S T A T E O F C O N N E C T I C U T

OFFICE OF POLICY AND MANAGEMENT

January 20, 2012

The Honorable Kevin Lembo
State Comptroller
55 Elm Street
Hartford, Connecticut 06106

Dear Comptroller Lembo:

The following information on the State's General Fund for fiscal year 2012 is provided in accordance with Section 4-66 of the General Statutes. In addition, an analysis of the Special Transportation Fund is included due to the significant nature of this fund. Consistent with Executive Order #1 issued January 5, 2011, these projections reflect the state's estimated year-end balance in accordance with Generally Accepted Accounting Principles (GAAP) as well as an estimated balance from operations on a budgetary basis.

General Fund

We are projecting a $73.6 million operating deficit on a GAAP basis for fiscal year 2012, down $82.3 million from last month's estimated $8.7 million balance. On a budgetary basis, we are forecasting a balance from operations of $1.4 million, down from last month's estimate of $83.7 million. This change is the result of the revised revenue forecast adopted on January 17th, discussed further below. Expenditures have remained virtually unchanged at an aggregate level since last month's forecast, although there are several significant changes embedded within our estimate as detailed below.

Revenues

This month's revenue projection reflects the consensus estimate reached by OPM and the legislature's Office of Fiscal Analysis on January 17th pursuant to C.G.S. 2-36c. As a result of that consensus, General Fund revenues are being revised downward by a net $83.1 million from last month's forecast. The largest change is in the Personal Income Tax, down $75.9 million as a result of disappointing fourth quarter estimated payments that were due on January 17th. We note that this change is not isolated to Connecticut: Our research shows similar trends in preliminary data from other states, including New York, New Jersey, Massachusetts, and California. The most likely explanation is that taxpayers realized capital gains and/or shifted income into the prior year as a result of uncertainty at the federal level regarding the extension of the Bush-era tax cuts in December 2010. Declines in bonus levels in the financial service industry are also a contributing factor. Other significant revenue revisions include Federal Grants, down $15.6 million, and Refunds of Payments, down $11.4 million due to larger than expected refunds of escheated property. On the positive side, the Sales Tax is being revised upward by $25.5 million as that tax continues to exceed its targeted growth rate. Higher than expected prices for fuel have resulted in an increase in the Oil Companies projection of $21.1 million. All other General Fund changes net to a decrease of $26.8 million.

Expenditures

Overall, expenditures are estimated at $15.2 million below appropriated levels, an improvement of $0.8 million from last month's estimate. The Public Defenders Services Commission is expected to experience a deficiency of $500,000 in its Special Public Defenders – Non Contractual account, in addition to the $2.0 million shortfall in the Contracted Attorneys account resulting from a plan to resolve payments for cases handled by contracted child protection attorneys. The Teachers' Retirement Board is expected to experience a deficiency of $2.4 million in its Retirees Health Service Cost account due to higher than anticipated membership in the plan. A deficiency of $0.6 million is projected in the Department of Energy and Environmental Protection's Environmental Conservation Fund account as a result of the State's share of clean-up costs for the August and October storms. The projected deficiency in the Comptroller's Adjudicated Claims account has been increased to $2.1 million this month. Most notably, we are now projecting two significant net deficiencies in the Office of the State Comptroller's fringe benefits accounts. In the account that funds health care for retired state employees, costs are expected to exceed available funds. A shortfall is also expected in the account that funds pension payments due to a preliminary revised actuarial estimate of the State's required contribution to the State Employees Retirement Fund which incorporates not only the changes resulting from the State's agreement last year with SEBAC, but the impact of market changes through the end of fiscal year 2011 as well as the extraordinary level of retirements through October 2011.

