NATIONAL GOVERNORS ASSOCIATION

Winter Meeting

Saturday February 26, 2011

JW Marriott

1331 Pennsylvania Avenue, Northwest

Washington, D.C. 20004

Governor Chris Gregoire, NGA Chair, Presiding

Governor Dave Heineman, Nebraska, Vice Chair

Presentations by:

Dr. Michael E. Porter, Bishop William Lawrence

University Professor, Harvard Business School

Zhou Qiang, Party Secretary

Hunan Provincial Committee

P R O C E E D I N G S

(11:04 a.m.)

CHAIR GREGOIRE: Good morning everyone. As NGA Chair, I would like to take this opportunity to welcome each and every one of you to the 2011 NGA Winter Meeting. I want to start by apologizing for my laryngitis and to assure you that you can shake my hand. This is just an overzealous reaction to the Boeing Tanker Award. It's actually an attack of allergies. And, Governor Kitzhaber, I took your advice last night and shut up.

(Laughter)

CHAIR GREGOIRE: One little technical piece of business, may I have a motion for the adoption for the Rules of Procedure for the meeting?

(Motion duly made and seconded.)

CHAIR GREGOIRE: It's been moved and second, is there any discussion?

(No response.)

CHAIR GREGOIRE: All those in favor, please signify by saying, "aye".

(Chorus of ayes.)

CHAIR GREGOIRE: Those opposed?

(No response.)

CHAIR GREGOIRE: The Ayes have it.

Part of the rules require that any governor who wants to submit a new policy or resolution for adoption at the meeting will need a three-fourths vote to suspend the rules to do so. Please submit any such requests in writing to David Quam of the NGA staff by five o'clock Sunday, February 27th.

I'd like, if I could, to start by taking a moment to recognize our new colleagues. This is a historic moment for the National Governors Association to have 29 new colleagues. Congratulations to each and every one of you and welcome to the National Governors Association.

(Applause)

CHAIR GREGOIRE: All of us who are incumbent governors would say to you, it's one of the best jobs in America. We would also say to you that based on the circumstances of our times, it is truly one of the most challenging jobs in America.

We have a wonderful group of governors, spouses, former governors, state officials, federal officials, foreign government dignitaries, our corporate partners, members of the media, and many others who are here today, and I want to thank all of you for coming.

Anyone around this table knows that we didn't get here without the tremendous support of a spouse, a friend, a family member. Governor Heineman and I are grateful to our two spouses, who are leading-our spouses, as they move through this meeting over the next three days. We'd like to introduce to you our two spouses, and tell you that today they will make all of us proud as they lead the Spouses Delegation over to Walter Reed. There they will participate in what's called, "Reach Out and Read," supporting our military families. They will read to children there and they will greet our families. My husband, Mike, who is a Vietnam Veteran, has dedicated his time to what we call, "The First Mike of Washington State," to the veterans of my home state of Washington, and all veterans across

America.

So with that, an introduction of my husband Mike and an introduction of Governor Heineman's wife, Sally. Please, if you would stand. Thank you.

(Applause)

CHAIR GREGOIRE: We are joined here today by a delegation from the Hunan Provence and Madam Lee of the Chinese People's Friendship Association. We also have a delegation from Canada who has joined us today.

A point of personal privilege, if I might. To all of us who have known Ray Scheppach, he has served as Executive Director of the National Governors Association for 28 years. He has seen us through amazing times. He has led us through amazing times. This is his last meeting. So please time, if you would, to thank Ray for all he's done on behalf of all of us over a 28-year span, and please join all of us at a reception following our last plenary session to honor Ray Scheppach and all that he has done for our Nation and for our Nation's governors.

Ray, please stand up and allow us to thank you for what you have done.

(Applause and Standing Ovation)

CHAIR GREGOIRE: For those of you who do not know where he's headed, he is headed to higher education to inspire a generation to join us in public service to lead the Nation of tomorrow.

Let me begin today by saying, we certainly live in interesting times. In fact, the times are down right challenging for all of us. From conflicts abroad to fiscal challenges in the home front, to families needing to save and build for their future, these times are testing all of us. But as Americans, we always face up to our challenges, and it's our job as governors to lead those solutions and find a path forward for a competitive America.

We are now just beginning to regain our footing from the severest economic down-turn that most of us will ever experience in our lifetimes. We have not fully recovered and we may have many tough fiscal challenges ahead. But as we gather here this morning, all of us have one thing on our minds, and that is: How do we regain -- and regain quickly -- our competitive edge?

We're going to address that question over the next three days, and leave you with a lot of good ideas to take home to your home states to grow your economies and balance your budgets. That is what governors do at these meetings. We share ideas. We share experiences. We figure out solutions to the problems that we face. That's what the National Governors Association is all about.

Our greatest opportunity and most urgent challenge, is building a strong, competitive state economy in each of our home states. All of the demands that we face: healthcare, pensions, infrastructure; will be much harder to meet if we don't have thriving economies with more people employed in high quality jobs in growing industries. We also know that having a more educated population is an essential ingredient for a competitive economy. The days when jobs paid middle-class wages and required only a high school diploma, are behind us. The job market of tomorrow will belong to those who have some credential beyond high school -- a certificate, or a degree -- and the jobs will move to where those skilled workers are, and if we are not careful, that means overseas.

That is why we are opening the 2011 Winter Meeting with a discussion about competitiveness with one of the leading experts in America on this subject. It's also why I am focusing on college attainment and productivity in my Chair's initiative, "Complete to Compete." In fact, in front of you are materials that tell you a little bit about this initiative. I would like to draw your attention to a couple of points.

Complete to Compete is about promoting better measures of performance for our higher education institutions. It's no longer enough to know how many students are enrolling in our colleges. We need to know how many students are actually completing their certificates and degrees. How long is it taking them? Can they get it done in four? Is it taking well beyond that? Are they taking up a spot that could go to an entering freshman? How many students end up in remedial classes--making up for the K through 12 system, not preparing our students for advanced education?

Complete to Compete is also about highlighting what is working in our states, and when it comes to graduating more students with certificates and degrees that we need, as well as new and innovative ideas for how we fund and maintain high quality higher education in America. You will be hearing more about this initiative and your opportunity to participate over the course of the meeting. And I encourage you to contact our NGA staff if you would like more information or need more resources to deal with these higher education issues that are facing us today in these difficult economic times.

We are truly fortunate today to be joined by Dr. Michael Porter, who has spent his career examining the factors that allow nations, states, and businesses to compete in the modern global economy. Professional Porter's Seminal 1990 publication, The Competitive Advantage of Nations, presented a new theory that is well accepted today of how nations and regions compete and what powers their economic prosperity. Professor Porter's theory of Industrial Clusters has given rise to new ways of thinking about how governments create an environment for high quality job growth and strong business expansion. This way of thinking recognizes that human talent is a critical element for such growth and that a State's higher education system can be a powerful economic engine if it is properly aligned with the region's economic goals.

Professor Porter is recognized as the father of the modern field of competitive strategy and has been identified in a variety of rankings and surveys as the world's most influential thinker on management and competitiveness. He is the Bishop William Lawrence University Professor based at Harvard Business School. This position is the highest professional recognition that can be awarded to a Harvard faculty member. In 2001, Harvard Business School and Harvard University jointly created the Institute for Strategy and Competiveness, dedicated to furthering Professor Porter's work.

I commend his resume to you, you will find it most interesting. One thing I personally found most interesting, and would like some help on, is he is the senior policy advisor to the Boston Red Sox. My home team could use a little strategy session with Dr. Porter.

(Laughter.)

CHAIR GREGOIRE: Is this why ya'll are doing so good?

Professor Porter has been kind enough to bring to each of us some very valuable and specific analysis regarding our State's economy and its competitive strength. I will say to you, if you paid for this back home, it would cost you thousands of dollars. You will find that analysis in materials in front of you.

I think I speak for all of us in saying: Tell us how we use this information to grow our economies and get our citizens back to work -- the fundamental challenge that each of us as governors face.

Dr. Porter, thank you for joining us, we look forward to a discussion with you.

Dr. Porter?

(Applause)

PROFESSOR PORTER: Well, thank you Governor. That's very kind and we are very hopeful for the Red Sox this year. Hopefully, we will have a good year.

But I am so honored to have this opportunity to speak to all of you. It's really quite a remarkable moment in our country's history and also in the history of many of our states. You have your hands full. All of you. The Country has its hands full -- in terms of our competitiveness. This is a time when I think our competitive position in the United States is challenged at a level that really I have never experienced before.

We all as states are focused on a fundamental challenge of trying to get our fiscal house in order -- your fiscal house in order. But ultimately that is not going to solve our problem. As Governor Gregoire just said, the only way to create prosperity and sustain that prosperity over time is to actually build a competitive economy. And that is a long-term agenda at a time when there is so much pressure on now -- here and now -- dealing with the fiscal problems.

So what I would like to talk about today may seem a little difficult to think about at this moment, but ultimately I think it's going to be the single greatest agenda that will determine ultimately the success of your states. And that is building a economic strategy in which you can get the consensus of all the key stakeholders in your state to create competitiveness. That's the fundamental agenda. That is the core agenda. If we can do that, there will be the resources to deal with all the other problems and issues that we have in society. If we can do that, there will plenty of good jobs. That's the ultimate agenda. That's the core agenda. How do we build competitive state economies?

We have very limited time this morning and we'll only be able to get started on that discussion. In order to try to make this discussion continue, each of you, in front of you, has a presentation that we prepared about your state. It has a lot of very rich data to try to kind of benchmark where you are, talk about the nature of your economy as it is today -- how it's progressing, how it's doing -- and this starts to provide some of the fact-base that I think you will all need, and I'm sure many of you already know, which is going to be necessary to create that economic strategy.

I'm not going to--I would like you to put that presentation aside for purposes of this discussion, because I'm not going to following those presentations. I'm going to talk to you now about strategy for the next 20 minutes or so. This presentation is background information for you. As we go out of this meeting we would offer to work with any of you at Harvard to continue this discussion.

Hopefully, we can have dialogue with you and others about how we can create successful economies in your states. This ultimately, I believe, is the fundamental challenge you face.

Now as I said a minute ago, all of you

have some very short-term challenges in terms of achieving fiscal stability in your state. Governor Gregoire talked about why that's so important. And we all know that. But what we found in other organizations is that when you are doing difficult short-term things, particularly when you are cutting, it's very important to be doing long-term things at the same time.

You have got to offer not just the sort of challenging short-term agenda to the citizens of your state, but you've got to offer some kind of a positive longer-term agenda. And if you can do these two things together, we've found over and over again that you'll be a lot more successful.

If all you are talking about is the negative stuff, you'll get much less attraction, and much less willingness of the citizens to move ahead than if you can also offer a positive agenda. So that is why, even at a time like this, an economic strategy for the state that you talk a lot about, that you get by in on, is incredibly important.

Now we see that states differ tremendously in economic performance. And this is just one of the many charts that you will see in your package that talks about, you know, how various states are doing in terms of fundamentally the agenda of prosperity.

We see tremendous differences. We see states that have very high levels of prosperity that are not growing. We see states that are moving up. We see states that are moving in every possible direction. You have to kind of get a handle on where your state stands. And that is going to dictate a particular strategy that you will pursue. And the question is: How do we think about that economic strategy? What is it going to take for your state to actually build some momentum and build that competitive economy that is going to allow you to actually create those jobs over time? That's the agenda that we'd like to talk about today.

Now in order to do that, we have to understand this whole idea of competitiveness. And what I have found is that competitiveness is widely misunderstood. And it's misunderstood in ways that often create unnecessary divisiveness and controversy in states about economic strategy.

Competitiveness is fundamentally the productivity with which you can use the states' people and capital and natural resources in order to produce valuable goods and services. If you're a productive state, if you can produce a lot value in a day of work in your state, you will be able to support high wages. It's as simple as that. Your prosperity is determined by your productivity. If you are productive, you can be prosperous. If you are not very productive, you're going to have a really hard time competing versus other locations.

If you are setting policies that improve productivity, you are going to ultimately improve the wages and create jobs. If you are setting policies that make it harder to be productive in business, you're going to be moving in the wrong direction.

Productivity determines wages. Productivity sets jobs. Productivity determines the standard of living. This is the iron law of the modern global economy. The more we are open to the rest of the world, the more businesses can invest anywhere; it is productivity that determines whether your particular state is going to succeed. And your agenda must be kind of riveted on this question of, "how can we improve productivity?"

Now to improve productivity, we also need innovation. You know, if a company in your state is doing the same thing that it did 10 years ago -- using the same production process, producing the same products -- it's going to be very hard to succeed, because we have all these others nations out there with lower wages. So, this is why innovation is so important.

We have to keep moving the bar, particularly in the United States of America where we want to have a high standard of living. We've got to stimulate innovation, new processes, new products. So part of a state competitiveness agenda has to be, "how can we step up the level of innovation in our state?"

In order to do that, again, we have to create the right environment for business. That's your job. Government's job is not to compete.

