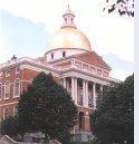


Setting the PGSP Target

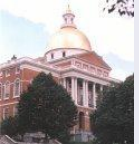
Greg Mennis

Administration and Finance



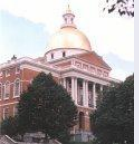
Legislation

- Section 30(b) of Chapter 224 requires the Secretary of A&F and the House and Senate Ways & Means Committees to set a benchmark for potential gross state product (PGSP) growth.
- The PGSP estimate is established as part of the state's existing consensus tax revenue forecast process and is to be included in a joint resolution due by January 15th of each year. The PGSP estimate is used by the health policy commission to establish the Commonwealth's health care cost growth benchmark.
- PGSP is defined in Ch. 224 as the long-run average growth rate of the Commonwealth's economy, excluding fluctuations due to the business cycle.



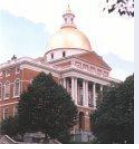
Process

- The Commonwealth's estimate of PGSP was developed with input from outside economists, in consultation with Administration & Finance, the House and Senate Ways & Means Committees, the Department of Revenue Office of Tax Policy Analysis, and members of the Health Policy Commission.
- Consistent with existing practices:
 - Builds on Consensus Revenue process
 - Uses the same assumptions as other fiscal policy benchmarks (Long-Term Fiscal Policy Framework)
 - Developed with all stakeholders at the table



Results and Methodology

- The 2014 estimate of 3.6% is within a range of 3.4% to 3.7% discussed by these stakeholders.
- Estimates were informed by standard methodologies (e.g. Congressional Budget Office) as well as legislative intent to target the long-run average growth rate of the Commonwealth's economy.
- The range reflects a consensus around two key technical issues:
 - Real growth: How to account for under-investment in capital during the recession
 - Inflation: Agreement to use Fed's 2.0% target for the inflation assumption and monitor going forward

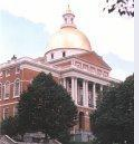


PGSP per Capita Estimates

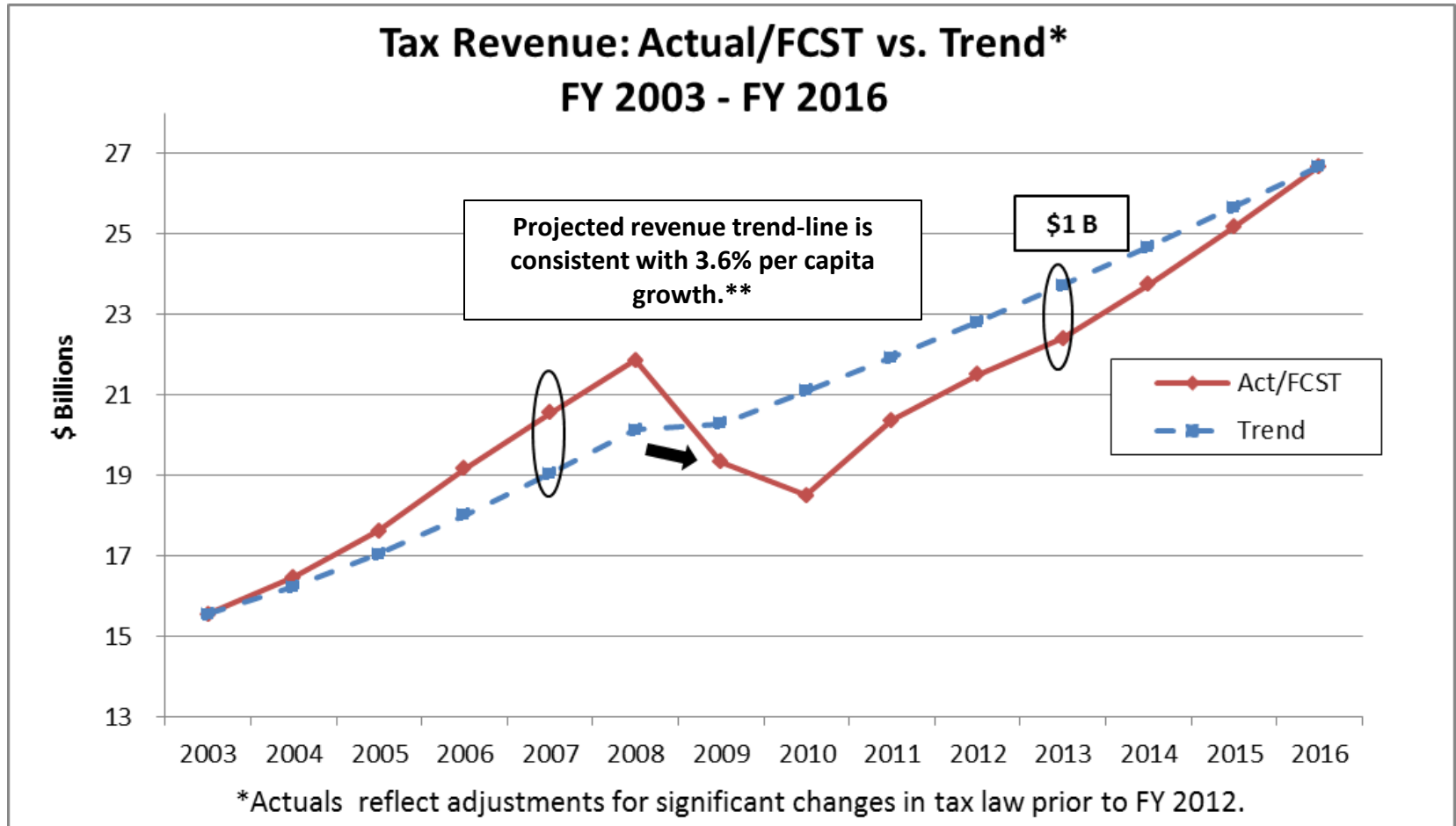
	Range of Estimates			Consensus Estimate
	Low	Medium	High	
Real Growth	1.4%	1.7%	1.7%	1.6%
Inflation	2.1%	1.8%	2.0%	2.0%
Total	3.5%*	3.6%**	3.7%	3.6%

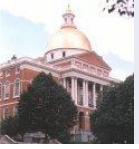
*Low end of range would be 3.4% after adjusting for agreed upon inflation estimate of 2.0%.