The deficiencies noted above are offset by a number of anticipated lapses. In the Treasurer's Debt Service accounts, we are projecting a net lapse of $60.5 million as a result of lower than anticipated interest costs and net premiums from bond sales. Personal Services lapses of $4.0 million in the Office of Legislative Management, $0.4 million at the Auditors of Public Accounts, $1.0 million in the Office of the State Comptroller, $0.9 million on the Office of the Attorney General, and $2.3 million in the Department of Developmental Services are also forecast. The Department of Mental Health and Addiction Services is expected to lapse $11.0 million, primarily in the GA Managed Care account due to lower than expected caseloads and claim costs for Medicaid Low Income Adults. The State Department of Education will lapse $2.65 million due to the delayed refill of central office personnel, efficiencies and cost savings measures by the department, and attendance fluctuations. In the Department of Children and Families, $34.7 million is anticipated to lapse across a variety of accounts, largely due to lower-than-budgeted caseloads, delays in program implementation and reduced Personal Services costs. In the Office of Policy and Management, $2.5 million will remain unspent in the Tax Relief for Elderly Renters account due to lower-than-budgeted growth in claims volume. Finally, a significant lapse is expected in the Reserve for Salary Adjustment account due largely to wage freeze savings negotiated as part of last year's SEBAC agreement as well as funds carried-forward from previous fiscal years which will not be needed this year.

Special Transportation Fund

This month, a balance from operations of $1.7 million is forecast. Revenues reflect the consensus estimate reached January 17th and have been revised downward by $15.9 million from last month's forecast. Motor Vehicle Receipts are being revised downward by $7.5 million; Licenses, Permits and Fees are being revised downward by $4.4 million; and Interest income is being revised downward by $4.0 million as all three components have failed to meet their targeted monthly collections. On the expenditure side, a $30.0 million lapse is projected in the Treasurer's Debt Service account in part as a result of refunded bond premium and lower than anticipated interest rates for the December bond sale. The Department of Transportation is expected to lapse $11.9 million, primarily in the accounts that fund bus and rail operations, due to fare increases that reduce required operating subsidies. The Department of Motor Vehicles is anticipated to lapse $0.65 million in its Equipment and Personal Services accounts. A minor shortfall of $1.8 million is forecast in the Comptroller's fringe benefits account as a result of revised calculations of the State's required contribution to the State employees retirement system account. We anticipate the fund balance on June 30, 2012 to be $109.1 million.

In light of the unexpected decline in revenues noted above, I have been charged by the Governor with developing and implementing a plan to reduce spending in order to maintain balance in the General Fund on a GAAP basis. By early next week, I fully anticipate that the Governor will exercise his rescissionary authority. Additionally, other efforts to achieve balance may be implemented to include delayed or cancelled hiring, reductions in discretionary spending, closure of some programs, and, if necessary, action will be requested of the Legislature. Through these measures, I have every expectation that the state will end the year in balance.

As always, it is important to note that while these projections are the best that can be made at this time, estimates may have to be adjusted to reflect changes in the economy, expenditure patterns and/or other factors as the year progresses.

Sincerely,

Benjamin Barnes
Secretary

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2012
As of December 30, 2011
(In Millions)

General Fund

Balance - projected as of Dec. 20, 2011		$	83.7
Revenues			
Personal Income Tax	(75.9)		
Sales Tax	25.5		
Oil Companies Tax	21.1		
Refunds of Payments	(11.4)		
Federal Grants	(15.6)		
All other changes	(26.8)		(83.1)
Expenditures			
Additional Requirements	(100.4)		
Estimated Lapses	101.2		
Miscellaneous Adjustments/Rounding	0.0		0.8
Balance - projected as of Jan. 20, 2012		$	1.4
Reserved Balance [1.]			(75.0)
Estimated Balance - June 30, 2012 - GAAP Basis		$	(73.6)

1. Up to $75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

Special Transportation Fund

Carry Forward FY 2010-11 Surplus		$	107.4
Balance - projected as of Dec. 20, 2011			11.8
Revenues			
Motor Vehicle Receipts	(7.5)		
Licenses, Permits, Fees	(4.4)		
Interest Income	(4.0)		(15.9)
Expenditures			
Additional Requirements	(1.8)		
Estimated Lapses	7.6		
Miscellaneous Adjustments/Rounding	0.0		5.8
Estimated Balance - June 30, 2012		$	109.1

Statement 1
January 20, 2012

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2012
As of December 30, 2011
(In Millions)