Government's job is to create the right environment. And what we find is that if you can create the right environment for productivity and innovation, competitiveness is not a zero-sum game.

Your state's success doesn't mean that another state has to fail. If we're really addressing fundamental productivity, we can all get more prosperous. That is something on which there is no doubt. But if we think the wrong way about competitiveness, if we see it as a zero-sum game, then we can get ourselves in serious trouble. And we will talk a little bit later on about how states should compete--because at some level you all do compete. And the question is, "how should we do that from a strategic point of view?"

Now this next slide we have for each of you, and it really kind of benchmarks the performance of your state. This is an example from New Jersey. I've gotten to know Governor Christie a little bit because he's also a trustee of Princeton University, and we talk at trustee meetings from time to time, so I'm going to take an opportunity to use New Jersey as an example.

You can see that New Jersey is the seventh most prosperous state in America. Look at the productivity metric here. It's also the seventh most productive state, and that's not an accident. Prosperity depends on productivity. You can also see that it's the fifth highest wage state. Again, that's no accident. These numbers are all connected. Your productivity affects your wages, affects your prosperity.

In order to be so productive, we see that New Jersey has a very high ranking on innovation. It's been a very good state in terms of generating patents and new ideas. It also has strong clusters, and we'll talk about that a little bit later on. The historical prosperity of New Jersey is, I think, a factor -- a set of all of those things coming together. But as you look at this chart, you see that there's some yellow and red highlighting. And what that says is that New Jersey, although it's in a good position today, has slowed down its productivity improvement. It's slowed its rate of innovative.

Its clusters are not growing any more. And so Governor Christie's fundamental challenge is not the level of prosperity in New Jersey; Governor Christies' fundamental challenge is how to get the engine of innovative and change and productivity improvement going again. That's the fundamental challenge.

Other states will be in very different circumstances. Some of you have to create a stronger foundation so you can kind of move up in the first place. Others of you are starting to progress, but you're going to have to make some transitions in terms of the mix of industries.

Every state has a different strategic challenge. Every state must have its own unique strategy. And that state's strategy will require, it will demand that you engage the private sector. If you don't engage the private sector, all the economic strategy stuff in the world will fail, because the private sector is 85% or more of everything economic in your state. And you have to get the private sector on board. And that is a challenge at a time when things are a little bit partisan. There are a lot of partisan issues that you have to deal with, but competitiveness and economic strategy can't be partisan. If it is, it won't work, because it fundamentally has to engage the private sector to be successful.

Now let's talk about strategy at the state level. At the state level there are really three big strategy issues that we see over and over again, as we have had a chance to work at the state level not only in the United States, but elsewhere in the world.

Number one has to do with that general business environment. Every one of you has a state that is offering a business environment and that business environment has got to support productivity. So the question is: How do you improve it? Where are the constraints in your business environment relative to peers that are kind of at your level? What is it going to take if you are going to want to move up in terms of productivity? That's kind of agenda number one.

Agenda number two is your clusters. What fields are you strong in? Where do you have emerging or existing strength? Because what we find is that modern competitiveness is not a function of having lots of firms and lots of different industries. It doesn't work that way. The way to really build high productivity and high innovation is to build critical masses of expertise and suppliers, and supporting industries in particular fields, and every state economy is specialized in a certain set of fields in which it has built up some unique position.

And the question is: Where is your state? Where are you specializing? And how can you reinforce and improve that? That is the second fundamental agenda.

The third agenda is the agenda that has to do with multiple levels of geography, because your competitiveness in the state is partly a function of some federal policies, but your competitiveness in the state is also affected by how well your neighboring states do. What we found in our research is: you want strong neighbors. Strong neighbors make you more prosperous. That's the actual fact. But in your state, your state is not homogenous, unless you are tiny -- there a few of you that are pretty tiny. But most of your states actually consist of multiple sub-regions -- different metropolitan areas -- and in some cases your actual economy crosses across state borders. So, part of a successful state economic strategy is to manage across geographic levels. Work with your jurisdictions in a collaborative way, but also work across state borders and also work effectively with the Federal Government.

So as you are kind of critiquing and thinking about your own economic plan, there better be a piece on that stuff. Because if you don't, what you are going to find is that you won't achieve the success you're hoping for.

In terms of the business environment, the business environment can really be understood as consisting of four big pieces. One is the inputs available, the people, the infrastructure, the scientific capability, and so on. We've got to improve the inputs--because if you are going to be more productive, you have to have better inputs. You have to have more efficient infrastructure if you want to be productive. You have to have better people if you want to be more productive. You have to have more science base if you want to be more productive.

The second piece of this is the set of rules that you put in place about how business is done in your state -- the tax laws and other rules and regulations that really govern competition. You want to have rules that stimulate efficiency and productivity.

A third piece has to do with the availability of supporting industries in your state. Do you have the right supporting industries that will allow businesses to be efficient and productive? And finally, what we call the "demand conditions". Whether the state is a sophisticated market for goods and services, because of regulations that you set that encourage sophistication, because of policies you set that really encourage new businesses to grow because you really encourage and stimulate that demand.

Now at the state level there are many different circumstances, but what I found is that there are a number of issues that are really important in almost every state in terms of the business environment. Number one, "Regulation and Permitting". Getting that to be efficient and fast is fundamental. Most all of you have that issue, and almost all of you can do better.

Number two, there's a lot of unnecessary cost of doing business that we've allowed to grow up in America and in many of your states. Unnecessary cost in the sense that, we're spending more than the value we are getting, and whether it is energy costs, or whether it is health care costs, we have to find a way to reduce those unnecessary costs.

You know, when there are unnecessary costs of doing business, you know what that does? It actually reduces the wages in your state. Remember, wages depend on productivity. And if companies are wasting money because they are spending too much time on permitting, that just makes them less productive, and that means they can pay less. So don't think of this as some abstract thing, these costs, think of it as actually coming out of the pocketbooks of your citizens. And states have an obligation to make the environment as efficient and supportive of productivity as possible.

Again, time is short. Most of you need to get your training system better aligned with the needs of industry. We see that in state after state. Many of you need to improve your infrastructure. We actually spend a fair amount of money on infrastructure in America; we just don't spend it very smartly. We don't spend it on those pieces of infrastructure that really make the biggest economic impact, because we tend to spread it around through the political process that we put in place. If you can do a better job of prioritizing infrastructure investments, that will make a big difference--infrastructure investments that really speed up commerce, that support productivity in the economy.

Anything you can do to ease the burden on small businesses will pay big dividends. Because we know that small businesses really generate most of the jobs. And any cost falls disproportionately on small businesses, because they are small. Anything they have to do hurts them more than the large company.

And then finally, of course, is the issue of education. Education is fundamental, and there will be more discussion of that in this session, so I won't cover that. But without the talent pool, without the skill base, we simply can't be productive. This, in a sense, is the biggest single issue facing America. We don't have a strong enough talent pool to allow us to justify our high wages, and that's a challenge at the state level as well.

Now the business environment is part of the story. Improving that overall environment for all companies, but ultimately we find that really true competitive success requires you to go farther, and really understand the composition of your economy. What kind of businesses is the state in? Are those businesses developing these clusters?

When we look at a state economy, there are two basic types of industries. One kind of industry is what we call "local industries". These are industries that every state will have: retailing, utilities, local healthcare. These are industries that serve almost totally the local market. They don't really compete with other locations because they're based on serving the population that lives in your state. They're important. They actually are the majority of all jobs, are local jobs.

But there is also what we call the "traded clusters" in the economy, or the traded jobs. These are industries that actually have to compete across states and across countries. And it's this traded part of your economy, these traded clusters, that really drive your prosperity. They have much higher wages. They have much higher productivity. They have much higher rates of innovation. You can see some of the statistics here. We've given you data on your state, in terms of the mix of your state economy, in terms of the traded and the local clusters.

What's a cluster? A cluster is critical

mass in a particular field. This is our crown jewel in Massachusetts. As Governor Patrick knows, better than anybody, it's our Life Sciences cluster. And you can see that a cluster is not only manufacturing companies, it's also service companies, it's also supporting institutions -- like universities, that all come together around and build expertise and technology in a particular field.

Here is another cluster, in Houston, in oil and gas. This cluster got its start selling oil, but because Houston has built this enormously successful cluster, now Houston doesn't actually sell much oil. What it sells is technology and services, and skill and it supports very, very high wages. It's a classic example of what happens when you can truly build a cluster.

This is how productivity gets built. This is how innovation occurs. When you can get a critical mass in a series of fields in your state and reinforce that process, and let state governments support those clusters, that's how successful economies get built.

We have growing evidence on how important these clusters are. Here's what we know. We know that if you can build a strong cluster, that is going to create faster job growth. We know that if you can build a strong cluster, that is going to provide higher wages. We know that if you can build a strong cluster, you'll have more patenting and other kinds of innovation. We know that if you can build a strong cluster, that's where the new businesses form. New businesses don't form randomly in any field in your state. They tend to grown disproportionately out of the clusters that you have.

It's kind of a fly wheel, if you can get that fly wheel turning, it spits out all kinds of good things. And not only do more businesses form out of the cluster, but also those business survive better, they grow better over time. So these clusters are something very fundamental to the success of your state.

Now this slide is complicated -- and it's in your package. There's a tendency to think that some clusters are better than others, because some clusters, like financial services, for example, have higher wages than other clusters for example like tourism. But what we found is that that actually is the wrong way to think about it. What we find is the dominant influence on prosperity is not what clusters you're in, the dominant influence on prosperity is how you compete in each of the clusters that you are in. Seventy-five percent of all the differences across states, in terms of wages, are not determined by the mix of clusters that you have in your state, but they're determined by how good you are in the clusters you are in.

The lesson for economic development here is very clear: Build on your strength. Don't chase hot fields. Don't try to get into biotech just because that's what everybody says is cool. Don't try to do that; it won't work. You have to build on your existing strengths. You have to build on your emerging strengths. That's the way to build your state economy. Don't dream about aerospace. Don't dream about some field where you have no skill, no capability and no real assets. It won't work. Your strategy has got to build on your strength.

For each of you in your presentation, I've given you the portfolio of clusters in your state. This is South Carolina. The red clusters are actually losing jobs over the last decade. The green clusters are gaining jobs. The ones in the upper right are gaining market share of employment in America. The ones on the left are losing market share in America. Every one of you has your own portfolio. Every one of you has your own circumstances. Getting a handle on this, what's going on, and how you can help, is going to be fundamental to your strategy, because these clusters and their strength is going to really drive, disproportionately, your prosperity.

Now what we find is that clusters in an economy are interconnected. Some of them are related. This chart is a little bit schematic in the sense that it's trying to capture multiple dimensions, but see the bubbles that are overlapping? When a bubble overlaps, these are the 40 -- roughly 40 -- clusters that exist in a modern economy. And when these bubbles overlap, that means they are synergistic. So what that says is that if you are in education and knowledge creation, that helps you compete in medical devices. If you can put those two together in your state, in a given location, that creates an even greater strength. What that says also is that the way states diversify is not random.

If you want your state to become more diverse economically, it's not going to scattershot all over this chart. It's going to tend to follow the connections. So if you happen to be in medical devices, that says that you have a better than average chance of being successful in analytical instruments, because they're connected, they share skill and technology. This is how state economies develop.

This is the cluster portfolio for Massachusetts. You can now see why Massachusetts is so prosperous. It has an array of strong clusters. And the clusters that Massachusetts are in, are interconnected; they are synergistic. There is a one plus one plus one, equals five or six or seven. The challenge we have in Massachusetts is how to keep the vitality of these clusters going.

Okay --

(pause)

I'm having the dreaded computer issue here.

Thank you Rich, there we go. There we go. It's done. Okay, now this picture actually is a great story about how state economies evolve and develop. This is a story of San Diego. It's a sub-region of California, of course, but it's actually its own defined economy.

California needs a strategy not just for California, it needs a strategy for each of these defined regions -- we will see that in a minute.

You can see that the California economy built one cluster to the next--but the clusters are not random. The position in one area gave the region some assets that allowed them to get into the next area. And this is how, I think, each of you needs to think about your state. Where do we have those assets that we can build upon? How do we facilitate that economic diversification process?

Now, let's talk just a second about multiple geographic levels in your state. Obviously all of you depend and are affected by federal policy and federal programs. And one of the jobs you have to accomplish, is you have to do a good job of getting your fair share of the support from those federal programs -- obviously all of you do work on that a lot. All of you are affected by your neighbors.

The Department of Commerce, when it defines what an economy is, uses the concept of an economic area -- you've probably heard of this. Economic areas are regions in which the data shows that commerce takes place. I've shown you a picture of the northeast of the United States, and what you can see is that actually Massachusetts is part of three different economic areas. It's connected to the Albany economic area. It's connected to the Boston economic area, and then it's connected down into the Connecticut economic area.

So this says that when you're thinking

about economic strategy for your state, you can't think of your state as just the right unit. Your state is usually not the right economic unit. Your state is often connected to multiple economic units. And doing the right--Setting the right policies to kind of understand that and leverage that is going to be very, very important.

