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**Joint Statement of
Tim Geithner,
Secretary of the Treasury,
and
Peter Orszag,
Director of the Office of Management and Budget,
on
Budget Results for Fiscal Year 2009**

WASHINGTON, D.C. – U.S. Treasury Secretary Tim Geithner and White House Office of Management and Budget (OMB) Director Peter R. Orszag today released details of the final Fiscal Year 2009 budget results. In making the announcement, Geithner and Orszag pointed to the severe economic and financial crisis the country faced this year and the Administration’s commitment to lay a new foundation for economic growth and fiscal sustainability.

“This year’s deficit is lower than we had projected earlier this year, in part because we are managing to repair the financial system at a lower cost to taxpayers. But future deficits are too high, and the President is committed to working with Congress to bring them down to a sustainable level as the economy recovers,” Secretary Geithner explained.

“It was critical that we acted to bring the economy back from the brink earlier this year. As we move from rescue to recovery, the President recognizes that we need to put the nation back on a fiscally sustainable path. As part of the FY 2011 budget policy process, we are considering proposals to put our country back on firm fiscal footing,” Director Orszag stated.

A summary of the FY2009 data, released as part of the September 2009 Monthly Treasury Statement of Receipts and Outlays of the United States Government, shows that the federal deficit dropped by \$162 billion from a projected \$1,580 billion in the August Mid-Session Review (MSR) to the final figure of \$1,417 billion.

Receipts for the fiscal year totaled \$2,105 billion, while outlays totaled \$3,522 billion.

The decline in the deficit from the August MSR estimate reflected outlays that were \$132 billion lower than expected in August, in large measure because of lower-than-anticipated outlays by the government's Troubled Assets Relief Program (TARP). The decline was also the result of receipts that were \$31 billion higher than estimated in the MSR.

The FY2009 deficit was largely the product of the spending and tax policies inherited from the previous Administration, exacerbated by a severe recession and financial crisis that were underway as the current Administration took office. The new Administration's chief economic stabilization and recovery efforts implemented through TARP and the American Recovery and Reinvestment Act (Recovery Act) accounted for 24 percent of the deficit total.

Federal borrowing from the public net of financial assets increased by \$1,417 billion during FY2009, to \$6,711 billion or 47.2 percent of GDP.¹

Summary of Fiscal Year 2009 Final Data

Table 1. Total Receipts, Outlays, and Deficit (in billions of dollars)			
	<u>Receipts</u>	<u>Outlays</u>	<u>Deficit</u>
FY2008 Actual	2,524	2,978	-455
FY2009 Estimates			
May 2009 Budget	2,157	3,998	-1,841
August 2009 Mid-Session Review	2,074	3,653	-1,580
FY2009 Actual	2,105	3,522	-1,417

Overall, government receipts in FY2009 were \$419 billion lower than in FY2008 -- a reduction of 16.6 percent. This was largely a result of the effects of the economic slowdown on incomes and corporate profits and the tax provisions in the Recovery Act, enacted in February 2009. Receipts fell from 17.5 percent of GDP in FY2008 to 14.8 percent of GDP in FY2009.

Primarily because of the government's economic recovery efforts, outlays for FY2009 grew by \$543 billion, or 18.2 percent, from FY2008. The full implementation of these temporary measures -- notably TARP initiatives to aid financial institutions and stabilize credit markets, the Treasury's Preferred Stock Purchase Agreement with Fannie Mae and Freddie Mac, which helped to stabilize credit availability in the mortgage market, and the Recovery Act -- contributed to growth in outlays. Increased outlays through automatic stabilizers such as Medicaid and the Supplemental Nutrition Assistance Program also contributed to the change. As a percentage of GDP, outlays grew from 20.6 percent in FY2008 to 24.8 percent in FY2009.

