

July 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 May 31, 2010.

The Office of Policy and Management has projected a Fiscal Year 2010 General Fund budget surplus of \$242.9 million. The Transportation Fund is estimated to end Fiscal Year 2010 with a fund balance of \$98.5 million. I am in general agreement with the trends that OPM has identified.

In accordance with the provisions of Public Act 10-179 any General Fund surplus realized in Fiscal Year 2010 will be reserved for use in Fiscal Year 2011. These funds could be used to partially offset any potential loss of budgeted federal revenue or to lower required borrowing.

The OPM General Fund surplus has grown by \$76 million since last month's report. Revenues have increased by a projected \$58.9 million and net spending is estimated to be \$17.1 million lower than last month's projection.

The largest single change from last month is a \$30 million increase in anticipated sales tax receipts. After months of decline, in March 2010 receipts from the sales tax showed modest gains. Even with the recent improvement in receipts, the sales tax is estimated to generate 5.5 percent less revenue than last fiscal year and is \$446.2 million below its Fiscal Year 2008 level.

Overall, the steep declines in General Fund tax revenues observed in the first half of this fiscal year have abated. However even after significant increases in income tax and corporation tax rates, General Fund net tax revenues are expected to be relatively flat as compared to last fiscal year and are projected to be \$1.8 billion below their Fiscal Year 2008 level.

Additional lapses and elimination of deficiency requirements since last month total \$20.5 million. OPM estimates total General Fund lapses of \$514.8 million in Fiscal Year 2010. The lapse figure includes \$100 million in pension payment deferral and \$59 million in rescissions implemented under your authority.

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The General Fund budget for Fiscal Year 2010 is balanced through the use of \$1.278 billion in budget reserve funds, over \$800 million in federal stimulus dollars, and payment deferrals and one-time transfers. In the absence of these non-recurring revenues and expenditure reductions, the Fiscal Year 2010 General Fund operating budget deficit would exceed \$2.0 billion dollars. In Fiscal Year 2009, the state issued \$947.6 million in Economic Recovery Notes to close that year's operating deficit.

The projected Fiscal Year 2010 year-end balance in the Transportation Fund is \$98.5 million. The fund began the fiscal year with a cumulative balance of \$94.6 million. Fiscal Year 2010 operations have improved the balance by \$3.9 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,

Nancy Wyman
State Comptroller