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GOVERNORS' ASSOCIATION

1998 WINTER MEETING

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PLENARY SESSION/EXECUTIVE COMMITTEE

J.W. Marriott Hotel
1331 Pennsylvania Avenue, N.W.
Salon III
Grand Ballroom
Washington, D. C.

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DAV/jbg

P R O C E E D I N G S

GOVERNOR VOINOVICH: Good morning. I would really appreciate everyone taking their seat.

We are fortunate this morning to have with us some new governors. I'd like to first introduce -- I don't know whether Jane is here or not. Oh, she will be coming in. But Governor Jane D. Hall, of Arizona. Governor Hall was formerly secretary of state and was the first woman to serve as speaker of the Arizona House.

Then we have Governor Paul Cellucci, of Massachusetts, elected Lieutenant Governor and then became Governor after Governor Weld resigned. Paul, we're very happy to have you on board.

Then, from the Northern Mariana Islands, Governor Pedro Tenorio, who is in his third term as Governor of the Northern Marianas and we want to welcome him back to the National Governors' Association. We're so happy to have you with us.

(Applause.)

GOVERNOR VOINOVICH: Then Governor Jim Gilmore, who previously served as attorney general of the Commonwealth of Virginia. Jim? Where is he? Jim, good morning and welcome.

(Applause.)

GOVERNOR VOINOVICH: I'd like to welcome all of you this morning, and I call to order this 1998 winter meeting of the National Governors' Association.

Jane, were you here when I introduced you before? Jane D. Hall, from Arizona. Let's welcome Jane.

(Applause.)

GOVERNOR VOINOVICH: May I have a motion of the adoption of the rules procedure for the meeting?

GOVERNOR CARPER: So moved.

GOVERNOR VOINOVICH: Is there a second?

GOVERNOR MILLER: Second.

GOVERNOR VOINOVICH: Any discussion?

(No response.)

GOVERNOR VOINOVICH: All those in favor signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is passed.

I want everyone to understand that part of the rules require that any governor who desires to submit a new policy or resolution for adoption at this meeting will need a three-fourths vote to suspend the rules. We'd like you to submit any proposals that you might want to have introduced to Jim Martin, of our staff, by 5:00 p.m. tomorrow.

Whenever governors of our great states, commonwealths and territories come together as we have here today I think our meetings truly reflect the genius and wisdom of those visionary patriots who drafted our constitution. They did leave us a remarkable legacy when they established our system of governance, with its delicate balance between the federal government and the union of sovereign states. We can all agree that our union is strong and our states are strong. As one former governor of Ohio said, "The Constitution looks to an indestructible union composed of indestructible states." As a soon to be

former governor of Ohio, I would also like to suggest that our union is strong because our states are strong.

This gathering of governors reaffirms the genius of our founding fathers. Their remarkable legacy to us is the system of government we know and revere as federalism. In the early '80s, when I was mayor of Cleveland and involved with the U.S. Conference of Mayors and the National League of Cities, I worked closely with the Reagan White House and the Congress on what they called back in the early '80s "New Federalism." A new relationship with the federal government.

Unfortunately, the Reagan administration negotiated individually with governors, mayors and county commissioners and at the end tried to compromise and gain a consensus. It failed. In fact, things got so bad that in 1986, as President of the National League of Cities, giving the cities' response to the 200th anniversary of the signing of the U.S. Constitution, I said"

"Over the past 20 years we have seen the expansion of a national government role into non-traditional domestic policy areas. We have experienced a tremendous increase in the proclivity of the central government, both to preempt state and local authority and to mandate actions on state and local governments. The cumulative effect of a series of actions by the Congress, the Executive Branch and the U.S. Supreme Court have caused some legal scholars to observe that while constitutional federalism is alive in scholarly treatises, it has expired as a practical political reality."

I am happy to report today, folks, that things are better than they were then. Much better.

In recent years there has been a renaissance in federalism in the United States, a true paradigm shift. As engines of innovation, growth and opportunity, states have demonstrated the crucial role they play in the federalist system. And without much fanfare we have breathed new life into the 10th Amendment. We have wrought a real change in our respective states' relationship with Washington and governors are encouraged by several recent Supreme Court decisions that have served to further protect states' sovereignty.

In recent years the partnership that's been developed between governors, our partners in local government, the Congress and the Administration, albeit rocky at times, has served as the bedrock for this change in state/federal relations. This reality serves merely to reaffirm the fact that America's continued prosperity and progress requires balance of power and responsibility between the states and the federal government.

This balance of power has not always been without tension. We've had our differences in the past and I suspect we're going to have some more of them down the road. That's the nature of our system. But these differences should never blind us to recalling that that partnership we have formed has benefitted our citizens and this nation in dramatic and lasting ways.

The Unfunded Mandates Reform Act which was signed into law by President Clinton in March of '95 took a giant step at ending Congress's propensity to write laws that created new programs without the money to pay for them. This new law has seen the Congressional Budget Office review more than 300 bills to determine if they contain mandates and has caused Congress to think about cost consequences of laws before imposing new mandates on our states.

Similarly, reform of the Safe Drinking Water Act has reduced burdens on states and has given us added flexibility to meet EPA water quality standards for the drinking water in our communities. That has saved state and local government billions of dollars in the process.

We've worked with both ends of Pennsylvania Avenue to secure Medicaid reform, which has given states the flexibility to use managed care without a waiver. And we have convinced Congress to repeal the Boren Amendment, thus allowing our states to become value purchasers of health care and providing enhanced state flexibility in determining cost reimbursement. Every state has seen their Medicaid costs reduced. Ohio alone has saved the taxpayers, both locally and nationally, \$6.3 billion during the last six years.

States have also advocated and received considerable flexibility in expanding the availability of health care coverage to uninsured children and families with modest incomes.

And welfare reform has resulted in the most significant reform in America's welfare system in this century. Not only will it contribute to a balanced budget because states have agreed to freeze our funding but we have also seized the opportunity to transform our welfare program from cash assistance entitlement programs to work focused time limited programs of assistance, and support has enabled recipients to move towards self sufficiency.

Secretary Shalala hit it right recently when she said states have not had a race to the bottom, as some had suggested, when we went to the new block grant program. Instead, we've seen a competitive race to the top, thereby emancipating and offering new hope to those people in our society who needed it most.

Federalism works because it encourages and facilitates change and progress and empowers those closest to the problem to get the job done. In fact, federalism confirms the lesson we've learned in the Midwest region of this country, that if you empower the individuals closest to the process that you can get real results. It's that same empowerment, giving them the tools, giving them the training, that has transformed our region from what was once referred to as the Rust Belt to the Jobs Belt or Productivity Belt.

These accomplishments reflect a renaissance in our federalist system and the bonds we've established with our partners in Washington have helped to lay a foundation for new challenges that are now before us. As governors we are calling on the Administration and Congress to continue that evolution so we can work harder and smarter, do more with less and improve the quality and delivery of services to our mutual constituents.

Let's look at our priorities. Building on that productive relationship which we've cultivated with the Administration and Congress during the first session of the 105th Congress, we've identified the following eight legislative priorities for 1998:

First, transportation funding. Governors recognize that transportation is a dual responsibility and we understand that current funding levels can not sustain a healthy national transportation system. We also believe that the highway trust fund must be used for its intended purpose: transportation.

On the other hand, we fully appreciate the mutual goal of a balanced budget. That is why I am encouraged that the governors and the people in Congress will sit down and hopefully arrive at a consensus that

does not break the budget gaps but does provide increased use of trust fund dollars for transportation. Our mutual goal obviously is the timely reauthorization of ISTEA so that hundreds of highway projects are not hung up all over this country.

Education. It's a priority for governors and Congress. And I think governors would be the first ones to tell you that the most important economic development tool that we have in our respective states is education.

I recall many years ago when I was a youngster, that my father used to preach to us about this great system that we lived in. He was a first generation American and he said that the reason why we got more of the world's bounty was because of our free enterprise system and our education system. And I think all of us recognize that we simply have to do a much better job on education.

But we also understand that education is predominantly a state concern and that whatever happens in Washington it must take into account that fact. We're hopeful that Congress and the Administration begin a fruitful dialogue over how we can together achieve the best measurable results for the boys and girls in this country.

The tobacco settlement. Governors urge Congress to consider the state role in achieving a national tobacco settlements and respect state authority in deciding how those funds are spent. This is a shared responsibility.

Early care. Governors know that early childhood development is one of the most important investments we can make in our nation's future. We have made birth to three our number one priority in Ohio and I have continued the theme as the centerpiece of my chairman's initiative, building on the leadership of Governor Bob Miller.

We look forward to working with the federal government to continue the progress that we've made toward improving worthwhile programs that serve our youngest citizens. It's critical that we also develop a system for determining which programs best benefit our kids.

Health care quality measures. States are making real progress in providing oversight of health care while keeping it affordable. As regulators and purchasers of health care services, states are leaders in developing and implementing innovative health care quality measures and pursuing the quality of health care which has long been a state responsibility.

We look forward to working with our partners in Congress on any changes but let me say clearly that Washington needs to view this partnership as just that. Issuing new burdensome regulations, I think, out of Washington would be a violation of that partnership.

National tax reforms. As Congress begins to debate major reform proposals to reform the federal tax system the consequence of reform measures on state and local government must be thoroughly examined and understood. Proposals that would preempt state revenue sources will be strongly opposed by our nation's governors.

Block grant consolidation. We urge Congress to consider our 12 proposed consolidations of related categorical grants, many of which are often separate or redundant, and we want them to go into block grants that will provide a simpler, more efficient and flexible means of supplying federal aide to state and local government.

I would particularly call to their attention the recommendations that we have made in our proposal for education. I think that our

recommendations would be so much better off for America than the ones that are currently being proposed by both the President and by the Congress. I think now is the time to look at those block grants, when we're not hell bent to cut regardless of the importance of the program. This is a special time for us, I think, to take a breath, to cool it. To look at where we're at and not go rushing off into some new territories.

Regulatory reform. Finally, we urge Congress to apply common sense in addressing regulatory reform legislation. Legislation should improve requirements for cost benefit analysis, risk assessment, peer review and judicial reform. All of these priorities can be enacted within the framework of a balanced budget and all are consistent with the goals of the government partnership that recognizes the unique needs of states and their citizens.

One such bipartisan bill which I hope everyone in this room will be supportive of is Senate Bill 981, which basically requires cost/benefit analysis on all new regulations adopted by the federal government.

As we approach the next century federalism faces its greatest challenges. In this regard recently enacted federal preemptions of state sovereignty pose an enormous threat to us. These measures include banking and telecommunication laws and pending legislation on takings, Internet taxation and electric deregulation. We, with our partners in local government, are opposed to preemption. Preemption, which ignores the roles of states as the major economic engine in this country.

Governors are gathered here in Washington to work together to face these challenges and to find innovative solutions, and we look forward to continuing to lead our states into federalism's new frontier.

Thank you.

(Applause.)

GOVERNOR VOINOVICH: One of the biggest threats, I believe, to federalism is federal fiscal policy that could preempt our states from sources of revenue that we need to provide the services that we're providing to our citizens.

This morning we have with us three guests who are experts in their field to discuss some issues that have deep consequences for federal fiscal policy on federalism. They're going to discuss those.

First of all, we have Robert Reischauer, a senior fellow in economic studies at the Brookings Institute. A former director of the Congressional Budget Office, he's going to speak to us about the budget and trust funds.

Second, we have Walter Hellerstein, a professor of law at the University of Georgia, and a partner with the firm of Sutherland, Asbill & Brennan. He's going to discuss Internet taxation.

Let me add that it was Professor Hellerstein's suggestion that led the National Tax Association to establish the joint industry/government negotiations on the taxation of electronic commerce.

And, last but not least, Charles McLure, senior fellow at the Hoover Institute at Stanford University. A former Deputy Assistant Secretary of the Treasury from 1983-'85, he's going to share his insights on federal tax reform.

Each gentleman is going to make brief remarks for approximately seven minutes to highlight these federalism issues. We'll then open it up for floor questioning and hopefully they may be able to answer some of our questions.

First of all I'd like to call on Robert Reischauer for his remarks.

Thank you for being with us this morning, Mr. Reischauer.

MR. REISCHAUER: Thank you, Governor. It's a pleasure to be here.

It's nice to be able to talk about surpluses, which they asked me to say a few words about, after a decade and a half of coming to meetings like this and talking about deficits.

As you all know, the official budget projections in both the Congressional Budget Office and OMB suggest that in a year or two the nation will have overall budget surpluses. As is so often the case, these official projections probably will prove to be wrong, but pleasantly so.

I've laid out some of what I'm going to talk about with the handout called Surpluses, and the OMB and CBO budget projections are in the first figure.

If the economy holds together over the next seven months it's highly likely that we will end up with a surplus for the current fiscal year, the first surplus that the nation's enjoyed in the last 29 years. If the policymakers don't cut taxes or raise spending in ways that aren't paid for these surpluses are likely to continue until the middle of the second decade of the next century, that is until about 2015.

Not every year will we have a surplus. There will be recessions from time to time which will probably bring the surplus down to small deficits, but in general we will be in a surplus position.

Now, much has been said about the President's budget with its tax cuts and its spending initiatives, and it's often been portrayed as if it was going to jeopardize these projected surpluses, but as you can see from Figure 2, that's really not the case.

The President has provided means of paying for his initiative and over the next five year period there's really very little difference between the surpluses projected if we don't change policy and those which would occur under the President's policies. As I said, that is shown in the second chart.

Now, the projected surpluses are not money in the bank -- or at least if they are money in the bank they're in an Indonesian bank. They assume that policymakers will fulfill the commitments that were made last year in the Balanced Budget Act. One of those commitments, as you all know, is to restrain discretionary spending over the next five years so that by the year 2002 in inflation adjusted terms then we would be roughly 10 percent below where it was in 1997. Much of that restraint will have to be exercised on the non-defense portion of the budget simply because defense has been cut so much in the past and we as a nation have not shown any ability over time to reduce non-defense discretionary spending on a sustained basis.

If policymakers can't adhere to this restraint and instead let discretionary spending grow along with inflation the surpluses over the next 10 years will be roughly cut in half, if you believe the projections of OMB, and that's shown in Figure 3 of the handout. Or, if you think CBO's projections of future surpluses are more accurate we would basically be giving away the surpluses if we allowed discretionary spending to grow along with inflation.

While we all should feel pretty good about the prospect of budget surpluses it's a bit too soon to pop the cork and begin the celebration. One reason for this is that the surpluses that we are likely to enjoy in the unified budget will result by and large from growing surpluses in the Social Security accounts. That's brought out in Figure 4.

In the current fiscal year Social Security's going to take in about \$101 billion more in payroll tax revenues and interest earnings than it will pay out in benefits and administrative costs. The rest of the budget we will see receipts from income taxes, excise taxes, estate and gift taxes and so on for about \$100 billion short of covering the cost of the Defense Department, the Agriculture Department, the Justice Department, the special prosecutors and the other essential functions of the U.S. government.

(Laughter.)

MR. REISCHAUER: Figure 4 shows that CBO expects this situation to persist over the next decade. By 2008 we will be running an overall budget surplus of about \$138 billion, according to CBO, but that will consist of the Social Security surplus of \$197 billion offset by a \$60 billion deficit in everything else that's going to go on in the budget.

The second reason to be somewhat subdued in our celebration is because the projected surpluses are both small and fragile. Over the next 10 years the projected surpluses are only about two-thirds as large as the deficits that we racked up under the previous 10 years. So even if we saved all these surpluses we wouldn't be filling the hole that we created over the last 10 years, and that's brought out in Figure 5 in the handouts.

Also, it's important to note that the surpluses depend on a continuation of modest economic growth and moderate inflation. It doesn't require that the economy go gangbusters the way it has for the last couple of years but it also doesn't allow for a sustained slow down in our economy.

The surpluses also depend on the policy discipline that I mentioned before, and to a certain extent they depend on themselves because when we run surpluses we pay down the federal debt. When we pay down the federal debt our interest costs fall. If we run surpluses the \$244 billion that we are paying now in interest costs will decline to \$178 billion 10 years from now, so there's big savings to be realized. If we say, 'Well, instead let's just keep the budget balanced for the next 10 years and use these surpluses for needed priorities.' if we do that we'll end up spending \$63 billion more in interest payments over the next decade than we otherwise would.

Now I realize the overall federal surplus is not the only surplus that's near and dear to your hearts and so in the final figure, Figure 6, in the handout I've displayed the Highway Trust Fund surplus and the end of year balances that are in the Highway Trust Fund.

As you can see, there's been a huge improvement in the projections for the Highway Trust Fund between last year and this year. What that chart has is a year ago's projections from the Congressional Budget Office contrasted with this year's projections. The improvement results from the decision that was made in the Taxpayer's Relief Act of 1997 to credit the trust funds with 4.3 cents a gallon tax that was imposed in 1993 to reduce the deficit.

The trust fund balances will rise to over \$110 billion if we allow spending in the Highway Trust Fund to grow along with inflation. If these monies are spent the added surplus, the discipline on discretionary spending that I spoke about earlier, would have to be broken or we'd have to make deeper cuts than 10 percent in other programs on balance in the discretionary accounts. If the former occurs, that is we decide to use

some of the surplus to allow higher highway spending of course all the benefits that we would receive from surpluses will be eroded.

I will close by saying that I've been a bit cautious but I do want to end on an upbeat note and say that the fiscal environment that this nation is going to face over the next decade and a half does look very, very different from the one that we encountered over the last two decades, since about the middle of the 1970s. But we all know that we're going to face a bigger fiscal challenge in the second and third decades of the next century as the Baby Boom generation begins to retire and begins drawing on Social Security, Medicare and Medicaid.

Let's hope that we learned our lesson from the past 10 years and not allow ourselves to get into a big bind because the political environment that will exist after about 2010 will be a very much more difficult environment in which to enact spending restraint and tax increases than the one we've just experienced.

Thank you.

GOVERNOR VOINOVICH: Thank you very much.

I'd like to call on Walter Hellerstein to share with us his observations on the "taxation of electronic communications in this country."

MR. HELLERSTEIN: Thank you very much. I'm honored by the invitation to speak with you this morning about state taxation of electronic commerce.

What is electronic commerce? Electronic commerce has been defined as the ability to perform transactions involving the exchange of goods and services between two or more parties using electronic tools and techniques. This includes, among other things, on-line catalogs displaying images of goods that permit Web users around the world to select and order books, wine and other products, computer software which can be transferred electronically to the user's computer, photographs that can be digitally transferred -- the price varies with the customer's use of the photograph -- on-line information such as Lexis and Nexus and other electronic databases that are available to users throughout the Internet, services such as legal, accounting, medical and other consulting services which subscribers can access for a fee using an electronic password, video conferencing, securities trading, offshore banking, a whole range of services that have recently come to the fore economically.

Now, what is the economic magnitude of these services? It is estimated today that there's approximately \$20 billion worth of business to business transactions which makes up the lion's share of the electronic commerce that we know today, and approximately \$1 billion of business to consumer transactions. This is estimated to grow in 1998 to \$50 billion with, again, about 85 percent being business to business. Estimates for the year 2000 range from \$100-500 billion, and indeed there's even one estimate of \$600 billion. There's enormous growth in this area.

What is the impact of this on state taxation? And here I'm really here to talk to you about state sales and use taxes, which are the single largest revenue raiser at the state level, approximately one-third of state revenues. Indeed, in states like Texas and Florida, over 50 percent of the revenues are from sales and use tax.

The sales and use tax in principle is a tax on the final consumer. In fact, the sales and use tax in this country has three characteristics

that we need to be aware of. First of all, it has been largely been confined to sales of tangible personal property. There is no good economic reason for that. That's how the tax is growing up.

In principle, although the sales tax is supposed to be only a tax on household consumption, personal consumption, 40 percent of the sales tax base is in fact business to business purchases. From an economic standpoint that's not appropriate. That is again the animal we are dealing with.

Moreover, it is important to understand -- and I know you're all aware of the fact that a remote vendor ordinarily can not be required to collect a sales tax on goods or services sold into a jurisdiction. That is if there is no physical presence in the jurisdiction one can not require the vendor to collect the tax and the vendor ordinarily does collect the tax when you make an over the counter purchase.

However, the sales tax, how does this affect the problem with electronic commerce? Obviously, the existing tax structure is not well suited to taxing electronic commerce or to dealing with the problem of electronic commerce. Taxpayer concerns are clear.

By the same token, the states have very, very legitimate concerns. If all commerce or a substantial part of commerce moves into Cyberspace and it is not taxable because it's not tangible the tax base will evaporate, it will go into Cyberspace. To be sure, we're not at the point where we can get McDonald's hamburgers digitally but a huge amount of commerce is in fact moving in a dramatic fashion to the Internet.

What have been the responses so far? So far the responses have been mixed, uncoordinated, and, at least in my judgement, they have not really begun to look at the broader problem.

At the state level we've had the application of existing state statutes that don't work very well to this new engine of economic activity. For example, there are taxes on data processing, information services, telecommunications which work awkwardly at best when applied to the electronic commerce environment. So there has been sporadic application of the taxes on an inconsistent and quite complex basis.

Other states have said 'We don't want to tax this new engine of economic activity.' Massachusetts, Florida, California, New York have taken a step back and said 'We don't want to touch this' for the reasons that I've suggested earlier.

At the Congressional level I don't know if you're aware of the Internet Tax Freedom Act, which is at best a stop gap measure to say 'Don't tax this while we figure out what to do with it.' Of course when Congress says 'Don't tax this' they don't really know what the "this" is, or at least they haven't said it very well. At best this means a scalpel. For the moment you've seen more of a sledgehammer. Not that the Congressional concerns are illegitimate. They are legitimate but it's questionable whether what we have at this point in terms of Congressional legislation can even begin to do the job.

The National Tax Association has sponsored a project that Governor Voinovich referred to, the Communications and Electronic Tax Project, that is trying to take a broader, more systematic look at this and hopefully will come up with proposals that will allow the states, in coordination, I believe, with Congress, to solve this problem.

Let me just list to you what I believe ought to be the guiding principals for a solution in this area. First of all, I think it's absolutely clear that the scope of the solution can not be limited just

to electronic commerce. Clearly, if you're going to have a rule for remote vendors you can't make it just for electronic commerce when we have the L.L. Beans and other non-electronic commerce vendors in the same economic arena. We need to have a level playing field so we need to have a solution that really does extend somewhat beyond electronic commerce.

Secondly, we need to have rules that allow, in fact require, vendors to collect the sales tax with reasonable rules for protecting small business. That is, we need de minimis rules that say if you only have mom and pop operations operating out of your kitchen making money on selling over the Internet clearly we don't want to require national collection responsibilities. On the other hand, for the large vendors there's simply no reason economically to have the large amount of tax revenues that are generated by sales into jurisdictions that ought to be taxed untaxed.

Right now the only obstacle to such taxation is the Supreme Court decision in Quill. That obstacle can be removed with the stroke of the pen by Congress, which is why I believe in the end we're going to need Congressional legislation if we're going to solve this correctly.

Another issue that I think is quite important, and it's one that goes to the heart of state sovereignty is the question of uniformity. I think we need to have a uniform sales tax across the country in terms of ease for business. We can't have 50 different definitions of what is electronic commerce, yet the states ought to be able to decide what they want to tax and what they don't want to tax. One way of doing this is to agree on what the definitions are but let each state decide what it wants to tax and not want to tax. If you want to tax electronic commerce here's how you define it. If you don't want to tax electronic commerce fine, turn off the toggle but let's not have 50 different definitions.

Again, I think you retain sovereignty by deciding what's in your base. All I'm saying is if you're going to take it we're going to tax it uniformly. I think this is a very, very important point of any kind of solution in this area.

And we would simplify the administration. I think we need a single rate for a state. We're going to have whatever commerce we want to tax - - and again, this is a state decision whether you want to tax it or not but if we say we are going to try to capture some of the economic activity that's moving on to the Internet and we're going to tax it in a uniform way I think we can't have not just 50 states but 6,000 different state and local jurisdictions imposing different taxes.

Now, Congress can in effect say 'States may not tax this unless they have a single rate.' I think the states, when they see the revenues involved here, ultimately need to solve the internal problem of bringing the localities into the picture so that we have a redistribution of the revenues to localities. That's important for simplification purposes to have a single rate.

Finally, I think that congressional consent will be necessary to do this right. I don't think we need to call it preemption. We nevertheless need to remove the existing barrier that the Supreme Court has erected, and has erected, I think, quite clearly holding its nose. The Supreme Court didn't say that the physical presence test is a great idea. The Supreme Court said 'We said this 25 years ago. We believe in the principle of stare decisis, let the decision stand. And we know Congress can remove this. That's why the Supreme Court erected the

barrier of Quill. Quill is not a decision that can be justified on the basis of economic policy.

Finally, let me just end by saying I think you have a historic opportunity here in the sense that everybody is very concerned about the problem of state taxation of electronic commerce. It is a problem that is somewhat broader than electronic commerce itself and you can use this as a vehicle for really fixing the sales tax. The sales tax needs to be fixed. This is an opportunity, in my judgement, for you to do that, I think in cooperation ultimately with Congress.

Thank you.

GOVERNOR VOINOVICH: Thank you, Professor Hellerstein. I think we understand the challenge. We need to sit back and start to work with Congress and come up with a solution to start to work on this.

Our next speaker is Charles McLure. Mr. McLure is going to be talking to us about federal tax reform and its implication to state and local government.

Thank you for being with us this morning.

MR. MC LURE: Thank you, Governor Voinovich, ladies and gentlemen.

As we move from the 20th to the 21st Century it's clear that we're going to be facing challenges to federalism. Professor Hellerstein has already talked about the challenge of electronic commerce and I'm going to be talking about the implications of radical tax reform for state and local governments. Since these are both topics near and dear to my heart, I am really pleased to have a chance to be here.

First, let me say that there could be substantial benefits from fundamental reform of the U.S. tax system. I've spoken about that in other contexts. Clearly, moving to a consumption based tax would be more favorable to saving and some versions of the consumption based tax would also be simpler.

This is not true of all the systems, as I will indicate, but let me say that there are substantial risks for federalism, and that's what I want to focus on today. And especially I want to focus on the proposal for a retail sales tax at the federal level that would replace the existing federal income tax.

Most of the tension in this area in the past has been on the notion of preemption, kind of a vague notion. But the idea that this is the fiscal preserve of the states, the federal government should stay out, and that if they came in and imposed a sales tax should have rates of maybe 20 percent or above if you had the combined federal and state taxes. I believe that's really only the tip of the iceberg so far as the problem is concerned.

Supposed for a moment that the states tried to retain their income taxes. I say tried to because I don't think you could. There would be tremendous administrative and compliance problems if we were to eliminate the federal income tax.

First, there would be no federal tax law and no federal administrative mechanism to serve as a starting point for state taxation. The definition of taxable income would be decided by each of the states individually. Initially they might key off of the old federal law, fairly soon things would get out of hand and there would be inconsistencies, there would be gaps and overlaps in the definition of income and there would be higher compliance and administrative costs, especially for corporations -- any company that operates in more than one state. They'd be subject to multiple audits by more than one state. You

can just imagine the horrors that would occur. There would be a lot more litigation. The litigation that formerly was with the IRS would be conducted in individual states based on the laws of the states.

Let me ask another question, which is who is going to represent the individual states in international forums. Currently the U.S. Treasury Department represents us in OECD in Paris. Well, who is going to represent the states in dealing with the rest of the civilized world?

The next problem is one of information. This is a general problem but it is particularly acute with regard to interest and dividends. You might be able to get your hands on information of wage earners living in your state, the wages that are paid to those in your state, but where are you going to get the information on interest and dividends that you receive? Currently you get that from the IRS. It may be that under due process in the Constitution you can't require some out of state businesses even to provide that information. Some you could, some you couldn't. Where are you going to get the information?

Then I think it's quite clear that if we eliminated the IRS we'd have to replace it by strengthening the existing state agencies -- currently about 45, possibly as many as 51 if you count the District of Columbia. You clearly have a duplication of administrative costs and I think what you might say is that you would have achieved Congressman Archer's objective of pulling the IRS out by its roots but what would be the purpose, because now you would have 50 IRSs doing what the old one used to do.

You would, at the very least, need to have some kind of interstate cooperation, perhaps through a multi-state tax commission or the Federation of Tax Administrators. Experience suggests, though, that this cooperation would be and has been probably less than perfect.

My conclusion was that the states could probably not continue to use the income tax. They would simply have to eliminate it because it wouldn't be workable. At best, it could be used as a payroll tax. This, to me, would represent a major loss of fiscal sovereignty that the governors should think about before they support this proposal.

Now, suppose I'm right. What if the states were to abandon the income tax? That is, to rely more heavily on the sales tax. Well, first there would almost certainly need to be substantial federal/state uniformity, and I think that would be desirable, but it clearly would involve a lot of loss of state sovereignty if you were simply to adopt a federal base.

In addition, what would happen is you would need on average to double the state sales tax rates. I say on average. Some states would only need to increase their sales tax rate by maybe 50 percent. Some states may need to triple it. And, of course, some states don't have sales taxes to double or triple. They'd need to introduce them in the case of five states. The combined federal/state rate, to be optimistic, would be in the neighborhood of 25-30 percent. It might be 35-40 percent. It would be quite high.

Now, this is not only the high end of the value added tax rates throughout the world, it's about twice those in Europe. The ones in Europe are 15-20 percent. We're talking about maybe 25-30, 35-40. We're talking about an enormous sales tax rate. I don't think that would be sustainable. The value added tax, because of the way it's implemented is less subject to evasion than the retail sales tax. So I think you can't

continue with the income tax and I don't think that the sales tax would be sustainable either if we were to go this route.

I have almost used my time. Let me go quickly to the flat tax. I think there the situation is much more favorable.

The key thing about the flat tax for our purposes today is that companies would not deduct interest and individuals would not pay tax on interest, dividends and capital gains. There's many other features but we don't have time to get into those.

The point there is that, again, there wouldn't be information on interest, dividends and capital gains from the IRS because they wouldn't need that information so the states would have to get it themselves. The IRS would continue to exist so you'd continue to have a lot of the administrative back up that you currently have. So this is not the hard story of eliminating the federal income tax.

On the other hand, what probably would happen would be that the states would also shift to a flat tax. That is, they would also eliminate the deduction for interest and also the taxation of interest and dividends. Well, that means that you really could continue to use the federal tax as a starting point. You'd have all the statutes, regulations that would still be there.

An important point would be that the taxation of interest would shift. You would no longer be taxing it where the recipients receive the interest but de facto you'd be taxing at the corporate level because it would no longer be deductible. So you might say well, some states, the states where interest recipients live would lose and those where they would be allocated through a formula might win. That's probably a second order for most states but not for all states.

There are other issues which I won't go into which have to do with the elimination of deduction for state and local taxes, the fact that all interest would now be exempt, not just federal, state and local securities, and that interest on home mortgage deduction might also be deductible and that might have some affect on property taxes.

The final thing: there's another proposal out called the USA tax. It, I think, is so complex that it's not likely to be enacted, at least in its present form. But I think the thing about that is that you probably could continue to levy your income taxes on individuals if you had the USA tax. The corporation tax would be a problem because the USA tax eliminates the corporate tax and so you'd have to go it alone in the corporate area, not, I think, a good idea.

Finally, there would be incentives for people to retire in states with low tax rates because basically you could get a deduction for savings going in, then you tax it coming out, as in the traditional IRA. So clearly what you want to do is live in a high tax state during your working life for this purpose if you get the deduction, but then particularly you want to retire in a low tax state to get the retirement tax break.

GOVERNOR VOINOVICH: Let's give our three panelists a hand.
(Applause.)

GOVERNOR VOINOVICH: I'd now like to open it up for questions from the governors.

GOVERNOR BEASLEY: Mr. Chairman, I'd like to ask the panel just one question with regard to some very basic principles of this country and federalism.

