

Treasury Windfalls Boost Revenues - Update



Independent Fiscal Office | Research Brief | May 2024

This research brief updates a prior release (September 2023) by the Independent Fiscal Office (IFO) that highlighted the recent General Fund windfall generated by Treasury collections. The table below displays the General Fund average daily balance, the Federal Funds Target Rate, Treasury collections and the effective interest rate (actual collections divided by the average daily balance) for fiscal year (FY) 2016-17 through FY 2024-25 (projected). (Note: Collections for FY 2023-24 include a one-time deposit of \$59 million that was unrelated to the General Fund balance and is excluded from the computation of the effective rate for that year. Amounts also exclude interest that accrues on the balance of the Budget Stabilization Fund.) The data illustrate that the higher earnings are due to two factors: (1) unprecedented General Fund balances and (2) historically high interest rates.

Prior to FY 2020-21, the typical General Fund average daily balance was roughly \$1.5 billion. For FY 2020-21, that balance more than doubled to \$3.3 billion and then surged to \$11.2 billion in FY 2021-22 due to federal COVID relief funds and extraordinarily strong revenue growth. Even with the much higher balance, Treasury collections were muted due to the very low interest rates in effect. By early 2022, the Federal Reserve Board

Fiscal Year	GF Avg. Daily Bal.	Fed Funds Target Rate	Treasury Collect.	Effective Rate
2016-17	\$1,552	0.5%	\$20	1.3%
2017-18	1,367	1.2	31	2.3
2018-19	1,606	2.1	72	4.5
2019-20	1,394	1.2	30	2.1
2020-21	3,343	0.0	9	0.3
2021-22	11,175	0.2	23	0.2
2022-23	13,372	3.7	452	3.4
2023-24	13,900	5.2	780	5.2
2024-25	11,800	5.1	600	5.1

Note: Dollars in millions. Daily General Fund balance from Pennsylvania Treasury website. Average computed by the IFO. Lower limit for the Federal Funds Target Rate is shown. Effective Rate is equal to actual collections divided by the General Fund Average Daily Balance. FY 2023-24 and FY 2024-25 are estimated.

began to rapidly increase the Federal Funds Target Rate, causing the effective rate earned on General Fund balances to rise to 3.4% for FY 2022-23, up from 0.2% for the prior year. As a result, Treasury collections totaled \$452 million for FY 2022-23, up dramatically from \$23 million in FY 2021-22.

The table also displays the IFO's latest estimates for Treasury collections for FY 2023-24 and FY 2024-25 (preliminary). Based on the current General Fund balance and the latest rates, the IFO projects that Treasury earnings will reach \$780 million for FY 2023-24, an increase

of \$328 million from the prior year. For FY 2024-25, interest rates are expected to remain elevated through spring 2025, but lower cash balances resulting from the General Fund operating deficit are expected to reduce Treasury earnings to \$600 million. Going forward, each \$1 billion decline in the General Fund balance (at current rates) results in a \$50 million revenue reduction while each 1 percentage point drop in interest rates (at current balances) results in a \$150 million revenue reduction.

Staff Contact

This research brief was produced by Joe Shockey. Questions can be directed to jshockey@ifo.state.pa.us.