



April 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 and Transportation Fund financial statements for Fiscal Year 2010 based on activity through February 28, 2010.

The Office of Policy and Management (OPM) has projected a Fiscal Year 2010 General Fund budget deficit of \$356.5 million, a decrease in the deficit of \$147.4 million from last month. The change is explained by the implementation of two components of your March deficit mitigation plan.

The first component defers a \$100 million contribution to the State Employees' Retirement System. This deferral shifts the payment obligation forward requiring higher contribution levels in future fiscal years. The second item is \$47.4 million in Medicaid savings due to a change in the administration of federal stimulus money that will result in lower state payments or "claw backs" relative to Medicare Part D. As this is part of the stimulus program, the savings are temporary. Neither of these current year expenditure reductions addresses the long-term structural imbalances in the state budget.

I am projecting a Fiscal Year 2010 General Fund deficit of \$371 million. My variance from OPM is explained by my income tax projection, which is \$14.5 million lower than the OPM estimate. It should be noted that this deficit estimate is premised on OPM's ability to cover certain agency deficiencies through transfers without compromising forced budget savings estimated at \$624.3 million. This will require vigilant management of agency spending throughout the remaining months of the fiscal year. The estimate also relies on continued improvement in income tax collections. Income tax receipts have gradually improved over the past several months; however, final payments that will be posted in April may significantly impact the current projections. At this time, no clear trend has been observed with respect to these final income tax payments.

OPM is currently projecting General Fund agency deficiency requirements for the current fiscal year of \$143.5 million. This figure is net of deficiencies that will be covered through transfers. The largest deficiency appropriation is within the Department of Social Services (\$98.8 million) and is largely in the Medicaid account. A complete listing of anticipated deficiency appropriations appears on Exhibit D in the estimated additional requirements column.

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Pending final income tax payment receipts, I am projecting General Fund revenues to fall \$357.4 million short of budget projections. The two largest shortfalls are in the income tax and sales tax categories, which are short of budget projections by \$222.2 million and \$90.6 million respectively.

Preliminary figures show that Connecticut's payroll employment declined by 1,100 jobs in February. Since the start of the recessionary job losses in March of 2008, the state has lost over one hundred thousand payroll positions. The State's unemployment rate in February was 9.1 percent. Leading economic indicators for Connecticut have posted some gradual improvement, but a return to job growth is expected to be slow in coming.

In accordance with CGS, Section 4-85 (b), on March 1st you submitted a deficit mitigation plan. Much of that plan was not implemented and the current deficit triggers the requirement for a second mitigation plan. As I have noted previously, since Fiscal Year 2008 the state has been running structural deficits with planned spending exceeding expected revenue. While the economic downturn exacerbated the budget imbalance, the state was facing deficits even in the absence of a recession. Any meaningful deficit reduction plan must focus on permanently realigning revenues and expenditures, and it must ensure that any future revenue windfalls are not used for ongoing spending initiatives that cannot be sustained in the long term.

The Transportation Fund is expected to end Fiscal Year 2010 with a fund balance of \$106.7 million. Fiscal Year 2010 operations are expected to increase the fund balance by \$13.2 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. This is an increase of \$1.2 billion from last year. The increase is largely the result of the budgetary deficit for Fiscal Year 2009 of \$947.6 million, which was not financed with Economic Recovery Notes until Fiscal Year 2010. Adjusting for this financing, results in an increase in the Fiscal Year 2010 GAAP deficit of just over \$200 million.

If you require any additional information relative to this report, please contact me.

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