We all would understand historically speaking that the United States is a creature of the states. The sovereign states created this United States of ours and the states of ours over time gave the power to the United States government to tax, and here we are debating a fundamental issue that says states can't tax unless approved by the United States federal government.

In this Internet discussion you're talking about 50 percent of all the revenues would not be available to the states under a basic fundamental taxing power of the states. If the states don't want to tax the Internet, whether it's access, services, transfer of information, sale of products and goods, that's the state's fundamental right. But don't you think it's a paradox that here we are now talking about inviting the federal government that says that states no longer have the privilege and the fundamental powers that we alone gave to the federal government originally.

This is really a phenomenal discussion here. I can't believe that we're actually having this discussion. I mean, in truth it is a legitimate discussion but it really is a remarkable development of American history.

GOVERNOR VOINOVICH: Walter, would you like to respond to that?

GOVERNOR BEASLEY: I guess coming from the Constitutional perspective I want somebody in Washington to tell me where in the Constitution that Congress has this power and this right to fundamentally destroy the basis of state and local government.

MR. HELLERSTEIN: I'm afraid, Governor, it's in Article 1, Section 8. It's called the Commerce Clause.

(Laughter.)

MR. HELLERSTEIN: I think you're quite right. If you look at what Congress can do, back in the example that every law student grows up learning about is the fact that Congress could prevent a farmer from growing wheat for his own use. Why? Because if the farmer grew wheat for his own use that would affect supply and demand in the interstate market and Congress can regulate that.

Now, the truth is I think you'll be glad to learn, as Governor Voinovich has said, the court has drawn back a little bit. It has suggested there are a few things that Congress can't do. Congress can't pass a law that says you can't carry a handgun within however many yards of a school because that wasn't commerce.

But the court has taken an unbelievably broad view of what commerce is and therefore if Congress really wants to legislate in this area -- I'm not saying they should. And, indeed, I have very serious problems with the Internet Tax Freedom Act as it's been drafted -- but I think it really isn't a serious question that they've got the power.

GOVERNOR BEASLEY: I agree.

Actually, I may look upon it more favorably after I've considered the fact that if we do move to eliminate the federal income tax and go to a national sales tax and we end up not having any taxing on the Internet then maybe we can downsize the federal government after all. I think then they'll take a different look at this.

GOVERNOR VOINOVICH: Thank you, Governor Beasley.
Governor Carper.

GOVERNOR CARPER: Mr. Chairman, I have been coming to these NGA meeting -- this is my sixth year -- this is one of the best panels I've ever heard. And to each of you, thank you for excellent presentations.

It's really important to us as Governors, whether we have no sales taxes -- we have none in Delaware -- or whether we do.

I'm going to ask Bob Reischauer a question relating to the Transportation Trust Fund. This is one that we're in the throes of negotiations with the Congress and with the Administration, as you probably know.

Our perspective is that for some time when people pull into a gas station in our respective states and fill up their tanks and put about three bucks in federal transportation taxes and send it off to Washington we get back a little over two bucks in terms of improvements to our system. But when Tom Ridge and I were in Congress we had these huge budget deficits. One could argue that well, that's not a fair transfer between the states and the federal government. We have this big federal deficit to wrestle with.

Maybe we need to have some masking of the deficit for a while, much as Social Security does for us. As you pointed out, we don't have a big federal deficit anymore, we may or may not have surpluses but we're not going to have those kinds of deficits hopefully for a good long while.

Help us, if you will, in terms of developing -- what is a fair trade off to get for our states more of the dollars that we need for our transportation systems, for road and highway improvements and for our transit systems, but in a way that doesn't bust the budget deal that the President and Congress have crafted?

MR. REISCHAUER: Well, as you know, over the last 10 years the actual spending from the Highway Trust Fund has been a little bit more than the tax revenue flowing in in terms of the payments made by people.

The situation will change because of this 4.3 cent a gallon tax will now be credited to the trust fund, although when it was instituted there was a decision by the American people that that's the way that they would like to raise taxes to bring down the deficit and it was for deficit reduction purposes.

You're between a rock and a hard place now because if we keep and adhere to the spending caps, if you spend more on highways you're going to have to spend less on some other domestic or defense program, and there's no two ways about that. You can make a decision that you want to use some of the surplus but, as I said, if you use the surplus for this, if you break the discretionary spending caps the benefits long term of allowing the surpluses to reduce the size of the national debt will be reduced a little bit. I mean, we're talking about very, very small amounts here.

GOVERNOR CARPER: Thank you.

GOVERNOR VOINOVICH: Governor Ridge.

GOVERNOR RIDGE: Mr. Reischauer, along with the observation you just made, talking about being between a rock and a hard place, we talked about the bipartisan commission that's going to deal with the Medicare Trust Fund.

All of us have read challenges dealing with the growth of the elderly populations in our states. Pennsylvania, Florida and others have a higher incidence of elderly than most states. For all of us I think the fastest growing elderly population is 85 years of age or older. Their health care costs are twice as much as those that are 65, 16 times as much as the moms and kids.

Every time -- many occasions where they've made a change in the Medicare provision that does not provide for long term health care it

just passes the burden down to Medicaid. If it does you've got millions of Americans who are a hospital bill away or a tragedy away from going from Medicare to Medicaid.

So there's tremendous pressure on the states, some more than others, but all of us to deal with the phenomenon of an elderly population, that 85 year of age population growing faster than the rest.

In the deliberations within the bipartisan commission on the Medicare Trust can we really say we've solved the problem of Medicare and our ability to deal with the health care of our seniors without dealing with long term health care and Medicaid?

MR. REISCHAUER: The simple answer to that question is no. Certainly Medicare faces problems as Medicare is structured currently but we all have to keep in mind that Medicare really doesn't cover the whole of the health needs of the elderly population. Many people are surprised to find out that for the average 65 and over person Medicare pays only about 55 percent of their health care bills and 45 percent is paid out of pocket or from a former employer's retiree health benefits and so on.

As you have noted, the overall 65 and older population as a fraction of our national population won't grow over the next 10 years. We're in something of a demographic holiday from that standpoint. But the component of that that is the old old, the 85 and over, the 80 and over, is going to grow very rapidly and they are the primary users of health care services. Not just health care services but long term services which ease over into the costs of keeping one's self going doing just general functions. And we really do have to face this over the next few years, the problem that you have pointed out.

GOVERNOR VOINOVICH: Governor Nelson.

GOVERNOR NELSON: The question that was raised with respect to the federal gas tax is one that's particularly troubling because Congress seems to have set up a situation where their accounting for it creates an impossibility for them to perform, to give the money back to the states once it's collected. As I understand it, it's credited now in a way that adds to the surplus unless it's authorized and spent. But if it's authorized and spent there goes the surplus.

So is it realistic to expect that the 4.3 cents that's now being credited into the account is truly what it was proposed and purported to be at the time that they accomplished it a year ago? Is it a sham transaction or a near sham transaction? I think that's my question.

MR. REISCHAUER: I wouldn't wait by the mailbox for the check --
(Laughter.)

MR. REISCHAUER: -- on this one just because there are competing interests.

I don't think when it was put in as part of the balanced budget Taxpayer Relief Act that many in Congress thought that the whole 4.3 cent would result in increased obligation limits and increased outlays in the Highway Trust Fund. There will be some portion of it that will end up there.

GOVERNOR NELSON: It's more of a near sham transaction.

MR. REISCHAUER: Yes. It was to whet your appetite, not satisfy your hunger.
(Laughter.)

GOVERNOR VOINOVICH: Governor Nelson, you'll have a wonderful opportunity to talk to Chairman Kasich on Tuesday about what the intention was.

Governor Romer.

GOVERNOR ROMER: I'd like to talk about the strategy of the Internet tax circumstance. I think one of the things we need to be aware of is that it is kind of seductive to put on a five year moratorium but I feel what will happen in that five years will be so decisive that you can't back it off. Therefore I think it's really imperative that we try to get a deal that's the right deal and get it now because it's an approach you can take to try to kill this bill but I think that there's precedent that can grow up that is possibly irreversible on both sides of the argument. Therefore I think strategically we governors ought to be at the table with all of the parties, willing to talk and willing to take action soon, not later.

GOVERNOR VOINOVICH: Governor Gilmore.

GOVERNOR GILMORE: Mr. Reischauer, on the issue of the Transportation Trust Fund, it's really just a matter of making national policy decisions, isn't it? Because I like what Governor Engler has said, we ought to put the trust back in the trust fund. The money is collected ostensibly for the purpose of transportation. There are compelling needs in all 50 states for this and our citizens are putting a lot of pressure on us all the time. That money ought to go back to the states now.

But we have seen historically that substantial money has been moved from, for example, defense into other priorities in the state because of the national decisions that have been made at the Congressional level. There's no reason, is there, why we simply can't make a national policy decision to transfer money to other priorities or reduce government spending, because right now what we're really doing is basically using transportation money for other purposes and that's a national policy. Is this not right?

MR. REISCHAUER: That is basically right. But if we were sitting here and having this discussion and saying what are those other national priorities from which the money should be shifted into transportation and I was going to come to you and say 'Well, it's the consensus of the Congress that we should cut other grants to state governments.' your view about this whole shifting between national priorities might be a little different. I mean, this is a tough one. The money has to come out of somewhere or out of the surplus.

GOVERNOR GILMORE: But that's a fake choice. They could also just simply reduce the level of spending at the national level and let the states have a little additional money to do on transportation which would free up other state money for other priorities. I mean, these are possibilities that could occur, are they not?

MR. REISCHAUER: They are. But you said 'Just reduce spending at the national level.' and we've had a heck of a time doing just that over the last decade and a half.

GOVERNOR VOINOVICH: Governor Carnahan, then Governor Engler.

GOVERNOR CARNAHAN: Professor Hellerstein, I'd like to follow up Governor Romer's comment about the Internet and taxation.

I agree we ought to address it now and the five year moratorium would be fraught with difficulties for my state and I think most states. Is there any consideration given to perhaps a more simply, direct approach of imposing, say, a five percent tax on sales through the Internet and remote vendors at the state level and permit it like revenue

sharing from the states? That way you get to many of these problems that we've talked about, using the Commerce Clause as the basis for doing so.

MR. HELLERSTEIN: Governor, are you suggesting has there been any proposal with regard to a national -- a federally administered national sales tax that would then be remitted to the states? The answer is yes. That's among the many suggestions, and some of them are looser and some of them are tighter. That certainly has been one of the suggestions that's been made.

I've never seen any elaborate documentation of any proposal along those lines but certainly as one talks about what the states can do on their own or even what the states can do under existing systems, which are quite complex for many of the reasons that I indicated, the suggestion is why not do this nationally?

Of course one would have thought that in this room the notion of turning the state revenue raising function over to the national government would at least raise some concerns.

GOVERNOR CARNAHAN: It seems to me we'd be turning over something that we're not going to get. I would be as reluctant as any other governor to turn over something that we can handle but in this new environment it seems to me like we'd only be turning over something that could be handled better at the national level.

MR. HELLERSTEIN: Yes, Governor. I think, of course, one question that that raises -- there may be and there are, in fact, five states right now that don't tax sales at all and there are a number of states, including California and New York, among others, that have a policy of not wanting to tax the Internet. So one question that has to be raised is how do we respect those individual states' choices if they want to become -- and you can look at this two ways -- either centers of Internet commerce -- they all want to have a Silicon Valley -- or alternatively do you want to view them as tax havens. Again, this is just characterizations but the point is if these choices are still to be left to the states that somewhat complicates it.

I think there's no question that a national sales tax on all Internet sales could be imposed but then I must tell you there are also problems of 'Gee, there's a national sales tax? Why won't all the Internet servers move off to the Grand Cayman Islands?' This is actually an international problem as well as an interstate problem.

GOVERNOR VOINOVICH: Governor Engler.

GOVERNOR ENGLER: Two questions, I guess, one on transportation. Professor Reischauer, I thought the Transportation Fund was a trust fund and that historically the transportation fuel taxes raised at the pump went into the trust fund for transportation purposes. Therefore the choice Governor Gilmore was just talking about is, in fact, a false choice. If there's going to be a trust fund shouldn't it be used for the purposes for which it was established?

MR. REISCHAUER: I think the answer is yes. The question is how much of it will be used and when. It isn't as if there's been a great inequity over the past decades -- because, as I pointed out, the revenues coming in have about balanced the spending going out. The reason there's a surplus is because spending goes out slowly because it takes a long time to build roads, therefore there are balances which we have chosen to pay interest on. It's the interest earnings.

As I said, what's going to happen in the future is very different from the past because of this transfer of the 4.3 cent a gallon tax

revenue into the trust fund. Under normal circumstances one would expect an increase in highway spending but we are up against the rock of a desire to hold discretionary spending down to meet the budget targets that were set last year. That's what is creating this problem.

GOVERNOR ENGLER: In fact, though, it seems to me that the problem becomes one of using the balance, the unexpended balance of the trust fund to help describe the federal budget as having a surplus but then, in fact, when you look at the numbers you see that part of that is arrived at by taking part of the transportation fund which is to be used for transportation purposes and saying we won't spend it for that, we'll hold it and justify it and get the checkbook out and write new checks.

MR. REISCHAUER: There's lots of other trust funds and lots of other trust funds with surpluses. The Highway Trust Fund really is a rounding error in that argument. You know, we have Social Security.

GOVERNOR ENGLER: Given that it's a rounding error it would then be real easy to meet the needs of the states and everybody can kind of walk away from that one at least happy.

(Laughter.)

MR. REISCHAUER: That rounding error can come back and bite you, though, if the federal government decides it has to cut some other program that affects people in the state or state governments.

GOVERNOR VOINOVICH: Mr. Reischauer, I think I'd like you to clarify this. I think there are many people, including some governors, who have felt that over the last several years that we weren't getting all of the money out of the trust fund and you're saying to me, or saying to us today that up until the 4.3 cent the federal government was sending out more money than was actually coming in?

MR. REISCHAUER: Money flows into the trust fund from two sources. One is the receipts from the gas tax and tires and other things that are taxed. The other way the trust fund gets money is interest earnings on its unexpended balances.

What I was saying is that if you look over the past 10 years or so the money coming in in the form of tax receipts the American people pay at the pump, when they buy tires, et cetera have been a little less than the amount of spending that has gone out each year. The balances in the trust fund have grown because of the interest earnings.

GOVERNOR VOINOVICH: Okay.

Governor Gilmore.

GOVERNOR GILMORE: Mr. Reischauer, that's capital paid by the people of the states for an ostensible purpose, which is transportation and a fund of money is a vehicle for the earning of interest. If we had the ability to have this capital in the states where ostensibly it's supposed to be then we wouldn't be losing that interest at the state level. So really that interest is our money that we're just not getting because we could be earning the interest at the state level and managing our budgets in a better way and actually delivering services to the citizens of our states in transportation measures.

MR. REISCHAUER: But because you'll be making obligations to build roads, the bills for which would come due several years from now, you'd probably keep some balances in your accounts for this purpose, as I think you do generally on these kinds of funds within your state, and those would serve to lower your other deficits in a sense or add to your surpluses. The question is over time does this all wash out, and basically it has and it will.

But we're in sort of a new world here with the sudden infusion of this 4.3 cent a gallon gas tax money and how the national debate evolves over this, you know, is an open question. It was pointed out before, we could decide that highways are an important priority. We want to spend more on highways. But if we also want to maintain the discipline of the 1997 budget agreement we're going to have to cut something else.

GOVERNOR VOINOVICH: Governor Schafer.

GOVERNOR SCHAFFER: Just to be clear on this revenue expenditure situation, there's about \$24 billion in the Highway Trust Fund today without the 4.3 cents. That is projected to double over the next several years because of increased gas usage, increased sales, increased tires, whatever. So there will be growth in the trust fund.

As it currently sits today with current expenditures projected and current revenues the 4.3 cents takes it to about \$70 billion by the year 2003, but it is not the sole reason for the growth of the trust fund.

GOVERNOR VOINOVICH: Governor Branstad.

GOVERNOR BRANSTAD: Just as a clarification in this area of trust funds, in my state we actually have a constitutionally separately constituted trust fund. We call it the Road Use Tax Fund, which is a separate constitutional fund. The interest on that, all of that goes for transportation. It can not be used to camouflage or offset the deficit in the general fund of the state. We have a surplus in the general fund of the state but those can't be intermingled.

That's, I think, the difference. In Washington the federal government has used a surplus in the Transportation Trust Fund, in the Highway Trust Fund as a way to offset the deficit in the general fund. I guess I think it's the feeling of the governors, at least it's been my sense over the years, that we think that is wrong. That it really should be, as Governor Engler says, a trust fund so that the money, including the interest that's earned on it, goes for transportation purposes.

GOVERNOR VOINOVICH: Governor Chiles.

GOVERNOR CHILES: I would just sort of, kind of point out this isn't the only trust fund that's used as a means of balancing the budget. We've just talked about the Social Security trust fund, which is a huge increase. You can argue and we used to argue a long time in the Congress that it wasn't fair to say, you know, we were in balance and all and counting this because of the surplus. So if you want to look at surpluses and trust funds you ought to look at all of them.

And I think the other thing is that you're back to the genesis of the 4.3 percent increase. It was specifically passed as a deficit reduction tax and now we're all sort of saying 'Wait a minute. Give it back to us, we want to spend that money.' At the time it was passed that was clearly what it was for. It was not to provide additional funding. It was one of the easier ways to pass a tax on people but that was clearly debated. That was clearly what it was for and it's kind of interesting now that we want to pierce it.

I think if we do get this money there's no doubt about it -- there's a big debate in Congress as to whether to pierce it now and take the money too. We're gonna have to cut other places and we'll be back here arguing like hell about the places they're cutting if we take this kind of money out.

MR. REISCHAUER: Governor Chiles is dead right about that. Remember, the 4.3 cent a gallon was the desirable alternative to the

infamous Btu tax that the President had proposed, and it was for deficit reduction purposes.

GOVERNOR VOINOVICH: But what you're basically saying is if all of that money is used that you're going to have to find, as Governor Chiles points out, some other places where you're going to have to cut some other programs and some of those programs may very well be some programs that governors are interested in. So that's the problem.

You know, I don't know whether any of you want to comment on this or not, but is there really a surplus? I mean, we have -- I've been lead to believe that if you didn't have the surplus in the Social Security fund that indeed there would not be a surplus that we're talking about either spending or reducing taxes. Could any one of you clarify that for us?

GOVERNOR ENGLER: Is there any way to reframe that from a Governor's perspective? I mean, most of us have constitutional requirements to have operating budgets in balance. That's what we sort of deal with. We don't get the luxury of counting trust funds to say our budget is balanced. The data that was handed out would show that there's a deficit there and that's substantial. I assume that's correct.

MR. REISCHAUER: The fourth figure in my handout showed you that in fact there is not a surplus, nor will there be under the CBO projections in the non-Social Security accounts of the federal government.

The federal government, after the late 1960s chose to present its budget as a unified whole for a very good reason, which isn't applicable to states. That is one of the most important factors with respect to the federal budget is how it influences the overall economy.

The federal government is responsible for macro economic stabilization to a certain extent. States are not. And we decided -- the economists recommended that the appropriate way to look at the federal government's impact on the economy is to look at all the revenue it takes in for all sorts of purposes and all the spending it does and what the difference between those two is, whether it's for highways or Social Security or payment of a grant or payment of a salary to a government employee. That is the appropriate way from an economist's standpoint.

GOVERNOR VOINOVICH: But prior to the Vietnam war wasn't it handled differently?

MR. REISCHAUER: Yes, it was. There was a trust fund budget and an administrative budget and they were separate. There was a feeling that this didn't highlight the impact that the federal government was having on the economy.

GOVERNOR VOINOVICH: In other words, if you spent a lot of money on that war and we need to kind of cover it so we needed to bring this money in?

(Laughter.)

MR. REISCHAUER: Not really because at that time remember, there weren't big Social Security surpluses and there weren't surpluses in the other trust funds that amounted to much at all. There are very large surpluses in the Medicare -- well, not Medicare. There's a large balance in the civil service retirement program and the military retirement program as well that dwarf the Highway Trust Fund.

GOVERNOR VOINOVICH: Any other questions or comments? Yes, Governor King?

GOVERNOR KING: I'd like to pursue this. I think Figure 4, Mr. Reischauer, you said you'd end on a positive note but I think Figure 4 is pretty sobering.

As you pointed out, the problem is we're relying on the Social Security surplus to really do double duty because it's masking the operating deficit but also hopefully it's building up because of the demographic pressure of Social Security early in the next century, I guess around 2015. Do the lines in Figure 4 include anticipated expenditures in Social Security for when we're all retiring and going on Medicare? If so, maybe it's not so worrisome. But aren't we looking for an explosion of expenses in Social Security? We're not going to be able to rely on that surplus to carry us on the operating side.

MR. REISCHAUER: The picture ends just at the wrong time because 2008 would be the year in which the first of the baby boomers becomes eligible for early retirement and withdraw on Social Security. What you're going to see after 2008 is a steady increase in Social Security, Medicare, Medicaid spending.

The Social Security system will run surpluses probably until about 2019, but the cash flow in the Social Security system, meaning payroll taxes coming in versus benefits going out, will turn negative about 2012.

GOVERNOR KING: If we were smart we would be building up literally a fund which would be self funding at that time instead of having go to a payroll tax that will be just impossible.

MR. REISCHAUER: Given the demographics that this country faces it would probably be good if we tried to balance the non-Social Security portion of the budget and ran substantial surpluses with respect to Social Security. That would increase national saving investment capital stock, the size of the economy in the future, and make it easier for us to pay for the benefits that the baby boomers will want when they retire.

GOVERNOR KING: It seems to me if we don't do that we, this generation of leadership, is committing a real generational offense, passing on to our successors an impossible situation.

MR. REISCHAUER: This is the glass half full and half empty situation. We've come a long way from where we were three years ago, five years ago, ten years ago, and what I think you're saying is we shouldn't stop at this point. That's what I've tried to imply at the end of my remarks, that, you know, to be responsible stewards of the future we should continue to increase the size of the surplus that is already projected.

GOVERNOR VOINOVICH: Thank you.

Lawton.

GOVERNOR CHILES: I just want to say that is what the debate is going on now on, Governor King, whether you should spend some of the surplus money for domestic spending, as some Democrats would want to do, tax cuts, as some Republicans want to do, or whether you'd better look at that problem of Social Security that's coming up. I think now we are seeing another Social Security fix committee coming into being to look at that.

I think what you're saying is it's kind of like Joseph's dream, there are some good years and there are some bad years and we maybe should be putting some of the corn in the barn.

GOVERNOR VOINOVICH: We'll have one last question or comment, that's from Governor Carper.

GOVERNOR CARPER: Thank you, sir.

I want to go back to Professor Hellerstein. Professor, we're going to have a Governor's only luncheon meeting in an hour or so. One of the issues that we're going to be discussing and trying to reach some common ground on is this issue of Internet taxation, access and so forth to try to develop a level playing field, not just with those who sell products over the Internet but other vendors as well, catalogs and that sort of thing.

You gave some pretty good -- I think a pretty good nexus for a compromise, what I would call a global compromise that protects the interests of the states and the local governments and is fair to those who might be selling products over the Internet or selling perhaps catalog sales. Could you just reiterate that global solution for us again to kind of set the table for us as we go into our luncheon discussion?

MR. HELLERSTEIN: I think the global solution in terms of who's giving up what, from the standpoint of what the state would have to give up, I think they would need to move toward uniformity. That would mean you would have to abandon your right to define independently what software is. You'd certainly have the right to decide what to tax and what not to tax but if you're going to tax it the "it" would be defined uniformly. That's important, number one.

Number two: I think you would need, in terms of a rate you'd need to have a single rate per state. And I realize this can create serious difficulties with your local governments but in the end if we're moving toward a uniform solution the amount of revenues that you will be capturing as a result of being able to implement a system that gets this new economic activity you ought to be able to, in effect, pay off your local governments. There will be more than enough money available.

As the governor said earlier, there's not a lot of choice in terms of -- it's either if you're going to tax it at all you're going to have to give up some of these things that you might in the past have said are essential elements of local sovereignty.

In terms of what you're getting it seems to me you ought to get -- as a matter of principle it ought to be the right of any vendor that is large enough -- and that's an issue of what is large enough -- that is making large sales systematically to any jurisdiction, that vendor ought to be required to come up with the tax. It doesn't matter whether it's an L.L. Bean or an Internet vendor.

Let me just make one other level playing field point. When you think about this clearly you don't want to create -- if you like electronic commerce -- I assume you do. You like electronic commerce. You certainly don't want to create the following situation: I walk into my Blockbuster video store, at least in Georgia, and, you know, I pay a tax on that. I'm getting something tangible. At this moment if we were to say that we don't want to tax electronic commerce I can download the same video. Do we want to drive Blockbuster out of business?

In other words, it seems to me one of the important determinations here is if you want to tax "it" it ought to be taxed regardless of the way it's delivered. If you don't want to tax it don't tax it at all, but don't create these disparities. This is part of what I think we're talking about when we say a uniform level playing field. You get nexus. You require the vendors to collect with some data loss protection for the small business. You simplify.

The only point that I wanted to leave you with, I guess, it's very important. It's one that I have not made. But there's a paper that Charlie McLure has written that I think is worth all of your attention, which is the notion that we're talking about a fix here.

One other very, very big problem with the sales tax base is that right now it includes a lot of "business consumption." Business consumption is an oxymoron. Businesses don't consume, at least in the terms of a retail sales tax. One of the things you might want to try to fix while you're doing this -- the question is how much you can fix since it's such a large part of the sales tax base is business to business sales shouldn't be taxed in principle. Right now they're taxed a lot.

In trying to come to a uniform solution here it would certainly be well worth your while, I think, to look at minimizing the amount of pyramid within the tax. This obviously has revenue consequences and that is if you stop taxing business to business sales, which should be in the base from a theoretical standpoint, obviously the question is where do you get the extra revenue?

Well, one place you get the revenue -- in principle again -- a level playing field suggests we extend the tax base to services that are consumed by individuals. Nobody should be against that. That is pet grooming, landscaping. There's no reason why -- Take a better example. Again, I'll give my own state, Georgia, as an example.

I go in, I get my car repaired -- which I do too frequently -- and I get a bill. The bill says "Labor \$250. Parts \$39.00." I pay a tax on the parts. I don't pay a tax on the labor. That's silly. What good is the transmission unless it's been installed? It's all personal consumption.

So there are ways that we can expand the sales tax base if we're trying to fix it that no one would really object to.

There are also ways in which we ought to contract the sales tax base in terms of business to business purchases. It doesn't make sense. Again, I think the extent to which you can actually get rid of business consumption ultimately becomes a political one. That is if you're going to contract the base and we can't make up entirely for business purchases with pet grooming we have a problem, which means you either raise the rate or you don't go quite that far. But I think that's another important thing you need to look at in terms of trying to fix it.

But I do again reiterate you have a historic opportunity here to use this problem as a way of not only solving this problem but solving a few others while you're at it, including the mail order issue which I think really ought to be solved along with this.

GOVERNOR CARPER: Thank you very much.

GOVERNOR VOINOVICH: I'd like to again thank the panel. I think this is one of the most interesting, thought provoking, helpful panels we've had in a long time. Let's again give them a good hand.

(Applause.)

GOVERNOR VOINOVICH: Thank you.

I'd now like to convene a meeting of the National Governors' Association Executive Committee. All the governors here today are welcome to participate but only members of the Executive Committee may vote.

May I have a motion and second to approve the minutes of the November 7, 1997 Executive Committee meeting and the January 27, 1998 Executive Committee conference meeting that we had.

GOVERNOR CARPER: Mr. Chairman, I so move.

GOVERNOR VOINOVICH: It's been moved. Is there a second?

GOVERNOR ENGLER: Second.

GOVERNOR VOINOVICH: It's been moved and seconded that we approve the minutes. All those in favor say aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion carries.

We'll now go into the consideration of proposed policies.

Governor Thompson, may I have a motion to move the policy on child care and early education?

GOVERNOR THOMPSON: You certainly may, Mr. Chairman. Child care and early education policy stresses the importance of parental involvement in child care choices. It also discussed the roles the business employers, the community and government can play in assisting parents.

There are a couple technical amendments that were put in at the request of Governor Beasley. They have improved the resolution, and with those amendments included I move the adoption, Mr. Chairman.

GOVERNOR VOINOVICH: You're moving the adoption of the policy as amended?

GOVERNOR THOMPSON: As amended.

GOVERNOR CARPER: Second.

GOVERNOR VOINOVICH: Any discussion?

(No response.)

GOVERNOR VOINOVICH: There being none, all those in favor signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is passed.

We have a series of other policies that the Executive Committee needs to adopt so that we can get them out there to be discussed in our governors-only sessions and then be brought back to the plenary session that we're going to have on Tuesday.

I want it understood that some of these policies deal with a couple of items that we're still discussing. One of them deals with tax policy, the other one deals with tobacco. The purpose of moving these policies again is to get them before the consideration of the National Governors' Association, and I wonder if someone could move the adoption of those policies en bloc?

GOVERNOR CARPER: Mr. Chairman, I move the adoption of these policies en bloc.

GOVERNOR VOINOVICH: Is there a second?

GOVERNOR O'BANNON: Second.

GOVERNOR VOINOVICH: Do we have any discussion?

GOVERNOR MILLER: Mr. Chairman, I just want one clarification on block grant policy, especially as it related to the educational grants.

That's not a prospective application to new initiatives like class size reduction but rather, retrospective to existing grants that deal with standards and assessments, et cetera. Is that correct?

GOVERNOR VOINOVICH: Do you want to repeat the question? I'm not sure I understand it.

GOVERNOR MILLER: The educational block grant proposal does not include prospective education funding like class size reduction. It only deals with existent education funding. Is that correct?

GOVERNOR VOINOVICH: That's correct. That policy is, I think, revenue neutral and talks about taking current programs and utilizing them in a more effective, efficient way but does not get into what you just said.

GOVERNOR MILLER: Thank you.

GOVERNOR VOINOVICH: There being no further discussion, all those in favor of moving the policies en bloc signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is passed.

We're now going to call on Governor Carper to tell us a little bit about our financial situation.

Governor Carper.

GOVERNOR CARPER: Thank you very much, Mr. Chairman, and to our colleagues around the table, obviously.

Through November 1997 NGA and the Center for Best Practices have a combined surplus of \$239 million.

(Laughter.)

GOVERNOR CARPER: All right. \$239,000.

(Laughter.)

GOVERNOR CARPER: But a surplus. No tricks, no smoke and mirrors. A surplus when you combine the two NGA and the Center for Best Practices, surplus through November: \$239,000.

To this point in our fiscal year the operating fund revenue of NGA is on target, it's where we expect it to be, want it to be. Meanwhile, expenses are running slightly under budget and the NGA and the Center's operating budget is projected to be in balance when we reach the end of the fiscal year. So we expect to be able to put them both together, NGA operating and Center operating budgets, and at the end of the year we ought to be in pretty good shape, revenues matching expenses. There you have it.

GOVERNOR VOINOVICH: Any questions?

(No response.)

GOVERNOR VOINOVICH: Thank you, Governor Carper.

I'd now like to call on Ray Scheppach. Ray is going to discuss the new operating principles in regard to our corporate fellows.

Ray?

MR. SCHEPPACH: In the back of your Tab C there's just a one pager on operating principles on how we work with the corporate fellows, which is just pretty standard sharing of information. We would like to have this adopted by the Executive Committee and so we'll need a motion on it.

GOVERNOR VOINOVICH: Is there a motion on that?

VOICE: So moved, Mr. Chairman.

VOICE: Second.

GOVERNOR VOINOVICH: Discussion?

(No response.)