	General Assembly Budget Plan [1.]	Revised Estimates OPM [2.]	Over/ (Under)
REVENUE			
Taxes	$14,954.4	$15,001.8	$47.4
Less: Refunds	($935.3)	($992.8)	($57.5)
Taxes - Net	$14,019.1	$14,009.0	($10.1)
Other Revenue	$1,226.5	$1,158.8	($67.7)
Other Sources	$3,543.0	$3,526.1	($16.9)
TOTAL Revenue	$18,788.6	$18,693.9	($94.7)
EXPENDITURES			
Appropriations	$19,485.6	$19,485.6	$0.0
Net Additional Requirements	$0.0	$107.6	$107.6
Less: Estimated Lapses	($777.9)	($900.7)	($122.8)
TOTAL Expenditures	$18,707.7	$18,692.5	($15.2)
Balance from Operations	$80.9	$1.4	($79.5)
Miscellaneous Adjustments	$0.0	$0.0	$0.0
Estimated Balance - Budgetary Basis	$80.9	$1.4	($79.5)
Reserved Balance - GAAP [3]	($75.0)	($75.0)	$0.0
Estimated Balance - GAAP Basis	$5.9	($73.6)	($79.5)
Reserved Balance -Other [3]	($5.9)	$0.0	$0.0
Remaining Balance - 6/30/2012	$0.0	($73.6)	($79.5)

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.
2. As amended by P.A 11-1, October Spec. Sess.
3. Up to $75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

Statement 2
January 20, 2012

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2012
As of December 30, 2011
(In Millions)

TAXES	
Personal Income	$8,381.0
Sales and Use	3,880.5
Corporation	707.7
Public Service Corporations	268.7
Inheritance and Estate	158.0
Insurance Companies	228.8
Cigarettes	443.8
Real Estate Conveyance	92.1
Oil Companies	136.6
Electric Generation	71.0
Alcoholic Beverages	54.9
Admissions and Dues	36.5
Health Provider Tax	525.9
Miscellaneous	16.3
TOTAL - TAXES	$15,001.8
Less: Refunds of Taxes	(873.6)
Earned Income Tax Credit	(110.2)
R & D Credit Exchange	(9.0)
TOTAL - TAXES - NET	$14,009.0
OTHER REVENUE	
Transfers - Special Revenue	$297.8
Indian Gaming Payments	342.4
Licenses, Permits, Fees	269.9
Sales of Commodities and Services	36.4
Rents, Fines, Escheats	123.7
Investment Income	2.0
Miscellaneous	168.0
Refunds of Payments	(81.4)
TOTAL - OTHER REVENUE	$1,158.8
OTHER SOURCES	
Federal Grants	$3,572.8
Transfer from Tobacco Settlement Fund	96.1
Transfers to Other Funds	(142.8)
TOTAL - OTHER SOURCES	$3,526.1
TOTAL - GENERAL FUND REVENUE	$18,693.9

Statement 3
January 20, 2012

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2012
As of December 30, 2011

Department of Energy and Environmental Protection	600,000
Teachers' Retirement Board	2,400,000
Public Defender Services Commission	2,500,000
OSC-Fringe Benefits	100,000,000
OSC-Miscellaneous - Adjudicated Claims	2,050,000
Total	$107,550,000

Statement 4
January 20, 2012

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2012
As of December 30, 2011

Unallocated Lapse	$ 7,500,000
Unallocated Lapse - Legislative	-
Unallocated Lapse - Judicial	3,545,000
General Personal Services Reduction - Legislative	476,000
General Personal Services Reduction - Executive	11,538,800
General Other Expenses Reduction - Legislative	374,000
General Other Expenses Reduction - Executive	9,066,200
Labor-Management Savings - Legislative	4,586,734
Labor-Management Savings - Executive	625,947,354
Labor-Management Savings - Judicial	27,670,929
Office of Legislative Management	4,000,000
Auditors of Public Accounts	400,000
Office of the State Comptroller	1,000,000
Office of the Attorney General	900,000
Office of Policy and Management	2,500,000
OPM - Reserve for Salary Adjustment	90,000,000
Department of Developmental Services	2,300,000
Department of Mental Health and Addiction Services	11,000,000
State Department of Education	2,650,000
Department of Children and Families	34,700,000
State Treasurer - Debt Service	60,500,000
Total	$900,655,017

