Treasury Collections Begin to Contract

Independent Fiscal Office | Research Brief | November 2024

This research brief updates prior releases (September 2023 and May 2024) 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 2025-26. (Note: Treasury collections exclude large one-time deposits that are unrelated to the General Fund balance. Those deposits are also excluded from the computation of the effective rate for that year. All amounts exclude interest that accrues on the balance of the Budget Stabilization Fund.) The data illustrate that Treasury collections are declining due to (1) lower General Fund balances related to the current year budget deficit and (2) reductions in the federal funds target rate.

Treasury Collections and Interest Rates

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	42	2.6
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	13,923	5.2	720	5.2
2024-25	11,800	4.6	597	5.1
2025-26	9,800	3.6	399	4.1

Note: Dollars in millions. 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 2018-19, FY 2023-24 and later years exclude large deposits not associated with interest earned on the fund balance. Shaded years are IFO estimates.

Prior to FY 2020-21, the General Fund average daily balance was roughly $1.5 billion. For FY 2020-21, the 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 strong revenue growth. Despite the much higher balance in that year, Treasury collections were muted due to the very low interest rates in effect. In 2023, the Federal Reserve Board rapidly increased the federal funds target rate, causing the effective rate earned on General Fund balances to peak at 5.2% for FY 2023-24. As a result, Treasury collections totaled $720 million for FY 2023-24, a gain of nearly $700 million compared to pre-Covid amounts.

The table also displays the IFO's latest estimates for Treasury collections for FY 2024-25 and FY 2025-26 (from the IFO's November 2024 Five-Year Economic and Budget Outlook). Based on the current General Fund balance and latest rates, the IFO projects that Treasury collections will decline to $597 million for FY 2024-25, a decrease of $123 million from the prior year. For FY 2025-26, lower interest rates and General Fund deficit spending further reduce Treasury collections to $399 million. In general, each $1 billion reduction in the General Fund balance (at current rates) results in a $50 million revenue decline, while each 1% drop in interest rates (at current balances) results in a $100 million reduction.

Staff Contact

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