

February 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 December 31, 2009.

The Office of Policy and Management (OPM) has projected a Fiscal Year 2010 General Fund budget deficit of \$500.5 million, an increase in the deficit of \$172.6 million from last month. The change is explained by a decline in estimated revenue of \$209.6 million, which is slightly offset by \$37 million in lower spending requirements. The largest single change from last month is a reduction in anticipated income tax receipts of \$187.7 million. The projected year end balance in the Transportation Fund is estimated to be \$106.9 million.

I am projecting a Fiscal Year 2010 General Fund deficit of \$515 million, a net increase of \$1.7 million from last month. Over the past several months, my deficit estimate has been approximately \$200 million higher than the OPM projection. The variance was largely attributable to the income tax estimate. OPM adopted consensus revenue estimates on January 15<sup>th</sup> that eliminated any significant variance in the deficit outlook between our two offices.

For Fiscal Year 2010, the income tax was budgeted to grow at a 3.8 percent rate. Through December, actual income tax receipts are down 2.7 percent from last fiscal year. Fiscal Year 2010 job losses to date total 21,300 payroll positions. The state is down 94,500 payroll jobs from the peak reached in March 2008. The job losses and associated declining personal income is felt across many revenue categories, most notably the sales tax. Sales tax revenues were budgeted to decline 4.6 percent from last year. Receipts were actually down 7.3 percent through December. The only major revenue category exceeding budget expectations is Federal Grants, which is running \$42.2 million over budget.

General Fund agency deficiencies for Fiscal Year 2010 are expected to total \$193.7 million. The largest deficiency (\$125 million) is within the Department of Social Services where required savings have not been attained. The deficiencies are somewhat offset by a lapse increase of \$51 million due to your allotment rescissions. Miscellaneous spending requirements that are not budgeted equal \$16.5 million to date.

Honorable M. Jodi Rell  
February 1, 2010  
Page 2

In accordance with CGS, Section 4-85 (b), on November 24<sup>th</sup> 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.

I also issue a Comprehensive Annual Financial Report that is prepared in accordance with Generally Accepted Accounting Principles (GAAP). The cumulative General Fund negative balance as of June 30, 2008 was \$1.149 billion. A GAAP report for Fiscal Year 2009 will be available in late February. The cumulative GAAP deficit is expected to increase.

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

Sincerely,

Nancy Wyman  
State Comptroller