GOVERNOR VOINOVICH: Those in favor say aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is passed. I think you can see from looking at your agenda that this has been a session that's finished on time. As a matter of fact, we've got a few minutes more. I would like to remind the governors, and it's really important, that we're going to start at 11:30 with a governors-only session and we've got some really heavy stuff that we've got to discuss in that governors-only session. I would be grateful to you if you were there at 11:30 so we could get started because we're going to need every minute of that session to get out some of this stuff that's pretty controversial and difficult.

So I look forward to seeing you at 11:30. Thank you very much.

(Whereupon, at 10:45 a.m., this first plenary session was adjourned.)

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GOVERNORS' ASSOCIATION

1998 WINTER MEETING

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PLENARY SESSION

J.W. Marriott Hotel
1331 Pennsylvania Avenue, N.W.
Salon III
Grand Ballroom
Washington, D. C.

Monday, February 23, 1998
2:45 p.m.

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DAV/jbg

P R O C E E D I N G S

GOVERNOR VOINOVICH: For the past year and a half the National Governors' Association has focused our attention on healthy child development during the first three year's of a child's life. Last year at this time we heard Rob Reiner and Dr. Bruce Perry explain that an infant's brain grows most rapidly during these initial years, building the foundations for a child's emotional and intellectual capacity.

I know that many of us have heard for the first time that repeated nurturing experiences like holding, carrying and even reading to an infant are good nutrition for healthy brain development, and even more studies are confirming that fact.

In the past year we have acted on this new information by working to support families with very young children. Last October 10 governors and 40 state teams came to Columbus, Ohio to share strategies for improving results for young children. We learned that there are many exciting and innovative things happening in the states and many of us have copied good ideas from one another.

The December 1997 fiscal survey of the states also shows that states are investing more resources in early childhood programs. Traditionally state spending for children was almost always targeted to elementary and secondary education. The fiscal survey of state budget officers shows states are actively funding initiatives to promote healthy development.

While early childhood programs remain a small portion of the overall state budget, some states are doubling and even tripling their spending on these programs. Among the examples are Oklahoma's Children First, Nevada's Family to Family Connection, and New York's Pre-Kindergarten Program.

But it's not enough to implement new programs. What we must also do is show that these programs actually do make a difference. I often say that if you can't measure it, don't do it. For that reason I asked the staff of the National Governors' Association Center for Best Practices to produce a brochure encouraging states to monitor the impact of our efforts on children. This is the brochure that's in front of you; it's entitled Investing in America's Future, Indicators of Family and Child Well Being. So if you'll go through this brochure and kind of do a benchmark review of what you're doing in your respective states to make sure that you're on track as far as the goals that we have laid out.

As I say, the brochure identifies three goals -- healthy children, children ready for school, and strong families -- and lists indicators that states can adopt to measure progress toward each of these goals. Making real progress takes time but eventually we want to be able to show that the investments we make in children pay dividends for families and for society. I think that's the only way that you're going to be able to continue to get your legislature to invest more money in these programs.

Last year we focused on why we need to invest in young children and their families. Today we're going to discuss how we can create a system of early care and education in order to improve results for our young children.

The National Center for Children in Poverty is about to release its second edition of a report called Map and Track, State Initiatives for Very Young Children and Their Families. The findings include a deepening

commitment in many states to create and fund programs for young children and families, particularly infants and toddlers. Twenty one states are now funding one or more statewide programs for infants and toddlers and eight states have started new programs since 1996.

At the same time the report shows we need to focus more attention on coordinating the multiple programs that serve families with young children. For that reason today we've invited Dr. Sharon Lynn Kagan to speak to us. Dr. Kagan recently completed a four year comprehensive study on how to reform America's early childhood education system. Her recent report, entitled *Not By Chance*, is the culmination of this study, reflecting the insights of 350 national and international scholars and presenting a fresh and forward looking vision of an early care and education system.

Following Dr. Kagan's remarks we will have an open discussion, at which time several governors will share what they're doing in their states that are related to early care and education. The plenary session will end with two perspectives from the national level. Senator Kit Bond, from Missouri, will be in talking about what they're doing in Congress in this area, and we're going to have Bruce Reed, from the President's Domestic Policy Council, talking about Democratic legislative proposals in this area.

Dr. Sharon Lynn Kagan is a frequent advisor to the National Governors' Association. She also advises Congress and the White House. You're a pretty important person.

A senior associate at Yale University's Bush Center in Child Development and Social Policy, she also co-chairs the National Education Goals Panel on Goal One and is president-elect of the National Association for the Education of Young Children.

Dr. Kagan, I think we're all looking forward to hearing your insight into how we can create a more coordinated system that serves young children, and I am particularly interested in how we can partner with the private sector to make this happen because I happen to believe that government alone can't get the job done and what we need to do is to galvanize all the resources that exist in our communities. We're kind of anxious to hear from you to let us know how we can get that done. So we're glad to have you here.

(Applause.)

DR. KAGAN: Thank you, Governor Voinovich. I extend a tremendous thank you for the invitation to address the National Governors' Association.

It is clear that not terribly long ago little children were considered to be miniature adults. Preschoolers were supposed to be seen and not heard and infants needed little more than a warm bottle and a quick change.

Well, we know today that these ideas are quite passe, indeed. And in large part due to your efforts we recognize that the early years are times of unprecedented growth, precious days that actually need to be captured if we are to advance young children's long term performance as effective students and as contributing students.

Recently, in your state of the state messages, you have vociferously called for action and, indeed, by dint of your commitments, America has refocused its eyes and its hearts on young children. You indeed have changed the dialogue. No longer are we asking whether we should care for young children but, indeed, how. You also have asked

very hard questions. You have asked us who should govern and who should deliver the disparate array of services that exist in our nation for young children. Who should pay for them and who should we hold accountable for their success or their failures.

Often and, quite honestly, behind the scenes early childhood and business leaders were very troubled by these exact same questions. We heard ourselves giving you piecemeal and program du jour responses. 'Try this program,' we would say, 'or try that one.' to your increasingly systemic questions. And indeed you responded. You invested in programs for young children. But together we were all less aggressive investing in the supports that make programs function very, very well.

So that even with program funding in hand many programs today in our nation can not open because they don't have sufficient staff, or because they are embroiled in redundant regulations. Parents are confused because without across program planning services are inequitably distributed, stacked up on one side of town while children languish on very long wait lists on the other side of town. Economies of scale are not realized and quality is actually diminishing to levels that jeopardize children's healthy development.

Why? Why, you should be asking, when we are investing more money is this occurring? What's happening? Like well intentioned gardeners, we have planted a set of beautiful flowers, we have planted Head Start flowers, child care flowers, parenting education flowers but, indeed, we have failed to nourish the soil, the infrastructure that supports and enables those flowers to flourish. We have not paid sufficient attention to the training of early care and education workers, to accountability in the system, to planning or to governance mechanisms.

This doesn't mean we should stop investing in programs. Indeed, parents need choice that is offered by a diverse array of programs, and we know that these programs have huge short and long term social pay offs.

It does mean, however, that we need to realize efficiencies and to maximize pay offs we need to start thinking more systemically. How? Four years ago, with support of major national foundations, some of whom are represented in this room today, the nation set forth on a research driven process to create a new vision for early care. That's child care and early childhood education together, a process that heavily involved the business community.

Culling empirical data from our nation and from other nations with whom we routinely compete, 350 people created eight long term recommendations buttressed by action strategies that, when implemented, will create an efficient system of early care and education.

Called Not By Chance, the report draws on examples of what's best in our nation, on the structures of North Carolina's Smart Start and Ohio's Families and Children First initiative, the consumer education efforts of Washington's Child Care 2000, the family focus of all of Colorado's early programs, the training that is so graciously embodied in Connecticut's Charts Our Course, the universality and regulatory provisions of Georgia's pre-kindergarten programs, mentoring efforts in Delaware, and the results focus on Vermont, Minnesota and Oregon.

Not By Chance suggestions that we must build on and link these examples by focusing in five areas. Forgive the alliteration, but it makes it easier to remember -- the domains are programs, parents, professionals, places, and the purse. Let me begin with programs.

We need to increase the learning opportunities for all children in family child care homes and centers by first regularly and in an ongoing way assessing results, and, second, by using proven program strategies that work. Indeed, today's early care and education programs must address the needs of 21st Century children who must be taught and prepared for challenges of the new era.

Second, parents. Parents are not only their children's first teachers, they are their children's life long anchors. Given the lack of any systemic approach to parenting education in our nation early care and education centers in many states are de facto parents, first teachers. As such, the programs must make durable commitments to supporting families as they navigate an increasingly complex world.

Society, including business and industry, must assist parents in obtaining the information and the time they need via family leave, via supports for source and referral agencies, and via flexible scheduling to support children and parents.

The third domain of recommendations, professionals. The quality of any institution -- your offices, my university -- are judged by one thing primarily: the quality of the people who work there. Unlike any Westernized nation with whom we routinely compete, America requires no quality assurance or licensing for personnel who work with young children. We license people who groom dogs and who manicure people's nails, but those who care for our most precious commodity, our youth, are exempt from any kind of licensure. Not By Chance suggests that by the year 2010 all who work with young children should be licensed.

The places. Ladies and gentlemen, it is likely that 50 percent of all of the programs in your state serving young children are legally exempt from regulations. And indeed, those programs that happen to be regulated are inundated by overlapping regulations that exist at the state, at the county, and at the local level. We, indeed, have a ludicrous imbalance. Too many regulations for too few programs. Not By Chance recommends that all programming licensing be eliminated and that existing licenses be streamlined.

Finally, the purse. Such a system of early care and education must be wisely and prudently financed and governed. Not By Chance recommends that new funding, indeed about 10 percent of it, be set aside for the kinds of infrastructure supports that I have been discussing. And we are recommending, as exists in many of our states now, that state entities that govern early care and education, paralleled with local entities, be developed to foster cross program planning.

Now, what can you do? First of all, governors must continue to spearhead some investment in early care and education programs. That can happen directly and it can happen indirectly, via the form of inventive business tax credits, as Governor Carnahan is doing.

Second, Governors, we call upon you to please establish and help us establish results based standards and the means to assess them even for young children.

Third, we ask you to work with us to develop a streamlined regulatory system.

Fourth, we ask you to call for the establishment of credentials for all who work with young children and training scholarships that will enable workers to avail themselves of that.

And, fifth, we ask you to establish governance entities so that there will be, once and for all, a mechanism for creating efficiency in the emerging early care and education system.

In closing, I would like to remind you of a quote from Kierkegaard. He said "We live our lives forward. We understand our lives backward." So it is with early care and education. We have truly been on fast forward programmatically. Now we need to pause and reflect, understanding that without the thoughtful support of the infrastructure the services and programs which you are funding will fail. It's actually a fairly simple equation. Programs plus an infrastructure equals a supportive system for America's children and their families.

Thank you very much.

(Applause.)

GOVERNOR VOINOVICH: Are there any questions for Dr. Kagan? Christy? That's Governor Whitman.

(Laughter.)

GOVERNOR WHITMAN: You talked about the need for results-based standards for programs for young children. What age are you talking about and how do you determine what result bases are going to be on the young child? Because young children, the 0 to 3 -- and we have a new \$100 million program geared toward young children, to helping parents at that age, from the 0 to 3, focused on all of that -- young children learn by doing. They have creativity that we seem to try to squish into some kind of standard program that we have too early on.

I wonder for the very youngest child what kind of things you're looking at to determine what's successful and what isn't? How do we judge that? How do you have a standard base for the little kids?

DR. KAGAN: Governor Whitman, I appreciate your understanding of the way very young children grow and develop and it's a very important question.

We are recommending that standards across all domains of development -- and the National Education Goals Panel has indeed helped define five domains of readiness that include physical and motor development, approaches toward learning -- by which we mean children's creativity and their ability to persist on tasks -- language and language development, their social and emotional development, and their cognitive functioning.

Indeed, we believe that standards in those domains can be established for three, four and five year old children, and indeed they should be established.

When we are talking about children in the infant to three year old range we need to focus much more cogently on achievements in the area of physical development and also on the supports that enable those children to grow and to thrive.

GOVERNOR VOINOVICH: Thank you.

Any other questions? Yes, Jim.

GOVERNOR HUNT: Dr. Kagan, I'm down this way. I want to ask you this question: we know -- many of us know that too many times in child development centers, child care centers the people who work in there not only are not licensed or certified or whatever, they're the lowest paid people in the community. They work at the minimum wage. They'll leave there to go flip hamburgers in many cases. So they aren't maybe well prepared. And they don't stay with the kids. The worst thing we do is changing the people who take care of kids every month or two.

Now, I was at a community college talking to people who are working on this in North Carolina the other day and I asked the question at a little town meeting group, I said 'What do people start for in the child care centers in this community typically?' They said '5.15.'

Now, my question to you is this: other than just increasing the amount of money that we help them pay for child care, subsidizing, whatever, is there kind of a more direct route that we can follow to get more money paid to child care workers, teachers? Suppose we got that to \$7.15 in my state, to \$8.00 -- we'd have a whole lot better people in there helping those kids. Can you give a tax credit if you put it directly into wages? Some of our people don't have worthy wages. Do you know of any place around the country where they really wrestle with this and have found a more direct way to go other than just paying more to the center?

DR. KAGAN: Governor, it is a critical question. For those who may not be aware, our average salaries in early care and early education are roughly \$11,000 a year. We have an average turnover rate of 41 percent each year. That means that half the people in child care leave.

In terms of what are strategies, we are concerned that individuals do need higher compensation and, indeed, some of these efforts, I believe, will enable direct subsidies to go to workers. In addition, workers would appreciate support on their benefit plans and support via scholarships for training that they may engage in.

Part of the reason that we have such a heavy turnover rate is certainly because people are low paid. But people who work with young children love the youngsters. If indeed there were a way for them to receive some kind of professional recognition -- we know that people who are trained make a commitment to their fields, so support for training via scholarships might enhance the longevity of the individuals who work in the field.

GOVERNOR HUNT: In fact, Mr. Chairman, if I may follow up real quickly. Our TEACH program in North Carolina, which the President has talked about, says that if you go and get your certification over a couple of years that the employer has to agree to increase your salary by 10 percent. But that's only 10 percent.

We really, really need to think of ways we can get higher qualifications but also get those wages up. I'm going to get teachers salaries up by one-third in four years in North Carolina. Our legislature has bought into that.

DR. KAGAN: You're to be congratulated, sir.

GOVERNOR HUNT: A lot of these governors are doing things like that but we've got to really focus on it and find better ways to do it in the early years too.

DR. KAGAN: Thank you.

GOVERNOR VOINOVICH: Any other questions? Governor Schneider.

GOVERNOR SCHNEIDER: I agree with Governor Hunt. I think the question becomes what is the price that we must pay for having a nation of healthy young people that can compete with young people anywhere in the world?

I think what is necessary since you are at an academic institution is perhaps to suggest some type of courses that can be done into this area. Right now one can think of the human services area, social workers, et cetera, et cetera, that kind of work.

But I think that the United Nations has started a new quest to involve older people, retired people in many areas and this may be one that we can use those folks that have retired that worked within the human services area. We don't have to reinvent the wheel. We don't have to look very far. And as you are saying, then we can use this pool of people and develop in them certain standards that should be used.

As we look at your publication we see you have good indicators, good measures but nothing is said about the people that are there to make this change come about. That is the basic problem with us in America, really. We talk a lot about what we should be doing but we don't want to put our money at the important things. There is nothing more important than the youth of our nation and until we understand that we're going to be in a lot of trouble.

GOVERNOR VOINOVICH: Thank you, Governor Schneider.

Would you like to respond to that?

DR. KAGAN: Thank you. I appreciate your support tremendously.

The report actually does place some emphasis on the credentialing, the licensing of individuals across the board who work with young children and, in addition, vociferously calls for increased compensation and benefits for early childhood workers.

With regard to the utilization of volunteers, the elderly or others, in early education programs there are many wonderful examples of that around our country, notably in America's Head Start program. However, we need to be quite clear that volunteer support, however important, is not a substitute for well trained and well compensated workers with young children who are there durably and permanently.

GOVERNOR SCHNEIDER: What do you think should be the starting salary for these folks?

DR. KAGAN: I would like to see ultimately people who work in early care and education earn salaries and wages that are comparable to those with certification in other domains. If indeed individuals have certification comparable to teachers in elementary schools then they should be paid at commensurate rates, as is the case in many of the countries with whom we routinely compete: France, Germany, Japan.

GOVERNOR VOINOVICH: Thank you.

One of the things we'd like to do this afternoon is to share what some of us are doing in the early care and education arena, and I think that some of them don't necessarily have to do with a whole lot of money. I would like to share with you just for a couple of minutes a couple of things that we're doing in the state of Ohio.

One of the programs that we're instituting in our state is that we're going to enable all new parents to go home from the hospital with a Help Me Grow wellness guide, which is something that our private sector has invested in the last four years \$2.5 million. We put in about \$700,000, they put in \$2.5 million, which will help these new parents do a better job with their children.

Second: last year we had made available to us a wellness guide or a wellness videotape by Johnson & Johnson that Rob Reiner had a part of. It's 30 minutes. It's excellent. I'm so glad I had a new grandchild because if I hadn't I probably wouldn't have seen the videotape. But I got so taken with it I shared it with our people and we have decided with the help of the Ohio Hospital Association, that's going to contribute \$350,000, that we're going to also in addition to this wellness guide

make that videotape available to new parents. They will then play that while the mothers are in the hospital, before they leave.

We are stealing an idea from Governor Dean. Is he here, Howard? We had an early start program in our state -- I'm sure many of you do -- for families at risk. In our case we're using our TANF money to support that early start program. But we think all children in Ohio in some ways are at risk so what we're doing is we're going to pay for someone to go out and provide a welcome home visit to all teen and first time parents in the state of Ohio. As I say, we're modeling that program after Governor Dean's program in Vermont.

In addition, you talked about the quality of the kind of child care that's being given. We know in our state that child care is provided by lots of stay at home moms and dads. We also know from our experience with our TANF money -- we're a little surprised, a lot of people that are on TANF are not taking advantage of child care money and we're wondering where are those children going? In many instances they're going with relatives and friends in the neighborhood, so they're in those homes.

So what we did is we have entered into a partnership with public television in our state to provide a curriculum for family based child care providers to use at home. Ohio public television stations will host neighborhood workshops -- we're going to do that in our libraries -- which show caregivers and stay at home parents how to build a preschool experience around one of their favorite PBS shows, using lesson plans and story books. Care givers will be ready with plenty of learning activities to do with the children when Mr. Rogers comes on and Sesame Street and some of those other programs. So this is going to become a learning experience at home for care givers in conjunction with public television.

The last thing that we're doing is we have a lot of child care centers and Head Start facilities in the state that have people working in them that need a lot of help, they need training. Not only do they need training but the moms and dads who have got kids there need training so they can do a better job with their children.

We're going to sign up 1,500 Head Start and child care centers for a new satellite station offered by the National Head Start Association and approved by the National Association for Education of Young Children. For \$50 a month we're going to be able to bring national early childhood news information and programming as well as Ohio specific training to our early childhood teachers and parents.

So these are things that are not real expensive but they do represent partnerships with other organizations that I think will make a difference in the lives of these children. And, of course, Dr. Kagan, we're going to try and monitor it to see how it works out but we're very, very excited about it.

We also have two governors that are willing to share with us their experience. First I'd like to call on Governor Shaheen, of New Hampshire, to share with us what they're doing in New Hampshire.

Jane?

GOVERNOR SHAHEEN: Thank you.

I would like to thank Sharon Lynn for your very nice presentation. That was very helpful.

We all probably recognize that 60 percent of the women are in the workforce in this country. In New Hampshire we have 40,000 preschool age children in child care. Only 20,000 of those are in licensed child care

slots. We estimate that we're going to need an additional 6,000 new child care slots as we put women on welfare back to work, so we've been struggling with how to get that done.

For everybody who was in Las Vegas last summer I thought one of the best presentations was by Doug Price, who had chaired the Colorado Child Care Task Force. He talked about the importance of business involvement in child care. I think in New Hampshire that's got to be the key to be able to address the child care problem that we have. We're looking at how to involve business.

One of our successes this year has been a \$5 million grant from Meridian Bank to help with child care. In New Hampshire \$5 million is a lot of money. \$2 million of that grant is going to our community loan bank to help with capital improvements for facilities. It's been very interesting to see what the experience has been because, as most of you know, child care centers often have trouble with conventional loans. They just can't get conventional loans to deal with their facilities' problems. So this money is going in to help existing child care facilities.

After the grant was announced they processed applications from existing facilities every half hour for two weeks because there was so much interest in what was going on.

We had hoped to create 200 new slots as part of that \$2 million in addition to dealing with existing child care facilities. What we found is that there's not going to be any money for any new slots at all because the loans are all going to save existing child care centers which, as we know -- but it was brought home to us even greater -- are very fragile. In one case we heard a story about a child care center that had to close down because the refrigerator stopped working and they couldn't get a new refrigerator. So those are the kinds of problems that they face.

One of the things that we learned as a result of this experience is that in addition to providing loans one of the things that we're going to be providing with this money is assistance in business and finance so that the people who are operating child care centers will have the business acumen that they're going to need in order to stay in business. \$3 million of that grant is going to go for quality issues. We expect to do some research projects around how to increase availability and quality in our child care centers.

I think there are two issues that I want to bring up in addition to the whole quality and availability concern. I know we're focused here mainly on early childhood, child care, but one of the problems that we run into in New Hampshire is that we wanted to do some child care programs for at risk youths from 13-16. We were hoping to do some scholarship programs in boys and girls clubs, something that would keep those kids busy after school. Because one of the things that we've seen in several reports in the last year is that most teen pregnancies, most drug problems, most juvenile problems occur not at night with teens, but in the period from 3:00 in the afternoon until 6:00.

So looking at ways that we can engage those children is also critical, and there are two real impediments to that. One is that the child care block grants can't go to cover anybody over 13 and also the tax deduction that's given by the federal government can't cover children over 13. So while I appreciate that we've got to keep the priority on

early childhood, we can't lose sight of the fact that child care is an issue above age 13 as well.

The other problem we're trying to deal with is how to wrap child care around Head Start because Head Start is a program that's working right now. The availability of child care and getting that wrapped around Head Start, some of it's year round so that it's not just from 8:00-1:00 in the afternoon, but all day long. It's an issue that we're trying to struggle with.

GOVERNOR VOINOVICH: Thank you, Jane.

Governor Rowland, would you like to share with us what you're doing?

GOVERNOR ROWLAND: Thank you, Mr. Chairman.

I think probably like many other states we take a two fold approach. One is to try to recognize the programs that are working and not abandon those programs, but in many cases probably re-energize or re-focus or at least make sure there's appropriate funding. And of course that would be Head Start and some of the school readiness programs that many of us have already started.

The other aspect, I think, is to look at new, creative ways to create plans and programs that work, especially in our local communities.

What we find in Connecticut, which might be a little bit different than New Hampshire but is probably very similar to New York and New Jersey, is that we have such a diverse community in our small state of 169 cities and towns. You have some of the poorest communities in the entire country, yet you have some of the richest communities two, three, five, six miles away with very different problems and probably not even a recognition of the problems that exist in those poorer, larger cities.

So the tough political decision, if you will, is to make sure you target the resources where they are needed. I think we have a tendency in government, whether we're governors or presidents or legislators, to say 'Well, these will be available to everyone and that we need to be fair, we need to be balanced so that Greenwich should get the same programs that Bridgeport gets.' But the reality is that in those large cities we need to target the resources and we need to make sure that we're following through and putting the appropriate funding there.

So what we've tried to do is to designate -- and Dr. Kagan knows all too well. We've picked her talents along the way -- designate the areas where we have a targeted focused, the greatest impact to do the most good that we possibly can, not to ignore the communities but to really focus on where the problems are.

The second approach is more on the creative side. Many of us have taken advantage of the Title 21 dollars that have come to our states. We put up a health care plan together that we called the Husky Plan. With that plan we're now able to insure 90,000 uninsured children, and that has of course gone a long way to increasing their quality of life -- focusing not only on those without insurance but on the working poor, those who can't afford that insurance.

But there are a few other issues that come up along the way that I think is changing society. None of us ever saw -- and Dr. Kagan touched on it a little bit -- making sure there is safety in those day care facilities regardless of who runs them. In Connecticut we require criminal background checks of all workers in day care facilities regardless of size.

We also found that even in a small bureaucracy there are some problems in coordinating resources. We found in one particular case -- and upon examination this problem existed in about maybe a hundred different situations where we had one home where the Department of Children and Families had a foster care program, a foster program but they also were running day care, run out of a different agency. Neither agency knew the other facility existed.

So there might have been a report of abuse in the child care facility the Department of Children and Families running the foster care program had no knowledge of that, or even knowledge that the two were together. If they found out it was by accident. And unfortunately we did find out that both of those facilities existed in that one home because there was a problem. There was a report of abuse and there was abuse.

So as well as coordinating and targeting those resources we've got to use, as we've discussed now for the last two days, technology and computers and the capabilities that we have to make sure that these types of problems don't exist.

The last issue that I want to touch on -- it's very important and Dr. Kagan touched on it as well -- is parental choice. One of the most important things we can do as governors is to engage the parents at this early level and allow some type of parental choice. With the early childhood program I think it is imperative. It engages them and it makes them hopefully more responsible. It helps them to be part of the curriculum and it empowers them.

We also have found that if we have school readiness councils where we actually set up in the localities, in the communities the community itself gets involved in determining what kind of programs are needed for that family, for that particular community.

So I want to thank Dr. Kagan, who's done a great job in kind of steering us over the years. And I know in Connecticut, with the very diverse resources that we have and the very diverse communities that we have, we are trying to target our focus, utilize our resources, maintain the good programs that have worked in the past, maybe even make them better, but also use some new creative ideas to improve the quality of life for our children and for all of our families.

Thank you.

GOVERNOR VOINOVICH: Thank you.

Before we go on to our next panel I notice that they're both here today -- Bruce Reed and Senator Bond. Does anybody else want to ask Dr. Kagan any questions?

(No response.)

GOVERNOR VOINOVICH: Dr. Kagan, we really appreciate your being here. Governor Rowland and Governor Shaheen, thank you for sharing with us your experiences.

Dr. Kagan, we're going to have -- in Milwaukee in August have a little report from all of the governors' territories and commonwealths in this area, and your work will be of help to us and you'll probably be interested in seeing what comes out of that in terms of what the states are doing in this country. It's a very, very important issue.

Thank you so very much, particularly for the good work that the goals panel did that all children will be ready to learn when they enter school. I think that there's more work being done on that particular

goal than any other of the eight national education goals. We know a lot of that's happened because of your leadership. Thank you very much.

Let's give Dr. Kagan a hand.

(Applause.)

GOVERNOR VOINOVICH: We now shift to the national scene with two perspectives on what the federal government can do to improve early care and education programs.

Senator Christopher "Kit" Bond is serving his second term in the U.S. Senate for the state of Missouri. He joined the Senate after serving two terms as governor of the state of Missouri and is a long standing advocate for children. As governor he launched the nationally acclaimed Parents as Teachers program, and as senator he spearheaded in 1994 legislation to make the program available in other states. Parents as Teachers currently operates at almost 2,000 sites in 47 states, including Ohio, Senator, and the District of Columbia.

We really appreciate your being here today and are looking forward to hearing what the Republicans are doing in terms of legislation in this very, very important area. Thank you for coming.

Senator Bond.

SENATOR BOND: Thank you very much, Mr. Chairman, and thank you, ladies and gentlemen. It's good to be back with this group again. I see my governor, Mel Carnahan, from Missouri, and some of the historic governors who served back when I did, Jim Hunt and Terry Branstad. I think we probably would be entitled to a special historic license plate if we were an automobile.

(Laughter.)

SENATOR BOND: But it's good to be with you, to have a chance to talk with you about some bipartisan things, not Republican things, that are going on on Capitol Hill.

I think it's very important if we look at the guiding principle which comes from medicine, and that is that anything that the federal government gets into first it should do no harm. We steal that from medicine but there are times when the federal government gets in and causes more problems than it cures.

As a former governor, I'm a disciple of the school that says that Washington should set a standard, provide some funds and get out of the way. When I was governor back in the early '70s and the early '80s nothing frustrated me more than having Washington tell us that it was going to provide us some funds for a great program or a great purpose and then tell us exactly how and where and why to spend every single dime that came back from our taxpayers via Washington, D.C. And, worse than that, how we were supposed to spend the dimes that we raised from our taxpayers in Missouri.

Nothing was more frustrating and I use this forum to fight against the federal government idea that clean water funds had to be used to clean up -- split secondary treatment on water being discharged from St. Louis and Kansas City into the Missouri and Mississippi rivers so that the water would be cleaner than the water already in those rivers when we couldn't use those same funds to put primary water treatment facilities on some of the smaller communities that threatened the existence of the quality of the pristine Osark streams.

Since I've come to Washington I've carried on that fight. I've had the pleasure of including a provision in the welfare bill saying that Missouri could sanction welfare recipients' food stamp applications who

could not get a job because they failed a mandatory drug test. Prior to the inclusion of that principle in the law Missouri was not allowed to sanction people who were on welfare and wanted to stay there by using drugs.

I really think there's a growing recognition of the importance of the role of the states and that today's Congress, on the whole, realizes that leadership, particularly in the area of social policy, is occurring on the state and local level within schools, families and agencies where the workers are close enough to care about the people they serve.

I think all of us would agree that child care and early childhood issues are about the toughest on which to build a consensus because there's nothing more important to a parent than his or her child, and there are as many views on what to do as a parent as there are parents.

That said, the state and federal government are going to continue to wrestle with child care and early childhood development issues. It's a fact that most children in our states rely on more than one paycheck. It doesn't necessarily mean two 9-5 full time paychecks. Lots of families are working tag team shifts, part time only, or have home based businesses so that one parent or the other can be with the children.

But what do we do about single moms needing welfare or two earner parents struggling to make ends meet, working two full time jobs? In 1990 Congress dealt with the issue comprehensively for the first time and it proved difficult. On the one hand, liberals wanted full time center based care with federal standards. On the other hand, conservatives wanted tax credits for all families. Most of America falls somewhere in between. Both mom and dad work, they choose relatives to care for the children or neighborhood care or work different shifts.

Recognizing this diversity, Congress did a little bit of everything. I got into the negotiations on the Act for Better Child Care with my very good friend, Chris Dodd, with whom I worked on the family leave issue. Chris came in with a program called the Act for Better Child Care for federal regulations. I came in with a proposal for block grants. He got the title, we got the block grants. It worked out very well that way and I like the outcome.

Under it the states had a great deal of flexibility, both for the types of programs they offer and in setting standards. We did include a provision to allow for funding start up costs for latch key care, and I think more and more people are recognizing, as Governor Shaheen just said, that it is critically important that we have something to do with those children who are old enough to go to school on their own but should not be left alone either before or after school. As a parent of a child who we needed to find after school care for, that is extremely important.

Well, building upon the child care and development block grant, I have introduced with Senator John Kerry, of Massachusetts, legislation which has three components -- early childhood development, child care, and Head Start. Really, this legislation, as you indicated, Mr. Chairman, follows up on recent scientific research indicating that infant brain development occurs much more rapidly than we previously thought and that about half a child's mature learning intelligence develops by three, and if we miss out then we miss out on a great deal.

We always knew instinctively that good experiences will enhance a baby's development yet parents face a variety of stresses and programs like Parents as Teachers, which Missouri enacted in my final year as governor, and which has grown ever since -- I believe the figures are now

that 150,000 families in Missouri participate in the Parents as Teachers program and some 200,000 children. It is voluntary so these are families voluntarily signing up to learn how they could be better teachers.

In drafting the bill we recognized that government is not the ultimate solution. Parental responsibility is the absolute indispensable primary ingredient, wherever it is available, in insuring a good beginning for our kids.

We have tried to draft a bill with no federal mandates and few federal guidelines to provide authorization for three and three quarters billion for expanding child care, including infant care. Local early childhood block grant programs of 3.75 over five years and 3.6 billion for early Head Start.

