

October 1, 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 Fund and Transportation Fund financial statements for Fiscal Year 2011 based on activity through August 31, 2010.

The Office of Policy and Management (OPM) has projected a Fiscal Year 2011 General Fund deficit of \$45.3 million and Transportation Fund ending balance of \$110.1 million. I am in general agreements with the trends that OPM has identified.

The loss of \$193.4 million in anticipated Fiscal Year 2011 General Fund federal stimulus money is more than offset by other revenue gains. Most notably, the income tax is expected to exceed original budget estimates by \$127.5 million, and the sales tax is projected to end the year \$153.8 million over budget. In total, General Fund revenues are expected to exceed original budget estimates by \$198.1 million.

The growth trends that were established in the income tax and sales tax at the close of Fiscal Year 2010 have continued and accelerated into Fiscal Year 2011. In fact, most revenue categories are showing solid growth over last fiscal year. Connecticut's slowly improving economy is boosting revenues. After the loss of 103,400 payroll jobs between March of 2008 and December 2009, the state has regained 8,000 jobs since the start of the calendar year. For the quarter ended June 2010, new home sales in Connecticut are up more than 30 percent from the same quarter a year ago. New housing permits were also showing signs of resurgence. Nationally, retail sales for August were up 3.6 percent from last year. The stock market has also posted gains over the past year.

Tempering this positive revenue outlook are projected Fiscal Year 2011 General Fund deficiencies of \$171.2 million due to the inability to achieve budgeted savings. The largest single deficiency totals \$140 million within the Department of Social Services. In addition, the state will rely on almost \$650 million in borrowing to correct for structural budget imbalances. Total unadjusted General Fund disbursements for Fiscal Year 2011 are projected to be almost 4 percent above last fiscal year.

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Fiscal Year 2010 ended with a Transportation Fund balance of \$108,481,000. This year's operations are expected to increase the balance by \$1.6 million due to improved revenue projections bringing the estimated balance for Fiscal Year 2011 to \$110,081,000.

I also issue a Comprehensive Annual Financial Report that converts the budgetary based financial reporting to Generally Accepted Accounting Principles (GAAP). From a balance sheet prospective, the GAAP shortfall in the General Fund was \$2.3 billion as of June 30, 2009. It should be noted that \$947.6 million of this shortfall results from the fact that Economic Recovery Notes were not issued until Fiscal Year 2010, therefore those resources did not post to Fiscal Year 2009. I expect to issue GAAP based financials for Fiscal Year 2010 in January.

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

Sincerely,

Nancy Wyman
State Comptroller