The other thing is that many of your states have both rural areas and urban areas. And what we find is that rural areas are systematically less prosperous. The average rural wage in America is about $32,000 for private sector. The average urban wage is about $45,000.

How to get those rural areas connected into your state economic plan is a fundamental challenge. We have a big problem in Massachusetts here. We have a very high wage state in eastern Massachusetts, and as Governor Patrick knows, we have a below-average wage state everywhere else. And one of the biggest challenges to move the prosperity of Massachusetts is not to make the Boston region better -- of course we'd love to do that -- but the real problem is how to get the rest of the state that is not really participating, engaged. So any state economic strategy can't just look at the capital city; it's got to understand how the state's success is built up in these multiple geographic areas.

And here are a few comments that we can talk about later. What I've been talking about, I think the impression I hope you got, is that to build a strategy for your state and to create competitiveness, you're going to have to deal with a fair number of things. There's no silver bullet on competitiveness. You have to deal with a lot of issues. Many things matter. The roads matter, the schools matter, the regulations matter, lots of things matter.

Where you have a problem like that, we know you need a strategy. A strategy is not a list of 55 action steps. I have seen a lot of state economic plans and most of them are 55 action steps. That's not a strategy. A strategy is where you develop sort of an overarching view of where your state can be unique, how your state can create a unique platform for a particular set of businesses. And as you understand that strategy, that starts to give you a sense of priorities: What are those things that I really need to do? Because these are critical to how my state is going to be different. Strategy is about being different.

Also, that kind of thinking should tell you which weaknesses do I really need to deal with? Because if I don't deal with those weaknesses, I'm just not going to get anywhere in this direction. Every state needs a strategy. Every state needs a strategy that can allow it to find its own distinctive role in the American economy and also in the world economy. And I'm confident that every one of you can develop a strategy because all of you have assets. It's a question of doing the thinking to kind of think about it that way.

Now, then there's the question of how should you be competing with each other? Awkward question, isn't it? We're all sitting around this table. We're all members of the National Governors Association. We're all trying to build competitive economies, but yet, you know, we are competing at the level of individual businesses deciding where to locate. And I think one of the problems we have in America is we haven't been competing the right way.

We've been falling into the trap, I see around the world, and what I call zero-sum competition. One state wins, the other losses. One state wins, the other losses. We've been using the wrong tools to compete. This slide really talks about how we need to I think change the nature of competition among states in America.

First of all, we can't just focus on attracting new investment. We've got to focus even more on getting our existing companies to invest more in our state. We'll have much more success if we do a good job of dealing with our existing companies, than when we're out racing around looking for new companies. Because it's those existing companies that get more committed to the state that are really going to drive your success.

Number two, we've got to stop competing for every plant. We've got to start understanding, look, our state has this position, we have these strengths. Let's focus on reinforcing our strengths, rather than trying to chase every particular deal. We've got to be more strategic about the way we compete. If we can each specialize and get better at what we are good at, then we'll see everybody moving up much more rapidly.

Offering general tax breaks, really is a failed--it doesn't work. And all it does is just take money from the state and give it to business in a way that is not very productive. If we are going to spend money in subsidies, we need to do it on assets that are going to stay in our state. We can support training, we can improve infrastructure, we can help build institutions, those kinds of state investments are going to lead to a long-term ROI. Just competing on tax breaks is ultimately going to be -- we're going to neutralize each other and not get anywhere.

So we've got to think about how we support and how we incent business to come to our state, not just doing it. Now many states I find offer subsidies to off-set the high cost of doing business in the state. That is the wrong way to think about it. What you've got to do is fundamentally lower the cost of doing business. Don't punt. You know, tackle the real problems, rather than try to use subsidies to offset them or neutralize them. That principle we found is effective over and over again.

Many states are a free-for-all. Every city, every region, every jurisdiction, every county, is out there scrambling around doing economic development work. That doesn't work very well. The states that are really successful, we find, are the states that can get some appropriate efficiency and collaboration across the jurisdictions, to understand that it is not a zero-sum game. And these jurisdictions should be looking for those investments that fit its circumstances. And everybody shouldn't be going after everything.

And finally, we've got to understand that if we are going to attract investment, we've got to engage the private sector. The best investment in attraction efforts I've ever seen around the world are those where government and the private sector do it together, and where you can get business leaders in a particular field to help you and work with you to actually go recruit the next one, and the next one. That will be much more effective, I promise you.

We all also understand today that the whole process of economic development has fundamentally changed. It used to be a government driven process. Today, economic development is a collaborative process. It involved engaging companies, universities, trade groups, and all kinds of other institutions in the process.

Do you have that kind of collaborative process going on in your state? Have you found a way of really engaging these others actors around a fact-based agenda and a true strategy for where collectively all of you are going? At this time of austerity, at this time when you are having to take all these really tough actions in terms of your budgets and your taxes, getting this kind of a collaborative process going is just amazingly important I think in achieving ultimate success.

Let me just make a few final remarks, and then we can, if we have time, have a few questions. What we've got to understand is the goal of an economic strategy for your state is to enhance competitiveness. I hear too many governors say: "My goal is to create jobs." You can't do that. The only way to create jobs is to enhance competitiveness. So we've got to get the cart before the horse. It's about building competitiveness and then that will create jobs.

Number two, as we go about doing that, productivity and innovation must become the guiding principles. Everything we do, every policy we set, every executive order you sign, you've got to be thinking: "Is this moving the ball on productivity? Will this make us a more productive state? Is this moving the ball on innovative? Will this allow more innovative in our state?" If the answer is yes, it is usually a good thing to do.

Number three, sometimes I find governors get it into their heads that to do competitiveness initiatives they need a lots and lots of new money. And the answer is: You don't. This is really about using your existing resources better. There's often plenty of money being spent on economic development, it's just not being spent very well. So don't think that this is capital-intensive stuff. Yes, of course infrastructure investments and so forth are, but I think if we could just make our infrastructure investments more effective we could get a huge impact, even if we don't have more money, even if we have less money.

Don't think of competitiveness as a money thing. It's about setting the right rules, setting the right policies, doing the right kind of collaboration, having the right strategic agenda. It's not about taking the checkbook out and writing big checks.

As I've said several times, to do this well you've got to mobilize the private sector. You've got to get them on the team. They can do a lot of this themselves--if you can just get them energized and if you can get the private sector feeling like, you know, we are all in this together. I'm confident many of you are doing that, but I just can't emphasize that enough from my experience around the world.

And finally, I want to say that, coming out of a bruising political campaign in which many of you have been engaged recently, I want to say that improving competitiveness and economic strategy is not partisan. It is about building the prosperity of everybody. And actually the benefits of a economic strategy, or the kinds of things we have been talking about, are going to be even greatest for the middle- and lower-middle- income folks in your state than they will be for the folks that are sort of at the top. We've got to turn this issue into an issue of getting results, not an issue of partisanship and ideology. There is no ideology here.

In competitiveness there's the iron law of productivity. It's just a fact. And we have to be able to convince all of our colleagues, no matter what discussion we've had on all these others issues, we've got to convince our colleagues in the state to think of that way. And partly that comes from being clear about what we mean about competitiveness, partly though, that is taking this kind of collaborative approach to the process.

Well, hopefully each of you governors will take a look at the presentation we've provided you. This will give you some specific facts about your state. We--again, this is meant to start the discussion, not conclude it. We would be thrilled now to take some questions, if time permits, and to have dialogue with you and your economic development directors over the coming years.

I will say this to conclude. I hope things go better in Washington. I hope our Federal Government is more successful in tackling some of the issues that it has to tackle in terms of economic strategy. But I will tell you that what is really going to determine the success of America in restoring competitiveness is actually what all of you do. The real greatness of America from an economic point of view is our decentralization. It's the fact that every state and many cities take responsibility to drive competitiveness themselves. I hope Washington will help, but ultimately I have great hopes that this group of people can actually be the ones that turn around the competitiveness of this country.

Thank you very much.

(Applause.)

CHAIR GREGOIRE: We do have time for questions. Can we begin? Governor Herbert.

GOVERNOR HERBERT: Yes. Thank you. Thank you, Dr. Porter. I think the states are the laboratories of democracy, and I think we can lead out on this economic recovery that the Nation needs.

I am fascinated though, with your discussion about it's not about ideology and how that works. There are certainly differences about--amongst the economist in the country to stimulate or not to stimulate. How do we get past the ideology? Because there are certainly some differences as to how we--

(Fire alarm sounds.)

GOVERNOR HERBERT: What did I do?

PROFESSOR PORTER: You shouldn't try to change ideology.

(Laughter.)

(Meeting attendees are instructed to leave the room.)

CHAIR GREGOIRE: Shall we continue?

PROFESSOR PORTER: This is much more like my Harvard Business School class than am NGA meeting, but let us quiet down if we can please, ladies and gentlemen, and move quietly and we will continue the discussion in the time we have left.

So, Governor Herbert, your question about partisanship, I think there are many macroeconomic issues like stimulus or not, that there is a lot of debate on, but I think when you get down to the level of competitiveness, there's actually quite a wide consensus on many of these issues.

The big partisan issue that I encounter over and over again is, if people think that competitiveness means lower wages that gets very partisan. But of course, competitiveness isn't about lower wages--if you have lower wages that means you are not competitive; competitiveness is about higher wages. So if we can get everybody to understand that it's about creating productivity so that we can support higher wages, then I think a lot of the partisan concerns tend to get less vigorous.

I think if you can communicate to your to citizens that my job is to create conditions here so we can all get paid more, but we can't get more unless we earn that, unless we are able to be productive, unless we are more efficient, unless we have better skills, unless we have a more efficient infrastructure, then, hopefully, that can be a less partisan discussion than some of these broad issues of stimulus or not stimulus, of exactly, you know, should taxes be this high, or that high? Those issues get very partisan. But a lot of the fundamentals I find can be agreed upon certainly with the business community.

So, I would not go into this thinking that it has to be partisan, and I know that there's other governors here who, I'm sure, have had some positive experiences.

CHAIR GREGOIRE: So we will go to Governor Hickenlooper, and then Governor Kitzhaber.

GOVERNOR HICKENLOOPER: Dr. Porter, You were describing the importance of not having resources leave the state; and that the competition that often exists between states of going and offering significant financial incentives to get a corporation to build a plant or open an office in their state--do you think it's feasible to consider if the governors all agreed -- which would be about talking hurting various animals -- but if we were to all agree that they would, that no state would offer a financial incentive for existing jobs, is that right? They would only try to fuel new jobs or new offices, but no one would try to poach a company from one state to another? Is that how you look at that?

PROFESSOR PORTER: Well again, I tried to frame the discussion as, what kind of competing across states is just shifting from one state to another, keeping the total the same. I call that zero-sum. And what kind of competition is actually healthy competition, that makes us stay better? That builds strength.

I think in this particular area, I would suggest maybe a distinction between general tax breaks--that is, you just get lower taxes--and incentives that are tied to the company making investments in training in the state, in infrastructure in the state. If we can get the competition and incentive game to be about investing in state assets rather than just giving tax breaks, I think that would be a very great step forward. And maybe that's something many states could agree on. Because ultimately, you know, plants that come to your state just because of low taxes are going to be what economist call, footloose--that is, you know, when that tax break runs out, you know, they're going to be up for renewal, and they're going to go somewhere else. So you want to attract investment to your state because you offer some assets, because you have a cluster in that area, because you have some trained people in that area, and that's the way we want to compete because that makes us all better, that makes us all more productive.

Whether that's pie in the sky, Governor, I hope you could lead us in that direction.

CHAIR GREGOIRE: Governor Kitzhaber and then Governor Dalrymple.

GOVERNOR KITZHABER: Yes, thank you.

My question has to do with reconciling the medical industry with your definition of productivity, which I think is clearly the basis for competitiveness. In Oregon and Washington, almost half of the top 50 employers are hospitals and health systems which grew right through the recession.

PROFESSOR PORTER: Right.

GOVERNOR KITZHABER: A lot of that growth was people shuffling insurance papers and running MRIs that probably didn't need to be taken.

PROFESSOR PORTER: Right.

GOVERNOR KITZHABER: You've got medical devices that are extremely expensive that benefit individuals, but have no really impact on population health, and we are now spending about a fifth of our GEP on that industry.

So can you talk a little about that

apparent contradiction?

PROFESSOR PORTER: Absolutely. Well, first of all healthcare delivery is a local industry, not a traded industry. And that's part of the problem. If healthcare delivery in your state had to really compete with healthcare delivery organizations all around the world for patients, they'd probably be a lot more effective. It's a local industry, and it's almost an industry where--almost a local monopoly. That is, you know, people go to the local hospital, and they don't really choose where to go.

I have done an enormous amount of work on healthcare delivery and how to move away from the mess that we are in, which has a lot to do I think with defining value as the goal, starting to measure health outcomes, starting to reduce the incredible duplication and fragmentation of services that we have in virtually every state. Every community hospital offers every possible service, even though they are subscale and can't be efficient, can't deliver good results.

