NATIONAL GOVERNORS ASSOCIATION

WINTER MEETING

SATURDAY, FEBRUARY 25, 2012

JW MARRIOTT

1331 PENNSYLVANIA AVENUE, NORTHWEST

WASHINGTON, DC 20004

Nebraska Governor Dave Heineman,

NGA Chair, Presiding

Delaware Governor Jack Markell,

NGA Vice Chair

Presentation by:

Jim Clifton, CEO Gallup Corporation

Reported by:

CHARLES D. HOFFMAN
PROCEEDINGS

(11:04 a.m.)

CHAIRMAN HEINEMAN: I call this meeting to order. As NGA Chair, I would like to take this opportunity to welcome you to the 2012 Winter Meeting. May I have a motion to adopt the rules of procedure for the meeting?

SPEAKER: So moved.

CHAIRMAN HEINEMAN: Is there a second?

SPEAKER: Second.

CHAIRMAN HEINEMAN: Thank you. Let me just explain one thing first, before we vote. Part of the rules requires that any governor who wants to submit a new policy or resolution for adoption at this meeting will need ¾ths vote to suspend the rules to do so. Please submit any proposal in writing to David Quam of the NGA staff, by 5 p.m. tomorrow, February 25th. All in favor of the motion please say aye.

(A chorus of ayes.)

CHAIRMAN HEINEMAN: Opposed?

(No response.)
CHAIRMAN HEINEMAN: Motion is adopted.

Governors, our Monday session is dedicated to reviewing and adopting new policy statements. We have streamlined our policies and process to more closely align our policy statements with governors' priorities. And I want to say I appreciate the hard work of everyone involved, the governors, your staff, the NGA staff, as we change the direction of how we are establishing our policies.

I would like to take a moment to acknowledge some distinguished guests who are here with us today. I want to first recognize our guest from the White House Office of Intergovernmental Affairs. Thank you very much for being here. We also are joined today by delegations from Canada and the head of the Mexican NGA. If both of these delegations would stand so that we could recognize you, please.

(Applause.)

Thank you very much for being here.

For all the tough issues states and territories face today, economic growth is one of the most important issues for us to address. Economic growth
is key to our success as governors. That's why I chose "Growing State Economies" as my Chair's Initiative. It is designed to provide governors and other state policymakers with better policies to improve the economic environment in their states and more strategies designed to foster business growth. We put an emphasis on understanding how a small business becomes a fast-growing firm and what policies support that transformation.

High growth businesses are one of the driving forces of the modern global economy. They are the primary source of job creation, prosperity and economic competitiveness. New fast-growing firms often evolve to become large employers. As governors, we want to help the private sector grow, creating new job opportunities for our citizens.

Nationwide, firms in their first year of existence add an average of 3 million new jobs per year, according to the Kaufman Foundation. Nearly 40 percent of these new startup firms do not survive the first three years. Those that survive, however, prosper and usually create more net jobs
then all small startups do. The most important firms that survive are called Gazelles, high growth firms that expand employment by 15 percent or more annually, for five consecutive years. Such firms make up about 5 to 6 percent of all businesses but virtually all new net job creation.

For any successful firm, the challenge is to stay ahead, to go from good to great and to do it again and again and again by creating new products or by entering new markets. Firms that remain entrepreneurial do exactly that. These firms drive growth and prosperity and global competitiveness.

That's why we are opening the 2012 Winter Meeting with a discussion about economic growth and job creation. My goal for growing state economies is to provide each and every governor with a state profile on their small business and economic environment and to produce action-oriented reports on policy choices that have been shown to generate job growth, entrepreneurial activity and expanded exports.

Part of growing state economies is four regional economic summits to provide governors and
their senior economic advisers an opportunity to learn from local entrepreneurs, small-business owners, researchers and other experts on what works to create high growth, innovative firms.

In October, Governor Malloy [Conn.] hosted a summit in Hartford, Connecticut, and Governor Markell joined us. In November, Governor Haslam [Tenn.] hosted a summit in Nashville, Tennessee, and Governor Barbour [Miss.] and Governor Fallin [Okla.] joined us.

Just last month, Governor Gregoire [Wash.] hosted us in Seattle, where Governor Parnell [Alaska] joined us.

In April, I will be hosting a meeting in Omaha, and I encourage as many of you who can to attend.

Finally, I want to take a moment to thank several organizations that have made important contributions to this initiative: Bank of the West, General Motors, Intel, the National Venture Capital Coalition, and Santa Fe of Venice. This
cross-section of private sector support illustrates just how important our work in growing state economies is. We have support from companies engaged in advanced manufacturing to cutting-edge
information technology, to those who can finance entrepreneurs. I also want to thank the Kaufman Foundation for their financial and intellectual support. We are pleased to have this broad support because it is indicative of our work, that we need a partnership with the business community and others who are committed to job creation, prosperity and economic competitiveness.

Now to kick this off, it is my pleasure to introduce a good friend, Gallup Chairman and CEO, Jim Clifton, who says that—and I quote—"What everyone in the world wants is a good job." And in his latest book, The Coming Jobs War, he describes how this undeniable fact will affect all leadership decisions as countries wage war to produce the best jobs.

Since 1988, Jim has served as CEO of Gallup, a leader in organizational consulting and public opinion research. His most recent innovation, the Gallup World Poll, is designed to give the world's 6 billion citizens a voice in virtually all key global issues.
Under his leadership, Gallup has expanded from a predominantly US-based company to a worldwide organization with 40 offices in 30 countries and regions.

Jim is also the creator of the Gallup Path, a metric-based economic model that establishes the linkage among human nature in the workplace, customer engagement and business outcomes. This model is used in performance management systems in more than 500 companies worldwide. Please welcome Gallup Chairman and CEO, Jim Clifton.

(Applause.)

MR. CLIFTON: Thank you very much Governor Heineman. It's a big highlight for me to be here, and thank you for your partnership.

By the way, I don't know if you know this or not, Dave, I was born and raised in Nebraska. Now, I live here in Washington D.C., and I have an office in New York, and I go back and forth. But there's a story that follows all Nebraskans on the East Coast, maybe you've heard it. It's not a joke; it's a story.
But Nebraska was playing Oklahoma years ago, and we just have these big, knockdown, drag out games, and the game was in Lincoln. The ABC announcer went over and interviewed one of our running backs. I'm not going to say his name. But he was sitting there, and he had his football helmet. A Nebraska football helmet is white, just pure white. Nothing's on it except one big N.