Statement 5
January 20, 2012

State of Connecticut
2011-12 General Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan [1.]	July 2011	August 2011	September 2011	October 2011 [2.]	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012
REVENUE	$18,788.6	$18,788.6	$18,788.6	$18,786.0	$18,777.5	$18,777.0	$18,693.9						
Appropriations	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6						
Additional Requirements	0.0	0.0	17.0	33.0	12.0	7.2	107.6						
Less: Estimated Lapses	(777.9)	(777.9)	(792.9)	(808.2)	(799.2)	(799.5)	(900.7)						
TOTAL - Estimated Expenditures	18,707.7	18,707.7	18,709.7	18,710.4	18,698.4	18,693.3	18,692.5	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	80.9	80.9	78.9	75.6	79.1	83.7	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Est. Balance 6/30/12 - Budgetary Basis	$80.9	$80.9	$78.9	$75.6	$79.1	$83.7	$1.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Reserved Balance - GAAP [3]	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)						
Est. Balance 6/30/12 - GAAP Basis	$5.9	$5.9	$3.9	$0.6	$4.1	$8.7	($73.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.
2. As amended by P.A 11-1, October Spec. Sess.
3. Up to $75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

Statement 1T
January 20, 2012

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2012
As of December 30, 2011
(In Millions)

	General Assembly Budget Plan [1.]	Revised Estimates OPM	Over/ (Under)
Surplus Carried Forward from 2010-11 [2.]	$107.5	$107.4	($0.1)
REVENUE			
Taxes	$805.8	$793.0	($12.8)
Less: Refunds of Taxes	(7.2)	(7.4)	(0.2)
Taxes - Net	798.6	785.6	(13.0)
Other Revenue	463.9	442.2	(21.7)
TOTAL - Revenue	$1,262.5	$1,227.8	($34.7)
EXPENDITURES			
Appropriations	$1,315.4	$1,315.4	$0.0
Net Additional Requirements	0.0	1.8	1.8
Less: Estimated Lapses	(53.5)	(91.1)	(37.6)
TOTAL - Expenditures	$1,261.9	$1,226.1	($35.8)
Balance from Operations	$0.6	$1.7	$1.1
Miscellaneous Adjustments	0.0	0.0	0.0
Estimated Balance - June 30, 2012	$108.1	$109.1	$1.0

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.
2. Budget plan as estimated by the Office of Policy and Management. Revised estimates per the Comptroller's Sept. 1, 2011 letter.

Statement 2T
January 20, 2012

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2012
As of December 30, 2011
(In Millions)

TAXES	
Motor Fuels	$491.8
Oil Companies	226.9
Sales Tax DMV	74.3
TOTAL - TAXES	793.0
Less: Refunds of Taxes	(7.4)
TOTAL - TAXES - NET	$785.6
OTHER REVENUE	
Motor Vehicle Receipts	$230.0
Licenses, Permits, Fees	137.5
Interest Income	5.0
Federal Grants	13.1
Transfers (To)/From Other Funds	60.1
Refunds of Payments	(3.5)
TOTAL - OTHER REVENUE	$442.2
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	$1,227.8

Statement 3T
January 20, 2012

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2012
As of December 30, 2011

OSC - Fringe Benefits	$1,800,000
Total	$1,800,000

Statement 4T
January 20, 2012

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2012
As of December 30, 2011

Unallocated Lapse	$ 6,000,000
Labor-Management Savings	42,536,383
Department of Motor Vehicles	650,000
Department of Transportation	11,900,000
State Treasurer - Debt Service	30,000,000
Total	$91,086,383

Statement 5T
January 20, 2012

State of Connecticut
2011-12 Special Transportation Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan [1.]	July 2011	August 2011	September 2011	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012
Beginning Balance [2.]	$107.5	$107.5	$107.4	$107.4	$107.4	$107.4	$107.4						
Revenue	1,262.5	1,262.5	1,262.5	1,243.7	1,243.7	1,243.7	1,227.8						
Total Available	1,370.0	1,370.0	1,369.9	1,351.1	1,351.1	1,351.1	1,335.2	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4						
Additional Requirements	0.0	0.0	0.0	0.0	0.0	0.0	1.8						
Less: Estimated Lapses	(53.5)	(53.5)	(53.5)	(73.5)	(73.5)	(83.5)	(91.1)						
TOTAL - Estimated Expenditures	1,261.9	1,261.9	1,261.9	1,241.9	1,241.9	1,231.9	1,226.1	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	0.6	0.6	0.6	1.8	1.8	11.8	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Compt's Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Estimated Balance 6/30/12	$108.1	$108.1	$108.0	$109.2	$109.2	$119.2	$109.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.
2. Budget Plan and the month of July as estimated by the Office of Policy and Management. August and thereafter per the Comptroller's September 1, 2011 Letter.