My good friend and colleague, John Kerry, who serves as my ranking member on the Small Business Committee, has seen the future, he's traveled throughout the country as a very articulate spokesman and advocate opposing the nanny state and has agreed with us that we ought to turn these funds over to local governments and to local entities where the programs are succeeding. We're going to do this within the context of a balanced budget.

I am here today to hear your comments on it. Obviously we want to know how this kind of program works for you. I will look forward and will be happy, as I am sure Mel Carnahan would be happy, to tell you at whatever length you want about the Parents as Teachers program in Missouri. Specifically, I'm delighted you have it in Ohio. It's the other end of the spectrum from the Jobs for Americans graduates on which you and I have worked, but it is probably one of the most important things that we're doing in our state.

We don't want to stifle state and local leadership with unnecessary mandates, requirements, guidelines, strings and red tape. I look forward to having your guidance and I hope that you will share with your Congressional delegations your views so that we can craft a measure which fits the needs as you see them and which enables us to give a real boost for child development and child care at the very early stages, where it is most important.

Thank you very much for the opportunity to be with you again.

GOVERNOR VOINOVICH: Thank you, Senator Bond. If it's all right with you, we would like to hear from Bruce Reed and then open it up for questions from the governors.

Bruce Reed is an assistant to the President for domestic policy and director of the Domestic Policy Council. He's a graduate of Princeton University, was a Rhodes Scholar at Oxford. Today he oversees a variety of domestic issues, including welfare reform education, health, crime -- you've got a full plate, haven't you?

Bruce will speak to us today about the Democratic vision as to what the federal government can do to improve early care and education.

Bruce, we're very happy that you've taken time out of your busy schedule to come out and talk to us today. Thank you for being here.

MR. REED: Thank you very much for having me, Governor. Let me thank you for all the attention you've given to this issue long before it was fashionable, to point out that this was the single most important investment that you could make.

I'd also like to thank Governor O'Bannon for the generous and supportive words that he made at this morning's roundtable meeting with the President; Senator Bond who, as a former governor, understands that

we have to do everything we possibly can to try to put aside partisan differences and get something done on this issue; and, in fact, all the governors who worked so hard to put together an excellent NGA resolution on child care this year, which closely mirrors the plan that the President put forward in January.

This similarity should come as no surprise because the fact of the matter is, as the President told you this morning, we designed our child care plan by looking around the country at the long bipartisan honor roll of success stories that you already have under way. And let me repeat his offer: if you have suggestions on how to make our plan better, please, we want to hear them.

Before I get into the details of the President's child care plan let me also say a word of congratulations to the nation's governors for the tremendous success you already have with reforming the country's welfare system. One of the most important triumphs in that welfare reform debate, as you may recall, was when the President and the states stood together across party lines and insisted that Congress add \$4 billion for states to provide child care to move people from welfare to work. Governor Engler and Governor Carper remember that well. As a result of that law today every state has increased child care spending; many of you are spending far more than the law requires you to do. I think Governor Edgar, in Illinois, nearly doubled the expenditures on child care. Many of you are close behind.

There's no question in my mind that that increased child care spending, in combination with tough work requirements and the other elements of the law has played an enormous role in reducing welfare case loads by more than two million in the year since the law was signed, and in bringing the nation's welfare case load below 10 million for the first time since 1971.

Child care, like welfare reform, is an opportunity for us to try to forge a new social bargain built around the most important, most fundamental American value, which is work. I think one of the greatest challenges that all our people face, even as the economy roars along, is this issue of how to balance their responsibilities at home with their even more important responsibilities at work. I think every one of us wrestles with that challenge every day.

The Administration believes, as most of you do, that government doesn't raise children, parents do. But we also feel, as I think most of you do, that government, business and the rest of society have a basic responsibility to do what we can to give people more tools, more choices to succeed at work and at home.

That's what we tried to do in putting together our child care plan. It is the largest national commitment to child care that any president has put forward. It is fully paid for, as part of the President's 1999 balanced budget. It provides states with enough money to double the number of poor children who get child care. It cuts taxes for 3 million families to help pay for child care. And because it is based on proven efforts -- block grants and tax credits -- our child care plan doesn't add a dime to the deficit or a bureaucrat to the payroll, all the money goes to help the kids.

The centerpiece, as I said, is a \$7.5 billion increase over the next five years in the child care block grant. As you know, this is an extremely flexible program. You can use it for vouchers to give to

people to choose any manner of day care that they like. It's also the most efficient way to help the families who need it most.

Our plan will enable you to double the number of poor children who get subsidized care from one million in the most recent figures, to two million poor kids by the year 2003.

And with these funds you'll be able to not only make welfare reform an even greater success by moving more people from welfare to work, but also help hundreds of thousands of poor families who have never gone on welfare in the first place.

We also cut taxes for middle class families -- we've got about \$5 million over five years -- an expansion of the child independent tax credit. Under our plan a typical family of four with an income of \$35,000 and high child care costs would no longer have to pay a dime in federal income tax. We believe we needed to find a way to give businesses tax incentives to help their employees get child care. It's a good deal for everybody. The parents who know that they don't have to worry about whether their kids are in good hands make better workers and that's good for the employers as well.

As Senator Bond said, we need to provide more ways to help kids get after school care. Our plan includes funds for 500,000 after school slots per year. It's critically important to deal with those witching hours between 3:00-6:00, when kids can get into all kinds of trouble from crime to teen pregnancy to drugs to tobacco. And we've tried to make a real effort in our plan to focus on efforts to improve quality and to emphasize early learning.

There are no one size fits all federal standards in our plan. What we did instead was provide \$500 million over five years for governors to enforce their own state standards. We've got money for scholarships built on Jim Hunt's successful TEACH program in North Carolina. We're going to be submitting national legislation to make it easier for states to do background checks on child care providers so parents can know that their children are safe. And, as the President mentioned this morning, the last piece of our child care plan is a flexible, innovative \$3 billion early learning fund, quite similar to what Senator Bond and Senator Kerry proposed in Congress, that will enable you to expand on the pioneering work you've already done to help kids in that critical zero to five period. It's an opportunity to help you push new ideas on how to help young children and also to take ideas that may be working in one part of your state and apply them throughout the rest of your state.

Once again, I congratulate you on making this such a top priority and for putting politics aside. From our standpoint the five million latchkey kids who come home to an empty house, and the 13 million children under six who are in child care, and the 45 percent of infants under the age of one who are also in child care on a regular basis -- we're not worried about whether they grow up to be Democrats or Republicans. We just want to be sure that they grow up in an environment that keeps them safe and sparks their young brains and gives them the attention that every child in this country deserves. We look forward to working with you to make that happen.

GOVERNOR VOINOVICH: Thank you very much.

If it's okay I'd like to kick off the questioning with you, Senator Bond, then I invite everybody else to pitch in.

Do you think that in your legislation that you could be a little bit less prescriptive in the definition of state and local

collaboratives? Because a lot of us have worked very, very diligently during the last several years -- for example, in Ohio we have things called the Family and Children First Initiatives where we gather together public/private people to figure out how you can best deliver services to family and children. It's interesting, they're not all the same but they're getting the job done.

I just wonder, is there a possibility of more flexibility there instead of having it kind of specific as to who has to be at the table?

SENATOR BOND: Frankly, that's my inclination. If you want to give us some language I would be happy to encourage my cohorts and cosponsors to work with it.

This measure that we introduced is a bipartisan effort at this point and if the governors on a bipartisan basis have recommendations, or any governors have recommendations we're here to learn because we want to make sure this works. And if you tell us that some of the language would make it difficult in some states or would inhibit it -- this thing is open to all kinds of advice and constructive input. We just ask that you stay with us and help us convince my colleagues on the Senate side and the folks in the House that it's important to pass something like this. I'd be happy to sit down with your staff and work on the language that you think needs to be changed.

GOVERNOR VOINOVICH: Thank you.

Questions?

GOVERNOR HUNT: Mr. Chairman?

GOVERNOR VOINOVICH: Governor Hunt, of North Carolina.

GOVERNOR HUNT: I want to tell you how delighted I am to see you again. You've done very well in the United States Senate. You look as good as you did when you were governor.

SENATOR BOND: Thank you, Governor Hunt. Have you had your eyes checked recently? There may be a small problem.

(Laughter.)

SENATOR BOND: I think you look better than you did but I can't really see that far.

(Laughter.)

GOVERNOR HUNT: You've also become more candid.

(Laughter.)

GOVERNOR HUNT: I really want to know more and I want to see your bill. I want to find out how you plan to approach this. But I would want to say to you, and especially my fellow governors here, let me tell you part of the problem with all of this. We haven't organized ourselves to deal with it.

Think about this: we are concerned about education, K-12. How do we deal with it at the local level, in my county of Wilson. Who is responsible at that local level? Well, we've got a school board. Their job is to see that every kid can get a public education, K-12. They are also concerned about the quality of it. You know, somebody's responsible at the local level.

With early childhood education, except in a few states, there is nobody that we as a governor can call up and say 'Hey, I hear you've got, you know, 300 kids who can't get child care,' or it's poor quality or whatever. Who is down there? Who's responsible for it?

Well, what we've done with our Smart Start approach -- and some of the rest of you have done the same thing -- is to create a 501(c)(3). We're not leaving this up to just government, it's too important just for

government. We've got the church people there, the business people, the education people, the health people. They all sit around the table, they share this responsibility. It's a 501(c)(3) and boy, they really take it seriously. They've wiped out the turfism in the main and they've found out resources that we didn't know existed.

So the main point I want to make, Mr. Chairman --and I commend the President's proposals on this. He's got some flexible money, Bruce, that would enable us to do this kind of thing -- is that we, as governors, take the initiative to encourage the establishment of something zero to five in our states. It ought not to be government but government needs to be a partner in it. Then, of course, work with them. Get them pushing.

Because let me tell you this is a big issue in every community in America. Parents need it. And if we'll just get organized so that it isn't slipping through the cracks -- it sure isn't just the responsibility of the social services board or the health board. It's before you get to public schools. We need to have somebody there who is responsible. It sounds to me maybe, Kit, that this is one of the things you're pushing.

SENATOR BOND: Jim, I might say that we do want to set up some function that can provide the resources and deal with the problems at the local level.

In our state what I did, with the help of the legislature, was to mandate that all school districts make available the Parents as Teachers program to families with children zero through three. So that is a local school board responsibility. Our outstanding Division of Family Services -- I guess the DSF still has the child care responsibility now --has the child care part of it. So there is a division.

But again, we want to know from you what really would work best and we can make sure that there is a good, comprehensive system of caring for, educating and treating, encouraging, let's say -- encouraging these very youngest children.

GOVERNOR VOINOVICH: Tommy?

GOVERNOR THOMPSON: First let me congratulate you, Senator Bond, for what you're doing. It's outstanding and you're a great example to all of us governors for having somebody in the Senate that responds and remembers what it was like to be a governor. So I appreciate that very much.

Bruce, I thank you for working with the governors in regards to waivers. You've done a nice job and I applaud you for that.

Now that I've said nice things, though --

(Laughter.)

GOVERNOR THOMPSON: -- I do have a little bit of an argument to pick with you, Bruce.

The \$7.5 billion in child block grants is well and good but I think you're a little bit disingenuous by asking us to have to come up with the cost of 20 percent from the states, then you're taking the money out of our 50 percent of the tobacco settlement.

So it seems to me if you want to be so generous with setting up the \$7.5 billion you could either take it out of your 50 percent of the tobacco settlement or not ask us for a 20 percent match.

So I want to point that out. It's a good program but I think we've already paid at the office and at our state capitols. It seems to me that maybe it would be better if you're going to continue to push this

that at least you would drop the 20 percent of match that states have got to get to get our own money back.

MR. REED: Well, Governor, as I told you this morning, we worked very hard to make sure that state money from the prospect of tobacco legislation was included in our budget. We believe that we've assured you \$26 billion for the next five years, which is the same amount that the attorneys general negotiated last summer.

I think we will have a real fight on our hands --and Senator Bond might want to comment on this as well -- in making sure that as tobacco legislation moves through Congress we hold on to that money for the states and that it not be siphoned off for the latest spending craze of the moment, whether that's tax cuts or something else.

We're certainly happy to look at the match. In designing this program, as you know, the existing block grant has two different matches. Part of it's unmatched, part of it's matched at a much higher rate. We picked one in between. Our goal in doing so was to try to cover more kids.

SENATOR BOND: Bruce, let me just say with the tobacco settlement I believe the proposal on our side of the aisle is to make sure it isn't siphoned off on tax cuts or spending programs. I think the consensus is it will be used to help prop up Medicare, to make sure Medicare is available since many of the people on Medicare are suffering illnesses as a result of tobacco.

GOVERNOR VOINOVICH: Governor Romer.

GOVERNOR ROMER: I just want to emphasize what Jim Hunt just said. We've been spending the last 12 months in Colorado really concentrating on that very problem. I think the 501(c)(3) is the mechanism.

It's very good to have federal tax incentives, state help but what has to happen in the local community is the left hand needs to know what the right hand is going to do. It ought not be a governmental agency, but if you have the 501(c)(3) it puts the whole thing on the table. It's very important to the participants -- the clergy have got to be there; the business community has to be there; the fire and police protection force has got to be there; and the school has got to be there; the children's advocates and the county government and the city government.

The agenda is take the whole group, not just those who are poor but the whole population within the community that needs it. Do an inventory of how many people they've got to serve, what is the space, what is the capacity to teach, and finally get to the issue of can you afford quality care.

The basic thing that's happening in America is that we're paying about 5,000 bucks a year and real quality care costs 8,000 a year. There's just a gap there. I don't think we can ever fill that with money or subsidy. It's got to be filled with a lot of volunteerism within the community.

So just to conclude this, there's nobody in charge here. It's fascinating. We have governmental structures that pick kids up at K-12. We have pot holes and zoning and things like that handled by the city. But nobody is in charge of zero to three and zero to five. I think we could all help each other a lot by finding a way to put that mechanism together.

The final thing is we've got these stovepipes that come down in the community. Head Start here, Title I here, et cetera. That group ought to have the flexibility. It would be really great if we really gave them

the funding and some flexibility on how they spent the funding among that panorama of need.

GOVERNOR VOINOVICH: One thing, Governor Romer, that the new welfare plan has done is it has given us a lot more flexibility to help families and children in our communities.

Governor Almond.

GOVERNOR ALMOND: I would just like to mention to Governor Romer, I think you've got to have a link from the educational system, which is the states, and the local communities to day care.

This morning we talked about the importance of elementary and secondary education. I think we've got to realize that in order to have the system that we talked about this morning at the White House we've got to have early childhood programs that are quality.

In Rhode Island we have an entitlement for child care at 185 percent of the poverty level. I just submitted legislation to raise that to 250 percent of the poverty level, and also grants to private day care centers to seek accreditation. We want the educational community involved with the day care programs because I think that's where we can get the quality that's necessary.

Because if they're making that significant investment in health care for children, which we do in Rhode Island -- up to 250 percent of poverty and we'll bring it up to 250 percent for day care -- you want to make sure that we've got healthy children going into preschool programs, being born healthier, and getting into school ready to learn, as Governor Voinovich mentioned.

When you're talking about an investment in day care the difference between \$6,000 and \$7,000 to get that quality to build the educational system we need in this nation I think is a good investment. But we need more money in that block grant to get it done.

I appreciate what the White House is doing. I know some of your money comes from the tobacco legislation. Of course, we heard that wasn't going to happen and we'd like to know, you know, what's going to happen if that doesn't go through. I know some of your money does not come from tobacco legislation.

And I just left Senator Hatch and Senator Chafee. They have introduced child care initiatives with Senator Snowe and several others. It would just seem to me -- and they're not tied to tobacco -- if we can get both parties together, if we have to untie it from tobacco, untie it from tobacco but let's get that block grant to the states increased so we can take from where we are now and move that quality step.

GOVERNOR VOINOVICH: Thank you, Governor Almond.

Bruce, do you want to respond?

MR. REED: Let me say we're confident that we're going to be able to pass comprehensive, bipartisan tobacco legislation. As the President told you this morning, only a third of our child care package is dependent on it.

We have also had conversations with Senator Chafee, Senator Hatch and the other members you mentioned. We think that there's a real opportunity for bipartisan cooperation, whatever the vehicle turns out to be.

GOVERNOR VOINOVICH: Kit?

SENATOR BOND: Let me just say, as I said, on the budget committee we are going to provide funding within the caps not from the tobacco settlement -- any tobacco settlement funds. I believe the view of the

leadership, at least of the Republicans in the Senate, is that will go to Medicare.

I intend to work in the budget committee with Senator Domenici, Senator Lautenberg and the others to make sure that there is money within the caps that will fund a child development/child care/early Head Start program.

GOVERNOR VOINOVICH: Governor Shaheen and then Governor Schafer. I guess, Ed, you've been trying to get my attention.

Governor Shaheen.

GOVERNOR SHAHEEN: There are about 45 bills in Congress right now on child care. Is there going to be an effort to prioritize those or consolidate the initiatives on either side of the aisle, and is there anything that the governors can do to help make that happen?

SENATOR BOND: I think that's probably a legislative process question. As you may know, it's a free for all. The relevant committees will look at the measures and if what comes out of the committee does not reflect what any particular senator wants it'll be open for floor amendment.

The most important thing I think that you can do as governors on this, and every other one, is to communicate to your congressional delegation where you want to come out. I described the process on the original Act for Better Child Care; it doesn't really matter what the title is, it is getting a majority bipartisan consensus in both houses for the things that are very important.

Senators Chafee and Roberts have tax credit approaches that are different from the Bond-Kerry approach. I think I'd like to see some kind of bill, including all of them -- it doesn't matter who's bill it is or what we call it so long as we get the proposals in there.

GOVERNOR VOINOVICH: Governor Schafer.

GOVERNOR SHAFER: Just getting to the child care tax credit for a minute, Bruce, I think you mentioned that anybody that made an income above 34,000 or something wouldn't pay any tax except the person who chooses to stay home.

In North Dakota we've got about 86 percent of our kids in school in two parent families. That's a great number, and we really appreciate that, but a lot of those parents choose for one spouse or the other to stay home for what they feel is the better care for their child, often at their economic disadvantage, instead of having two wage earners.

Is there a way or should we be looking at how we can incent these people as well instead of saying 'Well, you have to take the kid to a child care center to get a tax credit.' Are we targeting that approach too narrow and excluding a lot of people that can give very good quality child care at home -- also expensive for them by one choosing not to work.

GOVERNOR VOINOVICH: That's a real problem that we have in my own family. We have our first grandchild and my son and daughter-in-law decided that she would continue to work but after several months she decided -- they decided that she was going to stay home and they gave up her income. My son always says 'All these wonderful programs, Dad, they don't do me any good.' There are a lot of people out there that feel the same way.

It will be interesting to know what your perspective is on responding to those people out there in our country that have made that decision.

MR. REED: I think obviously we all want to do everything we possibly can to help parents regardless of the choices they make and we want to expand the number of choices we have. Certainly the biggest hero in my life is my wife, who has put aside a promising legal career to stay home with our two children, both in the zero to five category.

I think we did an enormous service last year in the balanced budget plan by passing a \$500 tax credit for children and that went to all families. It's very expensive. That, I believe, cost on the order of \$70 billion over the five year period. So we are still evaluating some of the stay at home proposals that have been put forward.

We feel very strongly that it would be a serious mistake to pay for an income tax cut out of the surplus, as the President has said, and that we shouldn't have broad, across the board tax cuts that we can't afford. So we'll continue to be working on a host of ways to try to help parents have more choices.

One thing Congress ought to turn to right away is an effort to pass flex time, which will make it easier for parents to negotiate better working hours, more flexibility in their own lives, and to expand family medical leave, as the President has called for, to give parents time off for routine doctors appointments or other needs for their kids.

GOVERNOR VOINOVICH: My directors try to really work with people that work with them to try and give them ed flex and so forth. We had a big difference of opinion with the Department of Labor because they'd come in, their inspectors, and rule that what my director of youth services is doing violates the federal law. And fundamentally all he's been trying to do is to accommodate the people who work in his department because of their family responsibilities.

I think that one of the greatest things that you could do is go back into the Department of Labor and get them to understand that the world has changed. And I know there is some pressure by organized labor that maybe you ought not do this or that but I think that even in my state I can tell you one thing, that AFSCME, who represents about 37,000 of our employees, would love to sit down with you and talk about what we try to do to accommodate our employees. That might be something that you could do real practical right now to try and free up, you know, us from some of these regulations that I think don't fit America today. And if it's legislation that's driving it, Senator Bond, change the legislation.

SENATOR BOND: Well, Mr. Chairman, I was going to say I'm going to get on the phone to my junior colleague, John Ashcroft, who has been sponsoring the flex time bill and getting his head beaten in by certain people in the vicinity of 1600 Pennsylvania Avenue. He would be delighted and enthusiastic, as we all will, to hear your endorsement of flex time. I've got to believe there's some kind of qualification in there. I know that Senator Ashcroft and the others would love to work with you on expanding flex time because it's important.

Let me just add one other thing. Home based businesses are growing very rapidly. Many women are choosing to work at home. We had some of the prescriptions that came out of our small business committee included in the tax relief bill. This is a wide continuum and there are many, many women who are working at home now and caring for children and I agree that we need to make sure we don't put incentives that force women to leave their children and go in the workplace. So we're open to good suggestions.

GOVERNOR HUNT: Mr. Chairman, may I say one more word? Governor Shafer has got a good point. If we create 501 (c)(3)'s and they have some flexible money then they can do a variety of things to help parents. Having Parents as Teachers is one of the things we encourage them all to do.

One county near Charlotte, North Carolina decided that they were going to provide some modest incentive for a parent who chose to stay home the first year of a child's life. I don't know what it comes to, it's about \$1,000-\$1,500, it's about enough to pay for the formula and the diapers. Of course, some of the people who think all the kids ought to be in child care centers had a fit. We thought that was a fine idea. Whether or not some other folks liked it, the local people thought it was the right thing to do and a lot of parents responded to it.

So, you know, if we really get it local, if we give them some flexible dollars and say go out there and find out what's best for your kids and your parents and families they'll come up with some interesting things and those kids will be better off.

GOVERNOR VOINOVICH: Thank you, Mel.
Governor Carnahan, of Missouri.

GOVERNOR CARNAHAN: Let me make two points. One, while the Senator is here let me point out to you what a pioneer Missouri was in early childhood education.

The program that the Senator, then Governor Bond, put forward in the early '80s was unheard of at that time. He got it started, I guess against a lot of inertia, and got it set up as pilots in some schools even during his administration. You know it was passed near the end of his term, but this has been a wonderful program for Missouri. So once in a while we don't redesign things, Kit, we just go ahead with what's there and we pushed that program immensely. We now have it in all 525 school districts in Missouri. Now, it's voluntary so it doesn't reach every child. There are many children who need help that it doesn't reach but it is available.

We have parent educators that go out and try to enlist people of all income levels to take part in Parents as Teachers, but we did need to go a lot further. We've got the new research that was presented here to the governors, and we've got the book by Ron Kahunic and others, Rob Reiner's presentation. So we wanted to go further.

Both Governor Hunt's comments, Governor Romer's, Governor Almond's -- how do you grapple? What's your form? How do you get started?

I formed a task force on early childhood care and education and got the foundations involved, the educators, business people. A lot of recommendations. While we don't have a new money stream of the size we'd like, let me tell you how we're trying to grapple with starting. We're going to try to expand the availability of child care services, particularly for pre-kindergarten.

We're calling for the voluntary set up of pre-kindergartens in schools and they can be either on school site, they can be leased property, or they can contract with somebody to put on the preschool. They're parent pay operations. We're going to give some start up and some incentive money to get them started. But just as most day care is paid by the parents and then there's some stipend for the low income.

So we're trying to expand availability of very good quality pre-kindergarten based right at the school, not necessarily operated by the

school, and also setting up more slots for day care with some of the federal money and with some of our welfare savings.

We're also working to expand the quality -- increase the quality of day care. We're giving scholarships, as has been mentioned by others, for providers to get more training. Then we're again expanding the concept that we had in Parents as Teachers of developmental screenings. One of the greatest things that's happened through Parents as Teachers was that children get screened at a much earlier age. So that has been so good for the children of Missouri that we're reaching out to provide early childhood developmental screenings for any family in Missouri that wants it. We think that will pay dividends. So that's a modest start at further early childhood work. But it's our way, how we grappled with no system, no particular way to get hold of it, that's the way we're starting. We hope to grow that as the years go by and it's accepted and people understand how great the service is.

GOVERNOR VOINOVICH: From what I've heard today there's a lot of people that are grappling with how do you organize this and we have different variations and perhaps what we can do is suggest to the Center on Best Practices to review what's being done around the country and maybe come back with some models.

SENATOR BOND: I have an unalterable 4:30.

GOVERNOR VOINOVICH: I'm just going to wrap it up. I wanted to thank you, Senator.

SENATOR BOND: I wanted to say I appreciate the kind words of Governor Carnahan. The outstanding people in Missouri who are working on these children's programs are a tremendous resource for me and any time we have a question we find that the people at the state level who are doing the job are our best sources. And I would hope that every governor would encourage their congressional delegation to tap into our Division of Family Services. The whole state infrastructure really understands how we can do a better job.

And I think the early screening probably pays for the Parents as Teachers program in the problems avoided through avoiding special education needs and other developmental and mental aspects.

So thank you very much for giving me the opportunity. Bruce, it's a pleasure to be with you. If anybody would like to talk about Parents as Teachers for a couple of hours either talk to Mel or talk to me. We'd be happy to go on at great length about program that we think works.

GOVERNOR VOINOVICH: Thank you, Senator Bond. Thank you, Bruce. We appreciate your being here. And thank you, Dr. Kagan, for spending some time with us.

Before everybody leaves -- our speakers if they want -- but we're recognizing some folks here, and I wish that I'd done it earlier because I'd like more people to give them the recognition that they deserve.

Every year the National Governors' Association presents awards to states that have done an outstanding job in reporting their progress on the eight national goals. It doesn't mean that they necessarily are way up ahead in some of those goals. We've received a couple or three of those bells in the past six years. In a lot of areas we're not doing very well but the fact is we do measure where we're at and we think it's important to communicate it.

I'd like to first call on Governor Glendening to come up here and be recognized for the great progress you've made in Maryland for reaching your goals. Governor, congratulations to you.

(Applause.)

GOVERNOR GLENDENING: Let me ask Dr. Gresnick -- Dr. Gresnick, if you'd come forward just a second. She is our Superintendent of Education. The governors stand up and get all the recognition but individuals like this really do all the work.

I do want to say we're very, very pleased to receive this recognition and when selected by your peers it makes it even more delightful. I will tell you it's based on a partnership between business and the community, and the schools, and parents and teachers.

Most importantly, however, and what we're really pleased about, is a series of benchmarks. I'm always reminded of the old statement "If you don't know where you're going how will you know when you get there?" Well, we had set as goals that we're going to achieve and then we have very clear benchmarks. They range from specific test scores in math or science or whatever it might be to addressing some of the problem areas of drop outs and so on.

This is the summary report that we have here, and I think you have copies of it. Most importantly, though, we have a very large report that under the direction of Dr. Gresnick covers school by school and year by year. We submit that with a great deal of interest, and believe me, the parents and everyone else respond very, very quickly to that. Part of our approach is if you're going to hold the schools accountable then we, as elected officials, ought to be accountable as well, and in many ways that's exactly what that report does.

Thank you so very much.

(Applause.)

GOVERNOR VOINOVICH: I'm pleased to call to the podium the Governor of New Jersey, Christy Todd Whitman, to be recognized for the report entitled New Jersey's Progress Toward the National Education Goals.

Governor Whitman, congratulations.

(Applause.)

GOVERNOR WHITMAN: Just very quickly, I think obviously we all understand that knowledge is power and the more knowledge we can give to our parents the more empowered they will be, therefore I think they will participate more eagerly and more fully in their children's education. That means we can succeed. Without them we can't and that's what it's all about.

(Applause.)

GOVERNOR VOINOVICH: I'd also like to call Governor Cellucci, of Massachusetts to the podium to be recognized for the Massachusetts Education Report.

Congratulations to you.

(Applause.)

GOVERNOR CELLUCCI: Thank you very much. This is my first meeting and I've got an award, so I'll be back. Thank you.

(Laughter.)

GOVERNOR CELLUCCI: But I'm very happy to accept this award on behalf of Massachusetts. This educational report is not only published but it is available on the Internet as well.

I want to thank the Board of Education, headed by Dr. John Silber, and Commissioner Antonucci, who runs the day to day activity of that board.

This document will help me continue to make improving our public schools the number one priority in Massachusetts at the state government

level and the number one priority in every city and town in our state. There is nothing we are doing today in Massachusetts that is more important for our future.

Thank you very much.

(Applause.)

GOVERNOR VOINOVICH: Our last recipient -- and it's easy to understand -- is Governor Carnahan, from the state of Missouri.

Mel, you're being recognized for the Missouri Report on Achieving the National Education Goals. Congratulations.

(Applause.)

GOVERNOR CARNAHAN: Thank you, Mr. Chairman. It's a pleasure to have Missouri recognized. Our Outstanding Schools Act that we enacted in 1993 has had a long progression of steps for us to improve education and more computers, smaller class sizes in the lower grades, better vocational education, better teacher training, better curriculum, they have all played a part.

But the part that we're still working out, as all of us are, is the adoption of high standards. We have adopted those. We are now developing the assessments so we can see how we're doing against those standards. That is so we can be accountable in our schools to our children and to our parents. We believe this is the way for us to achieve those higher levels of achievement that our children need to be successful in a very complicated future.

Thank you very much for recognizing Missouri.

(Applause.)

GOVERNOR VOINOVICH: Thank you.

You know, it's interesting that I would venture to say that the people who received the recognition today have a good relationship with the individual that runs the state board of education. I know in our state without the cooperation of our superintendent of public instruction and our private sector we wouldn't really be able to put out a national goals report. It's kind of a nice lesson for all the governors: the more we work with those people the better off our children are.

I'd like to thank all of you for being here and we'll see you tomorrow morning. Thank you.

(Whereupon, at 4:30 p.m. this session was adjourned.)

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GOVERNORS' ASSOCIATION

1998 WINTER MEETING

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PLENARY SESSION

J.W. Marriott Hotel
1331 Pennsylvania Avenue, N.W.
Salon III
Grand Ballroom
Washington, D. C.

Tuesday, February 24, 1998
9:25 a.m.

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DAV/tp

P R O C E E D I N G S

GOVERNOR VOINOVICH (PRESIDING): Will the governors please take their seats. We have got a lot of work to do yet this morning.

I would like to welcome you to the closing plenary session of the National Governors' Association 1998 winter meeting. As usual we have a full agenda this morning. So, I think that it is important that we get started.

As you know, the winter meeting traditionally is devoted to developing policy and a broad consensus on issues before Congress that impact the States. This year is no exception. We have covered everything from permanent funding for transportation, child care, education reform, smoking, regulatory relief, Indian gaming, and electronic communication.

A bit later this morning we are going to have an opportunity to hear perspectives from Congressman John Kasich, Chairman of the House Budget Committee, and Franklin Raines, Director of the Office of Management and Budget. They will be talking about their perspectives on the budget that is before the Congress this year which, as we all know, will impact upon what we do in our respective States.

We are all committed to an effective bipartisan agenda with the President and with the Members of Congress. I think it ought to be pretty clear today to those who have been watching our sessions during the last couple of days that the governors believe in federalism.

We believe in moving power, money, responsibility, and accountability back to the States. We believe that that allows us to work harder and smarter, do more with less, and deliver value to our customers. When we are talking about value, we are talking about a quality product for the least amount of money.

