



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

**Kevin Lembo
State Comptroller**

**Martha Carlson
Deputy Comptroller**

October 3, 2011

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, 2011.

OPM is projecting that the General Fund will end Fiscal Year 2012 with a balance of \$78.9 million. The original budget plan for Fiscal Year 2012 contained a \$75 million reserve to offset an anticipated increase in the unreserved General Fund balance on a GAAP accounting basis. This new practice of reserving a portion of General Fund revenue in fund balance is in recognition of the state's move toward GAAP based budgeting. The remaining projected General Fund balance of \$3.9 million is reserved for payment of 2009 Economic Recovery Notes in accordance with PA 09-3 JSS. OPM is estimating an ending balance of \$108 million for Fiscal Year 2012 in the Transportation Fund. I am in general agreement with these projections at this time.

General Fund spending is expected to exceed the budget plan by \$17 million. A \$15 million deficiency is projected in the Department of Social Services' Medicaid account. This deficiency is attributed to continued growth in the low income adult population. In addition, the Public Defenders Services is experiencing a \$2 million deficiency in payments to contracted attorneys. The deficiencies are largely offset by a \$15 million reduction in projected debt service payments based on lower borrowing costs. The opportunity for deficiency appropriations is limited by the spending cap. The General Fund budget is within \$1 million of its allowable appropriation limit under the constitutional cap.

Revenue projections remain unchanged. Due to tax payment extensions associated with the recent hurricane, actual receipt data essential to this letter's projections will be delayed until later in October. I am concerned that current economic indicators and stock market activity may require adjustments to the current revenue projections; however, sufficient actual receipt data is unavailable for analysis at this time.

Connecticut's economy continues to show slow and erratic growth. For the twelve month period ending in August the state added 4,400 payroll jobs, which is well below the employment growth numbers expected during a normal recovery.

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Personal income in Connecticut has grown at an average rate of 4 percent during the first two quarters of 2011. Wage and salary income is 3.7 percent above last year's level. While interest rates are currently at historically low levels, inflation is beginning to grow constraining consumer purchases.

Housing permits were down 6 percent from a year ago and off 75 percent from the peak level reached in 2004. This is consistent with the downward trend experienced in existing home sales. The Connecticut Manufacturing Production Index has remained relatively flat. Connecticut's export sector continues to be a bright spot with double digit growth posted since the end of the recession.

I also issue a Comprehensive Annual Financial Report (CAFR) that converts the budgetary based financial reporting to Generally Accepted Accounting Principles (GAAP). From a balance sheet prospective, the GAAP shortfall or unreserved fund balance in the General Fund was \$1.7 billion as of June 30, 2010. This figure will be updated in January 2012 for Fiscal Year 2011.

If you have any questions on this report, please do not hesitate to contact me.

Sincerely,

Kevin Lembo
State Comptroller