Act 1 Index Reaches New High

Act 1 of 2006 limits the annual increase in school district millage rates to a computed statewide index with certain exceptions.[1] The base Act 1 Index is calculated by averaging the percentage increase in the Pennsylvania Statewide Average Weekly Wage (SAWW) and the Employment Cost Index (ECI) for elementary/secondary schools.[2] Some school districts are subject to the base index as the limit for millage rate increases while others have an adjusted index based on the district's personal income/aid ratio.[3]

The base index for FY 2024-25 was recently certified as **5.3%,** the highest rate since passage of Act 1. The **adjacent table** displays index rates since its inception in FY 2007-08. The table shows that the base index increased dramatically over the last three fiscal years after subdued and stable rates during the prior decade. The index for the decade prior to FY 2022-23 was impacted by low inflation and moderate wage growth. The recent increase was originally triggered by significant growth in the SAWW for FY 2022-23. Unusually strong average wage gains for CY 2020 to CY 2022 increased the SAWW component of the index for FY 2022-23 and after.[4] More recently, the ECI component of the index also reached a record high. This is a broader metric than the SAWW because (1) it is for the U.S., not just Pennsylvania, and (2) it includes compensation, wages and salaries, healthcare, and other benefits. The ECI measures the overall cost of labor and excludes the impact of employment shifts across occupations and industries.

The annual growth in current-year school district property taxes typically does not match the statewide base index. This is due to the net impact of three factors: (1) many school districts have an individual index that is higher than the statewide base, (2) some school districts receive an exception to raise millage rates above their index and (3) not all school districts fully utilize their individual index.[5] If a large school district with a relatively high share of statewide school property tax revenue has an adjusted index that exceeds the base index, then that would increase the gap between statewide revenue growth and the base index.

Act 1 Index History			
Fiscal Year	**SAWW**	**ECI**	**Base**
2007-08	2.8%	4.0%	3.4%
2008-09	4.3	4.5	4.4
2009-10	4.6	3.6	4.1
2010-11	2.7	3.0	2.8
2011-12	0.9	1.9	1.4
2012-13	2.1	1.3	1.7
2013-14	2.0	1.4	1.7
2014-15	2.6	1.6	2.1
2015-16	2.4	1.4	1.9
2016-17	2.5	2.2	2.4
2017-18	2.6	2.3	2.5
2018-19	2.2	2.6	2.4
2019-20	2.2	2.4	2.3
2020-21	2.2	2.9	2.6
2021-22	3.1	2.9	3.0
2022-23	4.7	2.1	3.4
2023-24	5.3	2.9	4.1
2024-25	5.6	4.9	5.3

Source: Pennsylvania Department of Education.

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[1] School districts may seek approval from the Pennsylvania Department of Education to raise the millage rate by a rate that exceeds its index for increased expenditures in one of three categories: special education, certain debt, and retirement contributions.
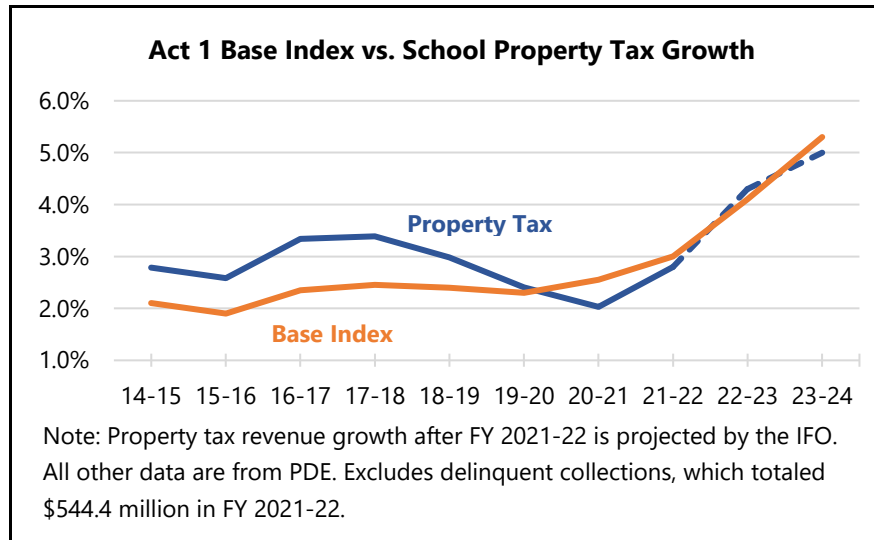
[2] The SAWW is computed and published by the Pennsylvania Department of Labor and Industry. The ECI is computed and published by the U.S. Bureau of Labor Statistics.

[3] School districts with an aid ratio less than 0.4000 utilize the base index. All other districts utilize an adjusted index that is computed by multiplying the base index by the sum of 0.75 and the district's aid ratio.

[4] The annual SAWW growth rate is calculated using two overlapping three-year (calendar) periods. For example, the growth rate for FY 2022-23 is equal to the growth in the SAWW from January 2017 – December 2019 to January 2018 – December 2020.

[5] For FY 2021-22, 412 out of 500 school districts had an adjusted index that was higher than the base index.

Annual growth in school property taxes has historically outpaced the base Act 1 index. That relationship reversed in FY 2020-21, as an abnormally low number of school districts raised their millage rates in response to the COVID-19 pandemic. The **figure below** displays (1) the annual growth rate in school district property tax revenues and (2) the base Act 1 index from FY 2014-15 to FY 2023-24. For FY 2021-22 (latest actual data), school district property tax revenues totaled $15.5 billion (includes Act 1 allocations), an increase of 2.8% over the prior year. From FY 2014-15 to FY 2021-22, current-year revenues increased by 2.8% per annum, while the average base index was 2.4%. The IFO estimates revenue growth of 3.9% in FY 2022-23 and 4.3% in FY 2023-24, compared to base indexes of 3.4% and 4.1%, respectively.

Act 1 Base Index vs. School Property Tax Growth

Note: Property tax revenue growth after FY 2021-22 is projected by the IFO. All other data are from PDE. Excludes delinquent collections, which totaled $544.4 million in FY 2021-22.

A more accurate indicator of potential statewide property tax growth for future years is a weighted Act 1 index, which accounts for each school district's (1) adjusted index and (2) share of statewide property tax revenues. The **table below** displays the IFO's projection of the base and weighted Act 1 index from FY 2025-26 to FY 2028-29. The base index is projected to decrease dramatically for FY 2025-26, and moderately decline to 3.1% by FY 2028-29. The initial decline in the base index is driven by a two-percentage point drop in the SAWW component. The reduction for remaining years is largely due to incremental declines in the ECI component. The weighted index for FY 2024-25 is 6.0%, which represents the maximum increase in school district property tax revenues that could be generated by millage rate increases. The weighted index then falls dramatically for FY 2025-26 and moderately declines through the rest of the forecast period. Even at 3.1% for FY 2028-29, the projected base index is higher than any of the twelve years prior to FY 2022-23.

Act 1 Index Forecast					
	2024-25	**2025-26**	**2026-27**	**2027-28**	**2028-29**
Base Index	5.3%	4.0%	3.6%	3.2%	3.1%
SAWW	5.6%	3.5%	3.1%	2.9%	3.2%
ECI	4.9%	4.5%	4.0%	3.5%	3.0%
Weighted Index	6.0%	4.5%	4.1%	3.6%	3.5%

Notes: Base index and components computed and published by PDE for FY 2024-25, projected by IFO thereafter. Weighted index calculated by the IFO for all years.

Staff Acknowledgements

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