I don't know why she asked this question, but she said to him—I'm not going to say his name—"If the N on your helmet didn't stand for Nebraska, what might it stand for?" And he thought, he really wanted to get it right, and finally he said, "I'd have to say knowledge."

(Laughter.)

That one follows you everywhere you go. I just changed some things to perfectly fit the program. I just changed them here now, and I don't know if this speech is going to work perfectly, and I kind of wished I hadn't changed them, but I did.

Let me hang some thoughts on you that we have found from our polling, and maybe they'll give you
some ideas for the really important discussions that
you're going to have.

So I've had kind of the same job my whole life.
Doctor Gallup founded our company, a famous Iowan.
That's right, yeah, absolutely. But he was more of
an academic than he really was a businessman. He
was a pretty dandy little entrepreneur. But anyway,
he had a thing, he was real interested in democracy
and he had a line where he said, "If democracy is
about the will of the people, somebody should go
find out what that will is."

Now it's real important, all the politicians . .

he didn't say go vote that will. He just said that
you ought to know what that will is. Because if you
don't know the will is when you're making strategies
for your states and for the United States of
America; if you have the wrong premises, the more
you lead, the worse you make the place. So, his
point was let's write that will down.

Here's something that you need to know I think
for your conference. So, he started this thing 75
years ago. If you said to me, looking over those 75
years, what's the single most profound poll you've ever seen? I'll tell you.

Dr. Gallup called it the great American dream, he always wanted to write that down. What the great American dream has been for decades has been peace. Maybe that's coming out of Civil War and World War I and World War II. Then it became to have a family, pray to the God that you want freedom and a bunch of stuff like that. That's been the will of America.

Here's what you need to know though. Almost nobody knows this; it will sound subtle when I tell it to you. It's just changed. The new will of America is to have a good job. It's a huge sociological shift that changes everything. I'll give you a couple of them.

One thing is it changes when you get married. You wait longer, or you don't get married at all. It changes how many kids you have, or maybe you don't have any at all. Here's a big one; it changes migration patterns. We've been walking for about 200,000 years following herds or agriculture or
walking to ports. Now, we walk because of a place
where we think we can get a good job.

Here's a real important one. It changes who we
vote for--more than ever. It also changes for all
the people here in corporations. We were just
talking about this. It changes how you manage your
workplace because now a job is personal, and it
defines your relationship with your country, with
your state, with your neighborhood, with your family
and also with big you.

They say, "Well, is that new?" Yeah, that's
all new. I always say, if you want to know what it
used to be like, when you see a Yankees' baseball
game when Babe Ruth hits, then he has that little
funny run he does, look in the crowd, those are
salaried men. Sorry ladies, but I don't see any
women. At that time, it was all salaried men. They
all have those black suits on, white shirts.
Remember, they all look exactly the same. They all
have those same hats on and a black tie. And it
looks to me like they're all smoking Pall Mall
cigarettes too. But the whole of Yankee Stadium are
the same people. But that's back when a job wasn't personal. Those were salaried people. So, that's what you need to know. So right now, Gallup tracks nightly unemployment. We show about 20 percent unemployment. You've got underemployed too. You know, if I go over and mow Dave's lawn and he pays me 20 dollars, I worked 1 hour. I'm not unemployed. Did you know that? Maybe I'm an engineer, so I just worked one hour a week; I'm not unemployed. But then, if Gallup says to me, "Jim, are you unemployed?"

I'd say, "Hell yes, I'm unemployed. I don't count mowing his lawn for 20 bucks." So, the real unemployment number is about 20 percent. This is what's deadly about it. When we asked the 20 percent, "Do you have hope to get a job?" Sixty percent of them say, "I don't have any hope to get a job."

It wouldn't have mattered to salaried men. Salaried men don't care, it wasn't personal. But now, it wipes you out, and you experience something that I'm going to call hopelessness. That's a
brand-new state of mind here in the United States.

That gets you 18 million people. What I know about 18 million people from my business is that means every single one of us in this room is one degree away from somebody who is hopelessly out of work.

And so, if you ask yourself why do we have, why is America in the current state of mind, it could be the relationship we have with those 18 million. That's why this is real important.

Now, the reason that there is a book called, *The Coming Jobs Wars*: There's 7 billion people on the face of the Earth and five billion adults. So, we have this world polling book, consistent sampling across 160 countries. That gets you 98 percent of the world's population, and we said, "What's the will of what you're up to in your country?" I'll speed this up.

The great American dream is now the will of the whole world. The whole world wants a good job, and a good job we define as 30 plus hours per week and a paycheck and consistent work. So, that's just a good job.
When we asked the world, the adults, how many of them wished they had that, 3 billion of them say, "That's the most important thing in the world to me, is to have a good job." Here's the problem. There's only 1.2 billion good jobs available right now. So, we have a global shortfall of somewhere between a billion, 1.5 and 1.8 billion jobs.

So, the problem that you see with jobs going to China or wherever they are, all of that is going to grow multiple times bigger. So as Americans, when we think about our future, about where the jobs are going to be, it's not just China. The whole world is going to be crushing for them. And I'm going to try to stay on subject here, but we've been watching this in the Middle East with our tracking there.

So, it looks like Arab Spring to you? Maybe it's Islamic Winter? How about this? How about that's just a jobs war?

You know in Egypt they voted for the brotherhood, so the brotherhood came in and made a great big movement to leadership. Guess why they voted for the brotherhood? You think because they
want Sharia law? That's not what they told us.

Remember, they are pretty good business people.

They think the brotherhood is more likely to get the economics going better, so they can get jobs. You see, if you don't understand that the will is, you start making all the wrong decisions and wrong assumptions, and you make the Middle East worse because that's not what they're actually going for.

But it's everywhere. That's that point.

You know these numbers right now. This country's GDP is at about $15 trillion, right? China's is at what, five? So, we have about three times the GDP that China does. By the way, oddly, when you ask on the Gallup poll to the country, "Who has a bigger economy, China or the US?" Guess what they say? Yeah, they say China. I don't know why. But if China had a bigger GDP than we do right now, this would be a colossal bust. I mean this would be a huge mess. It's kind of a mess right now.

I think this is important, but I went through and took a bunch of economists. Not Gallup
economists, outside economists, threw the outliers out and said, "Where will the US economy be in 30 years?" They said that it will go from 15 to 30. So, $30 trillion of new incoming stuff.

Said, where will China be? Does anybody know this number? Between $60 to $80 trillion, they wipe us out.