As more and more power and control are moved from the Federal Government back to the States, I think it is going to become increasingly important that States are as efficient as possible. I think that underscores the importance of the Center on Best Practices. If we are going to take on more responsibility, then we need to share best practices with one another so we can deliver.

I think if you look at what States have been able to achieve in the area of welfare reform, Medicaid reform, that had it not been for the National Governors' Association's Center on Best Practices, we would not have seen the progress that we have in our respective States.

I would like to congratulate Bob Miller, who is chairman of the Governors' Center on Best Practices, for the good job that he is doing and the staff are doing in getting the word out among the States on things that are really important to our success. We appreciate it, Bob.

I think devolution also will make it even more important that State governments know and use best practices of quality management to become high-performance workplaces that use their resources wisely to better serve their customers.

This morning our first topic for discussion is improving service quality. As part of my initiative this year as NGA Chairman and a centerpiece of my agenda as Governor of Ohio, I believe that quality management is extremely important. I believe that of all the management initiatives we have undertaken during my term as Governor of Ohio, our

Quality through Services Partnership Program is the most important legacy that we are going to leave our government workers.

The methods used by the private sector to improve their quality and transform themselves into more competitive, customer-focused organization will also work in government. If you look around this country, the reason why we see the increase in productivity today and why we are looked upon as the most productive nation in the world is because of the fact that we understand quality management. We have empowered our workers; we have given them the technology and training that they need. We have partnered with the private sector, and today we see a real renaissance occurring in this nation. In fact, our productivity today is the envy of the world. My feeling is that we need to do the same thing in our respective States so that our workers are part of that high-performance workplace.

I would like to turn your attention to the monitors for a very brief video; it's less than three minutes. I think you will see that it reinforces a point of empowering and getting our workers involved and ready to do that.

(Video shown.)

GOVERNOR VOINOVICH: Thank you.

I think you can see from the video not only are impressive results achieved, but employees become very, very enthusiastic about the jobs. I can tell you they are very motivated to do a better job in taking care of their customers, whether those customers be internal within the organization, or external; in our case, the citizens of our respective States.

I think that we owe it to the public and to our associates in State government to learn and adopt best practices of total-quality management. Nationwide, governors have been using these quality-improvement principles to make their services simpler, faster, better, and less costly for their customers. While we have unique cultures, we also have common challenges to overcome in transforming our State governments into high-performance workplaces to help reinvent State government and not the wheel.

Governors can learn from each other what works and what doesn't, and what the other critical factors are that determine success in major initiatives to improve quality service. The NGA publication -- and a lot of work went into this -- which is at your place, profiles the stories of four governors' efforts to improve service quality in their respective States. I have asked each of those governors that participated in putting this together to share with us some of the things that they are doing in their States.

I would first of all like to call on Terry Branstad. Terry is our dean, and he is now starting his sixteenth consecutive year as governor of Iowa. He is going to share with us how he pulled together all of his management systems to change the culture of State government, to manage it for better results.

Terry, we really appreciate your being here this morning. We look forward to your sharing with us.

GOVERNOR BRANSTAD: Governor Voinovich, thank you very much. I appreciate your bringing this very important issue to the forefront during this winter meeting of the National Governors' Association. Let me say we are proud of the fact that one of the people who was on my team

originally, Steve Wald, joined your staff a long time ago and has been a key player in what you have succeeded in doing in Ohio as well.

The improved service quality is something that matters to the people that we represent, because taxpayers want value for their dollar and they want to receive the best possible services in the most efficient way. I want the lion's share of my time allotted this morning to discuss the lessons we have learned in Iowa about improving service quality.

I must begin by saying that it is important that you set your central goals as the foundation for managing for results. I believe it needs to be done across the whole enterprise of State government. My goals are to increase the population, the jobs, and the income of the citizens living in all of Iowa's 99 counties. Those are ambitious goals because my State, which is primarily a rural State, has seen significant decline in population in many of the rural areas throughout most of the 20th century. To achieve this ambitious goal we have employed Dr. Edwards Deming's Philosophy of Principles of Continuous Improvement in State Government because we saw what a dramatic change the Deming Principles of Continuous Improvement have made in American industry. You see how in the last decade and-a-half American industry has gone from being uncompetitive to again being the world leader.

We are also working to change the whole culture in State government so that everyone is managing for results. That approach is not easy. It takes a lot of time and perseverance to bring together the right tools, refine them and align them so that everything is working toward the goals. That means that our planning and budgeting information services, human resources accountability, our choice of redesign and progress improvement, our strategy and policy objectives, and our relationships with local governments must all be directed toward achieving our goals.

The first piece of advice I have is the idea of longevity. This is, after all, continuous improvement and it takes some time. So, it helps to stay in office a long time.

(Laughter.)

GOVERNOR BRANSTAD: We have been working on this since the mid-1980s, and, indeed, we have just now begun to see some really significant progress as a result of seeds that were planted a long time ago and stayed with it. Whether you serve 16 years or four years, you can still govern for results and manage for quality and continuous improvement.

Start with a clear vision of what you want to accomplish for your State as governor. People need to know what your goals are. It ought to be so clear. Be focused and repeat them again and again and again. Your agencies must support that agenda, and the governor must be out front in the effort and remain visible throughout. Some people may get tired of hearing what your goals are, but you should not get tired telling them what you believe in and what you want to accomplish.

Employees need to understand how they can contribute to achieving this vision. Even in a small way in an agency they can make a difference. You will want them to know that their part is important to the whole, allowing your agencies and management systems to help achieve your goals. Agencies need to know how they can help achieve those goals. They need to make that a part of their mission statement and goals. So, each agency ought to have as part of its mission statement and goals achieving this.

The person you choose to integrate and direct management systems to help lead your management agenda should be a collaborative, results-oriented person and should be able to lead the strategic change. We have combined budget and planning. That was a key thing that I think helped us do this in Iowa. I think people who take the holistic view of the process are those who lead our service-quality efforts. My director of the department of management has been a key person in this. We have some of our most capable people working in this area.

I have put together "Achieving Results for Iowans." I will share this with you. I think everyone of you has got this at your place at the table. I think you will find that, as we found in Iowa, improvement is incremental and it is continuous when you are committed to staying the course. Each year we evaluate and ask ourselves, "What worked well last year? What can we do to improve upon what we have been doing?"

We measure our progress and we hold people accountable for results. One of the best ways to get people's attention is to keep them focused to define expected results and then measure the progress. It's important that you use data to support your decisions, not just intuition. Whatever label you call it, whether it is quality management or performance governance, these approaches can make a huge difference for a governor and for a State. I strongly recommend these approaches, especially for new governors because it is a way you can really show that during your time you have accomplished these things.

We can get the best results and provide the best way to make sure things are much better when you leave office. That is a legacy that you can leave. Results may not be obvious in the first few months or even the first few years. But if you stay patient, stay focused, keep the vision and the goals in mind and persevere, you will see significant and dramatic changes over time.

Good management is good governance. Good management is good governance in quality service, and quality service is what we owe our constituents. I believe that it will be a legacy that I will leave from my time in office, and I hope it will also be part of yours.

GOVERNOR VOINOVICH: Thanks very much, Terry.

Before we open the session up for questions, I would like to have the other governors make their presentations. I would now like to call on Governor Hunt.

I guess, Jim, you are going to be the dean when he retires.

Governor Hunt served eight years in his first administration, and now he is --

Is it five years into the second, Jim? The thing that always impresses me, Jim, is how enthusiastic you are about everything you do. It does not seem like it is old hat to you. You are still excited. We are looking forward to having you share your principles of quality and how you feel that they have improved the operation of your State.

GOVERNOR HUNT: Thank you, Mr. Chairman. Let me say to you that I have heard about your leadership in this field. When it really hit me was when one of the top businesses in America that does business in Ohio and North Carolina, on their own and without your knowledge, wrote and told me, "You need to get up to Ohio and see how Governor Voinovich is doing this."

You are truly doing a superb job. Terry is doing the same in Iowa, and many other governors are doing this.

I want to suggest an approach to this that some of you may not have thought about. First, I really believe in it. We have done it in North Carolina in a pretty thorough-going way, although we need to do a lot better. But as you know, we all need to do a lot better in education. For many of us it is the most important thing that we do. It also is where we spend most of our money. So, if total-quality approaches work in other areas, why don't we put it into this area that is so critical, where we need to make so much progress?

Well, that is what we have done in North Carolina, and that is what I want to share with my fellow governors this morning. Let me say first of all, if you don't have it, I would suggest that you do something that I did a number of years ago. That is to establish a business council for education.

I know they have been your right arms almost in Ohio, George.

A business council for education should meet on a regular basis. Get them involved as your partners in improving and changing education. I did that in my first term as governor, and when I came back in, I realized just how important it was. When I was elected in '92 and took office in '93, I got these folks together for the first time.

Duke Power, which with the recent energy gas merger, is the largest energy company in the Western Hemisphere. The head of Duke Power said, "Listen, governor, we want to help. We want to change schools. We believe in public schools and we want to make them work. We do not want any more of those feel-good, do-nothing programs. We want real results that you can measure, that you can show the achievements and thus show the real change."

Well, they were exactly right. It was that group, I must say to my colleagues, that really got me kind of going in terms of putting education approaches and quality approaches into education. These council members are very good in their companies. Some of them get the Baldrige Award from time to time. They are really focused on this. This a group of experts in our States that are wanting to help us and they are available. And by the way, they formed themselves into an organization.

You have got this little thing here that I want you to pull out now. I want to point out one thing for you. It is called Partnership for Excellence, Inc. After the business committee started working on it, we got the State government involved in it. They actively formed a 501(C)(3) non-profit to push this ahead. My senior education advisor left me to become the president of this. Within it is something called the North Carolina Partnership for Excellence.

I do not suggest that you try to read that right now, but if you will turn to the back page, you will see the board of directors are on the back page, inside; right there. You will see on this board of directors are companies like Broadnet, Bell South, Smith Barney, Wachovia Bank, Philip Morris, Nortel, NationsBank, First Union Bank. All the big companies in our State are involved in this, and I mean they really work at it. They give their companies' money to help make it work.

Now, in doing this quality approach in education we decided that we needed to involve three different groups that have a lot to do with the schools. Let me tell you what they are. First of all we started out with six pilot school districts. For each of those districts a top corporation signed up to be their partner; for instance, let's say Wachovia Bank in a certain area.

Then one of our universities that has a school of education -- all of these teachers came out of one or the other of them -- that school of education signed up to be a second part or this three-part partnership.

Then, of course, the third part is the local school district. You had to get full buy-in and commitment from the superintendent, from the principals and teachers, from the school board and everybody else. Then we put those three groups together.

When we picked out those six, we had a big event at the governor's mansion. I invited all of them to come. The CEO's came, the presidents and chancellors of the universities and their deans came, and the superintendents of the local school systems came. They all came; we talked about what we were going to do. Then, of course, I worked with them all the way through. They have really done this in a very thorough way.

Terry Branstad talked about how they had gone into this and how long it takes and how deeply you have to go and the teams you have to form. Everybody has to take responsibility. That's exactly right.

But, folks, that is how you have to change schools. Some of us would argue that changing schools is the toughest thing in the world to do, tougher than government. Yet, that is the way we have gone about this. As I said, we have worked at it very hard, and I have been in some of those schools and have seen the kinds of things they are doing.

First let me tell you about when I went to the first school. I thought I was going to find a school where the teachers had been empowered and made a part of the team. Well, they had been. Let me tell you what I really found. The kids would do it as well. The kids had figured out who the customers were, and they were treating the community as their customers.

They were using quality teams, and they were working in teams. Little teams reported to me on what they had done and the analysis they had done on certain things. Second graders and fourth graders were saying this to me, "Here are the ways we can do this and we picked this way and here is the reason why."

We have had tremendous results. You may say to me, "All right; you have learned to work that way. What are your test results?"

Let me tell you what they are. In the poorest school district of these six -- and it is really dirt-poor, folks -- they increased over three years their SAT scores by 170 points. In a school system that is near the Research Triangle, which is the Research Triangle that comes out regularly, they have got two articles. The other one is "From the Board Room to the Classroom." They are all about business being involved in this total-quality education approach.

The final thing I want to show to you in terms of results is also in that little brochure. You will find these little bar charts on those two pages. It is "Progress toward Quality." We measure them in reading and writing; in mathematics; and on their SAT scores, you will see they went up, up, up. Four of these are among the poorest school districts in our State.

So, Mr. Chairman, I just want to say to my colleagues that this quality approach works. It works in government and it really works in schools. We complain a lot about one-shot approaches. Roy Romer called them stove pipes, and that is very good. It is the plan of the day.

The teachers get fed up because every year we have got a new deal that we are going to fix the schools with. What quality does it

brings all the best practices together. They have to work on them as teams. They are responsible. If you join your business partners in with you and the universities that they admire a lot, you really can bring about change.

We have done. We are not nearly where we need to be. We phased in our school districts, Mr. Chairman, but I am very excited about it. We would be delighted to share it with any and all of our fellow governors and the other States that might be interested.

GOVERNOR VOINOVICH: Thank you very much, Governor Hunt. It is interesting; you have focused that quality management right back on the schools to get them excited and get results for it.

I think in Terry's case and in Ohio's case, we have concentrated more on all of our various State departments. That is a great idea that will really make a difference in terms of getting something done in terms of education results. Those are very impressive figures.

I would like to talk with you just a little bit about Ohio's quality program. It is unique, I think, because it is probably one of the best partnerships in the United States between labor and management. We have probably one of the most comprehensive collective-bargaining bills in the country and probably the most unionized work force of any State in the nation.

I know some of you are at different places in terms of your job as governor. Some are on our way out. Some of you are running for re-election or have just recently been elected. I have to say to you that if you are going to get anywhere with this, it takes time. I think it is really worthwhile to get started with it.

It is amazing what happens as the years go by and how it transforms your work force. In 1992 we brought Xerox Corporation into Ohio. We had a private-sector audit of all our agencies. They came in and asked what they could do. I said, "We have already done it; you are too late."

They said, "What are you doing?"

I said, "We do quality management."

To make a long story short, Xerox spent two years with us, probably contributed pro bono and otherwise a couple of million dollars. They got us started with our Quality Services through Partnership Program. The interesting thing is that we have started and we thought we were really getting it going.

I visited with my labor union leaders about how they thought the process was going. They told me, "It's a zero. We are not participating, we are not involved, and we are not happy."

So, I called it to a halt. We went up to Rochester, New York, and visited Xerox. We went up there with leaders of my five labor unions. I will never forget that meeting, because the presentation was made by Xerox. But you could not tell who the management people were and who the labor people were. They talked about quality services and the Deming principles and so forth and the impact that it had had on their corporation.

On the way up to Rochester our program was called Total Quality Management. On the way back we changed it to Quality Services through Partnership, because our unions were not real happy with the term Total Quality Management.

Since that time we have really made some excellent progress. First of all we established an Office of Quality Services.

Terry, we thank you for Steve Wald. We unfortunately went out and stole Terry's best person several years ago. He has made a real difference for us. He is back in Iowa; his father-in-law passed away. That is why he is not here with us today.

We put a director of my cabinet on that which we called our Quality Forum. The most important thing I did is I made Quality Service through Partnership a major part of the performance evaluation I do with each of my directors. They know that is my Number 1 issue.

I think, as Terry pointed out, you need strong, visible leadership. I want to say to you that I met with some of your quality people when they were in Ohio a couple of years ago. A lot of them complained that they felt that their governors were not active enough in the process. They really think it is important that the governor be involved in it if it is going to make a real difference.

In addition to that we have emphasized learning teams and, as Jim Hunt has talked about, measuring results. One of the things that I did I think that made a difference was we had a three-day training session. So, I did my three days, and when I did it, I did it with the presidents of our unions. It was a wonderful learning experience for me. From an interpersonal relationship point of view, it was also good because I really got to know these labor leaders in a way that I would not have otherwise gotten to know them.

We started in 1992 and to date we have trained approximately 47,000 employees. It means each of them have gone through the three days of training. Every department has a steering committee with equal members of union and management. We have trained 2,000 facilitators including a network of facilitators from both labor and management who facilitate major cross-departmental efforts.

I am sure in your state, in order to get something done, you usually have to have your departments cooperate with each other. These facilitators are great. I have a problem among various departments. I said, "Let's get one of our two-step facilitators to come in and help us get the job done. They are terrific."

We have created over 2,000 process-improvement teams in the State. Usually they go from 8 to 12 people, but 2,000 of them are active in the various departments doing their thing, improving the delivery of services. Then what we do each year is we bring in role models. This last year we had 3,000 people. We took over the convention center and had 155 teams there showing off their wares and how they did it.

You want to really get fired up about your people and what they are doing. I usually spend three hours going from one booth to the other, and they are telling me what they are doing. It is absolutely fantastic.

In January of this year, I think we may have had the largest meeting of managers in the country. We had 1,300 managers that came together because I have found that the biggest problem to moving quality ahead is with your managers. None of them have grown up under the command and control system of operation.

You know the old story about how they have gone through the system and when I get there, it is my turn to tell them what to do. You have to say to them, "Well, you know, it's changed."

If you are going to be successful, you have to empower the people that you work with and give up some of your authority. One of our people said that what we had to do was to convince our managers that if they

make us feel good, we make them look good. We think we have made some real progress in changing some of our managers' minds.

I guess last but not least, we have -- and I want you to know that this is conservative -- we have identified at least \$66 million of savings that have come about as a result of Quality Management through Partnership in the State of Ohio. These are really conservative figures; these are real numbers.

We also operate the State with 17-1/2 percent fewer people than when I came into office, excluding corrections which I consider an entitlement. The number of our corrections employees has grown. I always tell people that it does not count because corrections is an entitlement. People are arrested, they are indicted, they have their trial, they are sentenced, and they are entitled to a jail cell. We have got to build it and provide the people to run the jail. So, I don't consider that.

The highway department in Ohio -- which I don't know about your States, but traditionally that has been the place where a lot of people work. We have 1,300 fewer people in our highway department than we did in 1991. The guy that runs that department has done just a fantastic job in using quality to make a difference there.

So, I really want to say to you that I think this is something that is really important, and I really think that if we are going to make a difference and do the job that we are being called up to do today, we are just going to have to be a lot more efficient than we ever were in this country's history. I think one of the ways to get there is through quality management.

I would now like to call on Governor Locke. He is one of new kids on the block, but Gary has just finished his first year as governor. He is going to share his perspective with us.

Gary, you were the chief what?

GOVERNOR LOCKE: County executive in King County.

GOVERNOR VOINOVICH: The county executive in King County in your State. You have got a lot of experience. We are really anxious to hear what you have to say.

GOVERNOR LOCKE: Thank you, Mr. Chairman.

Also I am constantly amazed at Governor Hunt's passion for education and how he can bring the concepts of quality management and continuing-process improvement to education. So, I am always learning from him.

I would also like to second a lot of the remarks you made, Mr. Chairman, about the pitfalls and the trials and tribulations of quality, and how we need to involve labor and how they do not like the word management, TQM and the M of that acronym. We have had some really good experiences in terms of process improvement in quality programs, many of which I learned in my short tenure as county executive.

Within months of becoming governor, I issued two executive orders, one of which required all agencies under my control to systematically review regulations over the next four years. So, it is not just a one-shot deal, but over the next four years it is to make certain that they meet standards of reasonableness, effectiveness, clarity and fairness.

The other executive order required every agency to develop a plan to improve the quality, efficiency, and effectiveness of the services they provide. Improving management of State government services is very important in our State simply because we have a spending cap. Regardless

of the revenues coming into our State, we have a spending ceiling somewhat like salary caps for players on professional ball teams.

With growing needs in our State it has always been my view that regardless of your income or your revenues, the demand will always exceed the available dollars. So, you really have to make government as efficient as possible so that we can redirect those dollars into the direct delivery of services.

In our State 60 percent of our general funds are dedicated to education. The State of Washington actually provides almost 75- to 80 percent of funding for every local school district. That is our State constitutional requirement based on court decisions. So, we are the primary funder of our public schools, as well as the funder for our colleges and universities.

Given the spending cap, we need to squeeze every dollar out of administration and bureaucracy and move them into the direct delivery of services. While we have a spending cap, there is no limit on increasing public expectations for better and more responsive service. These two initiatives, the requirement for regulatory reform and review of all regulations, as well as the executive order on quality processes, have strong connections because both are into making State government more responsive to taxpayers and to the customers. This makes government more efficient while also improving the morale of our State employees and making working for government a respected profession.

A lot of the news reporters and I think, of course, the State workers at the time said they had heard all this before from previous administrations, but they had never seen any concrete results. We are really pleased that within the first six months of our administration, we were able to show that we were producing more than just words.

Our agencies, in terms of regulatory reform, in six months cut and repealed almost 600 pages of regulations. They re-wrote almost 500 sections in plain English. We are all in favor of encouraging people to learn foreign languages, but not in terms of our regulations. Our agencies reported some 300 quality-improvement projects over the last year. This meant obtaining permits faster, State workers working more efficiently, and a lot of taxpayers' dollars being saved.

Our quality-improvement projects just within six months alone saved \$7 million. That will turn out to almost \$12 million in other savings over the next year. We copied something from Governor Voinovich and we publicized our process improvements and our quality initiatives in a booklet called Governing for Results. We have that on the table for your examination.

Well, how were we able to do this? I am just repeating the admonitions of many of the previous governors. The first and the most important lesson is early emphasis on quality-service improvement and regulatory reform. In addition to the executive order, like Governor Voinovich, I have met with some 1,200 mid-level, State government managers and have emphasized our expectations.

We dared them to be bold and creative. We told them that even if they failed or mistakes were made, we would protect them; we would not hang them out to dry if they were acting reasonably. I also appointed my deputy chief of staff to head up the quality-regulatory improvement efforts.

When I was at the county, I met with the CEO's of Boeing, Weyerhaeuser, and major financial institutions. They said what worked for

them was having someone directly in the office of the CEO overseeing the quality projects. Not someone who was buried in another department or the department of personnel or in some other office.

Then we also made it clear to every agency director that they had to appoint someone to oversee quality and regulatory-reform efforts. That person had to report directly to the agency director.

Like Governor Voinovich we made agency heads accountable. Part of their salary increases depends on their progress on quality improvements and regulatory reform. We directed or we put together a cabinet of the major agencies to oversee the regulatory reform and the quality-improvement projects.

All agency directors report quarterly on their quality results and on their regulatory-reform efforts. We kind of shamed them. We have each of the directors report on their progress, and they can go away from their meetings thinking, "Wow, it's incredible what that agency did."

Then also if one agency has kind of a meager report, they realize they are not doing as well as some of the agencies.

The third lesson was to work in partnership with both business and labor. That really helped us develop and implement these initiatives and to tell us which of the issues that most stuck in the craw of the stakeholders, which were the issues that our employees felt that they could address significantly and quickly.

The fourth thing is that we have stressed the idea of producing early results and quickly. For real change to happen, I think we really motivate and energize our State employees and front-line workers. Nothing beats results, early results to convert the skeptical and especially these front-line workers.

Many of the achievements are small in and of themselves, but four years of continuous improvements like these will produce substantial fiscal change. One example is that, for instance, our State of Washington and the State of Oregon purchasing departments joined together to jointly buy fluorescent light bulbs and ballasts for a 20-percent savings. That will save Washington agencies almost \$1 million over the next two years alone.

We also have in conjunction with our quality programs a savings incentive plan. We are trying to get away from the spend-it-or-lose-it mentality that is so prevalent in government and also prevalent in the private sector where if an agency actually saves money, they are punished. They have that money subtracted from their next year's allocations. So, what then is the message to managers? Spend every penny that you get and ask for more.

One thing that I always wanted to do when I was a legislator and finally did when I was county executive was to institute a savings-incentive program. We say that for every dollar that you save from efficiencies, not from serving fewer people but if you serve the same number of people you are supposed to, but you did it in a more cost-effective manner, you would have 50 cents kept in your budget. It would not be subtracted from your next year's allocation, and you could spend it in an orderly fashion for customer improvements, training, and technology for your employees. The other 50 cents would go into the general fund of the county.

At the State level we instituted that same process with the approval of the legislature. For every 50 cents that an agency saves from efficiencies, it goes back into training or technology or customer-

service improvements. The other 50 cents goes into something that the State employees care very deeply about. It goes back into a fund that we created to pay for school construction and modernization. So, it goes back into education, as well as technology for schools.

Within six months of our administration, the last six months of the fiscal year that we inherited, through savings-incentive programs -- and we really turned up the heat on savings incentives -- we yielded \$14 million in savings alone, \$7 million of which the agencies will keep, and \$7 million going into the school construction fund.

We also did something else. We said that any under-utilization of dollars by agencies related to case loads, fewer people coming on in human services or using Medicare, et cetera, et cetera, 100 percent of that money would also go into this pot for school construction and technology for our schools.

All of this brings me to the fifth lesson for producing quality and regulatory improvements which recognize and reward those who make those improvements. We are really pleased with that. Every year we have a Governor's Award for service and quality improvements that we give out to the top new-improvement teams.

So, in some ways we have made a very early commitment to quality and regulatory improvement. We are holding our directors accountable, directly accountable for results. We have set up a process to ensure that agencies continue to pay attention. We work closely with business and labor. We have told our story to emphasize results, to motivate other agencies to get on board, and to reward those who are, in fact, succeeding.

Thank you very much.

GOVERNOR VOINOVICH: Thank you, Gary.

Congressman Kasich is here and we said that he would be on at 10:00 o'clock. I think I would like to give him an opportunity to speak with us.

Perhaps we may have some time to go back and talk about quality management. But if we don't, I would like for you to understand that there is a questionnaire that we would like for you to fill out. If anybody is interested in more information about quality and there is enough people, we would be willing to hold a day's session, kind of a real cram session on quality for anyone that is interested in finding out more about it.

We are also inviting those of you who are doing things in quality to send in what you are doing, because we are going to be preparing a very, very specific book on how you get into quality that we will distribute at our summer meeting. Hopefully, Tom, maybe next year you are going to have a whole bunch of new people in here perhaps. You could give them a shot at finding out about this, because as I said, if you do not get started with it early, you just do not have enough time. You cannot do it in one or two years. It is a long process, and by the way, it is a continuing process.

I hope that we have put this thing into stone in our States, so that whoever the next governor is, will continue it. I will tell you one of the guarantees that it probably will continue is because our labor union people are committed to it. I do not think they will ever go back to the old system. I have had people who have worked in State government for 20- to 25 years come up to me and say that they have enjoyed working

in government more than ever before because for the first time, they have been empowered and they are important.

As you do, Gary, we are providing training money. In fact, we have got the unions now to give up 5 cents per dollar that they are throwing into a pot so that they can get additional training, so they can improve their skills. I think this is really a good thing for all of us to find out more about. I happen to believe that it is probably going to be the most significant legacy I leave Ohio.

We can do a lot of things, but this one is really going to make a difference because you have got people who are fired up. Last but not least is the spiritual side of it. A number of people have said that because of quality management their marriages are better today. They have learned skills through this process that have helped them not only at work, but also in their homes.

We have with us the Chairman of the House Budget Committee. I would like to just give you a little bit of background on John Kasich. He has a couple of colleagues that are now governors here that know him. But many of you may not know this, but John grew up in McKees Rocks, Pennsylvania. He serves as Ohio's 12th District Representative.

He has been known to make a little noise. So much, in fact, that President Clinton has reportedly said /quote/ "The trouble with Kasich is he is like a stereo with only one volume."

After graduating from Ohio State University in 1974 with a degree in political science, he worked as an aide in the Ohio Senate in 1975. In 1978 he ran for the Ohio Senate and through sheer grit and vigorous door-to-door campaigning defeated a two-term incumbent. In 1982 Representative Kasich successfully challenged an incumbent for a seat in the House of Representatives. He has had that seat now for eight terms.

He is widely known for his energy, dedication, and commitment. He has played major roles in ground-breaking achievements such as the Balanced Budget Act of 1997. Representative Kasich was the House of Representative's chief architect of the plan that will eliminate the Federal deficit by the year 2002.

Welfare reform which, John, you know we are all interested in, you chaired the Congressional committee that wrote the final version of that Welfare Reform Bill that became law in 1996. Representative Kasich has also worked with members on both sides to eliminate subsidies to special interests that need taxpayer support to prosper.

Last but not least, Representative Kasich has offered ground-breaking legislation to reform weapons procurement and contributed to legislation giving power to the Chairman of the Joint Chiefs of Staff.

In addition to his work on domestic matters, Representative Kasich has been a member of the National Security Committee for 16 years, and he has far-reaching interest in foreign policy. In describing Representative Kasich's wide appeal, a GOP pollster, Neil Newhouse, said /quote/ "This is a guy who cuts across ideological lines and income levels. Little wonder that Representative Kasich was featured as one of the most fascinating men in politics in 1997. Newsweek named him as one of its 100 People for the Next Century.

"This last April The Washington Post described him as a mix of Robert F. Kennedy's fire in the belly, Ronald Reagan's sunny disposition, and the friskiness of a lovable puppy."

(Laughter.)

GOVERNOR VOINOVICH: He is currently working on a book called Courage Is Contagious which profiles everyday Americans that have gone above and beyond to improve their communities to make a positive difference in the lives of others.

Representative Kasich and his wife, Karen, live in Westerville, Ohio. I want you to know that John and I have been friends for a long time. It is a real pleasure to introduce him this morning.

John?

(Applause.)

REPRESENTATIVE KASICH: Seeing Governor Leavitt, I just wondered if we could just pass a resolution right now saying that at the next Winter Olympics there will be no men's hockey. We will just put everything on the women's hockey team.

What do you think, Governor?

How do all of you feel about that?

(Applause.)

REPRESENTATIVE KASICH: It is a pleasure for me to be back. I had the opportunity to speak to all the Republican governors in Leesburg in 1995. I think that with Governor Thompson, Governor Engler, Governor Voinovich, and Governor Leavitt we tried to lay out what we wanted to get accomplished when we took control of the Congress.

Then I had the great privilege to speak to all of you, I guess about three years ago when we were in the middle of our arguments here in Washington about welfare reform and balancing the budget and reforming Medicaid and a whole variety of programs. When I came here, I argued that we would hang tough, and at the end of the day we would be able to achieve some significant things. It is always great, am I right, Tom, to be able to go back to a group and say that I said we were going to fight for certain principles and that we could achieve them. As we look today, it is pretty clear that we have been able to achieve a variety of our principles.

In terms of welfare reform, I do want to praise Tommy Thompson obviously, Zell Miller, Jim Hunt's North Carolina program, Jim Edgar's "Earnfare" in Illinois. They are just outstanding efforts at trying to solve the welfare problem that we have had in the country.

As I stand here this morning, there is a report in The Washington Post that the fact is that revenues continue to flow into the Treasury in our country. It is very likely that we will not only have a balanced budget, the first balanced budget since we walked on the moon, but we may also find ourselves in somewhat of a surplus situation. So, we can begin to retire some of this enormous public debt that our children are obviously going to have to retire. Maybe we could give them a head start on it.

A lot of people say that the reason why we are in balance is because the economy is doing so well.

Well, George, we made the argument and Alan Greenspan made the argument that if we could put together a reasonable plan to restrain spending here in Washington, that interest rates would come down two points. I signed the final papers, by the way, on the refinancing of my home yesterday at 7 percent interest.

I was on an airplane a couple of weeks ago and a young guy came up to me and he said, "I want to thank Congress for balancing the budget, because I got a tax cut for 30 years that the politicians can't take away from me because I, in fact, refinanced my home."

The fact is with fiscal restraint we were able to bring the interest rates down, thanks to Alan Greenspan and his confidence and the fact that we were going to maintain discipline. We now are going to have a balanced budget and the reforms that we have enacted particularly in the area of Medicare. It is actually yielding lesser Federal spending than what we had anticipated.

The other thing that you all ought to know is in the area of discretionary spending; that's the one kind of spending that we can, in fact, control. Over the period of the next four years, we are essentially going to have no increase in spending in those areas.

