

December 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 October 31, 2010.

The Office of Policy and Management (OPM) has projected that Fiscal Year 2011 will close with a small General Fund balance of \$300,000. This figure has not changed from last month's estimate. The Transportation Fund projection is also unchanged from last month's estimate, which anticipated an ending fund balance of \$110.8 million.

I am projecting a Fiscal Year 2011 General Fund deficit of \$18 million. My entire variance from OPM is based on higher estimated refunds of escheated property. With the exception of this small variance, I am in agreement with the fiscal trends identified by OPM. I am also in agreement with OPM's projections for the Transportation Fund. It should be noted that this General Fund deficit figure assumes that General Fund resources above the current projected outlays will not be required to support the federal Low Income Home Energy Assistance Program. If such resources are required, the General Fund deficit would increase proportionately.

Based on consensus revenue estimates produced by OPM and the Office of Fiscal Analysis in accordance with PA 09-214, General Fund revenues for Fiscal Year 2011 are expected to exceed the original budget projections by \$267.4 million. I find the consensus forecast to be reasonable in all revenue categories.

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 \$149.5 million over budget.

The growth trends that were established in the income tax and sales tax at the close of Fiscal Year 2010 have continued into Fiscal Year 2011. In fact, all major revenue categories are showing growth over last fiscal year. Connecticut's slowly improving economy is helping to increase revenues; although, non-federal revenue sources are still projected to end the fiscal year well below the levels attained in Fiscal Year 2008 despite significant tax increases and revenue enhancements.

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After the loss of 103,400 payroll jobs between March of 2008 and December 2009, the state has regained 8,300 jobs since the start of the calendar year. This rate of job recovery has not been sufficient to absorb available workers and has resulted in the state's unemployment rate remaining at 9.1 percent.

After a strong June quarter, existing home sales in Connecticut fell more than 18 percent in September from the same quarter a year ago. New housing permits also weakened in the twelve month period ending in October. Nationally, retail sales for October were up a strong 7.3 percent from last year. The stock market has also posted gains over the past year and corporate profits have performed well.

Tempering the revenue gains projected in the consensus forecast are projected Fiscal Year 2011 General Fund deficiencies of \$233.4 million. The deficiencies are largely attributable to higher program caseloads and the inability to achieve budgeted savings targets. The largest single deficiency totals \$172.5 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 about 4.5 percent above last fiscal year.

Fiscal Year 2010 ended with a Transportation Fund balance of \$108,481,000. This year's operations are expected to increase the balance by \$2.3 million due to improved revenue projections bringing the estimated balance for Fiscal Year 2011 to \$110.8 million.

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. GAAP based financials for Fiscal Year 2010 will be available in January.

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

Sincerely,

Nancy Wyman
State Comptroller