The final \$1,417 billion FY2009 deficit figure was \$424 billion lower than projected in the FY2010 Budget, released in May, with receipts coming in \$52 billion lower and outlays \$476

¹ This measure of net borrowing, as reported in the Monthly Treasury Statement, excludes the federal government's holdings of GSE preferred stock. If those stock holdings were included, net borrowing as a percentage of GDP would be smaller by as much as three-quarters of a percentage point.

billion lower than projected. Relative to the FY2008 data, the FY2009 deficit ended \$962 billion higher. The FY2009 deficit amounts to an estimated 10.0 percent of GDP.

More complete explanations of the FY2009 receipts, outlays, and deficit follow.

Fiscal Year 2009 Receipts

Total receipts for FY2009 were \$2,105 billion, \$31 billion higher than the MSR estimate of \$2,074 billion. Higher-than-expected collections of individual income taxes and corporation income taxes accounted for most of the net increase in receipts relative to the MSR. Table 2 displays actual receipts and estimates from the Budget and MSR by source.

- Individual income taxes were \$915 billion, \$12 billion higher than the MSR estimate. Higher-than-estimated non-withheld payments accounted for \$5 billion of the increase in individual income taxes relative to the MSR. Higher-than-anticipated growth in non-wage sources of income such as capital gains and dividends, relative to what was assumed in the MSR, contributed to the increase in non-withheld payments. Lower-than-estimated refunds increased collections of individual income taxes an additional \$7 billion relative to the MSR estimate. A reclassification of recovery payments provided under the Economic Stimulus Act of 2008 and claimed on individual income tax returns for 2008 as outlays rather than as tax refunds accounted for approximately half of the reduction in refunds relative to the MSR estimate. This reclassification had no effect on the deficit. An accounting adjustment based on more recent data reallocated \$2 billion less than had been expected in withheld tax payments from the Social Security and Medicare Trust Funds to individual income taxes. This reduction in withheld individual income tax payments was offset by higher-than-estimated withholding attributable to other factors, resulting in no net change in withheld individual income tax payments relative to the MSR estimate.
- Corporation income taxes were \$138 billion, \$17 billion higher than the MSR estimate. Inaction on the Administration's proposal to expand net operating loss carrybacks increased corporation income tax payments \$28 billion relative to the MSR. This increase was partially offset by reduced corporation income tax payments and increased refunds, attributable to lower corporate profits than assumed in the MSR.
- Social insurance and retirement receipts were \$891 billion, the same as the MSR estimate, although there were offsetting differences among the sources of this category of receipts. A \$2 billion increase in employment and general retirement receipts relative to the MSR was attributable to the lower-than-expected reallocation of withheld tax payments from the Social Security and Medicare Trust Funds to individual income taxes, as described above. Lower-than-expected deposits by States of unemployment payroll taxes, relative to what was assumed in the MSR, contributed to an offsetting \$2 billion shortfall in unemployment insurance receipts.

- Excise taxes were \$62 billion, \$3 billion lower than the MSR estimate. This decline was attributable to lower-than-expected demand for taxed goods.
- Estate and gift taxes were \$23 billion, \$3 billion lower than the MSR estimate. This decline was in large part attributable to a decline in the value of taxable estates relative to the MSR estimate.
- Customs duties were \$22 billion, within \$100 million of the MSR estimate.
- Miscellaneous receipts were \$52 billion, \$8 billion higher than the MSR estimate. Higher-than-expected deposits of earnings by the Federal Reserve System, attributable to higher-than-expected returns on its investment portfolio and its foreign currency holdings, accounted for \$7 billion of the increase in miscellaneous receipts relative to the MSR estimate.

Fiscal Year 2009 Outlays

Total outlays were \$3,522 billion for FY2009, which was \$132 billion below the MSR estimate. Outlays for a number of agencies were below MSR estimates, including differences of \$4 billion or more in the Departments of Agriculture, Defense, Health and Human Services, Transportation, and Treasury as well as the Corps of Engineers and the Postal Service. These lower-than-expected outlays were partially offset by significantly higher-than-expected outlays in the Other Defense Civil programs, the Office of Personnel Management, and the Federal Deposit Insurance Corporation.

