



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

**Kevin Lembo  
State Comptroller**

**Martha Carlson  
Deputy Comptroller**

February 1, 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 General Fund and Transportation Fund financial statements for Fiscal Year 2011 based on activity through December 31, 2010.

The Office of Policy and Management (OPM) has projected that Fiscal Year 2011 will close with a General Fund surplus of \$57.2 million. This is an increase of \$56 million from last month's estimate.

The rise in the surplus estimate this month is explained by a \$118.6 million increase in projected revenue (\$83.5 million in the income tax, \$17.9 million in the inheritance and estate tax, and \$17.2 in various other categories). The revenue gain is partially offset by estimated increased spending of \$62.6 million, which is primarily explained by increases of over \$30 million in both the Department of Social Services and the Department of Mental Health and Addiction Services related to the low income adult Medicaid population.

The Transportation Fund is projected to end Fiscal Year 2011 with a balance of \$105.5 million, a decrease of \$1.8 million from last month. The small decline in the balance is due to slightly lower revenue projections.

In accordance with Section 511 of Public Act 09-3, JSS any unappropriated surplus in the General Fund at the end of Fiscal Year 2011 shall be reserved for the redemption of outstanding Economic Recovery Notes. Economic Recovery Notes outstanding on June 30, 2010 totaled \$915.8 million. Annual debt service payments of \$208.4 million were anticipated through the end of Fiscal Year 2016. Any appropriations made from the projected surplus prior to the end of the fiscal year would reduce the funds available for note redemption.

I am in general agreement with OPM's estimates this month. Most General Fund revenue categories are showing solid improvement over the same period last fiscal year. The income tax was posting especially robust growth through December. Based on General Fund spending trends through December, the projected targets for total General Fund outlays should be attainable. These estimates continue to assume that no General Fund resources will be required for the federally funded energy assistance program. This program is currently being funded through continuing federal resolutions.

Based on current trends, General Fund revenues for Fiscal Year 2011 are expected to exceed original budget estimates by \$394.8 million. The income tax, sales tax and inheritance tax are significantly out performing initial budget projections. The largest areas of under performance are in the real estate conveyance tax and federal grants due to the loss of anticipated stimulus dollars. The attached Exhibit C details the current General Fund revenue projections.

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Connecticut's slowly improving economy is helping to increase revenues. Based on preliminary estimates, Connecticut added 5,300 payroll jobs in calendar year 2010. The state's unemployment rate remains historically high at 9 percent, which is unchanged from the rate experienced at the start of 2010. Nationally, advance retail sales for December were up a solid 7.9 percent following a 7.7 percent gain in November. Double-digit sales increases were experienced in motor vehicles, and non-store retail items. Equity markets have trended positive from the lows of July. Connecticut's housing market continues to struggle with existing home sales dropping sharply in the third quarter of 2010.

Tempering the revenue gains are projected Fiscal Year 2011 General Fund deficiencies of \$315.7 million. The deficiencies are largely attributable to higher program caseloads and the inability to achieve budgeted savings targets. The largest single deficiency totals \$221 million within the Department of Social Services. In Fiscal Year 2011, the General Fund will rely on over \$1.3 billion in largely non-recurring transfers to help cover operating costs as well as expiring federal stimulus dollars.

Fiscal Year 2010 ended with a Transportation Fund balance of \$107.3 million. This year's operations are expected to decrease the balance by \$1.8 million based on current revenue trends bringing the estimated balance for Fiscal Year 2011 to \$105.5 million.

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.

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

Sincerely,

Kevin Lembo  
State Comptroller