So any governor that would be interested, I would be happy to send you some easy-to-read, not too dense material about kind of some of the critical steps to drive productivity in healthcare delivery. I think we are starting to get some consensus on some of the key principles there. I'm very encouraged today. I wasn't a year ago or two years ago, I'm getting more encouraged. I think there's been a wakeup call in our healthcare delivery system, and there's a lot more flexibility now to actually change, but I think every governor needs to be making sure that your HHS director, your Medicaid program, is leading restructuring, not just pumping in more money. Because if we pump in more patients and more money, and we don't change the way we do it, we are in deep, deep trouble.

CHAIR GREGOIRE: Governor Dalrymple and then Governor Markell.

GOVERNOR DALRYMPLE: Yes, it seems like years ago, whenever we saw state-by-state comparisons of wages and personal income, you would always see relative cost of living statistics state by state. Why is it that I feel like I never see those statistics any more?

PROFESSOR PORTER: Well, you should be comparing your wages to your cost of living to really understand your true prosperity. You know, if you earn a very high income, but you have to pay a whole lot for everything you need to buy, then somehow that income produces less.

When we compare countries, that's pretty easy to do. There's something called purchasing power parity, and we adjust country incomes for what the dollar will buy or what the yen will buy. But in the state area, I agree with you, we don't tend to see those comparisons. But when you are trying to improve the standard of living of your state, you know driving up that average wage is ultimately what, what ultimately is going to matter. But you also have to make sure that you are controlling the cost of living the best you can--and if you have a high cost of living, that's going to hurt you in competing for talent.

And this is an issue Governor Patrick and I, and many others in Massachusetts, have been talking about for a long time. You know, we have a tremendous magnet for talent, except that you can't afford a house. And that's luckily getting better now for unfortunate reasons.

But -- So I think the cost of living is another agenda that I didn't emphasize, but in the overall economic strategy equation, it's a piece of the pie.

Thanks, Governor.

CHAIR GREGOIRE: Governor Markell.

GOVERNOR MARKELL: Thanks. I thought it was a great presentation, and what I was wondering, you mentioned that a state is best off when it has strong neighbors.

PROFESSOR PORTER: Yes.

GOVERNOR MARKELL: And you then talked about the importance of working together across state lines, and I was just wondering if you could give a couple of specifics about how states can work together in a regional area when they've got different policies and different industries and the like, to really promote that.

PROFESSOR PORTER: Good. Well, one of the things that we found is that, you know, if you are in pharmaceuticals and your neighboring region--which may be in the state next door--is also strong in pharmaceuticals, it turns out that both of you are disproportionately stronger than if you just had one region in that area and not the neighbor. So--and that's because the economic choices don't respect state boundaries. They are more focused on where the people are, where the geography is, and so you often seen clusters and other economic activity kind of spill across state borders. And all of you have examples of that in your state.

So that says that, you know, if you are in Delaware, you can't think of Delaware as the economy. Delaware is connected south. Delaware is connected into the Philadelphia region. And you need to think, when you are thinking strategically about how to drive Delaware forward in that particular case, you've got to start thinking about, okay, how could I make it easier, avoid any distortions or barriers, or settling policy differences that would somehow hurt our ability to truly integrate across that whole region. It's that kind of thinking that I was suggesting, needs to be done.

And, you know, certainly having good transportation and logistical connections is key. You know, trying to harmonize, you know, sales taxes and things like that so that we don't have, you know, again these artificial things that would distort the economically most productive thing to do. That would be the way I would think about it.

CHAIR GREGOIRE: Is there one last question?

Please.

GOVERNOR SHUMLIN: Thank you for the presentation. You know, I think all of us around this table share the same goal of wanting to create jobs, and frankly that's what most of us ran on, or are trying to do. I know that you refer to it as competitiveness, and we would too if people that elected us got excited about that, but they are more concerned about a job, than they are about me telling them, "hey I'm going to make you more competitive," they might think we're on the sports channel.

But my question is: My frustration as a governor, and I bet we all share this is, when I go talk to my job creators, and say, "hey, as governor, what can I do to help you grow jobs?", their answer nine times out of ten is, "hey, I've got jobs, I just can't find the workforce that's trained to do those jobs." And, that costs money.

So what we are trying to do in Vermont, is to look at early childhood education, have kids be more ready to learn that fall into this spectrum, but you suggested that it doesn't cost money to become more competitive. I ask, since education is one of the places where governors can close the gap between the jobs that are out there and the lack of folks to do those jobs, how do we do that if we don't spend more resources?

PROFESSOR PORTER: Well, Governor, you raise excellent points, and I certainly don't want any of us to over simplify this challenge. I would make a couple of responses.

First of all I would say that absolutely the talent and skill issue is, at some level, the fundamental issue. Okay? We, you know, as we think about productivity, as we think about supporting high wages, ultimately the only way we will be successful at that is to raise the skill level. The Americans with very high skills and very high education are just thriving. The Americans that don't have a high school degree, or even that just have a high school degree, are struggling. And it's all about skill. It's all about education, and ultimately that is the long-term agenda.

Now the question is: What do we do as governors to try to move the needle on that? I would say, first of all, that all of you are probably spending money on training already today, every state has training programs. You can spend that money a lot better. You can get those programs much more tied to your clusters, to the private sector needs, if you think about to reorganize it.

Some states have moved faster than others. If you have a little more money to spend on training, so much the better, but ultimately there's a lot you can do just by doing it more effectively. I would tell you that the private sector will spend more money on training too, if you can't--if you can help create the right framework. The private sector is willing to step up on this, because the private sector understands that it is lacking skilled people. Companies don't want to train in-house. They would love to have well trained people that they can just hire. So they will often contribute. So I think you can get the private sector to help co-fund training.

In the area of public education, the statistics I've seen suggest in America that we spend quite a bit on education, compared to other parts of the world. The question is: Are we spending it well? Do we have a structure that's spends it well?

In Massachusetts, we did, and we had a commission a few years back and we have all these school districts. And, there was an estimate of a billion dollars that we were wasting because we had all these school districts, and they were doing all kinds of overhead functions and were redundant and repetitive and so forth. So, again, I don't want to make this simple, if we had more resources, obviously we want to deploy them and spend them. But I just find so much opportunity to deal with the human resource issues much more effectively than we are now if we are willing to take on some of the system design and structural issues that we have in other areas like healthcare.

And we have a moment here where maybe some of these issues around fragmentation in school districts, and of duplication, maybe we can take some of these issues on, right now, given the overall climate.

So I would encourage you to--Don't be paralyzed by your budget. Realize there is a lot you can do to kind of spend the money that you have available better, and think structurally, and think about innovation, you know, in terms of tackling some of these things that we all know have been holding us back and making us less effective.

Very good question, though, and I know there will be extensive discussion of education issues later in the program. So I was--I kind of shied away from those, given the limited time, but Governor you've asked the hard question.

Thank you.

(Applause.)

CHAIR GREGOIRE: On behalf of the National Governors Association, thank you Dr. Porter. Not only has he done a wonderful presentation here today, but he has volunteered to give us his presentation--which we will get out to each of you--but he's also volunteered that there may be ways in which we can continue this collaborative work with him with our commerce departments, agency heads, and other ways. So I can't tell you how valuable your vision and your experience is to us, and we thank you for being here today, and thank you for your continued friendship.

Thank you.

(Applause.)

CHAIR GREGOIRE: As many of us know, President Hu Jintao, of China, visited our Nation just this last month. While here, Governor Markell and I served as witness to a Memorandum of Understanding that was signed between the U.S. and

Chinese Governments concerning the establishment of a U.S./China Governors Sub-National Cooperation. As part of this cooperation, we will have a forum at our meeting in July, in Utah. It will co-convened by the National Governors Association and the Chinese People's Association For Friendship with Foreign Countries. It will serve as a platform to promote peer-to-peer exchanges between U.S. Governors and Chinese Provincial party leaders, and Governors. Topics will be discussed that are of mutual interest. We will explore opportunities in promoting practical cooperation in friendship. We will talk about education and the exchange of students. And we will talk about trade.

On behalf of the National Governors Association, I would like to welcome you, Party Secretary, and I would like now for all of us to give a warm welcome to Party Secretary Zhou of the Hunan Province to say a few words about the U.S./China Governors' Forum.

Mr. Secretary.

(Applause.)

PARTY SECRETARY ZHOU: (In Chinese.)

INTERPRETOR: Respected Governor Christie Gregoire, Governors, ladies and gentlemen, dear friends:

PARTY SECRETARY ZHOU: (In Chinese.)

INTERPRETOR: It gives me great pleasure to attend the Winter Conference of National Governors Association and inauguration of China/U.S. Governors Forum.

PARTY SECRETARY ZHOU: (In Chinese.)

INTERPRETOR: I am from Hunan Province, which is located in the central part of China. As one of the oldest provinces in China, Hunan Province was among the first Chinese provinces to interact with the United States. About a hundred years ago, the Yale-China Association, a nonprofit organization affiliated with Yale University, established Xiangya School in the Changsha, the capitol city of Hunan Province. The school has now developed into Xiangya School of Medicine, a renowned institution of higher learning in the province. More than seventy years ago, during the Second World War, General Chenault headed the American Flying Tigers to fight against the Japanese invaders with local army and civilians in the Zhijiang city of the Hunan Province. They made important contribution to the victory of China's war of resistance against the Japanese aggression, and will always be remembered by the Chinese people. A memorial museum was built in Zhijiang as an educational site for the future generations. In September, 2010, more than 300 Chinese and Americans, including President Jimmy Carter and some veteran Flying Tigers and their families, attended the Zhijiang International Peace Festival to commemorate those who have dedicated their lives to the world peace during the Second World War.

PARTY SECRETARY ZHOU: (In Chinese.)

INTERPRETOR: There are a lot of provinces in China with rapid economic growth. Hunan is just one of them. This vibrant province was fast development. In 2010, the Provincial GDP reached 1.59 trillion Yuan, representing a growth of 14.5 percent over the previous year. Since 2006, the GDP has maintained an annual growth rate of over 14 percent. In President Obama's State of the Union Address on January 25th, he mentioned twice the fastest computer in the world, Galaxy One. The supercomputer was built in Hunan. And also he mentioned the high speed rail. The design and electrical control system was actually done by a Hunan company.

Big companies in Hunan have extensive international cooperation. For instance, several heavy industries and prestigious companies nationwide invested sixty-nine million dollars in the State of Georgia to build an assembly center for construction equipment. At present, cities in Hunan have formed eleven pairs of sister-city relations with American cities, and universities in Hunan have established sister-university ties with nine-five American universities. Fifteen Fortune 500 American companies have invested or set up offices in Hunan. And all have been quite successful.

PARTY SECRETARY ZHOU: (In Chinese.)

INTERPRETOR: Not long ago, President Hu Jintao made a State visit to the United States at the invitation of President Obama. The visit has achieved important and fruitful results, one of the them being the signing of the Memorandum of Understanding concerning the establishment of China/US Governors Forum for the Chinese Foreign Ministry and the American State Department.

With the active efforts of the Chinese People's Association for Friendship with Foreign Countries, and the American National Governors Association, the mechanism of China/US Governors Forum, will be officially established. This is a pioneering undertaking to expand by natural cooperation. I believe with the establishment of this Forum, there will be more frequent exchanges, closer cooperation, and brighter prospects for the local governments of our two countries. The increasing exchanges and cooperation will enrich and invigorate the China/US cooperative partnership based on mutual respects, mutual benefits, and a win-win outcome.

PARTY SECRETARY ZHOU: (In Chinese.)

INTERPRETOR: I have visited the United

States many times. In February 2009, I was in the United States and visited with many business leaders, most of whom were pessimistic. They told me they had no idea when the economy could get out of the crisis. During the visit this year, I have seen the strong recovery of the U.S. economy. The economic recovery in China and in the United States contributed greatly to the recovery of the world economy.

In today's complex and changing world, China and the United States face many common challenges and risks. In responding to these challenges and risks, I'm promoting the development of China's Cooperative Partnership. The local governments of our two countries can play effective roles.

PARTY SECRETARY ZHOU: (In Chinese.)

INTERPRETOR: This morning, I have extensive talks with different Governors in the United States. We explored a lot of areas of common interest. We all felt that time was not enough, and I hope that the China/U.S. Governors Forum, and even the National Governors Association meeting, can be held in China, or Hunan in particular so that we can have more time to have more extensive dialogue.

PARTY SECRETARY ZHOU: (In Chinese.)

INTERPRETOR: I would like to suggest that we strengthen dialogue and communication, deepen economic cooperation, and expand people-to-people exchanges. As a well known Chinese tourist destination, Hunan Province sincerely invites Governors and all their friends to visit Hunan and explore more opportunities for cooperation.

PARTY SECRETARY ZHOU: (In Chinese.) Thank you.