Total Recovery Act outlays in FY2009 were \$113 billion, with the largest components in the Department of Health and Human Services (HHS) to cover increased Medicaid payments, the Department of Labor to provide higher unemployment benefits, and the Department of Education for payments to states from the State Fiscal Stabilization Fund and for increases in Pell grants. Additionally, Department of the Treasury outlays grew due to new assistance to government-sponsored enterprises (GSEs). HHS outlays also expanded due to significant growth for Medicare.

Table 3 displays actual outlays by agency and major program as well as estimates from the Budget and the MSR. The largest changes in outlays from the MSR were in the following areas:

- Department of Agriculture — Outlays for the Department of Agriculture were \$114 billion, \$6.4 billion below the MSR estimate. Commodity Credit Corporation (CCC) actual outlays were about \$2 billion less than MSR estimates. This occurred because fewer producers than anticipated took out commodity loans and more paid them back before the end of the fiscal year; dairy prices increased late in the fiscal year, which resulted in lower Milk Income Loss Contract payments than anticipated in the MSR; the prices of certain agricultural commodities did not fall as much as assumed in the MSR so counter-cyclical payments were lower than expected; and non-insured assistance payments (crop loss payments for commodities not eligible for crop insurance) were lower than anticipated. Recovery Act outlays for the Forest Service and the Rural

Development program area were approximately \$1 billion less than MSR estimates. Project approval and obligation occurred at a slower pace than originally projected. In addition, the delay in project obligations resulted in a delay in the disbursement of Rural Development salaries and expenses since these funds support project approval and monitoring. Outlays for the Supplemental Nutrition Assistance Program were \$1.2 billion, or 2 percent, lower than projected in the MSR. There were roughly 200,000 fewer participants than anticipated, and the average benefit per person was lower as well.

- Department of Commerce — Department of Commerce outlays were \$11 billion in FY2009, \$1.1 billion below the MSR estimate. Over half of this difference (\$558 million) related to the National Telecommunications and Information Administration, which administers the digital-to-analog converter box coupon program and public safety interoperable communications grants; both programs spent less in FY2009 than anticipated. Actual outlays for the Bureau of the Census were \$375 million below MSR estimates, and outlays by the National Institute of Standards and Technology were \$350 million below estimates.
- Department of Defense — Outlays for the Department of Defense (DOD) were \$637 billion, \$4.4 billion, or 0.7 percent, less than estimated in the MSR. There is no single explanation for the differences between projected and actual outlays, but several examples illustrate the types of variance seen in accounts. For example, DOD spent \$1.5 billion less than projected for the Air Force to purchase aircraft, in part because prior year supplemental appropriations provided more money than could be used to buy C-130 Hercules transport aircraft, exceeding production capacity. Other examples of lower-than-projected outlays include the contracts to purchase heavy- and medium-wheeled vehicles, where contracts were delayed or protested, slowing outlays by more than \$1 billion. In some instances supplemental funds caused higher-than-expected outlays for the purchase of major defense systems, such as for the Navy's purchase of aircraft. In this instance, the purchase of planes had an outlay surge in the second year after appropriations (resulting in an outlay rate \$1.3 billion higher than projected).
- Department of Education — Outlays for the Department of Education were \$53 billion, \$3.9 billion higher than the MSR estimate. Spending for the new State Fiscal Stabilization Fund, created by the Recovery Act, was \$7.1 billion higher than expected, due to accelerated State drawdowns of this funding. This increase was partially offset by higher-than-expected negative subsidy receipts in the Federal Family Education Loan Program and Federal Direct Loan Programs primarily due to changes in the amounts and composition of student loan volumes, which reduced net outlays by \$2.7 billion relative to the MSR.
- Department of Energy — Outlays for the Department of Energy were \$24 billion, \$3.5 billion lower than the MSR estimate. Outlays for the Energy Efficiency and Renewable Energy account were \$1.34 billion below MSR estimates due to slower-than-expected disbursement of Recovery Act funds, particularly for the Weatherization Assistance Program. Lower outlays for Fossil Energy (\$310 million less than MSR) and Science (\$632 million less than MSR) were due primarily to delays in awarding funds and slower

progress on cleanup actions. Outlays for the Environmental Management program were \$380 million less than MSR, due to slower-than-expected progress in implementing cleanup actions at DOE sites.