We're on a track where they will be the leader of the free world, and I think economics will be more important than military. I mean everybody talks about this, but they'll have plenty of money for military. The problem is the economic might that the United States has had over the years is just incredible.

So, another good question is, "Well, what will the GDP of the whole world be?" So, I asked that in there, threw the outliers out. We're going to go from a current $60 trillion, that's where we are right now. Remember, the United States has 25 percent of the whole world's GDP. I mean that's just colossal. There's only 300 million of us.

It's going to go from 60 to 200. So, it means
$140 trillion new stuff is coming in. So, the god of jobs and customers and everything else is going to rain $140 trillion of new sales, stocks, money, customers and jobs in the next 30 years.

What's our job? What's your job? We've got to get a disproportionate share of it or our relationship with the rest of the world changes more than you can ever imagine. But the way it looks right now is that the Chinese, because they're growing . . .

whether you do 8½ percent or 10,

whether you do two to three for us, that's what it comes out to. So, unless something big happens,

that is coming to a theater near us. And that was one of the reasons why Gallup put all this stuff together.

Now, you're kind of quiet and depressed. That was why we did that research. And I'll try to say something hopeful here. But I was watching TV about, a little over 30 years ago and there was a panel of economists. I just turned 60, so I lived through this. But the panel of economists, I'll never forget watching it; it just shocked me. But
they all sat there, both left-leaning and right-leaning, good Americans, and they said that Japan and Germany were going to overtake our economy in the next 30 years. That's right now. They said that because of superior manufacturing, Japan would go to first, Germany would go to second, and the United States would go to third. They said Japan would be at about five. They said that Germany would be at about four. And the United States now, can you imagine, that would be about 3.5 or 3.8? It's déjà vu all over again. We're in exactly the same place we were. But remember what happened? Nobody saw it coming. I mean, the people that love America, our own economists, said it's over, and we Borrowed clear up to $15 trillion. But can you imagine? I don't know why—I tell MBA classes this—why didn't anybody write about this? Whatever the hell happened right there is what we need back here again. Somebody needs to write that down and say how can we do that? Of course, what happened was we just had an unbelievable run of innovation and entrepreneurship.
By the way, if you want a big number, if you add the stubs over 30 years over the projection. Do you see what I mean? So, add the stubs over the regression line of the stubs, that equals $100 trillion. Now, you finally have a big number. That's how much money we had over those 30 years by outperforming where we were supposed to be. And that's also how we had this 25 percent of the total GDP of the whole world.

I just want to hit on a couple of these points. I don't mean to make them sound reckless, but I think it's important for the good of the order here. I think we're making a very big mistake betting all of our money on innovation. Just consider it. You're all big leaders, just consider that. We have pushed all of the big multicolored chips onto that one a phenomenon of innovation. What if you're wrong? What if we're wrong? I noticed that the President is just packing 150 billion into innovation. Well, I didn't see a line for entrepreneurship. What if we got it exactly backwards? But here's what I want you to consider,
and I worked on this research. No special interest
groups, nobody else.

Innovation has no value whatsoever until there
is a customer standing next to it. There isn't a
person in this town that knows that. But you see,
when we are trying to create jobs and we just keep
piling more and more in innovation . . . look what
the Saudis are doing. They're building cities of
innovation. Have you ever been over there to
Riyadh? I mean, you can just see right through
them. There's nothing coming out of those things,
because the most valuable part of it is the business
model and the entrepreneur that can fire it.

I'll tell you this real quick, because it's
such an unbelievable story. But you know the
Internet probably saved this country on that great
big run. There are some other things, but that's a
huge part of it. But the inventor is Vint Cerf, and
he's just walking around here in Washington right
now. He built that over at DARPA. I know Vint.
He's a friend of mine. He told me this story; I
didn't hear it from somebody else.
He had it done. A guy came walking over, he had heard about it, and he said "Let me see that thing." Vint showed it to him. Vint didn't even think he had anything. He got packets to fly across fiber optics so he could send . . . he had his own Internet just sitting over there for a few years.

A guy came over from the U.S. Senate and said, "Let me see that; he went, "Holy cow, that could be a hell of a thing. Let's throw it out into commerce."

Vint Cerf will tell you, he's told me; he said back to that U.S. Senator, "Fine with me, but I don't see what value businesses will have with it."

My God, it was a conversation about the Internet. By the way, do you know who the U.S. Senator is? Yeah it was, it was Al Gore. I don't even know him, not a friend. It's a hell of a good thing. He should've gotten a Nobel Prize for that one I think.

But see that Internet just sat there until it went out into commerce, then entrepreneurs got a hold of that and probably most of that $100
trillion that we had, came out of just that
moment. Otherwise, all that innovation just sits
there. And I don't know what would happen, maybe we
would still be spending more money on innovation.

A woman here in town invited me, it was about
9:30 in the morning and she said, "Can you come over
and give a talk at the Academy of Sciences over on
Constitution?"

I said, "Yeah."

She said, "Today, I need you here in an hour
and a half."

I said, "Did somebody cancel? What do you want
me over here for?"

She said, "No, it's the people that had our
best labs, NASA and NIH and MIT and that kind of
thing."

I said, "What do you want me to say?"

And she said, "I want you to tell them that you
think that innovation's overrated."

And I said, "It's not overrated. We've got the
wrong expectations for it." But anyway, I went over
and talked to them. There was only about 40 of
them. So, these are the people that run really the biggest labs in the world. Nobody has labs like we do.

But I said to them, "Before you start throwing tomatoes at me, how many of you have inventions in your labs that are ready to go and just need commercialized?"

Every hand went up. One guy said, "I've got an invention bigger than the Internet. It just needs entrepreneurship." We might have the next big runs. We don't have to chug along at 2½ percent. We might have enough invention. We might have a huge oversupply of invention. That's what I think. But we haven't put the same science to entrepreneurship that we have to innovation.

I'm watching my clock here, governor. I want to make just one more point here for you to consider. What the United States is the best in the world at is intellectual development. Now, you hear about we have bad schools and such. Yeah, near the bottom. The top schools are incredible. The Economist just printed the best 30 MBA schools in
the world, 20 of them are in the United States, nine
in
Europe and one in Canada. None in the Middle East,
none in China, none in India, nowhere else. We are
masters of intellectual development.