INTERPRETOR: In conclusion, I wish this conference a complete success. Thank you.

(Applause.)

CHAIR GREGOIRE: Thank you Secretary Zhou.

Before we head into the Governors-only meeting, which will be held in Salon One at one o'clock, Secretary Zhou will join Governor Heineman and myself, along with Madam Lee in signing an accord that will establish a U.S./China Governors Forum.

If the media can please stay on the risers in the back, then we will proceed to the signing ceremony and take any questions you may have.

Again, Dr. Porter, on behalf of the National Governors Association, thank you for joining us. Thank you for your wonderful insights and we look forward to a continuing great partnership with you. My fellow Governors, I will see you at one o'clock in Salon One.

Thank you all very much.

(Whereupon, at 12:35 p.m., the plenary session of the National Governors Association was adjourned.)

NATIONAL GOVERNORS ASSOCIATION

Winter Meeting

Monday, February 28, 2011

JW Marriott

1331 Pennsylvania Avenue NW

Washington, DC 20004

Governor Chris Gregoire, NGA Chair, Presiding

Governor Dave Heineman, Nebraska, Vice Chair

Presentation by:

Bill Gates, Co-Chair Bill & Melinda Gates Foundation

P R O C E E D I N G S

(2:43 p.m.)

CHAIR GREGOIRE: Good afternoon everyone. While we are coming in from the previous meeting, I'd like to first thank my fellow governors for what has been a very thoughtful and thought-provoking substantive meeting. As we begin to close our meeting, one thing is clear: that all of us as governors stand united.

We are focused on the goals of getting our people back to work and making our economies more competitive.

Before we get to our distinguished speaker, I'd like to call Mike Beebe up. He is going to give out this year's public/private partnership award.

Five years ago NGA created what's called the "Public/Private Partnership Awards" to recognize NGA corporation fellow companies that have partnered with governors' offices to implement a program or project that makes a positive contribution to a state and its citizens. Each fall, all governors are invited to nominate a corporate fellow company for work in his or her state who demonstrates a significant investment at the state level to perform a public good in areas such as: education, health, public safety, economic development, and the environment. I want to thank all of our governors who submitted nominations this year. They were outstanding nominees. It was a difficult decision. We had a volunteer committee, chaired by public/private partnership expert Jack Bagley. They came together; they evaluated based on cost savings, innovation, sustainability and improved service delivery.

I extend my thanks to Jack and the members of the committee for their investment of time and energy.

Without further delay, I call Governor Mike Beebe to the podium to present the Arkansas winning nomination for the 2011 NGA Public/Private Partnership Award.

Governor Beebe.

(Applause.)

GOVERNOR BEEBE: Thank you. Thank you. Thank you Madam Chairman, and thank all of you. I would like to add my thanks to the committee. They were extraordinarily bright this year in their selection.

(Laughter.)

GOVERNOR BEEBE: I've been bragging for as long as most of you folks would listen to me over the past few years about the statistical improvement in so many arenas and so many areas that my state has made, whether it's in employment numbers, and climbing the scale with regard to our rankings in K through 12, advanced placement scores, being a model to be emulated for pre-K; but we have one area where we are notoriously lacking, and we are still at the bottom, and it is shameful. And that is that we are one of the worst states in the country with regard to childhood hunger. And you can't have young people learning in the school system if they are hungry in the morning and throughout the day. And it is a tragedy that just any of our children in this country would be hungry and would be in the category of not being able to perform anything else because of just that basic lack of food.

And so we've tried to work very hard; my wife has--the First Lady of Arkansas has--been a major pusher and player in trying to make sure that the private sector and the public sector both get engaged, put their money where their mouth is, and indeed try to address this issue of childhood hunger.

More often than not, you find organizations that have a particular expertise and can do a lot in terms of helping guide and direct us in the right direction. And Share Our Strength is such an organization. And Share Our Strength has provided enormous opportunities for us to be able to know where to spend our time and spend our money and then help aid and assist us in that regard.

But Share Our Strength can't do it alone, and so what we did was we reached out to a little company we've started up there called, Walmart.

(Laughter.)

GOVERNOR BEEBE: And Walmart responded as Walmart always does respond---you know, the governor of Mississippi or the governor of Louisiana, or the governor of Alabama will tell you how well Walmart responded in Katrina, but that's another story. In this case, they responded with both money and with people to actually be a major contributor and a major part of trying to address this issue of childhood hunger in our state. They have made a sacrifice money-wise and a sacrifice time- and people-wise to help us address this problem.

So the award goes to Walmart--and if I can get it right here Wal-Mart Stores, Inc.--and accepting on behalf of Walmart is Gerard Derhman. Would you all thank Walmart with me please?

(Applause)

(Award Presented)

MR. DERHMAN: Thank you Governor Beebe, thank you.

(Applause)

CHAIR GREGOIRE: Thank you.

As we work toward the goals of getting people back to work and making each of our economies in our home states more competitive, another thing is clear, and that is the road to recovery runs through our communities and technical colleges and our four-year universities. We need more people to have an education beyond high school. We need them to have certificates and degrees that meet the needs of our economy now and in the future. So that's why, as NGA Chair, I devoted my focus onto college completion and productivity.

The demands for certificates and degrees is real, and it is growing. Nearly two-thirds of the job openings over the next decade will require some kind of credential or something beyond high school. We're currently on track as a nation to fall short of filling those openings by three million graduates. Right now, we have a growing mismatch between the jobs that are open, and the skills of the people who are available to fill them. The Minneapolis Federal Reserve estimates that as much as one-third of our current unemployment rate is a result of this mismatch and not the great recession.

At the same time, our states are facing real and lasting limits on the resources that we have to invest in higher education. Economic growth is likely to be slower in the next few years than it's been in recent years. And this will mean a slower revenue growth in our states, and thus, plenty of competition for those revenues from healthcare to reform of our pensions to infrastructure at a time we critically need to invest in education.

A challenge before us when it comes to higher education is increasing productivity, graduating more students with the knowledge and the skills our states need and the resources we have. So how is it that we meet that challenge?

First, we need to do a better job of measuring the performance of our higher education systems. As governors, we need to know how well our colleges and universities are doing at moving students through their certificates and their degrees, if we're going to be able to make the kind of smart investments, with very limited dollars, and gauge the return on those investments.

To do this, NGA and the Complete College

America have developed college completion metrics that 24 states have already endorsed. I have asked my legislature to put it in statute.

Later this year, NGA will announce metrics designed to gauge how well our colleges and our universities are doing at graduating students with certificates and degrees that our states actually need.

Second, we must look at new ways of providing and paying for higher education. This includes everything from giving more of our high school students a head start on college to funding colleges based on completion instead of enrollment; to redesigning college math classes so that they teach students more and cost less. And because we now have the Common Core Standards in nearly all of our states, it is time to end the finger pointing over college readiness and to eliminate the need for remedial classes at our colleges and universities. We can ill-afford remedial classes for 50 percent of our students who go on to our community and technical colleges.

Third, we have to focus on better serving the students that we need for a competitive economy but have not been able to do a very good job at graduating. This includes our working adults. The men and women who have to put in a full-shift and then head off to class while taking care of children or aging parents. For too many of these students, the road through college ends before they have a certificate or a degree. That simply must change. We must get them over that hurdle.

The report in front of you provides strategies and best practices in states for getting more of our adult students to and through college. These are things that we can do with the dollars that we currently have, by making sure that our adult students have access to financial aid and providing programs and services that treat them like adults with schedules that fit their lives.

So I encourage each of you to take a look at this. Ask how well that your state can do in educating these adult students when you get home and allow them to get their certificate or their degree.

It's a big agenda, and governors will be looking for support from all corners to get this job done. We're fortunate right now to have an amazing asset before us today, a prominent and influential supporter in this effort across our country. Bill Gates does not need an introduction to any of us here. The work of his foundation, that of he and his wife, Melinda, started in 1994. And what it has done and what it stands for speaks for itself. Today the Bill and Melinda Gates Foundation is synonymous with education, innovation and improvement, working with federal and state leaders, educators, entrepreneurs, to make the promise of a quality education a reality for more Americans.

The foundation's higher education goal is simple, and it is inspiring: By 2025 the U.S. will double the number of low income young adults who have a post-secondary credential with labor market value. Today Bill Gates has joined us to share with us his insights about how we can achieve that ambitious and necessary goal and the role that governors can and must play in that effort.

So it is a great pleasure for me to present to you a fellow Washingtonian--but really an individual who is a citizen of the world--Bill Gates.

(Applause.)

MR. GATES: Well thank you all for having me here. I want to particularly thank Governor Gregoire and also the Vice-Chair, Governor Heineman, for this opportunity. I also want to thank you for the incredible amount of time that all of you put into education. I think it's the key topic for the future of the country, and I think, although there's many groups that get involved, really you are in the position to provide leadership. You're in the position to make a huge difference here.

As was said, our foundation started about 16 years ago in some of our education work. And it was about 10 years ago that we decided that this would be our primary focus in the United States. Outside the United States we work on a lot global health issues, but here in the United States education is our consuming focus.

What that's meant is things like working in libraries, working on scholarships, but overwhelmingly now it means the issues of making sure that our both K through 12 and higher education systems are far more productive than they've been to date.

When we think about the key challenges ahead, I think there is one measure that stands out above all, and that is: Are we training people for the jobs of tomorrow? Of the 100 kids who go into ninth grade, right now only 44 of them will get a post-secondary degree by the time they're 26. And as Governor Gregoire said, that's a huge mismatch with where the job opportunities will be. And so it is a big challenge.

The theme this year, the work on this “Complete to Compete,” I think is very exciting. That's bringing some new metrics to really look at the investments that are made in higher education and understand why there's drastic differences between different institutions in terms of the completion rates.

So I've got a few slides today that I

think illustrate how I think about this education problem, but I want to leave most of the time for whatever questions or discussion people are interested in. So let me step through some of these, and then we'll have time for that discussion.

Now this is a challenging time in terms of the budgets, and no one knows that better than each of you. You are in a very tough time, which is good in a way because it is forcing government to look at all of its expenditures and decide which are the most important. And if it were possible I would love all the new educational activity to be done incrementally. That is, for new initiatives to be done with new money. Unfortunately, that doesn't look like it's realistic. So, we have to look hard at which of the monies that have been invested are giving us the outcomes and look at how we make changes. And when we look at these budget figures, in some way, I think we all know this understates the magnitude of the problem, because after all, health costs continue to rise, and a lot of costs that have been born at the federal level -- for example, Pell

Grants, Title I money -- there is an uncertain future, in terms of what the size of those funds will be. And if you really look at some of the possibilities, the impact on research institutions, on K through 12 funding, on the number of people going to higher education, if you add what might happen at the federal level into some of these numbers, you can look and get quite concerned.

Also, the history of education is that over the last 20 years, the spending has gone up--it has about doubled the per pupil expenditure--while during that time, if you take the constant as benchmark, the NAEP numbers, which show the same story as SAT scores, or international competitions like PISA and TIMSS, those have been largely flat--and so it's a big investment, and yet the outcomes have not changed that much.

And so what we're being asked to do for equity; what we're being asked to do for competitiveness, is to literally flip these curves. That is, take the performance curve and make it look like the expenditure curve for the last 30 years, and to take the spending curve and at best, make it flat. So it's a huge challenge, but I'm going to give some reasons why I think it's not impossible that that would be achievable.

I think the best news here is that if we take the very best teachers and we take the very best institutions at either the K through 12 or high school level, we actually do get fantastic results. And I'm not talking about teachers who are paid out of the ordinary, I'm not talking about school systems that spend per pupil, money that's out of the ordinary. There are schools that take kids from the inner-city and actually spend less than average, and get over 90 percent of those kids going on to a four-year college. There are teachers where all the students in their classroom get over two years of educational improvement, simply by being in their classroom for a year. And so, when we have that kind of huge difference, we can see that if we simply take the average performance of the teachers and the institutions, and bring those up--not even half way to what the very best are doing--we could be the best in the world. We could take that performance curve and make it look like that expenditure curve. And so, I think the fact that this doesn't require inventing whole new teaching techniques--it doesn't even require inventing whole new types of institutions--it simply requires spreading best practices in a very strong way that should give us a belief that we can make a huge difference here.

Now the investments we've made have given us a lot of adults--this is a chart that talks about the K through 12 system, and starting in 1960 for every 1000 students, you had 40 instructors. Now, that is a very broad term, it includes teachers or people who have to do anything with instruction.

Now at that time, those teachers were teaching in the classroom a lot of hours. Typically over eight hours. Now that number's down quite a bit, on a course of something like five hours, but we've added other instructors. By 1980 it was up to 58 per 1000. Today it's up to 85. And we've also added in about 40 people who are noninstructional staff.

And so if you take all the adults in the system, the broad measure, you have about an eight-to-one ratio instead of what you had in the far past, which was more like a twenty-to-one type of ratio. So it's very different. And in there, I think, there is an opportunity to use the people that we've got and use them in a better way. A key element of that is measuring their effectiveness. And that's not a trivial thing to do, but it's an absolutely critical thing to do.