- Department of Health and Human Services — Outlays for the Department of Health and Human Services were \$796 billion, \$17.6 billion below the MSR estimate. A little less than half of the total difference was in outlays for Medicaid, which were \$7.6 billion (2.9 percent) lower than MSR estimates, due to slower-than-expected growth in State Medicaid spending. While year-end financial and enrollment data are still being finalized, the difference between the estimated and actual Medicaid spending growth was likely due to a combination of slower-than-expected enrollment growth and stronger efforts by States to control program spending, such as by freezing or cutting provider reimbursement rates or by reducing benefits. Outlays for the Administration for Children and Families (ACF) were \$3.4 billion below the MSR estimate. Outlays for the Children and Families Services account, which includes Head Start and Early Head Start, were lower than expected because ACF was not able to make grant awards from Recovery Act expansion funds before the end of FY2009. Grants are being awarded through October, and outlays will be made in FY2010. Outlays from the Temporary Assistance for Needy Families (TANF) contingency fund account were also lower than expected, because the MSR overestimated State applications for Recovery Act emergency funds. In addition, slower-than-expected outlays for research grants at the National Institutes of Health and for emergency preparedness and response activities across HHS resulted in decreases of approximately \$1.7 billion and \$2.8 billion in outlays, respectively, relative to MSR projections. It is likely that some of these outlays will shift from late FY2009 to early FY2010.
- Department of Homeland Security — Outlays for the Department of Homeland Security (DHS) were \$52 billion in FY2009, \$1.8 billion more than the MSR estimate. The difference was attributable primarily to a decrease in fee collections and higher-than-expected outlays from a number of agencies within the Department. DHS fees were below the MSR estimate by approximately \$700 million. Additionally, Customs and Border Patrol outlays exceeded the MSR estimate in both the Salaries and Expenses account and the Border Security, Fencing, and Tactical Infrastructure account.
- Department of Housing and Urban Development — The Department of Housing and Urban Development's total FY2009 outlays were \$61 billion, \$1.8 billion below the MSR estimate. Most of this difference (\$0.9 billion) was due to receipts generated by Federal Housing Administration (FHA) single-family and Government National Mortgage Association (GNMA) loan guarantee programs with negative subsidy rates. The loan volume of these programs surged as private mortgage insurance largely vacated the housing finance market. Two new housing programs experienced lower-than-anticipated FY2009 activity after their introduction -- the Hope for Homeowners and Tax Credit Assistance programs had outlays of \$0.5 billion less than their MSR estimates. Outlays are likely to increase in FY2010 as these programs reach their projected scales. Outlays for the FHA General and Special Risk liquidating account were \$0.4 billion less than the MSR estimate due to a substantial decline in mark-to-market activity (multi-family

housing loan restructuring) and higher-than-anticipated collections on defaulted loans.