If you put 1,000 kids out in front of
educational psychologists in this country, they can
rank order them 1 to 1,000, with IQs, SAT scores and
everybody will agree we really know IQ. And that's
how we'll find people, even in lower income, in
Mississippi, in Western Nebraska or wherever it is,
because they test out. And then what you do is you
give them a scholarship to go the University of
Nebraska or Chicago and on to MIT or wherever it is.
Do you see what I mean? It is so intentional, our
intellectual development, that once they graduate
from MIT, they go on to NASA. See how we do that?
Nobody in the world has mastered intellectual
development like the United States of America.

But I don't know what the example is; it's a
hammer and a nail, when you're a hammer you think
everything is a nail, or something like that. So we
1 do that so well, when we are in a big problem like

2
we are right now, we spend just billions and billions and billions on innovation. But see if you said to that educational psychologist here is that 1,000, here are these 1,000 kids in Phoenix or Austin or somewhere. Let's see you line them up by their ability to create a customer, entrepreneurship, to enterprise.

The United States of America fails, flunks. We have no idea it's even an argument. We don't know who the best is. But see if we could do that, then you might rise up and change everything.

Here's two ideas I have for you, then I think maybe you'll have some questions. This morning 6 million CEOs got up. That's how many businesses there are in America. You'll read 26,000, they're not. But there's a bunch of them on paper that actually have employees, there are 6 million--6 million between one employee and 100. Between 100 and 500, there's only 80,000. See how fast that drops off? And then between 500 and 10,000, there is only 18,000. More than 10,000, boys, there's only 1,000 companies. Do you see?
So, you've got six million companies that are under 100 and only a 100,000 that are bigger than that. So in the ecosystem, we really are a nation of small businesses. When those 6 million small businesses get up, not one of them is thinking about how they can hire an employee. You're all going to see the President, make sure you tell him that. Nobody is trying to hire an employee. They are trying to cut them. By the way, if some of you have run a company with 10 people, hiring one person is like a merger. I mean, it's a huge decision. You've got to talk to your banker and your spouse and everything else. But what everybody is talking about is how they can create a customer. But this is really important. Of the 6 million, 75 percent of them aren't even trying to grow. You just have to know that or you'll make mistakes in your engineering. You say, well what are they doing in that business? They do it only for the reason of freedom. They are like coyotes or something. They can't be domesticated. Nobody has ever domesticated a coyote; they never
will. That's the way those 6 million CEOs are.

They are not trying to grow.

So you see, if you put engineering systems in, you put policies in, all the ways that they grow, 75 percent of them don't know what you're talking about. They're doing it because they don't want anybody to tell them what to do. Nobody knows that. That's one of the places you find American freedom I think.

Those 6 million people, if you get in to what they are thinking about, they are like from outer space. I'm kind of one of them, some of you around here are kind of one of the them too. But only 25 percent of them are really trying to become Facebook and Groupon and all of those. But you see, that's 1.5 million small businesses.

But those are the ones that we have to put some kind of engineering in place and support them, because they will burst. But they could burst, that one and a half million. There is about $3 trillion of GDP in there. But they could burst up to three times, five times, that of some of the success
that we're having with an experiment with Dave. But
that's the sweet spot in all of this.

The last one is we did a survey of 5th- through
12th-graders. It's real hard to get a national
random on these guys. But we asked, "Will you
invent something that changes the world?"

Forty-five percent of them said, "I'm going to
do that." So it's a real high hope innovation
question.

The other one is "I will start and run my own
business." That's about 45 percent too. So,
there's plenty of hope in the 5th- through 12th-
graders, but that's where you're going to get
startups. Right now, we only have about 400,000
companies starting up right now. We need a million.
So, the second place where we've got to be is right
there.

Here is the negative. When we ask them if they
are in an internship, only 5 percent of them say
they are. If we knocked that 5 percent up to 25 or
even 50, then I think we would take over and retake
the world.
I'm going to stop right now. Thank you very much for having me here.

(Applause.)

CHAIRMAN HEINEMAN: Jim has given us plenty to think about, and he also agreed that he would take questions. So whoever wants to, go right ahead. Well first of all, let me say the newest governor has arrived, the Governor of Mississippi, Governor Bryant. Welcome, and you get the first question.

GOVERNOR BRYANT: Thank you. Jim, I enjoyed that. Tell me what, if any, your information shows as the biggest impediment to these lone wolves, these entrepreneurs? Because I love these guys. I love being around them. I love talking to them; it's exciting. I think those of us in this business need to be a little bit of an entrepreneur. So, what slows them down, what do they say. "If you just moved that out of the way, I would take off?"

MR. CLIFTON: Okay, that's a deadly question, because that's a debate right here. And
we just did a great big sample, and I even called
some of them myself, so I would get a feel for them.
Because you sound like you know a lot of them too.
They are in a completely different space than the
rest of the country.

The question is, well, banks won't lend them
money. That's what you think. It's not true. When
you ask what their biggest burden is, they say this
word, regulations. They say regulations. It's not
banks. If anybody tells you, because there are some
surveys around; they tend to be listed samples. I'm
not going to . . . just trust me.

And when we say what regulations? The two
drill downs are environment and healthcare. Now,
some will say, well, they shouldn't be saying that,
blah, blah, blah, blah, blah. Here's the real
important thing. It's the image that crushes them.

So, I look at them as 6 million turtles. They
have all got their heads in their shells. The
question is what will get them to put their heads
out? And I mean that in a complimentary way. I
mean turtles can get running pretty fast.
(Laughter.)

They have their heads in their shells and won't get them out.

GOVERNOR BRYANT: In Mississippi, they'll bite you too.

(Laughter.)

MR. CLIFTON: But it's not really an issue of banking. We say, "How many of you are having trouble getting a loan?" That's about 20 percent. And if you and I have both been small businessmen, you and I have always had trouble getting loans. Twenty percent is about the right number. It shouldn't be zero, because you should be arguing with these guys anyway.

But the regulations, but also the image. That's why the messages have to be . . . I'm not going to say the name, but a group of guys, they said, "We're going to give a rebate of 4,000 dollars if they'll hire somebody." Then they start wondering about, "What's that? More rules for me?" Then that makes the turtle draw in. Even if they don't do it, don't even talk about it.
But then there's something else. They say, "Why don't we have every company just hire one employee?" Six million people aren't going to hire one employee. What does that mean? That little guy in Jackson, Mississippi, is going to hire one and GE hire one, when they are laying off 33,000 or whatever? Don't bring that up because it's a conversation that makes the turtle pull their head in even more.