You know if we think of any area of endeavor in the world, we think of sports records, we think of engineering capabilities, you would say today that professionals are better than the professionals of 50 years ago. It's simply, there's a lot that's been learned and people do things in a much better way. Education is an exception to that. If somebody said the best math teacher *ever* taught 50 years ago, it would be hard to contradict, because there's not this large body of knowledge that's been transferred that either in the case of the best, or in the case of even of the average, is carried along and transferred and measured in a way that means that teaching constantly gets better. And yet, I believe that is very possible.

When we talk about measuring effective teaching there are many different ways to do that. Test scores are obviously going to be one element of that, and in some subjects--reading, mathematics--those things really do tell a great story about are the kids learning to multiple and divide and the basic things they need to know. As you get out into other subject areas, that's more difficult. And as you want to not only measure but also provide feedback, you want analysis tools that get more granular, in terms of saying to teacher: "what is it you're good at?"; "what is it that you need to get better at?"

One that we've been pioneering is taking a camera and putting it in the classroom, and of course with the magic of digital technology that camera is very inexpensive; it's a camera that captures not only the teacher, but also the student.

So as the lesson proceeds, you can see exactly when did the students stop paying attention; when did they start fidgeting; when did they start talking to each other; and get a sense of, okay, what might have been done differently there.

The photo we see here is a teacher actually reviewing her own video. And when you talk to teachers looking at their videos, it's fascinating to hear what they have to say about it. It's "okay, I should have given a better example here, I should have called on those kids at the back who are kind of losing their interest in what I was saying." And really great teachers understand that it's a real-time performance, and that they have to constantly be seeing what's going on, and this tool helps them understand that.

As we look at the analysis of these techniques, whether it's calming a classroom down, or drawing in the students who are doing well in the subject, or on students who are somewhat behind, we get very diagnostic information that can help teachers be a lot better. And of course what we are seeing is that the great classroom practice maps exactly to what you would expect in terms of the other measures--the peer evaluations of teachers, the test score improvements of teachers.

We also do things where we go to the students and we ask them questions. The two questions that appear to be very diagnostic of great teaching are, asking the students, "does your teacher use the time in the classroom well?," and, secondly, "when you're confused about a subject, does the teacher help you understand it?" And the answers to those simple questions, correlate very, very strongly to teacher excellence.

Now part of the beauty of videos and student interviews, or structured peer interviews, is that they can be used on not only a more diagnostic basis, but they can be used across more subject areas, and they can be used to complement whatever measures, including test-type measures there are, so that people feel the system is very balanced and it's not likely to be capricious. And if these things are designed right, they can be done with fairly low overhead.

Now we have a number of districts that we're in across the country--three with intense partnerships and three others with partnerships that are less intense--where we're actually trying out these evaluation systems. It's a real leap of faith to go from a system that's been very seniority driven, master’s degree driven--which unfortunately, do not correlate with effectiveness well at all--to go to a new system, but if that system was great for student outcomes--and everybody should be enthused about it--so the willingness to try it out, to tune it, to get it right, that does require a leap of faith.

So we and many others are involved in that. And I think this of all things will be the most catalytic. If we look at the finances today, if you break down compensation, it is in the category slide shown here: base salary, education--that's the master’s degree bonus piece--longevity, that's about seniority, and then the benefits piece. In any other budget time, you'd probably want to layer on some additional incentives for the teachers who are very effective and for the teachers who help other teachers become better. Over time, I think there's very little doubt that teachers should be classified into different levels, so those master teachers are really getting rewarded, not only for what they do, but for how they help others.

Today there's almost no system in the United States where you say, "I'll take a little bit larger class, I'll teach closer to more than the five hours a day, I'll teach six hours a day, seven hours a day, and get involved in things to help other teachers." So, workload and results today are not a meaningful component. And the question is: How could you get there? Certainly, for new teachers as this is being figured out, the ideal is not to make long-term promises in terms of things like the longevity or the master's degree portion, so that you have that flexibility in these new systems that some of that resource would be available for these systems.

Another thing that I'm optimistic about is the Common Core State Standards Initiative. This is a thing where NGA played a central role in getting a number of states together--44 of the states now are signed up to this. Some states, about eight right now, are in an aggressive implementation mode. The Common Core is an amazing piece of work. I met with the people doing this work. The work in mathematics is very strong. It's simple enough that a student can take some assessment tests and see for themselves, "where am I?"; "what is it that I am good at; what should I go back and try to do better on?" And that idea that the student and the parents can actually look and understand where they are is very important. This standard--the Common Core--actually reduces the size of the textbook.

One big difference between the United States and many other countries is that we re-teach the same concepts many times. Instead of teaching a few concepts very well as you proceed up the math ladder, we teach a lot in a somewhat redundant way. And the Common Core brings that to a more focused approach. So, this is a really great thing.

One of the benefits is going to be for the states that opted into this, both the teacher training and the online materials will be sharable on a national basis. And so the ability to really compete, see whose doing this well, see what works, will be far better than when there were 50 different standards and you couldn't take something that worked well in another state or bring it across. Likewise, if a teacher was moving between systems, they had to learn the new thing.

I mentioned we have some schools that do extremely well. Charter schools of course only got started in the late ’90s, and at first a lot of them were one-off, some of them succeeded very well, some of them did not. If you look at the overall test scores out of charter schools, partly because many of them take on the toughest students, many of them are not above average. But there is a number, including some of them hopefully you all get a chance to visit--schools like, KIPP or Green Dot or Aspire, or YES--there's over a dozen of these that do a pretty amazing job, and they focus on kids in the inner-city, they sometimes are able to get access to buildings. That's a big difference, of course. You have the strict regulatory limits, where some states allow none, some have caps, but even in the states where you're not up against the caps, sometimes the access to the buildings or the reimbursement levels are holding back these schools. Part of the reason that these schools are so exciting is they try out new things. So, for example, if we talk about what is the role of technology in the classroom, can you take your class and have half of them seeing where they are in their math, and take your other half and have a small group that is doing group learning; well there are a number of charter schools that have started with exactly that idea in mind so that without breaking the budget they can lengthen the school day, they can intensify the way that they teach math, and it's really based on technology.

Now technology is just at the beginning-- I wouldn't say that, you know, that all the answers are in on how it is to be used, but I'm very optimistic. And it's the charter school structure that's been part of allowing that to thrive and to be figured out.

At the higher education level, the difference we see in results between different institutions is quite substantial, and I was fairly amazed when the foundation was first getting into higher education, that even basic questions about graduation rates were hard to answer. To say, okay, which schools graduate more people? Which of the people who graduate from these schools go on and get degrees? It's actually interesting. The private for-profit part is very properly . . . people are taking a very hard look at that and saying: Is the investment of money appropriate? Are they doing the right things? But those same types of questions about outcomes and effectiveness really should be asked of the whole higher education sector. There are some exemplars here as well that are as phenomenal in their own way as the great charter schools are in the K through 12 arena. I happened to go to one them in Tennessee, Tennessee Technology Center, where all the elements had come together. That is, they were training people for the jobs that existed. They were doing it with high camaraderie, supporting all of the students very, very well, and they were doing it on a very modest budget. And I'm sure that every state has some of these gems that are doing a great job, for which they deserve to be funded more.

Now on the other side it's a very tough thing to say, okay, the ones that do not have high graduation rates, why are students choosing to go to that? Are they fully informed about the product that they are investing their life into? And is there any criteria under which state funding would favor those that have the higher graduation rates over the ones that don't, particularly in times where budgets are tight?

I'm not saying that's an easy problem, but if we can get the good measures, at least the data will be there for people to be able to decide that.

The biggest investment the foundation makes is in this issue of effective teaching in the personnel system, how the measurement can be done; for example, analyzing the videos of over 13,000 classes.

The second biggest investment is on this technology piece, so that any student can assess where they are on math. They don't have to graduate from high school, get fairly good grades, and then when they enter into the higher education institution, they take a quiz and they are below the cut-off and they are put into remedial math.

As soon as you are put into remedial math, you're not making progress in your other courses; it's kind of a humiliating thing, and those students tend to disproportionately never get any type of degree. In fact, there is over nine billion a year spent on students who never get through the system, and it's a very negative experience, both for them as well as for the investment that doesn't pay off there.

You know, people have talked about personalized learning for a long, long time, but finally we actually have the ability to do that where you can assess knowledge, you can find the best lecturers, find examples that happen to appeal to that student, explained in a way that happen to appeal to them. And so, I think some really great things can happen with technology. In no sense is this replacing teachers. Particularly as you are in the lower grades; the role of the teacher is very, very fundamental. As you get up all the way, to say, higher education, there the idea that the lecture piece can be done so that it's any time you want; it's the best lecture in the world, and that the study section piece is the only piece that has to be done face-to-face. That kind of splitting of the educational experience can be done. And there is some very exciting work taking that idea and showing that there's a lot of efficiency that can come out of that. In fact, some people are better at lectures, some people are better at the study groups, some people are best at counseling students when they are trying to figure out where they should go, what their career should be.

Technology can be used in a lot of ways. It can be used to help us gather data, like surveying students can be very inexpensive to do. Figuring out which students are at risk of dropping out. In the for-profit sectors, which despite some of its challenges, does have some best practices that are worth looking at. When a student doesn't show up, within five minutes, they're being called on their cell phone to find out--okay, where are you, what's going on? And a counselor is brought in who's an expert at talking to them about why are they having difficulty, what is their plan, and helping make sure that they move forward in their education career. So, technology is definitely on our side; although, it's not a panacea.

As Governor Gregoire said, the Complete to Compete initiative is a great thing. In some ways, it's very basic to be able to have these statistics to know which of those students went into higher education expecting to get a degree and which ones did not, and to then go in and do some analysis--understand what that's about: Does it vary by subject? Does it vary by institution? What might have changed to allow that student to get through? Until we have standard metrics for this and we can break it down by income level, by race, by the different things that you like to see, it's hard to have the dialogue and to identify the exemplars. And so, I think "Complete to Compete" is a great step in that direction.

Now because we're in an area of trade-offs, there are a lot of ideas about what should and shouldn't be done, and I will just quickly mention some of those. Some of these are more controversial than others. It's too bad that education is not something that in the end we will be making huge increases against. In fact, if we are not careful, there is sort of a natural design of the way that government spending works that more and more of it will be spent on pension and medical, and less and less of it will be spent on education, research and infrastructure. And if you compare--to over simplify that, call that: spending on the older versus on the younger--that ratio would shift dramatically and would be very different than a number of the countries we compete with where they, you could say, are abnormally focused on those elements that are investments in the young, and not--particularly on the medical side, which is the very big numbers and the trends are very much for huge growth--we are unique, both at the state and federal level in that.

So here under the "Do" category, I've got what I think is the top priority, which is getting the measurement of teacher effectiveness. That alone, if it was done well, would make us the best in the world. There are others who do some of it; we're not the most aggressive on that, but we have other factors in our favor so if we combined and did this well, it would be big.

The class size limits, that's unfortunate that that even has to come up, but it is important to note that if you had a choice, say of having more effective teachers teaching a larger class, by which I mean a class size that's gone from, say, 20 to 26, that's a dramatic change, that's a 30 percent increase, if you gave a third of that to the teacher for taking on a tougher challenge, and you made sure that the people you were retaining to teach those somewhat larger classes were the more effective teachers, you would have a budget saving; you'd have the teacher making more money, and you'd have better student outcomes. And so although you know class sizes as they get into certain numbers, say, above 30--you know, that's clearly detrimental--within the range that people have been investing, if you look at all the different trade-offs, that's one that may not be appropriate, that it's sacrosanct as you look at all the different things going on.

In the college area, everybody should have a sense of which of the colleges, both community and four-year institutions, are doing very well. And even break that down by the departments. It's actually very interesting when you take higher ED and think of it in that way, the amount of subsidization is not that well correlated to the areas that actually create jobs in the state--that create income for the state. Now, in the past it felt fine to just say, "okay, we're overall going to be generous to this sector," but in this era to break down and really say, "what are the categories that help fill jobs and drive that state economy in the future," you'll find that it's not across the board, in terms of everything that the state subsidizes in higher education.

And then, finally, the point about technology. I do think that there's a lot of experimentation that should go on, even in tough budget times. Foundations like ours can be helpful on this, but the state will have to keep involved and have people who are trying out ways of using technology. It is not ready for prime time in the sense that you can make a dramatic cut and just by putting technology in and immediately be able to retain the same output.

In the "Don't" category, at least one state actually reduced the length of the school year. The United States has one of the shortest school years already, so that seems like going in the wrong direction. We also have one of the shortest school days in the world, and that's partly work-rule related, but it is very different.

I do wonder, in terms of committed dollars into the degree longevity pay, if there's some way to retain flexibility so that as the effectiveness pay issues come along, it's clear that funding teachers to be in different categories and to have some incentive element that there's money that is available for that.