- Department of Justice — FY2009 outlays for the Department of Justice (DOJ) were \$28 billion, \$1.4 billion below the MSR estimate. DOJ's actual outlays for State and local law enforcement assistance in the Office of Justice Programs were \$1.0 billion lower due to slower-than-expected outlays of the Recovery Act grantee funds. The Recovery Act funds have been fully obligated to state and local law enforcement programs, but the grantees are not spending the funds as quickly as had been projected.
- Department of Transportation — Outlays for the Department of Transportation were \$73 billion, \$7.5 billion lower than projected in the MSR. Actual outlays for DOT Recovery Act programs were \$4.5 billion less than estimated, with the difference primarily in highway, transit, and rail programs. This was largely because of the time and steps required by project sponsors to start work on a new set of previously unplanned projects. Actual outlays for the Consumer Assistance to Recycle and Save (CARS or "cash for clunkers") program exceeded MSR estimates by \$2.2 billion because the original estimate did not include outlays from an additional \$2 billion in transfer authority enacted in Public Law 111-47. In addition, rates of participation in the program far surpassed initial agency predictions, which resulted in a shift to FY2009 of outlays anticipated for FY2010. Also, spending out of the Federal Aid Highway account was \$1.9 billion less than projected.
- Department of the Treasury — Outlays for the Department of Treasury totaled \$703 billion, \$98.4 billion lower than the MSR estimate. Major differences from the MSR estimate include the following:
 - TARP had net outlays of \$153.9 billion for debt, equity, guarantee, and housing programs, \$82.3 billion lower than the MSR estimate, most of which was due to the timing of disbursements that were expected to occur in FY2009 but are now assumed to shift to FY2010.
 - Under the Government Sponsored Enterprise (GSE) Preferred Stock Purchase Agreements program, the Department of the Treasury's capital payments to Fannie Mae and Freddie Mac totaled \$95.6 billion in FY2009, \$10.3 billion less than estimated in the MSR, due to better-than-expected financial results at the GSEs. In addition, actual credit subsidy receipts for the GSE mortgage-backed securities (MBS) purchase program were \$1.4 billion lower than in the MSR due to lower-than-projected purchase volumes, which increased net outlays relative to the MSR estimate by that amount.
 - Net outlays for two Treasury accounts related to exchange stabilization were \$2.6 billion below the MSR estimate – the Exchange Stabilization Fund, which Treasury uses at times to maintain a stable international financial system, and its child account, the Exchange Stabilization Fund Money Market Mutual Fund Guaranty Facility. The Facility was established for the Money Market Fund Guaranty Program, which began on September 29, 2008, and ended on September

18, 2009. In the MSR, OMB estimated a likely claim pay-out under the program of \$2.5 billion based on total fund assets guaranteed of approximately \$3 trillion. However, the participating funds had no covered losses while the program was in effect, so the program provided insurance to the markets at no ultimate cost to the public.

- Outlays for refundable tax credits and related programs that are part of the Internal Revenue Code and administered by Treasury and the Internal Revenue Service, such as the child tax credit, were \$6.6 billion lower than estimated in the MSR. The largest difference was for a new Recovery Act program of cash assistance to States in lieu of low-income housing credits, which outlayed \$3.1 billion less than estimated in the MSR. While these funds were obligated in FY2009, they are now expected to be drawn down and outlayed in FYs 2010 and 2011. Outlays for refundable credits for the new Recovery Act program to provide post-employment ("COBRA") health insurance coverage were \$1.6 billion less than estimated in the MSR because claims by employers were smaller than expected, and also apparently later than expected. In addition, economic stimulus payments in FY2009 to certain individuals not eligible for the original recovery rebates paid in FY2008 were \$1.2 billion below the MSR estimate due to lower-than-expected claims. Actual outlays for other programs in this category were \$0.7 billion lower than the MSR estimate.
- Interest on the public debt, which includes interest paid to government accounts as well as interest paid to the public, was \$383.4 billion, \$11.1 billion lower than the MSR estimate. Interest paid to government accounts was \$14.0 billion lower than projected, due primarily to lower interest rates, including \$4.9 billion in lower interest paid to trust funds and \$8.0 billion in lower interest paid to the DOD Medicare-Eligible Retiree Health Care Fund. This was partially offset by \$3.0 billion in higher-than-expected interest paid to the public, due almost entirely to higher interest on inflation-indexed securities because of faster-than-expected inflation in the Consumer Price Index.
- An additional \$14.4 billion of the difference in Treasury outlays was due to intragovernmental interest transactions with credit financing accounts, including \$30.1 billion lower-than-projected interest paid to credit financing accounts and \$44.6 billion lower-than-anticipated offsetting receipts of interest from credit financing accounts. (Interest received from credit financing accounts is reported in Treasury's aggregate offsetting receipts.) Transactions with the TARP financing accounts comprised \$9.5 billion of the total \$14.4 billion difference, including \$8.4 billion in lower-than-expected interest paid to TARP financing accounts and \$18.0 billion in lower-than-expected interest received from TARP financing accounts. These differences resulted from lower-than-anticipated TARP program volumes as well as actual interest rates that were lower than the MSR estimates.