GOVERNOR BRYANT: Thank you.

CHAIRMAN HEINEMAN: Governor Herbert [Utah].

GOVERNOR HERBERT: Thank you. Kind of along the same line as what's been mentioned with regulations. When you talk about 6 million CEOs who are not trying to expand their businesses, I expect that they are out there trying to be profitable. I think that's the motivation. That's how a free market system works. And as you are profitable, you have opportunities to expand your business and hire more people. Profitability happens in many different ways.

To me, it's not only the regulation, but it's
the uncertainty of the marketplace. The estimates are that we have, in fact, a couple of trillion dollars of capital sitting on the sidelines, not engaging in the marketplace. That's because of uncertainty, regulations, we don't know what the future is going to bring. And for those entrepreneurs out there who have got great ideas, they need capital. When you commercialize, how do you have capital to flow towards helping them commercialize great ideas, whatever that may be in a free-market system?

So, my question would be how do we get capital flow in the marketplace to, in fact, energize entrepreneurs and help them in commercialization and expansion of existing businesses with new ideas?

MR. CLIFTON: Okay, remember the 6 million, only 25 percent of them really want to grow. And we asked them, "Do you have the capital necessary to grow?" They say they do.

Now, you've got another group, that 75 percent, where they are going broke. They're having trouble, they are having trouble; they would like to have
money, banks won't lend it to them, because they know they're not going to get paid back and they grow broke. It's so important that you segment those populations when you're talking to.

The experiment that is one of the most amazing that I've ever done in my whole career--Dave and I are doing it in Nebraska. But we found, I'm going to say, 500 small businesses, and we called them a guide. We don't like the word mentor. The guide has 10 of them. But if you sit down, we've got about five things that we do to them that we agreed and put it in a box. But then, you also have a relationship outside those tools. But you talk with them about the own strategies. They are always doing a lot of things wrong. They'll spend too much time with their worst customers rather than their best. You see what I mean?

So, we put our best consulting tools in, but it's mentoring, advising, that's really what they want. What they wish is that they could have consultants like big companies have: Kind of like Bane or Gallup or McKenzie or somebody. So, we've
tried to create that. By the way, to do it well, you've got to have ... the University of Nebraska helped. You can't just have some lowly state department do it. It doesn't work at all. It's kind of like magic, pulling it off.

Gallup has a big name. Dave told me he is a popular governor. He told me he is very, very popular. That's what he told me.

(Laughter.)

We have a popular governor. The people in that 25 percent, there are some real hot shots in there, and they only want to be a part of something that is exciting. You see? So, you've got to put together something exciting, and they join it. And Dave really shows up, I really show, our CFO, our COO, the president of the university really shows up. So, it's a very special thing. That's what they need, not capital.

CHAIRMAN HEINEMAN: Governor Fallin.

GOVERNOR FALLIN: Thank you for all your information.

CHAIRMAN HEINEMAN: By the way, she's from
Oklahoma.

GOVERNOR FALLIN: Yes. I think we probably beat Nebraska that year, so.

(Laughter.)

But we appreciate your coming today. I was intrigued by your statistics, talking about the 6 million businesses and how many of them are actually looking to expand or not expand. And the last question that we just had about certainty and uncertainty in the marketplace.

I just recently did a survey of all of our businesses in Oklahoma, as many as we could get to reply. And we're a relatively small state, 3.8 million people. So, we surveyed our businesses. We asked 44 questions. We asked about our tax structure, workforce, education. Are you planning to add more jobs, not add more jobs? There's something about Oklahoma. We found that over 60 percent of our businesses that responded said they were going to add jobs. Which is interesting compared to your statistic about how many are actually looking to expand their businesses.
And then the other thing that's a little bit different in my state is that we actually have employers that can't find the workers that they need in Oklahoma. Which we started a new program called Okay Jobs Match.com to match employers with employees who are out there in the workforce looking for jobs.

So, it's interesting how what you are seeing nationally is little bit different than what I am seeing in my state. But I think it goes back to the last question, is creating that certainty in the marketplace versus the uncertainty that we see nationally. So as governors, what would you recommend to us that we can do to further create certainty in our states, versus what you are seeing nationally? And what do we need to do nationally with the uncertainty in the marketplace?

MR. CLIFTON: By the way, if you want to do 9 percent unemployment or 20 percent unemployment . . . you're right, the variation of performances in this country are unbelievable, especially by city. If you take Omaha, I think
Omaha's unemployment is like 4.9 and GDP is growing. I always look at . . ., I think this is okay, but if you look at Austin, Texas, and Albany. I love comparing those two; both big states, both cities, capital cities, no ports, no nothing. For some reason Austin, Texas, has created unbelievable energy. People move. It changes migration patterns and start-ups and all that. Where Albany can't really get . . . the only thing that you can point to are local leadership teams, where they get together and they make some kind of a strategy. Looking at Nashville, of course, they've got the music thing. I don't know if that's much GDP or not. But they've made that now into a healthcare center. My gosh, I mean there is so much white-collar health-care there. But there is enormous differences. The best thing that we can do is the 1.5 million small businesses . . . by the way, it's about the same number, kind of the same number of soldiers we have. But if we worked as hard at developing them
like we did our military . . . I love the military
by the way. But if we got as good at doing that science then I think that's our best chance to come up. And we've got to get free enterprise, obviously I'm a capitalist. But those kids coming out of high school, they had better be in the state of mind of free enterprise, or we won't have the startups that we need.

I think those are the two big places to focus on. The 25 percent of the businesses in your state that really want to grow, get some engineering for them that encourages them. And Dave and I can help you and tell you about our experiment.

And the other one is get a metric. By the way, Gallup just gave it as a gift to the country. If you go on Gallup.com you have a thing that your schools can just plug it right there, to measure how much innovation energy and how much entrepreneur energy, and then how many are in internships. And whatever your internship number is in your state, it's too low. It has to go up three to five times.

CHAIRMAN HEINEMAN: Governor from Guam,
okay, go ahead.
GOVERNOR CALVO: Eddie Calvo from Guam.

Let's say we solve the issue on teaching folks how to be entrepreneurs, and then we solve the issue on regulation. So, we have governments that have found ways to make it much more easier to do business.

Now the statement you made, under certain successful communities, 4.9 percent unemployment—

MR. CLIFTON: Something like that.

GOVERNOR CALVO: Something like that. And then of course places, small communities like Guam, 13 percent, or some other areas where again, over 9.