**Numbers do not add due to rounding.



Consistent with Other Policy Targets Example: Long-Term Revenue Forecast





Issues Going Forward

- Monitor actual estimates of real growth and inflation
- Account for differences in population vs. workforce growth
- Maintain alignment with other processes and forecast estimates

Setting the PGSP Target

Greg Mennis

Administration and Finance

Legislation

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PGSP per Capita Estimates

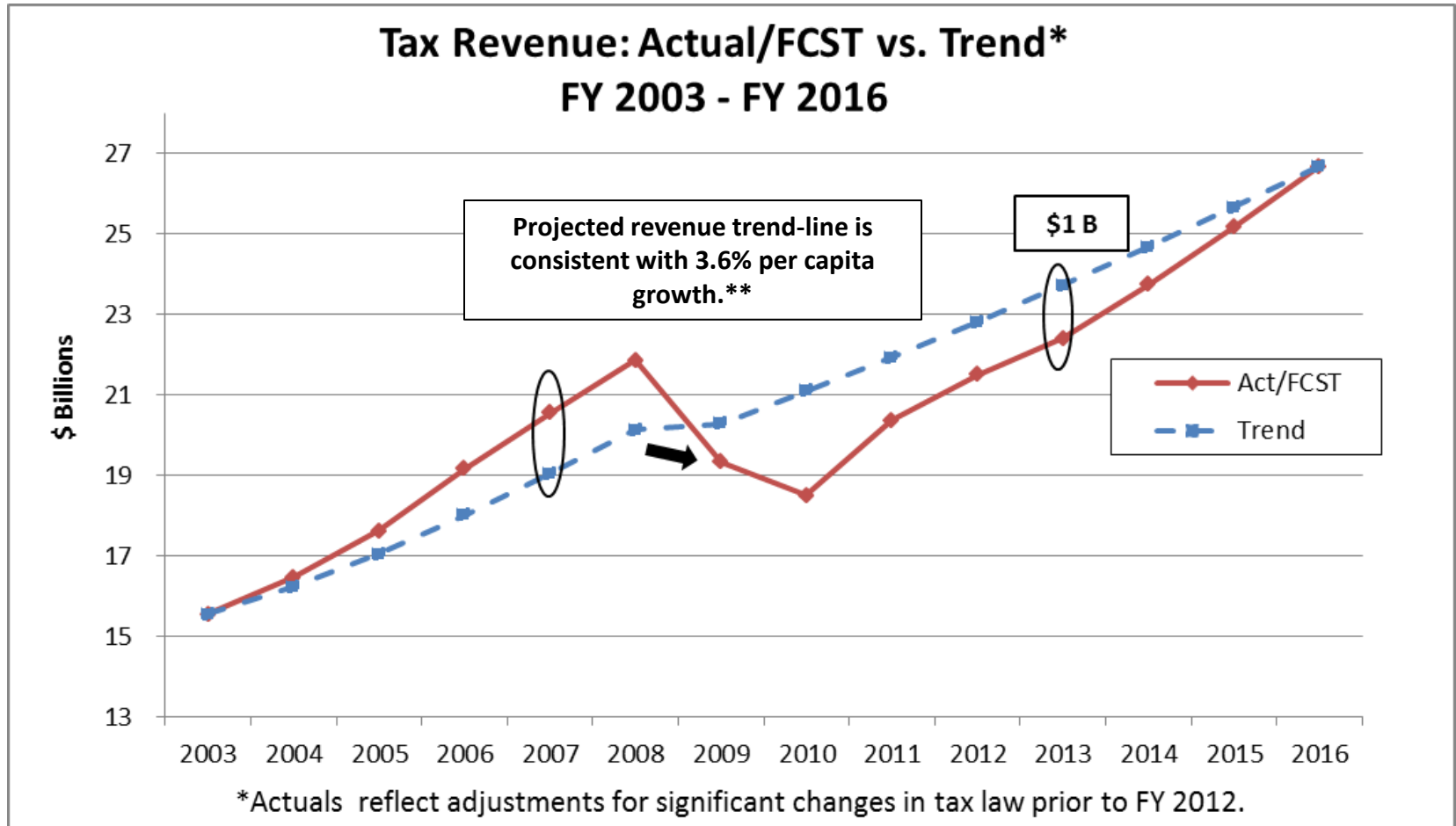
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Total	3.5%*	3.6%**	3.7%	3.6%

*Low end of range would be 3.4% after adjusting for agreed upon inflation estimate of 2.0%.

**Numbers do not add due to rounding.

Consistent with Other Policy Targets

Example: Long-Term Revenue Forecast



**Total PGSP and revenue growth estimated to be 4.0% after adding 0.4% population growth to the per capita figure of 3.6%.

Issues Going Forward

- Monitor actual estimates of real growth and inflation
- Account for differences in population vs. workforce growth
- Maintain alignment with other processes and forecast estimates