- Corps of Engineers — Outlays for the Army Corps of Engineers civil works program were \$7 billion, \$5.8 billion lower than the MSR estimate. Much of the difference was due to changes in construction project schedules made after the MSR and increases in offsetting collections for work that the Corps performed on behalf of other Federal agencies under its reimbursable program.
- General Services Administration — GSA's total outlays were \$0.3 billion, \$1.1 billion less than what was projected in the MSR. \$890 million was associated with the Federal Buildings Fund (FBF) and the Acquisition Services Fund. For the Acquisition Services Fund, actual revenue was \$251 million higher than anticipated. For the FBF, actual revenue was more than \$200 million higher than anticipated. The FBF Recovery Act projects initially had outlay projections based on the standard outlay calculators associated with construction and repairs and alterations projects. The standard outlay calculators are often used prior to work beginning on a construction project and are updated as the project is underway. Although GSA was able to obligate almost \$1.4 billion of FBF Recovery Act funding in FY2009, the outlays were \$326 million less than projected in the MSR.
- Office of Personnel Management — Outlays for the Office of Personnel Management were \$72 billion, \$4.1 billion higher than the MSR estimate. OPM outlays were higher due to legislative relief provided to the US Postal Service in the 2010 Continuing Resolution, which allowed that agency to make only \$1.4 billion of the expected \$5.4 billion end-of-year payment for USPS retiree health.
- Other Defense Civil Programs — Outlays for Other Defense Civil programs were \$57 billion, \$8.8 billion more than the MSR estimate. Most of this difference was due to lower-than-projected earnings on investments of the Medicare-Eligible Retiree Health Care Fund (MERHCF), which are offset against gross outlays to calculate net outlays. These lower-than-projected earnings were largely due to a less-than-expected return on the Treasury Inflation-Protected Securities (TIPS) investments in the MERHCF portfolio.
- Federal Deposit Insurance Corporation — The Federal Deposit Insurance Corporation (FDIC) had net actual outlays of \$6.7 billion, \$5.3 billion above the MSR estimate. The difference was almost entirely due to greater-than-expected payments related to the resolution of failed banks.
- National Credit Union Administration — Outlays for the National Credit Union Administration (NCUA) were \$16 billion, \$1.5 billion lower than the MSR estimate, predominantly due to one unanticipated transaction. The Credit Liquidity Facility transferred \$1.75 billion from the U.S. Central Federal Credit Union to the U.S. Treasury, resulting in an unexpected net in-flow of cash in August 2009.
- United States Postal Service — The United States Postal Service (USPS) had net actual outlays of \$0.4 billion, \$3.5 billion lower than the MSR estimate. This difference was almost entirely due to the recent legislated change in the statutorily mandated USPS payment to the Office of Personnel Management for retiree health benefits liabilities. The

Continuing Appropriations Resolution, 2010, reduced the required end-of-year payment from \$5.4 billion to \$1.4 billion, reducing USPS outlays by \$4.0 billion. These reduced outlays are offset by lower receipts for OPM and have no effect on the unified budget deficit.

- Undistributed Offsetting Receipts — Undistributed offsetting receipts were \$274 billion in FY2009, \$3.7 billion lower than the MSR estimate. Interest received by trust funds was \$181.6 billion, \$4.9 billion lower than the MSR estimate, due primarily to lower-than-estimated interest earnings for the Civil Service Retirement and Disability Fund. Partially offsetting these lower-than-expected receipts were \$1.4 billion more in receipts for the Federal employer share of employee retirement than were expected in the MSR estimate.

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