Now, the Congress has been criticized by some observers for having passed a bill that spends too much. Two years from now we are actually going to have cut discretionary spending. The fact is that we have very tough budget caps in place. As I told somebody, in order to break those budget cuts, you are going to have to climb over my dead body. Somebody said, "John, don't give us the incentive that we need in order to do that."

(Laughter.)

REPRESENTATIVE KASICH: But the fact is I remember this conversation out in Iowa with Governor Branstad when I told him that that budget agreement was a lot tougher than what people thought and was the largest amount of entitlement savings we have ever had. Over the next four years we are going to have outlays of about 1/2 percent. That is about two or three times better than what the Gipper was able to achieve in terms of discretionary spending. So, we are happy about it.

I want to make it clear that we are not going to break these spending caps. I mean, maybe there is a group of people that are plotting somewhere, in some corner of a building to break them. But Alan Greenspan has made it clear that if we go and if we break the spending caps, we are playing with fire. If we somehow communicate to people around this country that we are losing our commitment towards fiscal discipline in trying to restrain our spending, then we are playing with the fire of higher interest rates.

This is not just about politics, is it? It is about where families are, in terms of going to college, buying a home, buying a car, taking care of themselves. The lower these interest rates are, the better off all of us are.

I want to really congratulate all of you. I did not quite know what I was going to talk about here until I read your article in the paper Sunday in the Columbus Dispatch about your wanting to join Teddy Roosevelt and John Kasich in breaking a lot of the monopolies of the Federal Government and trying to streamline the operations of the Federal Government.

When you think about it, Teddy Roosevelt, who was a different kind of Republican, rode into this century with the idea of breaking the monopolies and the trusts of the largest corporations in the world. He argued that if, in fact, we could break the trusts of the huge businesses, every American could share in greater prosperity.

Well, it is interesting because as we ride into the next century, I think we ought to be about breaking the trusts and monopolies of the Federal Government; to set people free; to return power, money, and influence to people where they live, and to let people in their communities solve problems as they see fit.

I am convinced that George Voinovich was behind a lot of this. It is just wonderful when I take a look at your list of block-grant proposals from substance abuse that would address the high-risk individuals in our society; to child health development where George Voinovich deserves a lot of credit for Early Start and for all the programs that are related to trying to help our children get the kind of help they need at an early stage; to your education reforms, which I will talk about; and work-force development.

What excites me a lot is the economic development and the community development block grants where you essentially say that you want to take a comprehensive approach to dealing with the problems we have in our communities and that you want to begin to run this from the bottom up, rather than the top down.

Let me just tell you that while I have looked at a number of these areas before I even saw your recommendations, we are going to study each and every one of these proposals and we are going to stick them in the budget. I am not so sure we are going to lower the match in some of these areas as you have suggested, but this is all about common sense.

I really want to congratulate you for saying that if we can get the power where we live and if we can shape these programs to fit the problems that we have, West Virginia or North Dakota, you are unique; you are not the same. If you trust us to manage the problems where we are, we will fix it right. This really is about breaking the trusts and the monopolies of the Federal Government and empowering all of you to get it right.

Let me talk about a few of the areas that I feel very strongly about and where I think we are going to be moving. The first one is obviously education. Education is the key for everything in our society. I mean, it lets somebody like George and somebody like me -- my dad a mailman -- it allows us to overcome every obstacle.

It's tools, isn't it, Governor Johnson? It's the tools to be able to compete and win, no matter who you are or what your color is. It does not matter what your gender is if you have got the skills. As they like to say in the NBA, "If you've got the skills, nobody can hold you back."

I would like you to think about actually breaking the trusts and the monopolies of education, because I am convinced that the only way we can save the public schools in America is to empower other institutions to force the innovation and the changes inside the public school.

We had a big debate on the floor of the House about education, with Republicans accusing Democrats about locking people in bad schools. The Democrats were saying Republicans do not care about the kids. Well, they all had it wrong. We all care about kids. But I am convinced the only way to save the public school is to have the competition to force the public school to reform. I do not believe they are capable of reforming from within.

The fact is whether it is a Montessori school, whether it is a Christian school, or a Jewish day school, or whether it is a home school, or whether it is a public school, our children ought to be put in a position where moms and dads can decide what environment our kids can learn best in.

When we take a look at the future, we are going to reap what we sow. Part of the reason that our economy grows so fast today is because of what we did before with deregulation and exports and fiscal discipline. But in the future if we don't get education right, we are

going to pay the price not only through what our children's success is, but also the success of our country.

We would like to propose here that all the education that goes to a student ought to be transferrable. If a student wants to move out of the public school into another kind of school and you support the program, we ought to work with you to make sure that that money follows the student wherever he or she goes.

Representative Joe Pitts wants to put 90 cents out of every dollar in the classroom. We want to do that. We want to expand charity tax credits, so that if the individual gives a thousand bucks toward a scholarship to help the kid go to another school, they ought to get some credit for it. We ought to enact that program.

Obviously there is no national testing. I just want to make a comment on this, the debate on national testing. I think there is a very simple answer. We don't want to change the benchmarks to try to measure our children. We have a string of 13 national tests right now including the Iowa test. We can decide how our children are doing by getting them to score high on the tests that we have used for 50 years. You should be able to use the programs that you want to create in your own States. Education; we need to break the monopoly.

Welfare: In welfare I do think we do need to enact a charity tax credit. Again, how that would work is, if you give a thousand dollars to the Salvation Army because you believe they will do a more effective job in the community than HHS; or if you think the Habitat for Humanity will do a better job in providing some housing than HUD; why don't you get an incentive to be able support the local organizations.

Out in Arizona they have passed a charity tax credit. I wish all the governors would take a look at this concept of the charity tax credit, which we, in fact, will include in our budget in some manner in order to give you help.

The other thing that I want to mention to you on welfare is, in Columbus, Ohio, I have had employers come to me and ask me if we could relax the immigration rules because these restaurant people cannot get workers. I say, "What do you mean you can't get workers?"

They said, "John, we are not able to get the people who are coming off welfare to work in our restaurants. There is no link between us."

I think that we ought to look at some private-sector, non-profit initiatives that will actually take the people who are coming off welfare and get them linked up with the businesses. Because right now, at least in my State, there is a disconnect.

Debbie Boland, who is in Governor Voinovich's administration, is trying to break this problem, this knot that we have in Columbus. But I think that we have got to do everything we can to make this welfare program work and to give people a chance to get ahead, which brings about the issue of job training. I love the idea that you want the block-grant money. What is it, 163 Federal programs to do job training?

I went last week to this defense plant and to the Sanders Plant, Lockheed Sanders. First of all there was a most amazing thing at Lockheed Sanders. When I first walked in the door, I saw a man who had been working in the Lockheed Sanders Plant who was basically mentally retarded, whom the company had reached out and had trained. He has been working in that plant for 16 years.

The reason I mention it is, any company that is sensitive enough to do something like that, to train this man and allow him to realize his

full potential, that company deserves a lot of credit for doing that. I told their executives, and I hope that they will see it on television, the fact that we are praising them for what they did for somebody that would be easy in our society to run over.

But up there at the Lockheed Sanders Plant, they took these people who had high school educations and they trained them in the way to use computer cards. They get in these microscopes and they will line everything up, very expensive pieces of high-technology equipment.

Then I ran into one lady in a lab where you had to wear a white coat and try to keep everything clean. You know what she was doing? She has a high school education and she is working on a satellite. She touches the 47 satellites that are going to go up into space. I said, "What does your daughter think about you?"

She said, "Well, my daughter thinks I am pretty cool because here I am working on satellites."

Imagine that; this lady graduates from high school, gets trained, and her hands are going to touch 47 satellites that are going to go help us to link with parts of the world that years ago we only dreamed of visiting. It is because of the job-training programs that work and are where we put the incentives into the hands of the businesses.

So, when we send you these programs, I would hope you would quickly move to put these programs into the hands of our private-sector companies that can train and hire people.

Housing: You know Rick Lazio has a bill, and I wish the governors here would take a look at passing a resolution to help Rick Lazio on public housing. You know what he wants to do? He basically wants to say that our local communities can submit a plan to HUD as to their strategy to do community development and housing reform in our communities.

He cannot get this through right now. That is a sin that he can't get it through, and we all ought to join to say that this money ought to be block-granted down to the local community where we can decide what our rents are, what our repairs are, what our values are in those housing complexes.

So, we can begin to rebuild our communities, the same way you are asking for support in community block grants and the economic development administration funds. This is a very important component, as all of you know.

In the area of retirement, we obviously want to get to dealing with entitlements, George. This has been your bugaboo for as long as I have known you. Well, we have started on it. We are going to have a Medicare commission that is going to come back and make some recommendations as to what we do with Medicare.

But on Social Security we know what the answer is. We are not going to privatize the system, but we know that we ought to let our workers have an opportunity to control more of their resources to invest them the same way that Federal workers do. I don't know whether you know this or not, but you have got bonds, and you have got stocks, and you have a combination of the two.

I am a kind of conservative guy, and I had my money in the bonds until Uncle Dave Hobson found it and he said, "Put it in stocks, John." Now, I have got it in stocks and I am making more money. The fact is that all workers ought to have the same opportunity that Federal workers have.

If you think about it, in bonds the average over this century had been about a 2-percent rate of return and the stock market has been about 7. So, we need to figure out a way to allow our people to have more control over their own investments.

A word about transportation: I know you are all concerned about it. I want you to write these numbers down if you would. Since 1957 to 1997 the Federal Government has collected \$362 billion at the pump. That includes \$21 billion in interest payments that people say we owe ourselves.

Do you know how much we have spent on highway programs and infrastructure? \$389 billion; we collected \$362, but we have spent \$389. Anyway you add those numbers up, we are spending more than what we have taken in. Maybe this is the first time you have ever heard it and maybe I will be the only politician who will come before you and tell you.

Let me also tell you that in 1993 Bill Clinton imposed a 4.3-cent tax. The 4.3-cent tax was not to be used for highways. It was to be used for deficit reduction. Every Republican in the Congress opposed it. Now, if you exclude that 4.3 cents, we are spending more than the 14 cents that we are levying last year, this year, and next year.

Now, if you want to convert the other 4.3 cents into highway money, that's fine. But you are going to tell me how we are going to pay for it. I mean, this is no different than when I built my new home. My wife wanted to buy a new vehicle and furniture. I said, "Sweetheart, if we buy a new vehicle, make sure the seats come out, because we will have to put them in the house at night to sit on. We can't do both."

The fact is, as much as we want to shake our heads, the numbers are clear. We have out-spent what we have collected at the pump. Secondly, the 4.3 we never saw as highway spending. We have spent the other 14 cents and more. So, if we want to get into more highway spending and we want to cut some of the bureaucracy in this city, I am all for you. I will work with you to do it.

I have told my leadership, I have told Chairman Schuster, I have told everybody I would love to clean up some of the waste in this town and spend more on highways. But I have got a lot of people saying they want to spend. But I don't have many people telling me what they want to pay for it with. If you are all willing to join me in that, I will work for it. I would also tell you that we are not going to break the spending caps. We are not going to take surpluses to have a bigger government. We are not going to make tax cuts and finance them through debt on our children or more spending debt on our children. We are not going to do that.

So, I am willing to work with all of you to try to figure out how we can get a few more dollars for highways. But you have got to work with me to see how we are going to pay for it at the same time.

Let me also argue that 32 States would win with turn-back. Instead of the States in this country sending their money to Washington, we scrape a little bit off the top, deal a couple of cards off the bottom, and send you your money back.

Why don't we just end this program? We can keep 2 cents in Washington to maintain our highways, our interstates. Then you levy the taxes that you want in your States, and you pave the roads the way you want to pave them with the regulations that you want to use.

Now, 32 States and over 300 members of Congress would win under that formula. For the States like New Jersey that get themselves caught

in a bind, we can sit down and try to figure out how to help these high-populated States. I mean, maybe we should leave 3 cents here in Washington. But you know, there is so much angst over operating with the current system.

If we got 32 States that win under a turn-back and we end this nonsense of sending the money to Washington, then we can fight for how much we give back. Why don't we fight for that? Why don't we have the same commitment to change that as we have to go up to the Hill today to get more dollars under the current system?

So, I wish you would think about it. Maybe over the course of the next couple of years we can get it done. Connie Mack and I will offer this amendment on the floor. We will get killed, but what the heck. I was getting killed when I was authoring bills to balance the budget.

One final thing I want to say about reg-flex. I am going to propose a piece of legislation that would give you the ability to work with businesses or individuals to try to get flexibility from any Federal regulation. You know these kangaroo rats out in California? Well, here is a case where you had a kangaroo rat that wouldn't let the people cut down the weeds outside their house. So, what happened? A fire came and they wanted to do firebreaks out there in California. So, not only did the rats get burned up in the fire, but then the houses burned down. Now, I am told that they are going to have a San Bernardino rat.

I mean, Pete Wilson ought to be able to petition the Federal Government to change that rule. If they don't answer you in 90 days, the rule ought to be waived. I frankly want you to build a case against these absurd Federal regulations. I am going to fight to do it.

One more little issue and that is about tax cuts.

George, when I was a kid, my dad would type on this little Underwood typewriter -- no relation to Cecil. He would type on this little typewriter down in the basement in his boxer shorts. He would hold his money up to me. It had a little rubber band around it. We called it a gum band in Pittsburgh. He would say, "Johnny, I'm rich."

Well, my dad was not saying he was rich. My dad was saying the bigger the roll was, the more power he had to take care of me and my brother and my sister and my mom in our community. I believe anytime the family budget's bigger and the government budget is smaller, I think that is great.

I was at the Arthur James Cancer Hospital yesterday in Columbus where they are talking about more Federal dollars which I support. But I also argued to them the reason why the Arthur James Cancer Hospital in Columbus was ever founded was because of people locally.

You see, I really believe and I know we get angry and frustrated sometimes about concept of tax cuts when we are in the government. Tax cuts are about individual power. Just like you want block grants, families want block grants. They want their money back. So, I think we ought to give that some consideration.

Finally, the last message I would like to give you, that I think is the most important is this whole issue of values. You know, I think politicians and some people in religion have gotten it all wrong on values. See, I didn't know whether I wanted to talk to you about it. But then I thought, I am a public official; you are all public officials; you are all lot bigger big shots than I am.

I have drawn a conclusion after 20 years in government that passing more legislation isn't going to solve a lot of the things that bother us

the most. You know, I think that we do need to restore a sense of values. I think they only come through faith in God. But the values are not about a lightning bolt out of the sky striking you dead in your chair, or the big finger coming out of the clouds to tell you that you are wrong.

I think that values are about compassion, decency, integrity, the truth; how we treat people that we don't know; how we treat people who are down on their luck; how we treat people who are hated; how we treat people who are under us in the workplace; how we treat our spouse; how we treat our family; and how we behave when no one is watching.

As one great religious philosopher talked about, I think the way in which we are going to solve many of the problems we have in our society today is not by passing more statutes or having more regs or having more taxes. I think that the answer for the future in our society is to empower the individual and to get the individual to behave with a sense of decency and integrity.

Yesterday at Arthur James, George, we talked about managed care. I don't like managed care when it treats people like widgets. I know the Democrats -- Romer is not here, but he would tell you that they are chomping at the bits to bring this issue up before us.

We can pass legislation the length of an arm. How many of your voters are going to be helped in managed care by passing legislation the length of an arm? We may have to do it. The fact is what we really need are for the people in the managed-care industry to work with the medical personnel in this country to get it right; to start treating people like flesh and blood and not widgets.

So many of the things that bother us such as the fact that we are disconnected in our society today cannot be solved with legislation. We have got nuns in New York trying to open a homeless shelter. They could not do it because they would not put an elevator in because of an ADA violation. It violated the nuns' vow of poverty. So, they would not let them open a shelter. I mean, how ridiculous can you get?

There are attacks all the time by government and its attendant institutions of faith. Our founders always believed that without an institution of faith we would never have a culture that would work. The beauty of our country is the ability of individuals to exercise restraint in the absence of regulation, isn't it?

It is for you and me to search each other's heart to get it right at the end of the day and to achieve justice. There are many Americans who have given up on the notion that the system works. But there is also a war going on, and George mentioned it.

There is a little booklet I have put together. I made a discovery out there. It was not really a discovery, because I knew what was going on because I knew my mom and dad and I knew the people in McKees Rocks who fought everyday to make it come out right. There is a battle in our society by people who are standing up and saying, I am going to make a difference, and I don't need a lawyer and I don't need a law and I don't need a governor and I don't need a Congressman. I am just going to do it.

There is a guy I met in Pittsburgh. He dropped out of school at 15. He would not like for me to say that he is mentally retarded. He is very slow, but he is wonderful. About 16 years ago he was watching a telethon, Children's Hospital telethon. He got so excited that he took \$750.00 out of his savings account and he gave it to the hospital. He

asked them if he could shine shoes in the hospital, which he had been doing since he was 15 at \$2.00 a pair.

For 16 years he has been shining shoes at \$2.00 a pair in the Children's Hospital. When he goes around, he carries this 40-pound box. As the doctors come out of surgery, he makes them smile. He is an oasis in this hospital. He has donated over \$40,000.00 in tips to the Children's Hospital over the last 16 years. He is one of these heroes and one of these leaders.

George Voinovich is in a battle now in our State to say that believing in God matters; aren't you, George?

All the lawyers out there and all the liberals who somehow think -- it is not the liberals either. It is those people who think God has no place in our society. They are lined up against this man. We do not want to combine church and state. We do, however, want to restore the lawful place of the institutions of value so that Americans know what their responsibilities are; so that we can heal our society; so that, in fact, we can exercise personal responsibilities and we can renew at the end of the day the essence and the vitality of our country.

I am going to work with you now over the next several years, as long as I am in the legislature, to give you your power; to give you your flexibility. I trust you; I know you, not all of you well, but I know most of you. I like you and I think you are committed to improving our communities and our neighborhoods. I do not think you are mean. I do not think that you don't care. I think you do.

What we also need to do is to empower people right in our local communities. We need to restore the sense of values. We need to fight for integrity and righteousness. At the end of the day, I think we can renew America.

Thank you for another opportunity to be here. I will look forward to coming back in another couple of years and see how much ground we have made up.

Thank you.

(Applause.)

GOVERNOR VOINOVICH: John said he would take a couple of questions. I know we are running a little late and Franklin Raines is here. How about two questions to John?

Ed Schafer wanted to; I know I saw you out there. Ed Schafer is chairman of the group that wants a little more money for highways.

GOVERNOR SCHAFFER: John, I appreciate your comments about a balanced budget and the necessity to do so. I applaud your work and the National Governors' Association firmly supports those efforts.

We are, however, working on an increased expenditure out of the highway trust fund which does grow, by the way, through increased activity of driving and sales for automotive products without the 4.3 cents. So, we are trying to get to a situation that matches the National Governors' Association policy of receipts and interest into the trust fund expended out.

You mentioned 40 years of expenditures and then a little bit more of expenditures over that 40-year period. However, the last 10 years the Federal Government's portion of expenditures in highways has dropped to about 1/3. So, while the activity on our roads, bridges, traffic has increased, the Federal Government's share has actually dropped.

We would like to see that a little bit more in balance. We think we could show you a way to pay for it. We are working on the Hill now

with the staffs on the Senate side to increase the funding, live within the budget caps, and find a way to pay for it. I would like the opportunity to show that to you at the appropriate time.

One other comment. You mentioned the turn-back or the dropping of the system and just going to the direct receipts to the States. There are States that would be harmed by that. I think Senator Dorgan in a meeting of governors only the other day mentioned that that might be appropriate in North Dakota which is a recipient State.

We do not have to pay for the Coast Guard. Obviously we do not have the Coast Guard concerns in North Dakota, but there is some balance here. 75 percent of the traffic in our State is going through. It is not for destinations in North Dakota. I think it makes sense to maintain a national highway system.

At this point in time, my question is this. If we can come up with an arrangement on the Hill that shows a way that we can pay for an increased expenditure without breaking through the budget caps and living within a balanced-budget situation, would you support that effort?

REPRESENTATIVE KASICH: I think if you could finance that out of the discretionary programs, that would be very positive. I would be willing to work to do that. What I get concerned about is if you want to be finding savings over in the mandatory area and then move some highway spending into the mandatory area. My only concern about that is are we going to pick highway spending over tax cuts?

I mean, I think it is a discussion we have to have. I know the governors want highway spending over tax cuts. I mean, I think that is a discussion that we need to have up on the Hill. I want to work to try to get you some more dollars, but I also don't want to take all of those dollars and deny ourselves the possibility of a tax cut.

GOVERNOR SCHAFFER: We appreciate that.

REPRESENTATIVE KASICH: I mean, part of what we are talking about here is moving over on the mandatory side and moving part of the highway funds onto the mandatory side. I mean, there would be offsets which would make me happy. It would mean government would not grow bigger, which would be very positive.

On the other hand, I also want to try, if it is possible and I think it is possible to accommodate a tax cut, to do some easing of the marriage penalty. I mean, I think we are for that, aren't we? We are for easing the marriage penalty and for doing a little bit more on the roads.

So, we will work with you. I can't tell you exactly how it all comes out, but we will work with you. In terms of turn-back again, I understand your problem out there with limited population. First of all we would not eliminate the Federal Highway Program. We would maintain a couple of pennies in the till so that we could maintain the current system.

I get concerned whenever the highway program cannot figure out any more people to name the roads after. Then I start to wonder what the heck we are doing out there. I can guarantee you this; there won't be any roads named after me. Well, maybe some dead end somewhere, but that's about it.

(Laughter.)

REPRESENTATIVE KASICH: But the fact is that I think turn-back would work. You are right. 70 percent of all the dollars being used to fix the roads now are being raised by you. So, if we have got a program

that is 70 percent run by you, why don't we just have 100 percent of it run by you? So, what you do is you send money here, and then we are going to have a big fight on the allocation and we get enough money back.

Well, stop sending it here. Why don't we just make a commitment that next year we will go after this? I don't think we are going to do it this year, although I am going to do it.

GOVERNOR SCHAFER: One other issue there, John, is that we spend in the States huge amounts of money to comply with Federal regulations on construction and on highway repair that are unnecessary.

REPRESENTATIVE KASICH: You would not have that on turn-back. You would not have those regulations anymore. Not only would you have your own money, but then your money would go farther because you wouldn't have all of these regulations that you have to comply with.

Now, I know there are States that are having difficulty with this because they get to live off Ohio's money. I understand that.

(Laughter.)

REPRESENTATIVE KASICH: No, what we have to do is that there are legitimate problems in States like yours. There are legitimate problems in States like New Jersey, which I am aware of because Congressman Franks is on my committee. He is always undermining me on highways. He has explained it to me, and the fact is that we would have to work it out.

The essential program ought not to be rescinded here; we should keep it as it is. The program ought to be fundamentally reformed. I will work with Governor Whitman to make sure we come up with a little bit of a formula that will help. I would not want to hurt Governor Whitman. She is the last person I would want to hurt.

GOVERNOR VOINOVICH: Thank you very much, John.

One thing about John Kasich is that he is very candid.

Thank you, John,

REPRESENTATIVE KASICH: Glad to be here.

(Applause.)

GOVERNOR VOINOVICH: I would like to explain one thing that John said about Ohio with regard to God. I would like to explain that our State motto is "With God all things are possible." We are intending to place our State seal with our State motto at the threshold on entering the State capital.

The American Civil Liberties Union has filed a lawsuit and has said that we cannot do that. They also said that the fact that our State motto is "With God all things are possible," violates the Constitution. So, I just want to explain what that is about and the difference that we have, I don't think with the majority of the people in Ohio, but certainly with certain organizations.

I would now like to call on Gary Locke to introduce Franklin Raines who is the Director of Management and Budget. Before you do that though, Gary, I would like to share with you the fact that I have known Franklin Raines for a long time. Some of you may not know this, but I was mayor of Cleveland for ten years.

When I was elected mayor, I inherited a city that was the first one to go into default since The Depression. I thought that we were \$55 million in the hole, but it turned out we were \$110 million and I needed somebody to come in and help us straighten the mess out and also to restore our bond rating. We called on Lazard Freres.

Oh, I'm sorry. You weren't going to introduce Franklin Raines. No wonder you had a surprised look on your face, Gary.

(Laughter.)

GOVERNOR VOINOVICH: But anyhow, Franklin came in from New York, worked with us and helped us out of the mess. I thought that he was one of the most talented people I had ever met in my life.

I want to publicly thank you for the role that you played in the restoration of Cleveland, bringing it back to a city that is respected today in this country. But it all started with straightening out our financial mess.

Now, I will turn it over to the Vice Chairman of the National Governors' Association, Tom Carper, who will introduce Franklin Raines.

GOVERNOR CARPER: Thank you very much. Just before I introduce Frank Raines, I am looking over at Don Sundquist.

Don, you were elected to Congress in 1982, you and Tom Ridge and John Kasich and I took office. Did you ever think John Kasich would be Chairman of the Budget Committee? I thought maybe Speaker of the House, but not Chairman of the Budget Committee. It is great to come back and to hear from him. He is candid. That is one thing for sure, and entertaining.

The reason why Gary Locke, I am sure, was referred to by the Chairman is because he and the fellow I am about to introduce have some things in common. In 1956 and in the early '60s, they were both growing up in the State of Washington. Not only that, but they actually went to the same high school, Franklin High School.

Franklin Raines was, I guess, the class of '67, and I think Gary was the class of 1968. Funny how things work out. This is one where your paths crossed a lot and both of them have risen to positions of great responsibility.

Do you want to say anything, Gary, about this guy? Some dirt or anything you can share with us?

(Laughter.)

GOVERNOR LOCKE: Just add whatever you might want to say. Whatever you omit, I won't reveal the goods on Franklin Raines.

GOVERNOR CARPER: Very well. I was given a couple of talking points. Let me just mention those in terms of background. I will tell you some things you may not know about him. One of the things you probably do not know about him is what his roots are and how he and Gary kind of came from the same plates.

He is the Director of OMB as we all know. He is the person who worked with John Kasich and others in the Congress to craft the first balanced budget agreement and now the first balanced budget proposed by a President in almost two generations. Prior to becoming the Director of OMB, he was vice chairman of Fannie Mae. He was the a general partner in an investment banking firm that has helped a number of States around the table and a number of cities including Cleveland, which George was referring to a moment ago.

In the late '70s, he served as the Director of the White House Domestic Policy Staff and the Associate Director for Economics in Government at OMB. Those of us who have had a chance to work with him also know that he is thoughtful.

As George Voinovich said about John Kasich, that he is a person that has only one volume on his stereo, I think you will find Frank has a lower volume on his stereo. He is a voice of reason, calm and cool. He is thoughtful, clearly bright. He works hard and is trusted not just by

the President, but also by people in the Congress, Democrats and Republicans. He tries to balance their competing interests.

He is a person of humor and a person of his word. Like many of us he married over his head; a girl he met at Harvard. He was at Harvard Law and she was an undergraduate there. He and Wendy are the proud parents of three daughters.

I am going to ask you to join me in a warm NGA welcome for the Director of OMB, Frank Raines.

(Applause.)

MR. RAINES: Thank you very much. Thank you for having me.

Although following my good friend, the Chairman of the House Budget Committee, is always a daunting effort. But I will try to do my best to straighten out all the things that he got wrong.

(Laughter.)

MR. RAINES: Thank you, Governor Voinovich, particularly for hearkening back to our times together in the early 1980s, early in my career working in State and local governments facing financial difficulties.

It was an interesting ride you had there as mayor, but one that has obviously done a phenomenal job in turning around the city, not just in solving its financial problems but really reinvigorating the city and giving it a whole new lease on life and focus on the future and not on living in the past.

Governor Carper, thank you for that introduction and for all the things we have been able to work on since I have been in this job now. Thanks also to Gary Locke who is my former schoolmate. It gets a little bit scary when you are in this generation and you look around and you say, Well, who's in charge? Then you look and you say, Oh, God, it's us.

(Laughter.)

MR. RAINES: There is nobody else to look to; there is nobody else to blame. It's our turn; it's our responsibility. Gary has just done a phenomenal job in his whole career out in our home State of Washington, from the legislature, through county executive, through governor. And now he is a father as well.

Thank you, Gary.

It is a real pleasure for me to be here with you as Budget Director, because these are good times to be a budget director. Usually you are a deliverer of bad times, but these days in Washington the Budget Director gets to deliver good news.

This morning the Chairman of the Council of Economic Advisors at our early morning meeting in the White House delivered the latest bit of good news. The consumer price index has remained unchanged since January. But more importantly the conference board's survey on consumer confidence came out, and it increased by ten points in one month. The level of consumer confidence is now at the highest level it has been in 30 years.

In the last week the University of Michigan's Consumer Sentiment Index came out. It also had risen, and it is now at its highest level ever. So, it is a good time to be Budget Director, because it is a good time for America.

One of the reasons that it is a good time for America is that we have taken a very strong position on the issues of government and the role of government. The President declared a position a year or so ago and it is a position that we believe is a good one and that is that the

era of big government is over. By every measure, indeed, the era of big government is over.

The President has proposed the first balanced budget in 30 years. With a little luck we may actually see the Federal budget balanced this year in 1998 as opposed to 1999. As a result of the deficit reduction efforts undertaken since 1993, we will have saved \$4 trillion of debt that was projected to have been incurred when the President took office; \$4 trillion that we will not have to pay interest on into the future.

The 1999 budget continues a process of reducing the size of the Federal Government. When the President took office, we were spending over 22 percent of our gross domestic product on the Federal Government. With his 1999 budget he will reduce that to 20 percent of GDP, giving us the smallest government as a percentage of GDP in 25 years. As a percentage of GDP discretionary spending, it is also at historically low levels.

We have gotten there the old-fashioned way. We have had our income rise as the economy has improved, and we have cut spending. Perhaps the most gratifying part of that is that net-interest costs have declined from a high of over 3.3 percent of GDP in 1991 to now under 3 percent this year. But more importantly, by 2003 the net-interest burden of the public debt will be below the level in 1981, before the deficit explosion began.

We have also seen the size of government shrink in terms of personnel. We have gone from over 300,000 personnel, giving us the smallest work force in the Federal Government in 35 years. As a percentage of the entire nation, the Federal Government upper-level employment is now at its lowest level since 1931.

Not only is the Federal Government small, but if you will look at all government in the United States, we have the smallest government, including Federal, State and local of any industrialized nation. We spent about 33 percent of our economy on government compared to France, which is at 55 percent, Italy at 53 percent, Germany at 49 percent, Canada at 45 percent. The closest to us is Japan at 36 percent.

So, the era of big government is, indeed, over. We have great hopes as we move into a new approach to government with the President's administration and have great hopes of continuing. We had three purposes that we wanted to achieve. We wanted to restore an ethic of fiscal discipline, we wanted to create sound economic policy, and we wanted to provide investment in our people.

Let me just say a few words about each of those. First, fiscal discipline. You know, if you were having this meeting ten years ago or 15 years ago, you would have had a great debate going on about whether deficits mattered. People would have been arguing that deficits do not matter because supply-side economics would make sure that the deficits will be paid for or deficits do not matter because Keynesian economics tells us that deficits do not matter.

Well, the President came up with a different conclusion. He said that deficits did matter and that we need to reduce the deficits and to restore fiscal discipline if we are going to have any hope of strengthening the economy, because deficits have a direct effect on the economy by taking up our scarce national savings and using them to pay for government, as opposed to investing in the private economy.

So, the President wanted to reduce the Federal deficit in order that we could encourage investment and increase the number of jobs. He

has done that, and we have seen the result. The result has been extraordinary. Government has been shrinking, and the private sector has been growing. Investment in business equipment has grown more than 12 percent during this administration, almost three times faster than under President Reagan; almost six times faster than under President Bush.

