

September 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 preliminary financial statements for Fiscal Year 2010. In accordance with CGS, Section 3-115, final audited statements for Fiscal Year 2010 will be available on December 31st. Also attached are the General Fund and Transportation Fund financial statements for Fiscal Year 2011 based on activity through July 31, 2010.

For Fiscal Year 2010, General Fund expenditures exceeded operating revenue by \$844.4 million. The operating shortfall in the General Fund was more than offset by net transfers of \$1,323.5 million. Budget Reserve Fund transfers represented \$1,278.5 million of the total Fiscal Year 2010 transfer activity. The remaining balance in the Budget Reserve Fund is \$101.3 million, which is dedicated for use in Fiscal Year 2011.

After adjusting for transfers and other actions as detailed on Schedule B-1 of the attached, the General Fund ended Fiscal Year 2010 with a balance of \$449.4 million. This balance has been reserved for General Fund operations in Fiscal Year 2011.

Total General Fund spending in Fiscal Year 2010 was \$26.8 million below the prior fiscal year, a decline of 0.2 percent. The low rate of growth was partially attributable to payment deferrals; however even after adjusting for the deferrals, spending growth was historically low. By contrast, in the three fiscal years preceding Fiscal Year 2010, General Fund spending increased at an average annual rate of 6 percent, adding \$2.7 billion in spending over the period.

In the five largest General Fund spending categories—Medicaid, state employee salary and wages, education equalization grants to towns, debt service payments, and higher education grants—only debt service posted noteworthy growth in Fiscal Year 2010 up 6.5 percent or \$89.3 million from Fiscal Year 2009. The other four spending categories posted a combined decline in outlays of \$204 million from the prior year. The largest drop was in state employee salary and wages, which was down \$188.5 million.

General Fund revenue in Fiscal Year 2010 increased \$1,986.4 million or 12.7 percent. The largest portion of this increase was attributable to transfers, most notably transfers from the Budget Reserve Fund as discussed above. In addition, tax and fee increases enacted in 2009 contributed to the growth in revenue.

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General Fund revenue from taxes underperformed budget expectations by \$33.5 million. Despite notable tax increases, General Fund tax revenue growth was 1.7 percent between Fiscal Years 2009 and 2010, which was well below the historical growth rate of over 5 percent. General Fund tax revenue in 2010 was \$1.6 billion below Fiscal Year 2008 receipts.

Non-tax General Fund revenue was largely supported by federal stimulus dollars. General Fund federal grant receipts grew by \$446.8 million or 12.3 percent in Fiscal Year 2010 as compared to the prior year. General Fund federal grant receipts in Fiscal Year 2010 were \$1.4 billion higher than in Fiscal Year 2008.

The stagnant tax revenues experienced in Fiscal Year 2010 were the result of a poor economy through much of the fiscal year. During Fiscal Year 2010, Connecticut lost 1,800 payroll jobs. During the first six months of the fiscal year job losses totaled 15,100 payroll positions; in the second half of the fiscal year the state regained 13,300 of the lost jobs. The unemployment rate for Connecticut at the end of Fiscal Year 2010 was 8.8 percent. Nationally, monthly retail sales were up 5.2 percent at the close of Fiscal Year 2010 from the same period one year ago. Again, retail sales growth was not experienced until the latter part of the fiscal year. Existing home sales and the stock market both rebounded during Fiscal Year 2010. The overall economy as measured by Gross Domestic Product showed solid growth in the middle of Fiscal Year 2010, but had slowed to growth of just 1.6 percent in the last quarter of the fiscal year.

I am in general agreement with the trends that OPM has detailed within the current projections for Fiscal Year 2011. OPM is projecting a General Fund deficit of \$63.4 million and a Transportation Fund balance of \$105.9 million.

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. The growth trends established in these two large tax categories at the close of Fiscal Year 2010 have continued and accelerated into Fiscal Year 2011.

Tempering this positive revenue outlook are projected Fiscal Year 2011 General Fund deficiencies of \$171.7 million due to the inability to achieve budgeted savings. In addition the state will rely on close to \$700 million in borrowing to correct for structural budget imbalances.

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

Sincerely,

Nancy Wyman
State Comptroller