And finally in terms of college enrollment, there are some colleges that can actually fund on the margin, that the tuition revenue--some of which is from the student, some of which is from the federal programs--that that actually can fund that incremental student. So actually, absolute limits, in some ways, work against the scale of economics particularly for the strong institutions, are very important.

In higher ed. what you'd really like to see is that the student enrollments of your effective institutions would go up, and the students enrollments in your less effective institutions would go down. And in order to make that dynamic work, you have to have room for expansion in the more effective institutions.

So hopefully I've given you a sense that there are some improvements that can be made. If you take the huge amount of money that the United States spends on education, even the state that's 50th in the nation in terms of their per student spending is spending more than most countries in the world; including countries that are getting better outcomes than we get. And so it's valuable to think, you know, where can it be spent, how can it have an impact? There are two books that I've found very educational on these topics--I wish there were more --and those are the two in front of you. One is the *Where Your School Dollar Goes*, which is the educational economics book, and then *Stretching the School Dollar*. *Stretching the School Dollar* has a number of case studies where people who are faced at the district level with budget challenges were able to do some good reallocations. Now many of the superintendents who did those reallocations found themselves without a job subsequently, so it's not as easy politically to do many of these things, but it is important.

Again, I want to thank you for your focus on education. I think it's the key issue in the country, and our foundation will do its best to help out on these things. You know, the goal is a pretty tough one, which was to flip that curve and that is to have the performance go up, even in a period where the amount of money is not going to go up like it has in the past.

Thank you.

(Applause)

CHAIR GREGOIRE: Well thank you, Bill, and thank you for the commitment of the foundation. And I'd like to start by asking probably a more personal question, which is to say: When you look at a foundation like the one that you and Melinda have, what is it that brought you to decide that you would invest so much in education and that would be your priority?

MR. GATES: Well, our foundation has ended up having two priorities. One was to look at the world as a whole, and say, what was the greatest inequity? And there we looked at the children's deaths, healthcare problems, and found there was a magical solution, that if more vaccines could be invented for things like malaria or tuberculosis, that you could save lives, literally, for a few thousand dollars. And that has these very powerful impacts on improving health, and lowering population growth that makes all goals far more achievable.

But we knew that, even though we had that global issue, we wanted to pick something that was important for the United States. The issue that we thought would make the most difference for the country because after all, we grew up here, the fortune that we are spending, actually both Microsoft fortune and the Birkshire fortune, were made because of the incredible system in the United States--and that's where we picked education. And fortunately, we didn't have to judge, did we care more about the overall success of the country, or equity within the country. Because education is so central to both of those things, that we didn't have to say, "okay, let's prioritize one over the other." You know, if you care about any type of equity; if you care about lower-income families having a chance to have their children be successful; if you care about racial inequities; education just jumps out so much ahead of anything else. And, it's a little bit scary to look at the fact that the things that the United States has done well in education, including our strong universities, other countries are mimicking those things, and, unfortunately, some of the things we don't do that well--like paying just on seniority--they didn't choose to copy those things. And so, the relative results they are getting are more challenging. Now, in some ways that's good, those are markets; it's not a zero-sum game. But we saw that as the thing we wanted to get involved with.

At the time, we were quite naive about how complicated it was, even understanding where the funding came from, and how the decisions are made on all the different levels and things like that, but we've really gotten very excited about it. There are times where it seems quite daunting. And all you have to do is go back and visit one of these great schools, meet with the kids, meet with the teachers, and remind yourself, this really can work, and then you get rededicated to the cause. But, you know, sometimes when you look at the numbers, particularly with these budget things, you say, "how much progress can we make in the next five to 10 years?" And I still feel, with the right focus, in some ways at least, it brings a willingness to look at what really works and what doesn't--even though it's a challenging situation.

CHAIR GREGOIRE: Well, and every governor here thanks you for your commitment, both of you, and the Foundation for Education.

Before I open it up to questions, I have one more question for you, and that is: As you've traveled the world with Microsoft, and now with the foundation, I'm sure you've seen countries that we're clearly going to be in competition with, or are already, that have got it right with respect to education, or at least parts of it, so that there are lessons learned for us as governors. Could you share your thoughts on that?

MR. GATES: Well, there are a few things that the United States got right that others still do not have right. The quality of our best universities is still overwhelmingly the best in the world. If you took the top 20 universities, the argument would be whether 15 to 19 of them are United States based universities, and everybody would put Cambridge in, and there's four or five others, including one in China called Tsinghua, that some would argue belongs on that list, but the U.S. is way ahead on that, and that took many, many, many decades to develop that. It's a combination of our very best students have done well, and smart people from all over the world wanted to come to these universities, both at the undergraduate and graduate level. And so, our net import of I.Q. into this country has been mind-blowing, a huge advantage, and there's no other country that's had that.

Now that in some ways is not quite as powerful, and we make it hard sometimes for those people to either come in or to stay, but it's still a mind-blowing thing. And so, in some ways, you know, we need to double-down on that strength. The strength of those universities, a lot of it is based on the research dollars--some at the state level, but largely from the federal level--that made those things very, very strong. And so, that's a real question. You know, is that element of support going to be there for those institutions?

Whenever people tell you about these overseas school systems that are very, very good, please do take it with a grain of salt, because there's a temptation for them to just to tell you about the part that's good and not tell you the full story. It's hard to run good education systems. Nobody has a perfect education system, and there's many elements that go into it--including cultural elements. And when people look at the Finnish school system, which scores very high, they do not have a long school year. Now, they have their very best students choose to become teachers, which used to be the case in the United States--no longer the case. They are kind of an exception. If you look at the other systems that work well, they run amazing teacher personnel system, where they measure the teachers, they run long school days, long school years, and the interest of the students in going into topics like mathematics, science and engineering is just much, much higher than in the United States. Outside of Asia, the numbers of engineers the world is creating is going down, whereas net worldwide it's going up because Asia, which mostly means India and China, are increasing the number of people who understand manufacturing, who understand product design, all of those things.

And those numbers are very daunting when you look at those. Those are, particularly if you take someone like Microsoft, who wants to hire engineers--you know that's our bread and butter thing--it's a real challenge. So, there are strong elements from these different systems. Singapore, Korea--the one that was a real shocker was they took a piece of China in the most recent data, and it actually out-scored everyone. And these educational reports that the OECD does, where they take the data and analyze it, these are phenomenal reports--they are extremely well done. I'm just amazed that they do them so well. They interview the teachers. They talk about class size. They talk about curriculum. They get into all the different elements of why some of these systems do better than others.

CHAIR GREGOIRE: Questions?

Please, Governor [Lincoln] Chafee.

GOVERNOR CHAFEE: Thank you, Mr. Gates.

On the Flip-the-Curve in your slides where you show the cost-per-pupil and the ratio of adults-per-1,000 students: when I was Mayor, my school enrollment was declining--we were we're going from 20,000 students down to 18,500--at the same time our costs were going up, so that is what your graph showed. So I asked the question, "What's going on here?" And the answer was, more children are coming in with special needs--autism is a new phenomenon, ADD, and we're just spending much more, per the Supreme Court ruling of the '70s--the public school system has to educate every child.

And I visited the Pawtucket High School, and I was going down the corridor and I looked into a classroom, and there in this classroom were hoists and wheelchairs, and so I spoke to the teacher and I said--it was after school--"How many students do you have?" And he said, "Eight." And I said, "How many teachers?" And he said, "Three." And so, there's our cost. And so has your foundation looked at how we can better deal with this mandate, the necessary mandate of educating all our special needs' students?

MR. GATES: Yeah, I think the analysis would show that somewhere close to 15 percent of that cost increase relates to special needs. So that's a substantial category--it's not overwhelming, but it is substantial. And the actual cost per special needs' students varies a lot from state to state. And so the question is: Are some states doing a good job of getting specialists and putting a lot these kids into a single location, is that a good model? Does the transportation cost, convenience work out to do it in that kind of scaled way? Are there best practices in that? I'm not an expert on that, but if you had to take the five or six things that have caused all those adult-to-student teacher ratios to change, and really said, okay, let's dig into each one of those, Special Education would be one that would jump out at you.

CHAIR GREGOIRE: Governor [Gary Richard] Herbert, and then Governor [Bev] Perdue, and then Governor [Steven] Beshear.

GOVERNOR HERBERT: Thank you.

Thank you Mr. Gates. We appreciate you coming and spending some time with us. As the Governor of Utah, which is number 50 in per-pupil spending in the nation, not something we're necessarily proud of, but it's a situation we have to deal with uniquely so, as opposed to Governor Chafee, where he's losing student population, ours is growing dramatically. We have the highest birth rate in America. We have about 20 percent larger family size, and we have a lot of public land in our state, which limits our ability to develop commercially.

That being the case, we've tried to think outside the box in some ways. We've even tried the voucher program, which became kind of World War III between our legislature and others supporting the voucher program, and those who claimed to represent education. My question to you is, you've talked about best practices, and certainly there's a lot of those best practices out there in the private sector, charter schools, *et cetera*, that are being advocated, but we're having a hard time getting everybody to agree on what those best practices are. And some of the new technology and adaptive learning processes, *et cetera*, we are getting pushback saying, "before you do that, you will reduce our classroom sizes." So, can you give me some suggestions on how we can get people to come together that have different points of view and very opinionated points of view, to find what are the best practices that we should embrace?

MR. GATES: Well a lot of the debate over the years what's gone on in the education sector has been a very strong argument that more resources should be put into the sector. And in fact that happened; that was very successful. Now that we are at the sea change, where it's unlikely, in all but very, very few states, that there will be substantial increases, the dialogue has to change. You know of course there will be a dialogue about, can education, you know, can we minimize what cuts are made there; but the dialogue is going to have to be about what effective spending is. There's a virtual school in Utah that I met with the principal of recently, who is just a phenomenal piece of work, and he was, you know, explaining how $5,500 per student is not as generous as many other people get, but he had figured out how to make that virtual school work. There are states that spend up to three times as much as Utah does, and that's why whenever we talk about outcomes, we really should talk about outcomes per dollar, and measure things in terms that way. The *Stretching Your School Dollar* talks about some cases where people have applied that methodology and started to say, okay, our non-educational costs are very high, our elective classes are what's really costing us money. The extra investment did not really go into math and reading, and the core skills. Those, in terms of how much time students spend, that's actually down. And a lot of the professional development dollars that went in are not high impact dollars; unfortunately, that's the case.

I do think in many subject areas, the norm of what excellence is, is pretty well understood--you know, math and reading. No Child Left Behind has a lot of things that people complain about, but it did point out that a lot of schools were not doing well on those core topics. And so there's been a little bit of a shift back into focus on those core topics. But the effectiveness discussion, you know, some people will come to the table on that discussion, because that's what we've got to play with at this point in time.

GOVERNOR HERBERT: Thank you.

CHAIR GREGOIRE: Governor Perdue.

GOVERNOR PERDUE: Thank you, Governor Gregoire.

Mr. Gates, North Carolina's been a beneficiary of the Bill and Melinda Gates Foundation, and I want to thank you for that: The investments that you have allowed to be made in our state around teacher effectiveness and quality, and the Shining Star, I believe, is the New Schools Project, which has allowed us to do some really cool innovation in how we educate children at different pieces of the structure with different opportunities for high school and then early college completion where we have kids who are juniors in high school signing a pledge and if they do one extra year, they can get a community college, or a career degree in five years. It's pretty cool. I mean, it changing our state, and it will change our state more. We adopted your model for virtual education, and we have the fastest growing virtual school in America, and the quality is good.

But I go back to the premise you just made, and I'd just like your thoughts on it. North Carolina's been a leader in the Common Core, and I hope very quickly to join with other governors on a Common Evaluation System. So we all know where we're going, rather than spending the hundreds of millions of dollars we're spending individually in states; and corporately spending on evaluation.

The data in this book; I read this book, and I've marked the graph, and your data say, in effect, that quality teachers are the bottom line to a productive worker in America. And the data, I believe, says that if you get a bad teacher three years in a row, you might as well just drop out then, because there's not a whole lot of hope for a plan of salvation. I think we can break that, but it's still true.

So if I'm a really bad teacher, Mr. Gates, I'm a really bad teacher--I was a teacher, I hope I was a good teacher, I might have been a bad one; I'm glad my kids are old and have forgotten me by now--but the bottom line, if I'm a really bad teacher, and because my budget in North Carolina was really in bad shape, and I decide, well I'm going to take this book and the information we were presented today, and it's not going to make a bit of difference if I save money on my budget by adding four or five more kids to a classroom, because that's the easy way to balance the budget; you get rid of teachers, what's going to happen to the kid that has a really bad teacher when you dump four or five more first graders into that class?

MR. GATES: Well, there's nothing worse than having a bad teacher, and that's why our key priority is the evaluation system, and getting it to be multifaceted enough that there's broad acceptance--that teachers and parents see that it's been tried in various places, they heard that it worked, they heard that it's not capricious, they heard that it's not high overhead, and it's operating like it does in many professions. You know, in no profession do people like to praise their evaluation system, but they know it's a very necessary element that has to be there.

