

May 3, 2010

The Honorable M. Jodi Rell
Governor of the State of Connecticut
State Capitol
Hartford, Connecticut

Dear Governor Rell:

I write to provide you with General and Transportation Fund financial statements for Fiscal Year 2010 based on activity through March 31, 2010.

The Office of Policy and Management has projected a Fiscal Year 2010 General Fund budget deficit of \$319.8 million based on fiscal activity through March 31st. This estimate does not include the deficit mitigation provisions of PA 10-3. In addition, the estimate does not incorporate the revenue revisions from the OPM/OFA consensus forecast of April 30, 2010.

The deficit mitigation initiatives contained within PA 10-3 provide for \$64.7 million in net expenditure reductions and \$258.5 million in transfers and other revenue for total Fiscal Year 2010 General Fund deficit mitigation of \$323.2 million. Taking into account the provisions of PA 10-3 results in an OPM General Fund surplus projection \$3.4 million.

The OPM projection also preceded the April 30th consensus revenue forecasts agreed to by OPM and OFA . These projections result in a net revenue gain --above the gain recognized in PA 10-3-- of \$139.7 million in Fiscal Year 2010 General Fund revenue. The revenue gain is largely explained by improvement in the income tax estimate. The consensus forecast adjustment combined with PA 10-3 would bring the April 20th OPM surplus to \$143.1 million.

Accounting for expenditure trends and revenues variances, I am projecting a General Fund surplus of \$105 million for Fiscal Year 2010. This surplus is largely the product of payment deferrals, one-time transfers and federal stimulus dollars. While the improvement in the income tax trend is welcome, even after a significant tax increase in Fiscal Year 2010, receipts are projected to be almost 13 percent below the level attained in Fiscal Year 2008. The current year surplus does not substantially alter the fiscal challenges that the state will face in the next biennium.

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With respect to the income tax, after twenty months of persistent declines in year over year withholding receipts, gains were experienced in March and April. The more volatile estimated payment component of the income tax improved with April collections but was still about 14 percent below last fiscal year. Final income tax payments grew by over 20 percent. Even with the improvement in April collections, estimated and final payment receipts were more than half a billion dollars below Fiscal Year 2008 receipts.

On April 20th OPM projected Fiscal Year 2010 General Fund agency deficiencies of \$129.3 million. The largest deficiency \$98.8 million is within the Department of Social Services. OPM is attempting to control agency spending in order to force lapses totaling \$622.4 million. The Fiscal Year 2010 surplus is conditioned upon attaining these lapses while also holding deficiencies to the projected level.

In their April 20th letter, OPM was projecting a Transportation Fund balance of \$107.8 million at the end of Fiscal Year 2010. The consensus forecast reduces the balance by \$11.7 million.

I also issue a Comprehensive Annual Financial Report that is prepared in accordance with Generally Accepted Accounting Principles (GAAP). The cumulative General Fund unreserved fund balance as of June 30, 2009 was a negative \$2.3 billion.

Sincerely,

A handwritten signature in black ink, appearing to read "Nancy Wyman". The signature is fluid and cursive, with a large initial "N" and "W".

Nancy Wyman
State Comptroller