We have 14,000,000 new jobs, 93 percent of them in the private sector. Wages are beginning to rise again with average wages up over 1 percent. Typically family income has increased with the typical median family having an income, adjusted for inflation, of over \$2,000 more since 1993. Inflation remains remarkably low. Interest rates are under control.

I understand that John Kasich pointed out that he has just been able to refinance his house as a result of this new economy. But it is not just the Chairman of the Budget Committee. It is millions of Americans who have seen that their costs have gone down in the same way that the Federal Government's interest costs have gone down. Their costs have also gone down because of this approach to fiscal discipline.

You know, you have often heard the use of the term, "the misery index" which measures the combination of inflation plus unemployment. That is now at its lowest level in 30 years. We have seen the benefits of this economy affect all Americans. Poverty has dropped. Indeed, the poverty rate among African Americans is at its lowest level it has ever been since we have been recording it, and incomes have been rising.

While we have seen this, the tax burden on the median American family has declined. It is now at its lowest level in 20 years, for a family of four at the median income. It is no wonder that people like Alan Greenspan describe this economy as the healthiest in a generation.

Now, the President's 1999 budget is intended to continue the pattern that we have had of fiscal discipline, while investing in our future. Let me just mention a couple of things that may be of particular importance to you in your States.

One of the major investments the President is making is in child care. We believe it is important that families not have to choose between a job that they need to support themselves and the care of their children. So, the President has a \$21 billion child-care initiative that includes expansion of a child-care development block-grant program, which is run by the States; \$3.8 billion increase in Head Start and early child education; \$500 million to help you to ensure that we have the proper standards and safety for children and child care; and \$5 billion in dependant tax credit, along with funds to encourage employers to provide child care.

We are proposing to continue our expansion of health care coverage for children building on the program enacted last year to provide coverage to up to 5,000,000 kids, by investing \$900 million over the next five years to get some of the 3,000,000 kids who are eligible for Medicaid into Medicaid so that they will receive that coverage.

We are also increasing our funding for the Ryan White Care Act, for the care of those afflicted with AIDS, as well as increasing our budget for drug programs.

In education and training there are two new initiatives. One is to expand the number of teachers and reduce class size for the lower grades down to a maximum class size of 18. Another is to provide \$5 billion in tax incentives over 5 years and \$10 billion over 10 years to fund \$20 billion of renovation and new construction in our schools.

We are also proposing to continue our efforts to both expand the coverage and to move toward consolidation of our employment and training programs. We are proposing \$1.5 billion this year, more than three times what the President found when he came into office, for dislocated-worker training. We are trying to move into a program where we don't care why a worker has lost his or her job. What we do care about is that they need training to move forward.

In the environment we are proposing to keep moving forward on our efforts for Superfund cleanup, but also to have a new program on clean water and watershed restoration; to expand our efforts to avoid problems such as the Pfisteria problem we have seen in this region, as well as our brown-fields initiatives to restore industrial sites in cities as engines of economic growth.

But beyond our investment we think that we, by getting into a post-deficit era, can also talk about how do we improve the management of government, something that I know that you as governors are focused on all the time. We are trying to get the Federal Government to worry as much about what we, in fact, achieve as by what policies we introduce.

The Government Performance and Results Act is forcing us to look at what it is we are seeking to achieve to establish goals, to establish performance standards, and to live by them.

One of the major tasks we face from a management standpoint is something that I particularly want to emphasize today, and that is the year 2000 problem that is embedded in our information technology systems. This is the single largest management issue that we are facing in the Federal Government.

I would suggest to you that you may want to give the same message to your agency heads that the President gave to the Cabinet. That is that if they do not personally know how this problem is being solved in their agencies, then they should assume that it is not being solved. We are facing a circumstance where governments that are so dependent on information technology may find it impossible for you to do your job if this problem is not solved.

You cannot wait until the year 2000 to solve it. Indeed, many of these systems are having problems today as they try to enter in transactions that go beyond 1998 and into 1999 and the year 2000. We are devoting \$4 billion to solving this problem within the Federal Government, a number that may well go higher. The President has just appointed a new President's Council on the Year 2000 Conversion and has appointed John Costigan, formerly my deputy director for management, to head this effort to continue to give that kind of focus to it in Federal agencies.

This is a very difficult problem, because it will show up in ways that are hard to expect. It will show up not just in the mainframe computers where you can say you are sure they are taking care of it. This problem can show up in embedded technology, in things as disparate as CAT scans in hospitals, to elevators. Particularly it will show up in those areas where you have a regulatory responsibility.

The financial regulators at the Federal level are giving extreme attention to this with the banks and other institutions regulated by the Federal Government. We do not regulate insurance; you do. If you are not ensuring that insurance companies in your States are dealing with this problem directly, then you are going to see a very serious problem occurring in January of the year 2000.

Beyond the insurance industry there are other financial institutions that are regulated only by you, whether they are mortgage companies or loan companies are others. I strongly urge that you make this a major priority in your States. The time is very, very short, and the resources to deal with this problem nationally are not overly abundant.

Let me also mention a couple of long-term issues. We have balanced the budget. We will have a balanced budget in the United States for the first time in 30 years. So, we will have dealt with the structural budget issue, but we have a generational budget deficit issue that we have to worry about as well. We have to worry about when the baby boomers begin to retire and the costs hit Medicare and the costs hit Social Security. We usually worry as well when those costs hit Medicaid.

The President and Congress have appointed a commission to focus on the Medicare question and to make proposals next year. The President has laid out a very strong approach for how to deal with Social Security. He has first said that the surpluses that we project to occur should not be spent for any purpose until we have a solution to Social Security in hand.

This is a very important challenge that he has laid down and one that he is quite intent on. When you hear people with grand schemes, of big tax cuts, big spending programs, new ideas for the surplus, remember the President's position that has been strongly embraced by members of Congress and by the majority of the American people. It is for fixing Social Security first before we spend one penny of the surplus on any other purpose.

We ought to have a national dialogue this year that the President will lead on focusing the nation's attention on Social Security and what is necessary to solve the problems. We want to have that in a White House conference in December. Then we want to go into actual negotiations on a bipartisan basis with Congress to actually enact a long-term solution to these Social Security problems. Let me mention one last item, which I know has been a part of your agenda, but is one of such importance that I think that I should mention it. That is the importance to the United States of our participation in the global economy. Trade is becoming a much larger factor in our economy. A third of the new jobs that have been created in the last five years have come through expanded trade. We have an interest in the United States, as all of you know, in continuing to expand our interconnections with the global economy.

At least 30 percent of all U.S. exports go to Asia. In western States as much as half of their exports go to Asia. We have been working with international financial institutions to deal with the financial crisis that is affecting Asia and is affecting us now and will affect us in the future. The administration has asked Congress to provide additional funds to the IMF, \$18 billion in all to provide resources to work with the IMF and other nations to ensure that the problems in Asia do not spill over into the rest of the world, and particularly do not put a damper on the economic growth that we have been enjoying.

This funding is absolutely necessary to permit the IMF to respond effectively to the current crisis, but also to be prepared if other crises occur around the world. We appreciate the support that you have given to this initiative. We would ask you that as you talk to members, that you focus their attention on this as being one of the most important

economic-development issues facing your States. Because if we get this wrong, it will have a very serious impact on each and every State that you represent.

Let me just conclude by saying that we have appreciated working with you on a wide range of issues over the last five years and for myself in the last two years. Whether it was Medicaid or highways or education or other programs, I think that we have a very good partnership, one in which we can talk to each other frankly about issues and where we can work together very closely on those issues that matter most to the American people.

I hope that we can continue doing that. Having this dialogue is very important. I am quite sure you governors realize that we in this administration are well aware that the President is a former governor. He reminds us continually of the important roles that governors play in the functioning of our nation and the governance of our nation.

So, we come to this not just with the old rhetoric of inter-governmental relations and the need for us to work cooperatively. We come to it with a vigor of a former governor being President who tells us where the priorities are and where we should focus. So, this is not an empty promise or empty invitation.

We look forward to working with you on all these issues, because we think that we are, indeed, in a position where government can do the right thing for the American people and the economy by maintaining fiscal discipline by investing where necessary to help the private economy grow and, thereby, have in place the kinds of policies that we have all longed for for many years.

It gives us the prospect of raising what to me is the most dismal statistic I have seen since I have been in this office. When I arrived, the poll had just been done that showed that less than a third of Americans believed that the government would do the right thing most of the time. We are now seeing that that number is beginning to rise; that people are again having faith that their government can do the right thing. It is not a majority of them yet, but we are heading up toward a majority.

We can raise the American people's faith in government. That is one reason I came into government; I know that is the reason that you are in government, to show the American people that we collectively can do what we need to do collectively. Government can be our expression of that collective will.

Thank you very much for having me with you today.

(Applause.)

GOVERNOR VOINOVICH: Frank, thank you very much. I think you did a great job of reviewing the progress that we have made together. We appreciate the partnership with the President and the White House on these things that are so important to the nation.

We also appreciate your focusing in on some of the things that we need to pay attention to right now. One of the things that came up yesterday, and I was asked about it at the news conference, was where does the administration stand on transportation? I was very careful to say that the administration understood the problem and wanted to see that something would be done before May 1st, so that lots of highway projects are not hung up on a wire.

On the other hand I did not hear anything about additional money. I would just like to share with you that we are trying to get additional

transportation money. I mentioned this also to Chairman Kasich. We understand it means that some of the money that may be looked at by other people might have to be sacrificed, but we would like to do this within the caps and in tune with the Balanced Budget Agreement.

We want to work with you and we really appreciate any support that we can get from the administration. This is a big problem. You talk about competitiveness. One of the great assets we have in America is our infrastructure, and we must be able to get back and forth particularly now with integrated businesses.

We did a survey recently; there were some complaints that the reason why we were having so much traffic was because we increased our turnpike rates. The study came back and said that was not the case. Because the economy is doing so well, there are more integrated businesses at this time, and we think that highway infrastructure is very, very important to the competitive position of the United States of America in the world marketplace along with some of the things that you just mentioned.

Ed Schafer, I just want to mention, has got a piece of paper in front of you. He is going to go up to the Hill this afternoon and visit with some Senators and with some Congressmen.

Ed, you need some folks to go up there with you; correct?

GOVERNOR SCHAFER: We do, Mr. Chairman. At 12:15 we will be over in the House and that is in 2167 Rayburn. Currently we have 35 Congress members of the 70 transportation committee. We have 35 of the committee that will be there; we have three governors that are going.

That is probably a fair plank, but we would like to have some more support over there. So, if the staffs are listening, we would sure like to get your governors over there. I think the three governors that are going are sitting right here in the corner.

Also at 2:30 in S-151 of the Capitol, we are meeting with Senators. Currently we have four of the 16 members. We are trying to get some more over there as well. We could use the support over there by the governors on this very important issue.

GOVERNOR VOINOVICH: Thank you.

One of the things I feel very, very good about is that there are a couple of people that work at the White House with Frank Raines that are looking out for our interests. I would like to introduce them today. One is Mickey Iberra, the Director of the Office of Intergovernmental Affairs in the White House.

Mickey, would you stand up and be recognized.

(Applause.)

GOVERNOR VOINOVICH: Also there is Fred Duval, the deputy director who is working with the governors.

(Applause.)

GOVERNOR VOINOVICH: We really look forward to working with you and with Frank and some of the other members of the President's Cabinet to get something done on some of these issues that we have been talking about. Thank you very, very much.

Yes, Bob?

GOVERNOR MILLER: I want to comment as just a follow-up to that. I want to express appreciation to both Mickey and Fred, and also to inform Mr. Raines that they facilitated a meeting yesterday with some representatives of the Department of Interior; also Don Arbuckle from your staff; also Sally Katzen from your staff. They were all very

helpful on a very contentious issue of Indian gaming. There is some light at the end of the tunnel because of Mickey and Fred and Mr. Raines' staff. We were able to make some breakthroughs, I think, with Interior. So, that is a good example of how helpful they have been and continue to be.

GOVERNOR VOINOVICH: Great. That is a wonderful thing that came out of the meeting yesterday with the President.

Bob, we really appreciate the leadership you provided.

Jim Hunt?

GOVERNOR HUNT: Mr. Chairman, let me first of all say to Governor Schafer I cannot go to that meeting because of the Achieve meeting. But I called my Congressman already to tell him, you know, what we want to have done here and to thank him and also to pledge my commitment to work with him. Maybe some of the rest of us governors who cannot go can go ahead and call your members to be at that meeting if you cannot be there.

Second, I just want to say to Frank Raines and Mickey and Fred and everybody else, transportation infrastructure is very important. This needs to be done, and it needs to be done before May the 1st. But the infrastructure of our human capital is more important. The proposals that the President has made for children, to help them develop and become the kind of world-class workers they need to be down the road and education and health care is critical.

The governors will enjoy working with you on that. We have made some real progress. I want to tell you that I have been coming to governors conferences off and on for 20-some years, and the progress we have made and the potential and the hope for children in America and their families and what can happen with the education system when we bring them in, really ready to learn; excited about it, and with the tools; this is the best I have ever seen.

But we have a long way to go, and we have got to stick with it. We thank the President for his leadership.

GOVERNOR VOINOVICH: Thank you, Jim.

One last question; then we have to move on with the policy matters that we have to take up this morning.

Tommy?

GOVERNOR THOMPSON: Mr. Raines, I was delighted to hear your comments. I am wondering -- I notice you were looking at some notes in regard to some of the figures. I was impressed by those figures. I wonder if you could furnish me, and I am sure a number of other governors would like to receive that information as well. I would appreciate it.

The question I have, however, is one that concerns me a great deal. That is the rules and regulations coming out of the administration dealing with welfare. We are doing a great job in our States, and a lot of the progress, I think, is going to be impeded by some of the rules and regulations now coming out of the various departments.

I am wondering if there is any chance that you could help us with your philosophy of smaller government, more flexibility, and trying to get your administration to back off or mitigate or reduce the impact of those regulations.

MR. RAINES: Well, one of the things that several of you mentioned to me yesterday is that you didn't know that OMB had anything to do with regulations. One of our jobs under the President's executive order is, in fact, to review all major regulations for their conformance with the

executive order which requires us to look at things like the administrative or other burdens that they impose.

So, I would encourage you to work with us on that. I know you all have direct connection with the agencies which you should pursue as well. But part of our job is to be there to provide another forum, and we would be happy to do that. Working through Mickey, we can work with you on a case-by-case basis to look at the actual circumstances.

We often find that our role is more one of ensuring that two sides, who are pretty well dug in, are actually talking to each other. I think we have been very successful in that in the past in really identifying real problems and then having them worked out with the agencies.

So, we will be very pleased to work with you on those as the regulations come out.

GOVERNOR THOMPSON: Thank you very much. The reason being is that I was listening to Governor Bob Miller; I was invited to his meeting. I could not make it, but I know that you were the representative there in regard to Indian gaming. You helped a great deal in regard to that.

If you could only help us to the same degree with regard to welfare initiatives and welfare flexibility, we would certainly appreciate it.

MR. RAINES: We would be happy to do that.

GOVERNOR VOINOVICH: Tom would like to make a final remark.

GOVERNOR CARPER: Can we make that a bipartisan request? This administration or this President, I think, has been unprecedented in terms of his willingness to give us flexibility through waivers on welfare proposals over the years. The enactment of the welfare reform legislation a year or so ago even enlarged on that flexibility.

Our concern is -- as Tommy said, our concern is that what was given to us in terms of waivers, what was given to us in terms of flexibility through the legislation; some of that is now at risk. We feel that the partnership that we have worked in with the administration, a lot of good experimentation and good works in our States will lead to good results. We just do not want to see that jeopardized. So, we do appreciate your willingness to work with us.

MR. RAINES: Thank you.

GOVERNOR BEASLEY: Mr. Chairman, I would like to reiterate what both of my colleagues on the Republican and Democratic side of the aisle have emphasized. In the legislation that we did end up agreeing to, there was a specific statutory provision that stated that there shall not be any regulations out of Washington in this area of welfare reform except where it is specifically authorized.

I think there is a clear, blatant attempt by some of those in the administration to thwart the will of the original intent of those who agreed upon returning that power back to the States; to give Bob Miller, the Democrats and Republicans, and governors all across this nation the flexibility necessary to continue to reduce people's dependency upon the welfare system.

We are seeing tremendous success stories in every State in America. I think if we add on these canons and other regulations -- I know Christie Todd Whitman was talking about the specifics on this yesterday. If we add on all these regulations, there is only one group of people who are going to suffer and those are the people who need our help in getting jobs and getting the training.

Also, the States need the flexibility to address those clients of ours so that they can experience the American dream. I would ask you;

plead with you to listen to all of us, Republican and Democrat and Independent governors, to help us maintain that flexibility, the original intent of the act just a couple of years ago.

GOVERNOR VOINOVICH: Thank you very much, Frank, for coming here this morning.

(Applause.)

GOVERNOR VOINOVICH: Before we get into the reports and proposed policies, Governor Thompson is going to talk to us about the annual meeting in Milwaukee.

Before that happens, however, Governor Sundquist, the governor of Tennessee, is going to receive something from the governor of Nebraska, Ben Nelson.

I understand that what he is going to receive from you, Governor Nelson, is something that he would rather not receive. If you will just go into the details on it, we would like to hear about it.

GOVERNOR NELSON: Thank you very much, Mr. Chairman. I appreciate this point of special privilege. It is certainly a pleasure for me to be able to announce the result of the 1998 Orange Bowl game in which Nebraska squeaked by Tennessee in a hard-fought game.

Don and I had a little wager on this; the loser would wear the winner's tee shirt. That means that the winner is also a loser because I have to buy this tee shirt to give to him. So, there is no real outstanding winner except for the football players.

We have had a great deal of fun doing this. I originally sent one to Don by mail, but he rejected it. He says that he did not get it. So, this is a follow-up, and now he has to wear this and have an appropriate picture taken and return it to me.

(Laughter.)

GOVERNOR NELSON: We had a great deal of fun. Tennessee has a great football program. We were just fortunate to win.

GOVERNOR SUNDQUIST: Governor Nelson, thank you very much for your thoughtful gift.

(Laughter.)

GOVERNOR SUNDQUIST: Just to make sure everyone wins, I am going to have on the way to you an orange sweatshirt from Tennessee and you can keep it.

(Laughter.)

GOVERNOR SUNDQUIST: I do want to congratulate the Nebraska team coach and players and Governor Nelson. We thought we were doing well the first half. In the second half they did very, very well and clearly had the best team and deserved to win. In at least one poll they listed Nebraska Number 1.

With all apologies to Governor Engler, I believe they deserved it. Thank you.

(Laughter.)

GOVERNOR SUNDQUIST: I will show you that I can wear a medium.

(Laughter and applause.)

GOVERNOR VOINOVICH: Great sport.

Tommy, do you want to talk about Milwaukee?

GOVERNOR THOMPSON: Thank you, Mr. Chairman.

It's nice to talk about college football, but when you come to Wisconsin, we talk about professional football, the Green Bay Packers.

(Laughter.)

GOVERNOR THOMPSON: Last year's Super Bowl champions and next year's Super Bowl champions.

GOVERNOR ROMER: Point of order; point of order.

(Laughter.)

GOVERNOR THOMPSON: We allowed Colorado to get in for one year.

(Laughter.)

GOVERNOR THOMPSON: We are delighted in Wisconsin and Milwaukee to have the National Governors' Association come there. It is going to be our 90th conference, and I think Milwaukee and Wisconsin have only been able to host the National Governors' Association once, and that was in 1914. So, it has been a long time in between.

It also happens to be our sesquicentennial, 150 years young. In Wisconsin we are celebrating that, and to really kick off the National Governors' Association conference we are building a brand-new convention center. We will be the first convention at that center. Milwaukee has constructed over \$2 billion worth of buildings in the last two years. So, the whole city of Milwaukee has been transformed.

We are on beautiful Lake Michigan where the fishing is great. We have provided an executive order so that the fish will be biting that weekend.

I know, Mr. Chairman, you are a great fisherman. So, you please come early and stay late.

We are going to put on a tremendous program for you. We also have the great circus parade which is going to take place. It is one of the great parades; there will be about a million people downtown on Sunday to watch the parade take place. There will be a great deal of interest because the governors are all there. We are going to have a way of showing every state coming into the union during that circus parade.

We are going to have a lot of dancing, a lot of entertainment, a lot of food, and a lot of fun. Milwaukee Brewers are playing that weekend. So, we are also going to have professional baseball.

Governors Johnson, Angus King, and Terry Branstad and a few other governors want to go on a motorcycle tour. Milwaukee also happens to be the home of Harley-Davidson, the greatest motorcycle ever built. We are going to provide Harley-Davidson motorcycles for those governors that have a valid motorcycle license to go on the trip.

(Laughter.)

GOVERNOR THOMPSON: We will have the motor vehicle licensing department there to certify you if you want to get on one. If you don't, we will have people there who will give you a ride on it. It is a great motorcycle.

We are going to have a great deal of fun, and we are going to demand that everybody that comes to Milwaukee has a good time. So, with that, we are hoping that all of the governors will come. We are looking forward to it.

We are putting on a great program. We are spending too damned much money, being a conservative. So, any of you that have any corporate citizens that would like to come, please come; but bring money at the same time.

(Laughter.)

GOVERNOR THOMPSON: We are looking forward to it, Mr. Chairman, and I thank you so very much. I do have a second thing that I wanted to bring up besides that, unless there are any questions about the summer meeting in Milwaukee.

GOVERNOR VOINOVICH: Questions?

Carper?

GOVERNOR CARPER: With the thought of the Harley-Davidsons and the sound of the Harley-Davidsons reverberating in my ears, I am wondering if the theme song for this summer meeting is going to be "Born to Be Wild"?

(Laughter.)

GOVERNOR THOMPSON: It is going to be wild, but it is going to be fun, Mr. Carper. I am sure that you will enjoy yourself in Milwaukee. The people of Milwaukee, Wisconsin, are really looking forward to entertaining you and hosting you. I thank you all for coming.

GOVERNOR VOINOVICH: I would like to mention that we are putting together a very serious program for the governors that are going to be there. So, everyone understands that it will enhance their job as governor by coming to this conference and they will walk away with things that will help them in their reelection campaign or whatever.

GOVERNOR THOMPSON: That is very true.

GOVERNOR VOINOVICH: John?

GOVERNOR ENGLER: Mr. Chairman, I am sorry. I was doing a little quick interview outside. I had to step out. Apparently in my absence the governor of Tennessee wanted to acquire the shirt of the national champion football team. I will get him a Michigan shirt.

(Laughter.)

GOVERNOR ENGLER: Governor Locke and I watched with interest the very important contest in the Rose Bowl which actually determined that. With all due respect, I feel sorry Nebraska and Tennessee got there a little late. It really did not matter much, but I am glad Governor Nelson of Nebraska was successful. He had a good season.

So, congratulations.

(Laughter.)

GOVERNOR VOINOVICH: Congratulations, John. I was very happy to see Michigan get the Number 1 in the country, as an ardent Buckeye fan.

GOVERNOR THOMPSON: Michigan did us proud in the Big Ten and we applaud them.

The second thing that Governor Carper and I wanted to bring up is an initiative called Welfare to Work. President Clinton, after the welfare bill was signed, asked Governor Carper and myself to co-chair a group of individuals that wanted to go out and solicit employers to hire welfare mothers and people off of welfare into the job market.

We discussed this, Tom and I did, at the summer meeting in Nevada. At that time we had two governors that had signed up, Tom and myself. Since that time we have had 22 other governors that have joined us. We are encouraging any of the other governors around the table that have not joined us to please do so.

We would like to come into your States to hold a news conference as well as sort of a seminar for your employers. We have done that successfully in a lot of States. There is a lot interest in it. We have worked under the chairmanship of Gerald Greenwald, the chairman of United Airlines, as our chairman. Eli Segal is the executive director. I don't know if Eli is here, but he is doing a wonderful job.

We put out bulletins on a weekly basis, and we now have -- the good part is we now have 3,200 businesses that have signed up nationally that want to hire welfare recipients. That is the good part. The bad part is 25 percent of them are in Wisconsin. We have over 800 from Wisconsin who have signed up out of the 3,200.

So, we need other State governors to encourage their business community to really get involved. We are really making a difference, and we are making a difference for people who really need that assistance. It is good for businesses; it is good for governors. Even more importantly, it is good for people that are coming off of welfare.

So, I would encourage governors to get involved and governors to get their businesses signed up to hire welfare mothers. We will be more than happy to help you with that.

With that it is my pleasure to introduce my co-chair, Governor Carper, who is also doing a wonderful job on this initiative.

Tom?

GOVERNOR CARPER: Thank you very much, Tommy.

Tommy mentioned that of the 3,200 companies that have signed up, 800 are from Wisconsin. The other 2,400 are from Delaware.

(Laughter.)

GOVERNOR THOMPSON: It's not true, but if you want to state that.

GOVERNOR CARPER: I didn't know we had that many businesses in Delaware, to tell you the truth.

Let me just add a couple of things. 3,200 businesses have signed up thus far. Our goal is 5,000 by the end of the year. We think we can reach 10,000 by the end of next year.

When Congressman Kasich was here just a few minutes ago, he talked about the need to work through the business community, employer to employer. That is what we are doing in our State. I know that is what Tommy has been doing in Wisconsin. One of the great benefits it can provide from this Welfare-to-Work partnership is to do just what Congressman Kasich has recommended.

We are spearheading a public-service announcement campaign. I don't know whether you can all see this, but it is a sign that somebody made up. It says, "Welfare mothers are irresponsible." That is what the original sign said. "Welfare mother are irresponsible."

Then someone else came through and changed the sign so that it said, "Welfare mothers make responsible workers." So do welfare fathers. Frankly that has been the view, that people on welfare really cannot do that much.

We say, "Sure they can." With some training and a little bit of encouragement and the right kind of incentive, they can be responsible employees as well. So, one of the things that the partnership is doing is spearheading a public-service announcement campaign to help turn around the attitudes of some of the employers in our States.

Another thing that is being done literally this month is a national survey of hundreds of employers focusing on transportation. What are we doing in different parts of the country with respect to transportation to help people get to work and to continue working. We are going to have the results of that survey on transportation and also on tax credits, how tax credits are being used practically to move people to work.

The last thing, and I think Tommy may have alluded to this, but the last thing is the idea of an awards ceremony in our respective States, maybe doing them all on the same day where we recognize employers throughout our various States who are doing a terrific job in helping people move from welfare to work. We would like on a national level to make a big deal about it to again draw the attention of employers who are not participating and are not offering these kinds of employment opportunities.

Finally, we do a newsletter. We offer them to the USA Today newspaper. We are going to do the 50-State summary everyday across the nation from Alaska to -- I don't know who is the last one; Wyoming?

But the idea is just a newsletter with little clips from each of our States to give us some idea of what the others are doing on this front. That's where we are. We have about half the governors signed up now on the Welfare-to-Work partnership. If you are not, I would encourage you to do so. I think it is going to be helpful to all of us.

Thank you.

GOVERNOR VOINOVICH: Thank you, Tom.

I would mention this, I think that Ray Scheppach ought to get a letter out to the governors and have us list the number of employers in our States that are already involved in this. I think there is a whole lot more employers that are involved in this program than you think. Maybe not formally, but they are participating and cooperating.

Let us move on now to our policies. What we are going to do is take them by committee. You have got a packet in front of you that has the policies of the respective committees. It also has amendments made by the executive committee and the standing committees at the meeting.

I would like to call on Governor Schafer, chairman of the Committee on Economic Development, to move en masse all of your policies but for those ones that you want to single out.

GOVERNOR SCHAFFER: Thank you, Mr. Chairman.

The Committee on Economic Development and Commerce adopted one new policy on recovery from natural disasters, and then the policies on tourism and transportation financing. It has two resolutions, one on Indian gaming and the one on Fast Track.

The committee adopted the proposed amendment to the policy on military base closures with a minor technical amendment. The committee also amended the proposed policy on international trade. I do have one further amendment to offer on that policy today.

So, I would like to offer en bloc the policies as adopted by the EDC Committee, except for EDC-11. That is the governors' principles on international trade. So, Mr. Chairman, I move en bloc the policies adopted except EDC-11.

GOVERNOR CARPER: Second.

GOVERNOR VOINOVICH: Moved and seconded. Is there any discussion?
(No response.)

GOVERNOR VOINOVICH: All those in favor, signify by saying aye.
(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed, no.
(No response.)

GOVERNOR VOINOVICH: The policies are adopted.

If you would tell us the changes you have made in EDC-11?

GOVERNOR SCHAFFER: Mr. Chairman, everybody should have it in front of them. It is a violet-colored piece of paper. It is a floor amendment to the policies adopted regarding the International Monetary Fund, and you all should have received it. Mr. Chairman, I move the policy on international trade for the purpose of this amendment.

GOVERNOR VOINOVICH: There being no objection to the amendment, we will amend the policy.

All those in favor, signify by saying aye.
(Chorus of ayes.)

GOVERNOR VOINOVICH: We now have the policy before us.

All those in favor of the policy as amended, signify by saying aye.
(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed, no.

(No response.)

GOVERNOR VOINOVICH: The motion is passed. Thank you, Governor Schafer.

Okay. Now, I would like to call on Governor Locke, who is vice chairman of the Committee on Human Resources.

Governor Locke?

GOVERNOR LOCKE: Thank you, Mr. Chairman. The Committee on Human Resources met on Sunday afternoon. The committee's focus will be on strategies for encouraging and promoting positive involvement by fathers in the lives of their children. The committee discussed strategies such as parenting skills training, public awareness campaigns, services for low-income, non-custodial fathers.

It is our hope that by using these strategies we will be able to turn around the estimate that some 60 percent of America's children will live without fathers, without their dads by the year 2000. And that is a very alarming statistic.

We had a guest, Dr. Wayne Moore, president of the National Fatherhood Initiative. We hope and know that a lot of us would like to take up Dr. Thorne on his offer to help the other governors and to offer public-service announcements that we can make throughout our States to publicize this growing crisis in our country.

Mr. Chairman, the committee considered and recommends 14 policy proposals and amendments which are before us under the green cover. There is one proposed resolution under the pink cover. There are five new policy positions and amendments to nine existing policy positions.

Mr. Chairman, unless there is any objections, I would like to move our adoption of these 14 policy proposals as a unit.

GOVERNOR VOINOVICH: Understanding that the one dealing with the National Guard will be held out, because we need to get a suspension of the rules later on?

GOVERNOR LOCKE: That is correct. We are only asking for a consideration of the 14 policy proposals and not the resolutions.

GOVERNOR SCHAFFER: Second.

GOVERNOR VOINOVICH: Any discussion?

(No response.)

GOVERNOR VOINOVICH: All those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: All those opposed, signify by saying no.

(No response.)

GOVERNOR VOINOVICH: The proposals are adopted.

GOVERNOR LOCKE: Mr. Chairman, if I could further indulge upon the members, I move to suspend the rules for the consideration of a resolution related to maintaining a strong National Guard. That is included in the pink package, toward the end of our package.

GOVERNOR VOINOVICH: Governor Locke, if it is okay with you, we will hold those till the very end, because we need to suspend the rules on another proposed policy.

Okay, the Committee on Natural Resources; Governor Nelson?

GOVERNOR NELSON: Thank you very much, Mr. Chairman.

The Committee on Natural Resources recommends the adoption of two amendments to existing policy; two resolutions consistent with existing

policy and two reaffirmations of existing policy positions. Those materials can be found under the sort-of yellow-green materials in the packet.

The actions for which we are requesting adoption today include: The reaffirmation of existing NGA policy on the Endangered Species Act and Management of Federal Lands; an amendment to our water resources policy calling for an increased focus by the Federal Government on research and monitoring on harmful algal blooms such as *Pfisteria*.

It is my understanding that Governor Glendening would like a point of special privilege to be recognized for some comments on this particular amendment.

GOVERNOR VOINOVICH: Governor Glendening?

