$73.5 million), the health provider tax (-\$68.1 million) and the income tax (-\$65.5 million). The most significant revenue gains are in the sales tax (\$53.8 million) and the corporation tax (\$51.7 million). A complete revenue analysis is provided on Exhibit C attached hereto.

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OPM's projection anticipates that active budget management will result in General Fund spending in Fiscal Year 2015 falling \$25 million below the original budget plan. OPM's current lapse estimate of \$282.1 million is well within the range of lapses experienced over the past five fiscal years. Over those five fiscal years, annual realized lapses have averaged \$511.2 million. Agency deficiency requirements of \$125 million are also within historical averages. The largest single deficiency of \$82 million is in the Medicaid account.

The accumulated balance in the Transportation Fund is expected to change little from the close of last fiscal year. Operations in Fiscal Year 2015 are projected to increase the Transportation Fund balance by \$2.2 million to a balance of \$171.2 million.

As I have been reporting, the state's overall economic climate has been gradually improving. According to the Department of Labor, preliminary figures show that Connecticut gained 1,200 payroll positions in April. Connecticut has gained 23,200 jobs over the past twelve-month period. Over the entire calendar 2014 year, the state added 25,100 payroll positions.

Average hourly earnings at \$28.73, not seasonally adjusted, were up 75 cents, or 2.7 percent from the April 2014 estimate. The average private sector weekly pay was calculated at \$962.46, up \$22.33, or 2.4 percent higher than a year ago. Wage growth was exceeding 6 percent as the state entered the 2008 recession and has exhibited an erratic pattern in the post-recession period.

According to a report from the Warren Group released on May 5th, Connecticut single-family home sales rose 11% in March from the same month last year. This is the strongest March sales number in five years. Adding to the positive sales news, home prices rose 3% in March from \$225,000 to \$232,000. The state has experienced sales increases in six of the last seven months.

I also issue a Comprehensive Annual Financial Report (CAFR) as an accounting supplement to the budgetary report. The CAFR includes financial statements for all state funds and component units 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 \$727.2 million as of June 30, 2014. GAAP deficit reduction bonds in the amount of \$598,500,000 were issued in Fiscal Year 2014 to reduce the shortfall.

Sincerely,

Kevin Lembo
State Comptroller