The question I have is, is there . . . in fact, it's a two-part question. You need a customer. It ultimately comes in to you need a customer. And is there enough to, let's say this territory, this county figures it out. But is there enough, do you then take from the other county or the other state that customer and prosper and blossom?

You alluded to the issue now of globalization and where America is at 25 percent now. But if you look at all the experts, in 10, 20, 30 years, maybe we are a small piece of the pie. If we are driven
by small business, how do you get more customers, and it's not just a customer from Albany or a
customer from Oklahoma? How do you get that small
business entrepreneur who doesn't have much
regulation to other customers in this global
economy?

MR. CLIFTON: I understand your question.

One of the reasons we have a slowdown is that we
are not selling stuff fast enough to each other.
So, we do need more competition. But you're right,
that won't take us up to the great big GDP numbers
we need to continue the relationship we have now
throughout the rest of the world.

And so what that gets you to is remember we do
need that competition. We need everybody. Because
we can get about another 7 percent out of that.
But the big answer is export. You can kind of see
the whole future through . . . I mean Apple,
Groupon, obviously cars and a whole bunch of other
things. But if we don't export, none of this works.
But those little guys are doing a pretty good job
within that 25 percent group. I mean the Facebooks
and that kind of thing. Those numbers add up really fast, but we've got to export. No, you're spot on. It doesn't work just selling . . . we can't sell enough stuff to each other to get the numbers we need.

CHAIRMAN HEINEMAN: Any final questions?

Governor of Hawaii.

GOVERNOR ABERCROMBIE: You indicated that among the responses that you got, the word that used to cover a multitude of sins was the word regulation. And when you said you drilled down a little, one of the elements that came forward was healthcare. Healthcare, the provision of healthcare, financing healthcare, I presume, is what you mean by that, the costs associated with healthcare and those businesses. That has very little to do, or nothing to do with regulation as such, and has everything to do with how we provide healthcare. What is the assumption about healthcare?

You mentioned the United States Military. If we had training, if we had an investment, if you
will, in the United States Military. As someone who
was involved for two decades on the Armed Services Committee, before I took this job, I can tell you I have some experience then in how you provide that healthcare. It's national, in fact international. That is to say it's universal, healthcare.

What's happening at least where my collective bargaining is concerned as an employer in the State of Hawaii is that healthcare is the single most, the provision of healthcare and its costs is the single most difficult challenge to me. It's not spending. It's not state spending. It's the cost running away. The spending chasing the costs.

Until we come to grips with the question of healthcare and get away from the political rhetoric associated with accusations about it, we're not going to be able to deal with whether it's called regulation in healthcare or anything else.

We have to come to grips with the question of the provision of healthcare and the exploding costs around it, before we'll have some of the flexibility, with regard to investment in education and all the rest of it.
MR. CLIFTON: I will answer this, and maybe we better-

CHAIRMAN HEINEMAN: Okay.

MR. CLIFTON: By the way, when respondents say healthcare or whatever, something to keep in mind is that also the image of regulations might be more than the actual regulations. So, it could be the 6 million turtles just throwing their hands up, "Oh my gosh, more regulations." But then trying to pin them down, they can't really pin it down. But of course, you're right. I mean everything I'm talking about this morning addresses. . . . I'm going to call it . . . back to the Oklahoma/Nebraska . . . I'm going to call it the offense. We can't cut our way out of this. We've got to cut a lot, but if our GDP doesn't bounce way up, none of this works. If we're going to go to the defense . . . sorry 'bout the football thing . . ., but the defense is healthcare, is unbelievable. It's $2½ trillion now. It's growing at 6.2, which means in 10 years, it's at $4½ trillion. If you add those stubs,
it's $10 trillion, which is three times bigger
than the subprime meltdown.

The tsunami that's coming in from healthcare is just unbelievable, and the only solution, what we're doing here in Washington, just moving the money around. The only solutions actually lie in preventative measures. At 8,000 a person, Target is getting out way ahead of a lot of people on this. But so they have about 300,000 people. So you see, they're 300,000 times 8,000, 2½ billion. It's about the same as their profit, and so, healthcare has gotten to the same place.

Remember the joke Warren Buffet made about General Motors or somebody, was really a healthcare company that happened to sell cars? Because what he meant is that it only survived to provide healthcare. That's pretty much the way all our businesses are now.

I better end, thank you very much.

(Applause.)

CHAIRMAN HEINEMAN: Jim, thank you very much. We appreciate your insights. You've given us a lot to think about.
Now, I would like to take a few moments to recognize the winners of the NGA Public Private Partnership Award. This award recognizes NGA corporate fellow companies that have partnered with a governor's office to implement a program or project that makes a positive contribution to a state and its citizens.

Each year, all governors are invited to nominate a corporate fellow company for work in his or her state that demonstrate 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 the governors who submitted nominations for this year's awards program. The nominees were outstanding, and a volunteer selection committee chaired by Lauren Kintner and my staff evaluated the nominations on criteria such as cost savings, innovation, sustainability and improved service delivery. I want to thank Lauren and the members of the committee for their investment of time and energy. I know the decision wasn't easy.
This year, two companies will be recognized.
And I would first like to invite Governor Tom Corbett of Pennsylvania to the podium to present Pennsylvania's winning nomination for the 2012 NGA Public Private Partnership Award. Governor.

GOVERNOR CORBETT: Thank you, Governor. Thank you, Governor, and I will say good morning still. I think we have another minute to the morning. It's nice to see you all. I think this is a great award the NGA gives out, and it gives us an opportunity to recognize those private sector people whom we work with on a regular basis, and who, by their innovation—and I'll use that word on purpose—their innovation makes our job hopefully a little bit easier, but also less expensive for the people of our states and the taxpayers of our states.

As many of you probably are right now, Pennsylvania is in the midst of reforming our welfare system. And that reform can take many different shapes. But when I say reform, it's not an excuse to do less. We have to stretch that dollar. We have to do that, I understand. But it
really is a call to do better. The system that Hewlett-Packard Enterprise Services helped us do and put into place is about saving revenues, saving work hours in our workforce and thereby having more leftover to help the clients of our Department of Welfare and the citizens of our states.

This system essentially has kept our employees from drowning in a pool of data. You talked about data before, Mr. Clifton. As we all know, that Internet provided more data than we ever thought we would ever see. And that has, in some places, frozen agencies in time. Some agencies have a difficult time assembling that data, and that's one of the things that we found when we came into office about 13 months ago. So, I'm grateful for the opportunity to use the real-world solutions that the private sector companies have come up with, Hewlett Packard in particular, to make state government more efficient and more responsive and really, a better servant to the people of Pennsylvania.