GOVERNOR GLENDENING: Mr. Chairman, let me first of all thank the full committee, and especially Governors Nelson and Racicot for their help in advancing this amendment.

We are entering into a new area on harmful algal blooms. The work that was done in the committee on this policy amendment was co-sponsored and supported by our friend, Governor Jim Hunt. This makes it very clear that the nation's governors are alarmed by the increase in both the severity and frequency of the instances in terms of the outbreak of naturally occurring algae, which all of a sudden because of pollution or other conditions, have become very toxic.

We went through this last summer with *Pfisteria*. As a result, we have had to impose very serious restrictions on runoff and other pollution. I know that Jim Hunt has done exactly the same thing. He has had to impose a moratorium on some of the hog farms as well.

I remind people of a story my father used to tell; I'm sure many of you have heard this. When the miners used to go into mines, they would take canaries with them. If the canaries died, they knew they had a serious problem in terms of bad air. These very large fish kills are our canaries telling us we have a serious problem with regard to water quality.

The resolution calls for a significant Federal investment in the research that is necessary, as well as Federal action in terms of helping to coordinate some of our responses to this. President Clinton's budget does include some of the initial funding.

Lastly, I might indicate that the governors did get together recently from the mid-Atlantic States to work on this issue. Governor Ridge came down; Governor Underwood as well, in terms of the outbreak. I think it is extremely important that it is not just about massive fish kills, but we now have evidence that people are becoming ill with skin lesions and neurological problems.

So, Mr. Chairman, I appreciate the support from the committee and the Association for this policy statement.

GOVERNOR VOINOVICH: Thank you very much.

GOVERNOR NELSON: Thank you very much, Governor Glendening. Also included will be an amendment to our electricity policy that urges the Department of Treasury --

GOVERNOR GILMORE: Excuse me, George. I would want to speak to the *Pfisteria* matter before we move on.

GOVERNOR VOINOVICH: I'm sorry.

GOVERNOR GILMORE: Just very quickly. Our staff in Virginia has worked with Governor Glendening on this. We believe there is language included in this that covers the concerns of Virginia. We have not been

in a position yet where we have had to take such stringent actions. We are relying on sound science and investigation.

Certainly if these conditions that have occurred in other States occur, we in Virginia would take stringent action. But we believe the language included in this gives us the latitude and the ability to take all these issues into consideration and to act appropriately in Virginia.

Thank you.

GOVERNOR HUNT: Mr. Chairman, may I just add that it is a very big problem. I commend Governor Glendening for his leadership on it. We are doing a lot of work in our medical schools on this matter and some of institutes are studying it. What we would really like to do is to find the answers before it comes to you all in the other States.

We have, therefore, got to work very hard on it. We do need Federal leadership and funds. I appreciate the leadership of my fellow governors.

GOVERNOR VOINOVICH: I am glad that you brought this to our attention, because we are very concerned about it. We have been working on it with some problems in Lake Erie. We did not have them this last summer, but two years ago we did have some. No one could figure out where they came from, but they were very toxic, and we were very concerned about it. So, I am glad you are going forward with that policy.

GOVERNOR GILMORE: Again, Mr. Chairman, we in Virginia have not yet felt the necessity of taking the same kinds of actions as North Carolina and Maryland have had to take. We stand ready to do so if it is demonstrated to be in Virginia. But up to this point it has not been.

GOVERNOR VOINOVICH: Thank you.

Governor Nelson?

GOVERNOR NELSON: Thank you very much, Mr. Chairman, and thank you, governors, for the additional support.

The action also includes an amendment to our electricity policy that urges the Department of Treasury to promptly take action to preserve the tax-exempt status of debt issued by public power utilities that choose to participate in independent system-operator programs.

Also included is a resolution calling on Congress to promptly pass reform of the Endangered Species Act such as Senate Bill 1180, referred to as the Kemp-Thorne bill, which has had a great deal of input by NGA staff.

Also there is a resolution calling on Congress to promptly pass regulation improvement legislation such as Senate Bill 981, known as the Thompson-Levin bill.

On behalf of the Committee on Natural Resources, I am proud to move the adoption of these policies and resolutions en bloc.

GOVERNOR BRANSTAD: Second?

VOICE: Second.

GOVERNOR VOINOVICH: Is there any discussion?

(No response.)

GOVERNOR VOINOVICH: There being none, all those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: It is passed.

We will now move on to the policies coming out of the Executive Committee. It is my understanding that but for two of those policies, one dealing with tax policy and the other with tobacco, that things have been worked out on all of these proposed policies coming out of the Executive Committee.

Is there a motion to move those?

GOVERNOR CARPER: Mr. Chairman, I would move that of the eight proposed changes in policies reported out of the Executive Committee, that we move six en bloc at this time.

VOICE: Second.

GOVERNOR VOINOVICH: It has been moved and seconded that we move six out of the eight recommendations. All those in favor, signify by saying aye.

GOVERNOR GILMORE: Excuse me, George. Which items are not being moved?

GOVERNOR VOINOVICH: We pulled out the tax policy and tobacco.

GOVERNOR GILMORE: Thank you.

GOVERNOR VOINOVICH: The one that you are interested in will come up at the end under suspension of the rules.

All those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Opposed?

(No response.)

GOVERNOR VOINOVICH: The motion has passed.

We will now move on to the two that we have pulled out of the Executive Committee, one dealing with tax policy.

Does someone want to speak to that?

GOVERNOR CARPER: I will.

GOVERNOR VOINOVICH: Governor Carper?

GOVERNOR CARPER: Actually I am just going to reread to those of us who may recall at the governors' luncheon a day or so ago when Dr. Schneider, Tommy Thompson and others tried to reach some language that we are all comfortable with. I just want to take a moment to read it. It is just one sentence.

"Therefore, while the governors make it clear that these are not Federal funds; they are State funds, we are willing to work with Congress and the administration to ensure that these funds are used, directed, and administered to the States for programs to promote the health, education, and welfare of our citizens, as well as the assistance for at-risk youths and the well-being of all children."

That is, we believe, language that meets the concerns that were raised. With that language having been agreed to, I would move this particular policy.

GOVERNOR VOINOVICH: You move the amendment to the policy?

GOVERNOR CARPER: That is correct, Mr. Chairman.

GOVERNOR THOMPSON: I second it, Mr. Chairman. I would just like to quickly make a quick comment.

GOVERNOR VOINOVICH: Discussion on the amendment?

GOVERNOR THOMPSON: I think we have to be extremely vigilant over the course of the next six months about this settlement that is going to go through Congress, if it does go through. I hope that all governors, especially this year when their Congressmen and Senators are back in their respective districts campaigning, that you remind them that this 50

percent of this is our money, and we would like to have it for our own use.

GOVERNOR VOINOVICH: I think the wonderful thing is that Republicans and Democrats agree that it is our money. Second of all I would like to commend the people who have been involved in arriving at this compromise in terms of this language.

All those in favor --

GOVERNOR GILMORE: Excuse me, governor, if I may make a comment? First of all I would congratulate everyone who has worked so hard on this and I concur completely with the approach that this is State money to the extent that it is. But I would point out neither as attorney general nor as governor have I supported or gone into new lawsuits as 41 other States have.

As a result of that, I am very much in sympathy with the amendments that have been worked out on this. I believe that they are very good for the States. However, I think Virginia will have to issue an abstention on overall policy or even on any amendments at this time until the policy develops a little more in the Congress. I wanted to let you know that.

GOVERNOR VOINOVICH: Thank you.

All those in favor of the amendment to the tobacco policy, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion has passed.

We will take up the tobacco policy.

Governor Carper?

GOVERNOR CARPER: Thank you, sir. With respect to the Federal tax-reform issue --

GOVERNOR VOINOVICH: We have not passed the tobacco settlement; it's been moved and seconded.

GOVERNOR CARPER: I move the adoption of the revised national tobacco-settlement policy.

VOICE: Second.

GOVERNOR VOINOVICH: All of those in favor?

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: That policy is adopted.

GOVERNOR GILMORE: Please, if you would, list Virginia as an abstention at this time.

GOVERNOR VOINOVICH: Abstention from the State of Virginia.

Tax policy, Governor Carper?

GOVERNOR CARPER: Tax policies: We have had some discussion on Federal tax reform in governors-only sessions about the language in our proposed policy for Federal tax reform. On the issue of national sales tax or value-added tax, the original language as proposed and adopted and recommended by the executive committee stated that the nation's governors strongly oppose a national sales or transactional or value-added tax.

Given the concerns that were raised by some that they would not like to be on record as strongly opposed, we have agreed amongst ourselves to language that reads instead, "The nation's governors are deeply concerned about a national sales or transactional or value-added tax."

That seems to express our concerns which are deep, but by the same token it gives those some comfort who would not go on record as being strongly opposed. With that in mind I would like to offer that language as an amendment to the policy recommended by the Executive Committee. I so move the amendment.

VOICE: Second.

GOVERNOR VOINOVICH: Discussion?

GOVERNOR ROMER: Mr. Chairman, my understanding is that the striking of the last paragraph is just redundant; that it is already stated in the text and there is no intention to change policy in the striking of that last paragraph. It was just redundant; is that the understanding?

GOVERNOR CARPER: That is exactly right; yes, sir.

GOVERNOR ROMER: Because there is a lot of rhetoric in that one.

GOVERNOR CARPER: It simply restates what's already said in the body of the policy.

GOVERNOR ROMER: Thank you.

GOVERNOR VOINOVICH: Any discussion on that?

(No response.)

GOVERNOR VOINOVICH: If there is none, all those in favor of moving the amendment on the tax policy, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is passed; the policy is in force. Governor Carper?

GOVERNOR CARPER: Mr. Chairman, I move the adoption of the national Federal tax-reform policy to the full body.

GOVERNOR VOINOVICH: Those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is passed.

We will now move on to the suspension of the rules for two issues. One is dealing with the maintenance of a strong National Guard, and the other is to deal with the Internet Development Act of 1998.

Is there a motion to suspend the rules?

GOVERNOR THOMPSON: I so move, Mr. Chairman.

VOICE: Second.

GOVERNOR VOINOVICH: It is moved and seconded that we suspend the rules. All those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is passed.

We will move on the resolution dealing with the maintenance of a strong National Guard.

Governor Thompson?

GOVERNOR THOMPSON: Very quickly, Mr. Chairman, because everybody is tired and wants to leave. I would like to just point out that in our structure right now in the Department of Defense, the National Guard seems to be the poor stepchild. They are talking very seriously about reducing the force structure of our National Guards in the United States and our respective States from 405,000 this year to 395,000. Then next

year reducing it another 27,000; then the third fiscal year, another 28,000.

To me that is unacceptable, because all of us know how important the National Guards are to our respective States. I think it is very important that we weigh in on behalf of our Congressional delegations and the Department of Defense that this is not fair and equitable.

The resolution asks for equity, because the Department of Defense is not only cutting our force structure in our respective States, they are also reducing our funding from 78 percent to 70 percent while they fund themselves, the regular Army and the Army Reserves at 78 percent.

So, you can see the whole trend is there. I know all of us are very supportive of our individual National Guards, but I think we have to really have a real concerted effort to contact the Pentagon to tell them that this is unacceptable. Because if we don't, our National Guard is losing out right now.

The shoving match is over and we have lost. The only way we are going to get back to some degree of equity is by the Governors weighing in. I hope that you pass the resolution. But even more importantly than passing the resolution, I hope you contact people in the Pentagon, as well as your Congressmen to tell them that this is really unfair.

GOVERNOR NELSON: Without extending the debate, I clearly agree with Governor Thompson. In addition to providing the military presence that the Guard very often is able to provide in emergency situations, each one of us has had some sort of experience with an emergency where the Guard has been essential. So, whether we are protecting ourselves from outside occurrences or internal occurrences, they are absolutely essential.

Any effort to reduce them in this way will put us more at risk and have less opportunity to respond when we need to. We all hope that we will never need to, but we all know that will happen in the future.

GOVERNOR VOINOVICH: I think all of us agree we are interested in our national defense, but we are also interested in our domestic and State defense. I think a lot of people in this country are not aware how well trained our Guard units are.

I think if you will look back to Desert Shield and Desert Storm, they were involved. I can tell you right now that I have guard units now over in the Gulf area. We need them for our national defense, but when we had the worst flood in the history of Ohio this last year, I do not know what we would have done without the Ohio National Guard. So, we really need to make this some kind of a crusade in terms of letting our representatives in Congress know that we expect them to support our States' National Guards.

John?

GOVERNOR ENGLER: Mr. Chairman, I was hoping maybe after the resolution passes, maybe the Chair and the Vice Chair can send a copy of this over to Secretary Cohen, and maybe try to get a little dialogue going. It is such a small amount of money in that budget that would really hold the Guard in a position where we could maintain some strength.

Governor Thompson hit it right on the button. Maybe we could get this engaged, because I think at the service level we are just not going to win that fight.

GOVERNOR VOINOVICH: Thank you. I think that is a good idea. Frankly a letter from all the governors would be, I think, very, very impressive to them. So, we will move forward with that.

Any other discussion?

(No response.)

GOVERNOR VOINOVICH: There being none, all those in favor of the policy, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(No response.)

GOVERNOR VOINOVICH: The motion is passed.

As most of you know, we have spent a great deal of time and I think constructive time, particularly with the leadership of Governor Leavitt in terms of the Internet commerce. Governor Leavitt would like to speak to us in regard to the Internet Development Act of 1998, which will be a reflection of this organization's policy in regard to electronic commerce.

Governor Leavitt?

GOVERNOR LEAVITT: Thank you, Mr. Chairman. As you have indicated, as evidenced by the fact that we have spent a substantial amount of time, this is a matter of some importance not just currently, but as we move into the 21st Century. This resolution is about the 21st Century and how we position our States to prosper in the incumbent economy.

Commerce over the Internet is reshaping the way we buy. It is reshaping the way we sell. It is increasingly going to power our economy both nationally and globally. It needs to be nurtured and it needs to be protected. We need to have a framework in which it can grow and prosper.

One of the dilemmas we have as we go through this transition is that as we move from the Industrial Age into the Information Age, we currently have a rather Industrial-Age system of collecting sales taxes. We need to form an Information-Age system.

There are two dilemmas that we are dealing with today. The first is how can we protect the Internet and electronic commerce from discriminatory or multiple taxes? The second is how can we create a system in which those who sell over the Internet have the capacity to deal with the 6,000 taxing jurisdictions that are currently in the United States alone?

This problem absolutely has to be solved. It is one of the features of the 21st Century that will be necessary for us to continue to prosper. Ultimately vendors cannot deal with 6,000 different taxing jurisdictions. It is the nation's governors that need to lead on this. If we do not, ultimately it will result in a historic shift of tax capacity away from the State and local governments.

The capacity that you have before you today is broken into four principles that we believe will dramatically move the development of the Internet forward and will be able to nurture electronic commerce. The first principle deals with prohibiting any new Federal, State or local taxes levied against Internet access. That is a strong statement, but one that we believe is necessary in order to protect the integrity of that industry as it grows.

The second would be for us to develop one sales-tax rate per State that would move from 6,000 jurisdictions down to just 50. Then the development of a system will allow each State to elect their rate. If

the State chose to have a zero rate, they could do that. But this would create a system in which each State could elect its own policy.

The third principle is the development of a uniform structure and simplified administration of sales tax. We should not kid ourselves; this is not an easy process, but is one that is absolutely necessary as we move forward into the 21st Century. The last would be an expanded duty to collect. This is basically a trade-off between all the other pressures that are incumbent upon both electronic commerce and main-street business that still makes up the vast majority of our current system. This would have Congress declare that the burden to collect or nexus, as it is currently referred to, would occur when States had prohibited sales tax or taxes in general on Internet access; second, when a State had adopted a single sales-tax rate for their state; and third, they had made themselves subject to the uniform structure and simplified administration.

Now, there are those who would suggest that there are those States that have indicated that they have a desire to nurture and develop this industry, something we all hope to do. This would provide a means by which they could do that on a State-by-State basis, but provide the general framework for this commerce to be conducted.

There are also those who believe we may be moving sooner than we should on this problem. I think history will show that that is not true. This is a very minor part of the total commerce today, but it will increase radically. Estimates are that we have heard at this meeting that within four or five years we could be dealing with half a trillion dollars worth of commerce. We simply need to be in a position to do that.

This resolution represents a means by which we can nurture the Internet and electronic commerce, but also preserve the integrity of our system to provide quality for those who are doing business on main street today. I move its adoption along with the accompanying amendments.

GOVERNOR VOINOVICH: The motion is made.

VOICE: Second.

GOVERNOR VOINOVICH: I really think that what this does is develop the contours of a dialogue that we would have with Congress and quite frankly with the industry. It gives us some areas that we can really agree on and move forward with discourse on this.

I have to say that I was very impressed with the fact that the President had indicated that if we were able to move forward with this and get partnership, that he would be glad to convene a group of individuals to deal with this new challenge. I think that how we handle this as an organization may be one of the most important things we have ever done as far as the National Governors' Association.

I suspect that I should not be talking about this because I am the Chair. I am supposed to listen to the dialogue.

Governor Romer?

GOVERNOR ROMER: I would like to emphasize two things; one, the timeliness of it. I think it is critical that we address this in the short term rather than in the long term, because as Governor Leavitt said, so much can happen in the course of accelerated time on the Internet.

The second thing is that this is a very major issue of policy between the issue of Federalism of how one jurisdiction relates to another in terms of their taxing authority. In this resolution there is

the assumption that we can arrive at a one-State policy on taxing the Internet. I think you all around this table know that it is a very major discussion within each State.

We need to be absolutely certain that we do not find the taxing powers of State and local government to be on a "Mother-may-I" basis with the Federal Congress. That is what I think is crucial here.

GOVERNOR VOINOVICH: Thank you.

Governor Carper?

GOVERNOR CARPER: Mr. Chairman, I just want to say to Governor Leavitt, thank you very much for investing the time that you have in this issue. I know Governor Romer and Governor Miller and others have invested considerable time in it as well.

We do not have a sales tax in Delaware. You might think we don't have a dog in this fight, but this organization certainly has a dog in this fight, as do countless towns and commuters and the whole industry that we want to see grow and be successful.

I thought maybe the most encouraging thing that happened in our discussion around the table with the President was his stated willingness to act as a facilitator and to pull together the appropriate people from the industry to meet with us in an effort to try to resolve this issue. It is not going to be an easy one.

Governor Romer is exactly right. This is one we have got to move on quickly, and to the extent that we can develop consensus this year, we will have done our States and our consumers and a growing, important industry in our country a real service.

GOVERNOR VOINOVICH: Governor Thompson?

GOVERNOR THOMPSON: This is a very short comment and then a little question to you, Mr. Chairman. This also leads into the catalog sales. It is very important, as I mentioned to Governor Leavitt, if there is a Federal law introduced on the catalog sales, I think we are going to come back to the table and reach a voluntary agreement. I think it is important that we do that.

My question of you is that if you set up a committee to work with Governor Leavitt, I would appreciate the opportunity to serve as well, because I have been leading the negotiations to try to reach a settlement with the catalog companies. I think it is hand-in-glove with what Governor Leavitt is talking about.

GOVERNOR VOINOVICH: Thank you.

GOVERNOR WILSON: Mr. Chairman?

GOVERNOR VOINOVICH: Governor Wilson?

GOVERNOR WILSON: Mr. Chairman, I had hoped that I would find myself in a position where I could support what is before us. Let me say that I agree with the remark that you just made, that it is terribly important how the National Governors' Association is perceived in terms of the way we proceed to address what is a critically important issue.

Let me begin by paying deserved tribute to Governor Leavitt, whom I think has made a very good-faith effort. He has done a lot of good work. But I would also have to say that I disagree with the expressed fears on the part of those who think that we must act urgently.

The author of the legislation which earlier the NGA opposed, Congressman Cox, has made it very clear that it is his expectation that action will not be completed this year. I think the Majority Leader of the Senate, Senator Lott, has made that quite clear in his public statement that he will refer the measure to the Senate Finance Committee.

I think, friends, that we are in danger of being in haste. When you are going to impose a tax upon a new economic activity of the manifest importance of the Internet and the electronic commerce, I think we would do better to go slow. The Cox-Wyden Bill proposes a moratorium to study all of the intricate aspects of electronic commerce.

I think we would be better advised frankly to support it. I think having opposed it, we have found ourselves in the awkward position of appearing to be anti-Internet, pro-tax, more concerned with revenues than we are with the jobs the Internet can create. I don't believe for a moment that that reflects the true views of any member of this organization.

But what I do think is that we should take up the author, Congressman Cox, who has made it very clear that he is willing to amend his legislation to see to it that there is a prohibition on all taxation, Federal, State and local for a period of the moratorium, not infinite in length, but one long enough so that we can, in fact, work out the many complicated questions with all the effort that Governor Leavitt and his staff have made and a very good effort too. They have sought to distinguish between taxes of access and taxation of commerce.

Governors are rightly concerned, as has been expressed at this table, with the loss of a major revenue source to State Governments. I have no quarrel with that. To the contrary I share the view. But what I would say is that I think that even these most recently offered amendments make clear how complex this is. Look, for example, at the most recently offered, the definition of tax on the Internet access fees in an effort to address taxation of access. The legislation that is being offered seeks to differentiate between access fees and fees on simple commerce, the sale of goods.

In this final sentence, it says, "If charges to connect to the Internet are bundled with charges for content, data, or information, the charge is not considered an access fee."

There are too many unanswered questions. I don't delude myself that this is not going to pass, because I know the governors are concerned. If you will look around this table, you will see that a quorum is not present. I have no intention of raising that as a procedural objection. What I do ask is this, rather than sending in haste, if you wish to adopt this, recognize it for what it is, a work in progress.

Congress is not going to act on this this year. They will not complete action; they shouldn't. It is too important a matter to be rushed. I think as governors we want to be perceived as more interested in the jobs that the Internet can create than in revenues from the traditional way of doing business from point of sale, local retail sales.

We are not trying to hold back progress. There is a certain irony here. I think Mike Leavitt has demonstrated a great affinity for modern commerce and understands well the potential of Internet, electronic commerce. But it is impossible, I would suggest, for anybody to have in the very short period of time in which we have contemplated this again to deal with all the questions.

If you will look, for example, at the statement by the National Tax Association, the professional organization of tax administrators, in their preliminary report in November, they admitted /quote/ "It reflects our tentative and preliminary thinking on the direction that a statute on electronic commerce might take."

That document further clarifies that /quote/ "It should not be viewed as even the skeleton of a statute addressed to the problems of taxation of electronic commerce, but more appropriate to be characterized as protoplasm."

I won't belabor the point further. I think that we would do better to make clear to Congress that we have a real legitimate stake in the proper resolution of all the manifold complex questions that attend the governing regulation of electronic commerce. But I don't think that we will do ourselves a favor if we pretend that by rushing to produce a draft piece of legislation, we are going to win great support on the Hill, or even change the legislative dynamic.

This is a work in progress. Governor Leavitt has done extremely good work. I will be delighted to work with him, as will experts in my State where this industry is of tremendous importance. I am sure that is true for the governors sitting around this table and many who have had to leave already.

GOVERNOR VOINOVICH: Thank you, Governor Wilson.

Governor Gilmore?

GOVERNOR GILMORE: Governor Voinovich, I am pleased to be able to join the comments of Pete Wilson, the governor of California, particularly with respect to his remarks about concern over jobs and perhaps some new thinking about the raising of revenue and the question of the traditional effort going in the direction of taxes, as opposed to some new thinking perhaps about economic development.

So, I join in all of those, Pete. I appreciate the remarks that you have made today. I am also, Governor Voinovich, very respectful of the work that Governor Leavitt has done. I have been introduced to this at this meeting where it was raised on the very first hour of this meeting. It has been under constant discussion since that time. I appreciate the work that Governor Leavitt has done and the people who have worked with him.

Many of the amendments are something that I think that we can concur with and many of the underlying policy ideas as well. Buy as governor of Virginia, if driven to a vote today on this matter, I would vote no for Virginia. The reasons are several and I think it is important for me to tell my fellow governors around the table why.

We have the Cox-Wyden Bill that is out there. It's under discussion right now in the nation and in the Congress with respect to the way that we will treat the Internet with respect for the purposes of taxation. It is very difficult to make policy on behalf of a State at a meeting such as this one, when policy making is best done in the State. There you would have the opportunity to discuss this with not only key policy makers and legislators, but members of the industry, entrepreneurs who are working in this area.

I have not had an opportunity to do that. So, there is a real limitation on making policy for a State, which then has to express a vote in a body like this one on an area that is controversial and moving such as this one.

Second of all I want to say that this industry is very important to Virginia, particularly important to Virginia. Our policy is to not stifle any growth of commerce or with use of the Internet. It is important to our State particularly because we have major online companies located in Virginia, including America Online, I believe the

nation's largest Internet connector; UU Net, PSI Net, and many of the companies that are located also here in Virginia.

I would point out that we are sitting in this room within a ten-mile radius of about 1,300 information-technology companies located in Northern Virginia. So, they are a major portion of our economy. It is a major emphasis that I am placing in this new administration. So, I am concerned about what this policy might do to that.

The next matter is one of taxation. I have in the Virginia legislature right now a major tax issue. We all heard John Kasich speak here just a little while ago about new thinking about taxes. Well, we in Virginia are actually doing it. It is a philosophy that says that people are empowered if they can have more of their own money. I am committed to eliminating the car tax in Virginia. I am in the legislature right now sending a message that we have to take individual people into consideration at the time that we place tax policy. All I have really been asking for in the legislature is that whether we grow a budget in the range of about \$12 billion, that we give \$1 billion back by way of tax relief to the people. That does not even include non-dedicated funding that equals almost that much, which would be untouched by any tax cuts.

Instead I hear in the legislature a desire to place caps on tax cuts. So, I am concerned that in this context here today with the National Governors' Association, that if I vote yes on this today, I may be sending a confused message with respect to our philosophy on the elimination of taxes. I am committed in Virginia to eliminating that car tax.

Finally, I would point out that as Pete Wilson has said, there was legitimate opposition to this. Forbes Magazine in its more recent edition, which I have here, has endorsed the Cox-Wyden Bill, and I think would express concern about this governors' proposal that is on the table today.

My predecessor, Governor Allen, had thought through this and had opposed this type of approach. Before I change that, I think I should respectfully consider all those matters. I believe that Governor Allen had done so.

We did meet with the President yesterday and President Clinton did discuss this with us. He commented on this in a highly professional, skilled way. As a result, I am not 100-percent sure what the President said. But I think he was more inclined towards Cox-Wyden and a moratorium, rather than to support this proposal here today.

Governor Voinovich, we have industry opposition to this in Virginia that has been expressed, because I think that it has not been able to be presented to them in a serious way. For that reason there has been no time to put ourselves in a position where we can vote yes on this today. So, if you are going to go to vote today, Virginia will have to vote no.

GOVERNOR VOINOVICH: Thank you, Governor Gilmore.

Governor Locke?

GOVERNOR LOCKE: Thank you, Mr. Chairman. I want to thank Governor Leavitt for his outstanding leadership on this particular issue and others. I think it is important, given the debate over this issue within the Congress and the consideration of this very important economic issue, that the governors take a position, albeit a work in progress, so that we can help influence that debate and help to shape the ultimate policies that may emanate from Congress.

I was very pleased with our conversation with President Clinton yesterday in which he recognized just how growing an industry this is and, as he indicated, is 1/7 the size of catalog sales. We all have seen how much catalog sales have grown in the last several years. Many of those companies that transact business via catalogs will quickly start transacting business over the Internet.

If sales tax is collected, it will be of extreme importance to our local governments, our counties, our cities in the many States. Now, being the home of a major software developer, Microsoft, this proposal does not inhibit access to the Internet. This proposal that we are considering recognizes that many people will want to hook up to the Internet. But those same people may never purchase an item over the Internet.

What this resolution is trying to do is to make sure that access to the Internet is not inhibited; that we encourage full use of the Internet; and that it will be growing; but also recognizing that the method of commerce over the next several years will change dramatically. If we don't try to establish our position, we may lose the opportunity in the future to make sure that transaction sales that occur now face to face, will occur over the Internet without any collection of taxes that our local governments in many States depend on.

The way the resolution reads, it would be up to the States to decide what that rate might be. One rate would be up to the States to decide; they would distribute and share those sales taxes between local and State governments, and ultimately whether or not a State wants to impose any sales tax on Internet transactions.

So, I think this policy gives us a great deal of flexibility. It puts us certainly in the debate within the Congress on any proposed moratoria with respect to taxes on either access or transactions over the Internet. This is something that the governors need to engage in very, very quickly to make sure that our voices are heard, and the interests of our constituents and local governments are heeded.

GOVERNOR LEAVITT: Mr. Chairman, we have a dilemma here in that there are several governors that have to go to Transportation, and the dilemma we have is that I think based on the governors' only meetings we have had, it is pretty clear that this resolution has resounding support among the governors.

As we get down to a relatively small number, however, we are going to end up with a numbers problem. I am asking the Chair to give me some advice as to whether or not we either need to move for a vote right now, or we need to round some of the governors up because we will lose this resolution.

The bottom line is there are three or four people who are not going to vote for this and a whole lot of people who will. But the whole lot of people who are going to vote for it may not be here.

Oh, well, let me be just real brief. I mean, when you get to the bottom, I understand the Cox-Wyden Bill, but I think this bill goes beyond that. In other words, I think it is possible to be for that as the Forbes Magazine editorials or others have been for that. But that is only a temporary moratorium. This calls for a prohibition on that tax on access to the Internet.

So, this is Cox-Wyden Plus. It goes far beyond that. That is why I am voting for it. I want to say that because I didn't want to leave what is on the record to stand by itself, because it would sound like

then -- I am in a different position. I want to go beyond. I don't want just a moratorium; I want to prohibit that and then at the same time to simplify and clarify that we collect the traditional sales tax on goods and services that States do collect.

So, that is why I am for this, in an effort to be for an even bigger tax cut than I would be if I only satisfied myself with a moratorium.

GOVERNOR VOINOVICH: I think that my advice is that the people have stayed here, and I think that we ought to have a vote on it. I think that Governor Wilson has made some very good comments. Governor Gilmore has. I think that we recognize this is a work in progress, and if there is no objection, I would like to move forward with a vote on this policy that you worked very hard on.

GOVERNOR VOINOVICH: Governor Romer would like to do that. Is there anybody else?

(No response.)

GOVERNOR VOINOVICH: If there is no objection, I think we have discussed it enough. There has been a lot of discussion in our governors-only; we kind of understand where we are at. We are pro-electronic commerce. We are against -- most of us are against taxes, but we feel that we have a real challenge here that needs to be taken care of.

Can we take a vote?

(No response.)

GOVERNOR VOINOVICH: All those in favor, signify by saying aye.

(Chorus of ayes.)

GOVERNOR VOINOVICH: Those opposed?

(Chorus of nos.)

GOVERNOR VOINOVICH: The ayes have it.

Governor Wilson?

GOVERNOR WILSON: Mr. Chairman, for the record, I omitted earlier that Governor Cellucci asked to be associated with my remarks.

GOVERNOR VOINOVICH: Thank you very much. GOVERNOR ROMER: I don't think our voting allows proxy voting.

GOVERNOR VOINOVICH: We understand where we are at. I think we have made some real progress. We recognize that there are some difference of opinion, but I think overall we are in the same ballpark.

I think we have got something that we can use to move forward. I am going to ask you and Governor Romer to be the lead governors on this. Governor Thompson indicated that he is interested in being involved.

I would also ask Governor Carper if he would like to suggest another Democrat that might be interested in being on this committee. I think we will have four governors who will work on it, and all of us will be supportive of their efforts. We have a long way to go in this area.

There being no further business, the 1998 National Governors' Association Winter Meeting is adjourned.

Thank you all who stuck around for this last, very important matter.

(Whereupon, at 12:45 p.m., the meeting was concluded.)

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