And, right now because you don't have a measure, so many things don't operate when you don't have a measure. Your schools of education aren't motivated to do anything spectacular because they don't have a measure that would tell them, okay, that doing this is good and doing this is not good. The professional development money, those master’s degrees, there's so many elements in this system, that until you have a measure, they are just sitting there and it's all anecdotal.

Likewise, the use of technology. Can we let teachers see other really good teachers? I'm a big believer that you can raise that average quality quite a bit, and the efficiency of doing that will be pretty high because the technology will come in and be a part of it. When my wife and I were in North Carolina, which was about a year and half ago, we saw some very straight forward things where the formative assessment tests were being scanned and then the teachers would all get together and talk about--well your class did very well on that, my class did not do as well--and the formative assessments were really aligned with what the end of year test was--which they hadn't done it yet, but was going to be--aligned with what the college test was. As you say, that boundary is a very tough boundary. But if you have bad teachers in the system, that's a sin; and yet we have not put the effort into something that identifies who those people are and pushes them in one of two directions: either to improve or to find a more appropriate occupation.

CHAIR GREGOIRE: Unfortunately, we are running out of time, so I think we only have enough time for two more--if we can -- help make them quick, so Governor Beshear and Governor [John] Hickenlooper.

GOVERNOR BESHEAR: Thank you, Governor.

And thank you, Bill, thank you of the work your foundation's doing in Kentucky also; I think there's a lot of exciting things going on because of that. You mentioned the Common Core Standards, and I was proud that Kentucky was the first state to adopt those, and you mentioned there are now 44 of us. Can you give us kind of your brief thoughts about just what will that do for us in the long run to have those Common Core Standards nationwide?

MR. GATES: Well, it's kind of strange in a way that there were ever 50 standards, you know, because math and reading aren't that different in different parts of the country. And we are the only country that had such diversity of standards. And it's great that this came together as states choosing to get involved with it, so that they really have some skin in the game, because after all, the real work in terms of getting the tests aligned to it, getting the teacher training aligned to it, will be taking place at the state level.

Right now, it's the math, and reading, and writing. The sciences are coming along--that's a year or two behind the other ones. I think these things are quite spectacular, and people have talked about the value of the commonality--which is kind of a common sense thing--but I think more and more as they really get exposed to the work that's been done here, they'll talk about the fact that students can understand where they are. With previous standards, there were so many vague words in them, that only an educator would ever read that stuff and even they would put it in their drawer because it was just so thick and not very clear. Here, the clarity, the understanding what their assessment against these various conceptual skills will be, I think it's going to be quite fantastic.

And it drew on looking at what was going on internationally. It didn't just look at the 50 and sort of arbitrarily pick, okay, we'll pick a little bit from this state, a little bit from that state--it really was a re-think of what needed to go on. And so, when we're working with innovative technologists--and if you want to see a Web site that I think is amazing, this KhanAcademy.org, that Saul Khan does, it has lectures on all math and science type things, starting from elementary school all the way through. He's aligned that now to the Common Core, and there's dozens of other innovators who have ways of teaching things that are aligning to the Common Core. So your ability to go out and pick pieces and assemble them together will be better. Whereas in the past, if you went out on the Web, you didn't know if the math thing you were taking related to your state's standards or some other state's standards, and so there was never any learning and growing that would build up from that. So, Common Core is a great thing that leads states; over the next several years we will start to see the benefits of it, and we hope that over the next five years, all

44 states have it in their classrooms.

CHAIR GREGOIRE: Governor Hickenlooper, you're the finale. Make it good.

GOVERNOR HICKENLOOPER: I'll try to be brief, and certainly I want to express my . . . all of our appreciation for your time and your work. I mean, you are in many ways, I think the almost the ultimate example of why capitalism works. And not that we've lost the irony that perhaps the world's most successful dropout is working so hard to make sure . . .

(Laughter.)

GOVERNOR HICKENLOOPER: . . . and get a good education. Colorado is certainly known for many things--world class skiing--but even in these hard times, what we'd love to be known for is the state that is the most rapidly reforming, and I think I probably share it with every governor here, and that's a wonderful competition to have. But even without resources, I think we can accelerate the rate of reform, especially in teacher effectiveness, which you clearly see as a crux.

What would you describe, as you see them, as the barriers to reform at that level; I mean, the most significant ones?

MR. GATES: Well, the thing that Colorado has that distinguishes it, and I would encourage everyone to look at, is a law--I think it's SB191 - --

GOVERNOR HICKENLOOPER: Yes.

MR. GATES: . . . that redefines tenure in a very pro-student way. And it's in the process of implementation. Our foundation is one many organizations that’s trying to contribute what we can to make sure that that implementation is as strong as possible. So, it's a great thing.

You know, my dream is that you have some places, including Colorado, that teachers from around the country can go and say, "hey, how bad is this evaluation thing?" And that what they will hear is that, "hey, this is great, because it really identified what I needed to improve in; it really identified a few people who didn't belong here; and it gave them that clear message in an appropriate way, and this is obviously the way this should be done." And they will have a few complaints because these things will continue to evolve. But that would be really catalytic to have a few places in the country where the evaluation system is going well. You know, if I have a goal for three years for now, it's to have that and then to see it spread from there. Whether that can be done in these budgetary times, I'm not sure, but I . . . you know, the Colorado law is a great example of bringing all the people who should care together. Even so, it was a close call, but bringing the right people together to say, this is a case where you have to do something that is tough now that is beneficial for the future.

So, you know, there are a lot of different experiments going on. Everybody needs to learn from each other. We have a district, Pittsburgh in Pennsylvania, Hillsboro in Florida, Memphis in Tennessee are three that we're also doing teacher effectiveness things. And in several of those cases, the union has been a very good partner in helping to design those things. Now, it's pretty radical, it means that the compensation structure over time will look very different than it does today. And that requires political bravery to move to that change.

GOVERNOR HICKENLOOPER: It will be done in three years.

MR. GATES: Excellent. Thank you.

(Applause)

CHAIR GREGOIRE: Thank you very, very much.

MR. GATES: Great to be here.

(Applause)

CHAIR GREGOIRE: Before Bill goes, I want you to know that his presentation is on a jump-drive at your seats. He returned here interrupting a family vacation, which he does not often get, to come here to speak to the nation's governors. Thank you Bill Gates for your leadership; thank you for your commitment to education.

(Applause.)

CHAIR GREGOIRE: We're now going to turn to Governor Herbert who is going to give us a rousing invitation to the 2011 Annual Meeting in Salt Lake City.

GOVERNOR HERBERT: Very rousing, so we all know it's July 15th, Salt Lake City, Utah, crossroads to the West.

Cue the video.

(Laughter.)

GOVERNOR HERBERT: We should have one. There we go.

(Video shown)

GOVERNOR HERBERT: Anyway, there's something there for everybody, and we've got here some calendars we're going to pass out to you, believing that a picture is worth a thousand words. You'll be able to see what Utah's all about, the beautiful vistas and venues. As you know, we hosted the Winter Olympics in 2002, in Salt Lake City. We're looking forward, with great anticipation, of hosting the governors here, this year, July 15th.

Bring your families. It's a very family oriented State. There's going to be a lot of activities for the families, for the spouses, we hope to have the premier; in fact, I'm pretty sure we're going to have the world premier of the next Harry

Potter movie for those who want to bring your children. That's enough to bring everybody there, isn't it?

(Laughter.)

GOVERNOR HERBERT: We have five national parks. You saw some of them featured here in the video, 43 state parks, all within just a few hours drive, for those who want to spend a little extra time. We're known for our skiing, but what we're not as well known for is our golf. So, for those of you who like to golf, we have Jack Nicklaus, Greg Norman, Pete Dye, Johnny Miller, just to mention a few. Five star hotels. The Grand America is going to be the host of it downtown Salt Lake. You're going to really enjoy the accommodations, the opportunity to go up to Olympic Park and see where the Olympics took place. A zip-line for the kids, and we're going to have an opportunity to bobsled for the governors. So, see if you can beat my time. There will be competition, and it will be fun for you. So, you will be able to see what took place at Olympic Park.

It's not only going to be fun; we want you have to have an enjoyable time, but it's going to be productive, as NGA meetings are. But, again, just a reminder, we will have a significant opportunity to interface with our Chinese friends. The Chinese delegation will be there as we work on developing our state relationships and improve our exports and trade relations.

So, it's going to be a great time in Utah. We want you all there. Bring your families. It's going to be a good time, productive and enjoyable.

Thank you.

CHAIR GREGOIRE: Great. Good job.

Now for those of you who saw how beautiful it was, as Governor Herbert just mentioned, I've been as attorney general, as he has to a number of these places, and after I get done meeting and go home, all I have to show for it is I watched that video that you just showed us.

(Laughter)

CHAIR GREGOIRE: We're looking forward to it, very much. And thank you for hosting.

We are now going to move on to our adoption of the proposed policy positions. I'm going to first call on Governor [Dave] Heineman, in the hopes that we can move through quickly.

VICE-CHAIR HEINEMAN: Madam Chair, I just want to acknowledge that Governor Herbert and the great state of Utah have agreed to pay for all of our expenses to golf and ski in Utah--thank you very much.

(Laughter)

GOVERNOR HERBERT: With a grant from the Bill Gates Foundation.

(Laughter)

VICE-CHAIR HEINEMAN: Madam Chair, I'd just like to acknowledge the work of all of our committee chairs and vice-chairs, and the committee members; but if there's no objection, I would move the adoption of all the committee policies, including the executive committee *en bloc.*

CHAIR GREGOIRE: Is there a second?

(Motion duly seconded)

CHAIR GREGOIRE: Any discussion?

(No response.)

CHAIR GREGOIRE: All those in favor, please signify by saying, "aye."

(Ayes)

CHAIR GREGOIRE: All those opposed.

(No response.)

CHAIR GREGOIRE: The ayes have it.

Let me ask you, if you could, to wait just a moment. I have a very special presentation. It's a unique one.

For those of you who are new to the NGA, 28 years ago during a seminar for new governors in the great state of Utah, a young man, by the name of Ray Scheppach interviewed for the job of NGA Executive Director. I've since been told that his wife said, "I don't know that you'll really like it, it will be a short-time stint, you won't stay very long, and you'll move onto something else." So, we're 28 years later, and last night she admitted, it had been a dream come true.

And thankfully for us, after that interview, he was hired. Throughout the course of

Ray's tenure with us, he has worked for more than 300 governors. Two of which became President, and many of whom have become members of Congress, and a number of whom we saw this morning, are members of Cabinet secretaries. He was instrumental in many of NGA's successes over the years, including:

●Spearheading an historical overhaul of the Nation's welfare system;

●Advocating for state fiscal relief;

●Championing unfunded mandate legislation; and

●Working on Medicaid reform.

Now that I think of it Ray, we're still working on all that junk.

(Laughter)

CHAIR GREGOIRE: In all seriousness, his tenure here and the work that NGA has accomplished on behalf of the nation's governors, says a lot about the type of person that Ray is, and the type of people he surrounded himself with as a team at NGA.

This is a city that often gets caught up in political partisanship. Ray, on the other hand, has been a steady guiding force whose top priority has always been what's best for the nation's governors, and what's best for their states. When Ray works with the governors, there are no "D's", there are no "R's", there are no elephants, there are no donkeys. He simply sees us as leaders of our respective states, answering a call for public service, making the lives of our citizens better.

Ray is often quoted as saying: "If you care about public policy, this is the best job in America." He has influenced federal domestic policy. He has worked with individual governors on state policy in their home states. His counsel, his leadership, will be missed by all of us.

So, without further ado, I would like to present Ray with a gift from our governors. For those of you who don't know, an outgoing governor receives a plaque from the NGA with a photo of the governors from the year the association was formed, which was 1908. It is with Teddy Roosevelt, who was President. We feel that it is only fitting that Ray is presented with the same plaque. And it reads as follows:

"The Nation's Governors commend Ray Scheppach, National Governor's Association Executive Director, 1983-2011, for his outstanding leadership and dedication to the vision that has guided the Association since its founding in 1908."

Ray, on behalf of all of the governors of the nation, not only here, but those in the past, we thank you, we acknowledge your tremendous leadership, we congratulate you, and most importantly, we ask you to go on now in education and inspire a new generation to lead America to serve as governors and to be the future for all of us.

Congratulations, and thank you for your service to our country.

(Applause and a standing ovation)

CHAIR GREGOIRE: You are all now invited to a party, a reception, a champagne reception in

Ray's honor. I hope you will all join us.

I would like to thank Dave Heineman, who has been a wonderful Vice-Chair for this meeting, and on behalf of the nation's governors, congratulations on a very successful 2010 Winter National Governors Association meeting.

Thank you. See you in Utah.

(Applause)

(Whereupon, at 4:03 p.m., Monday, February 28, 2011, the 2011 Winter Meeting of the National Governors Association was adjourned.)