I believe that the less time we spend crunching the numbers, the more time we have left to help the
people of Pennsylvania from our Department of Public Welfare. So, I'm pleased to help see that HP is recognized here today, David. Thank you very much.

(Appraise.)

CHAIRMAN HEINEMAN: I would now like to invite Governor Martin O'Malley [Md.] to the podium, to present Maryland's winning nomination for 2012 NGA Public Private Partnership Award, and it's right here.

(Laughter.)

GOVERNOR O'MALLEY: Thanks governor, thank you. Governor Heineman, thank you very, very much. It's an honor to present this award today to one of the strongest partners in our work, in the state of Maryland, to advance the achievement of our children when it comes to STEM: Science, technology, engineering and math. As our global economy becomes more knowledge-based, our ability to compete increasingly depends on spurring innovation and strengthening its primary ingredient, which is education. An issue that each of you spent a
tremendous amount of energy on, in particular, in
the STEM disciplines. And that's why, in Maryland, we set the goal to increase the number of STEM college graduates by 40 percent by 2015. And so far, we've increased it by 23 percent, but we're not done yet.

To reach our goal, we wanted to find a way to increase collaboration and information sharing to promote student achievement and really to spark that interest in kids, so that they want to get into STEM disciplines. We wanted to bring together experts not only in education but also from our business community and our nonprofit world and to share knowledge on the latest trends, best teaching practices and recent developments within STEM fields. And we envision what one might call e-Harmony of STEM, and this was the genesis of our STEM innovation network.

Thanks to IBM, we are able to make this vision a reality. Together with the Maryland Business Roundtable, which is represented here somewhere by June Streckfus, who has been championing this, IBM led a visioning process to help us create a system
to promote the most meaningful sharing of resources, information, collaboration, expertise and time.

They brought in developers to build the central technical platform, which is now in use in high schools all across our state. And they were right by our side through every phase of the process, including building, testing and implementation, with the shared goal of bringing the expertise of working STEM professionals directly into the classroom, so kids could see this was real. And they could have a profession and use their talents and skills in STEM professions and fields. STEM is . . . one of my favorite parts about it is our ability to bring in representatives from business, government, higher education into classrooms to talk directly to kids.

Today, hundreds of students were learning from STEM specialists in the classroom, and over the next few years, we're planning to provide access for thousands more. It's my understanding, we're the first state to build this type of STEM resource, and we could not have done it without the expertise Governor Heineman and the guidance that IBM
provided.

So for their contribution to our efforts, I'd like to bring forward the NGA Public Private Partnership Award, from the IBM Corporation, and here to accept that award is Jim Salinger, Vice President of Technical Sales and Support, IBM of North America. Jim, come on down.

(Applause.)

Jim, thanks a lot.

MR. SALINGER: Governor, thank you.

CHAIRMAN HEINEMAN: We have one final thing we want to do before we adjourn to the governors only. We would like to ask Governor Bob McDonnell [Va.] to come forward to say a few words about the upcoming annual meeting in his great state of Virginia. Bob.

GOVERNOR MCDONNELL: Good afternoon.

Thank you, Dave, for giving me a few minutes to plug the great commonwealth of Virginia: The cradle of democracy and the mother of presidents. And I want to extend, on behalf of the eight million people in
Virginia, an invitation to all of my fellow
governors to come this summer, in July, to bring
your family to Williamsburg, Virginia. It has been
57 years since the NGA has come to Virginia, and I'm
delighted, Mr. Chairman, that you and the executive
committee saw fit to return this summer to Virginia,
and we're really thrilled to have you.

Over this last year, Dave and his staff and his
wife, Sally, and my wife, Maureen, and our staff
have been planning what I hope will be for you—who
I know love America, love history, a love of the
story of the foundation of this great country—a
memory that I hope will be unforgettable. I was just
chatting with my good friend, Deval Patrick, and
reminding him that Plymouth Rock was actually 1620,
and Jamestown was 1607.

(Laughter.)

And so that accident of landing on Plymouth
Rock was actually, there was a bad storm and they
were actually looking for Jamestown coming back, and
they got a little lost. But both commonwealths have
a great story about the foundations of our country.

We have a lot of great events planned. In
fact, you have on your desk an invitation that says it's from the Right Honorable Robert McDonnell, as opposed to the Left Honorable Robert McDonnell. So, I wanted you to have that.

You'll have an opportunity to be able to have dinner at the Old Governor's Palace in Williamsburg. We're going to have a candlelight dinner there. This is the same palace and the same place where my predecessors, Patrick Henry and Thomas Jefferson, the first two governors of Virginia, were actually sworn-in in the late 1770s and where they resided before the capital moved to Richmond some years later.

It's the place where May 13th of 1607, those brave 144 men and boys landed. The *Godspeed*, the *Discovery* and the *Susan Constant* landed in Jamestown, Virginia, and gave birth to the greatest country the world has ever known. And I'm very excited about being able to tell that story once again for all of you some 405 years after that.

You will also be able to see and have a private meeting at the Jamestown settlement. It's the place
where, in 1619, the oldest continuously legislating body in the free world, that is the Virginia General Assembly, held its first meeting. The remnants of that church, where that meeting took place, are still there.

Interestingly, after all this passage of time, it was just about 15 years ago where the original footings of the original Jamestown fort were actually discovered. And they are still doing live excavations today. Between the federal and state and private research authorities, they are still finding new artifacts. Just a few years ago, they found what they believe to be the very body of Captain Gosnold, one of the eight captains of that voyage along with John Smith and John Roth and the others that are well known throughout the course of history. There is a marvelous museum now, set up with some of the artifacts that have been dug out, and you will actually still see a live archaeological dig.

And we have a great setup also for the families. A private night at Busch Gardens, one of
America's premier entertainment parks, on the Thursday that you get there. My wife and Sally have put together some of the things: A cruise either on the James or the York River, which will be very exciting, either on a yacht or a schooner that all of you, I think, will enjoy and also a private tour of one of Virginia's great wineries. You all know that Virginia is the fifth largest wine producing state in the nation?

So, we'd like to say you hear about the Napa Valley, but Napa is for auto parts; Virginia is for wine.

(Laughter.)

Jerry Brown is not here I don't think, so I guess I can say that. But we want to have all the spouses see Virginia's great wine country and also to have a private meeting and a lunch at the Governor's mansion in Richmond.

So outside, you will see a lot of things. Virginia's great wine country guide. You'll get some of the best peanuts in the world, Virginia's peanuts. Some of the world-famous Virginia-is-for-
lovers dark chocolate. Actually, it should be
Virginia is for lovers of elections. We have them
twice a year in Virginia. And some other things for
which you can remember and prepare for your visit to
Williamsburg.

But we're incredibly honored to be able to host
this here, this summer. I think it will be a very
memorable experience as you trace the roots of
American democracy and civilization. We will tell
the Virginia story, you will be able to see a lot of
the reenactors there in original garb, like mine,
and I think you really will get a sense of what life
was like 400 years ago as we gave birth to this
nation.

So, we welcome you in typical Virginia
hospitality, hope you'll come and please, bring your
families. Please come early; please bring your
wallet. We need a little more revenue, and we would
love to see you there, and it's a real honor to be
able to host here in Virginia. Thank you.

(Applause.)

CHAIRMAN HEINEMAN: Bob, I want you to
know that Jack and I made an executive decision that
only you and Deval are going to wear that hat in
Virginia.
(Laughter.)
So, we really appreciate that. He's already
complaining. This concludes our opening session,
and we will now adjourn to a governors only session,
which begins at 12:45. This session is adjourned.
(WHEREUPON, The proceedings were concluded at 12:09
p.m.)
NATIONAL GOVERNORS ASSOCIATION

CLOSING SESSION

MONDAY, FEBRUARY 27, 2012

JW MARRIOTT

1331 PENNSYLVANIA AVENUE, NORTHWEST
WASHINGTON, DC 20004

Nebraska Governor Dave Heineman,
NGA Chair, Presiding

Delaware Governor Jack Markell,
NGA Vice Chair

Reported by:

CHARLES D. HOFFMAN
CHAIRMAN HEINEMAN: Governors, I'll call this meeting to order. Thank you for being here. On this final session, we will focus on our association and committee policies. This year, we've talked many times; we redesigned our policy process to more closely align our policies with governor priorities. We are asking each committee to provide a report today on its policy, and we will be voting on those policies. The packet in front of you reflects those policies as adopted by the Executive Committee and the Standing Committees and recommended by the Special Committee. They will require a vote of ⅔ of those who were present, and we will first go to the Chairman of the Economic Development and Commerce Committee, Governor Brownback [Kan.].

GOVERNOR BROWNBACK: Thank you very much, Mr. Chairman. It's a pleasure to serve on this committee and lead it. Jay Nixon of Missouri was the vice-chair of it and did an excellent job. We
had a hearing on it Saturday and then a pretty extensive discussion yesterday. What we've done with this is gone into three key policy areas, centering on commerce, transportation and infrastructure, and public finance. The committee recommends adoption, by the NGA membership, of three EDC policies. EDC 1 focuses on commerce and economic development generally, entrepreneurship and innovation, trade and investment, tax and regulatory matters.

EDC 2 addresses transportation and infrastructure in a modal neutral manner. This is a major issue on the transportation funding that's coming up in front of the Congress. So that, we as a group, NGA, can speak out on this.

And then, EDC 3 affirms the importance of public finance, state authority and financial services regulation, consumer investor protections, and financial regulation. And this is making sure that we don't get moved out of this area, nor our ability to do public financing harmed by federal laws.
So on behalf of the committee, I move the adoption of our policy recommendations and would be happy to answer any questions concerning them.

CHAIRMAN HEINEMAN: Is there a second?

SPEAKER: I second.

CHAIRMAN HEINEMAN: Thank you, Governor Nixon. Any discussion?

(No response.)

All those in favor, please say aye.

(A chorus of ayes.)

Those opposed, no.

(No response.)

The ayes have it. It's been adopted. We now go to the Chair of the Education and Early Childhood and Workforce Committee, Governor Beebe [Ark.].

GOVERNOR BEEBE: Mr. Chairman, in an effort to keep this thing on time, I move adoption of the report. We talked about it yesterday.

CHAIRMAN HEINEMAN: Okay, that was pretty brief. Is there a second to that one?

SPEAKER: Second that.

CHAIRMAN HEINEMAN: Is there anybody who
would like to ask Governor Beebe any questions?

(No response.)

Seeing none, all those in favor, please say aye.

(A chorus of ayes.) Those opposed, no.

(No response.)

Good job, Governor Beebe. It's been adopted.

We will now move to the Chair of the Health and Human Services Committee, Governor Branstad [Iowa].

GOVERNOR BRANSTAD: Well, thank you very much, Governor Heineman. Yesterday, Governor Quinn [Ill.]

and I moderated an HHS Committee session on innovative and sustainable strategy states may pursue to improve overall health of our citizens while improving service delivery.

We had the opportunity to discuss these items with two very distinguished guests, Dr. Howard Koh, who is the assistant secretary for health at the US Department of Health and Human Services, and Ms. Laura Jackson, executive vice president of Welmark Blue Cross Blue Shield. Each of whom provided great
insight on steps that states can take to meet
increased health care needs of our citizens, while reducing healthcare costs. And I guess I would challenge other states to join Iowa with the goal of becoming the healthiest state in the nation. That's one of the things we focused on.

The committee also approved Interim Policy HHS 2, which has to do with the temporary assistance for needy families. So, I would now move for the policy HHS 2, the T & F update.

CHAIRMAN HEINEMAN: Is there a second?

SPEAKER: Second.

CHAIRMAN HEINEMAN: All right, thank you.

Any discussion?

(No response.)

All those in favor, please say aye.

(A chorus of ayes.)

Those opposed, no.

(No response.)

The ayes have it. It's been adopted. We will now move to the Chair of the Natural Resources Committee, Governor Malloy [Conn.].

GOVERNOR MALLOY: I'll try to make this as
quick as possible. We have three policies:

Environmental protection policy focusing on water resources, our energy policy outlining some of the activities that governors have undertaken in the energy arena, and calls for Congress to encourage environmentally responsible, secure, efficient and affordable production and use of energy.

And finally, a policy, natural resources policy, lays out our governors' priorities for the Farm Bill, the Land and Water Conservation Fund, the Secure Rural Schools and Community Self-Determination Act, the Payment in Lieu of Taxes Program, and the cleanup of federal facilities. All of these issues may be acted upon by Congress, and we now have positions. We will now have a policy that will allow us to take positions in support of what governors have previously outlined. I would move it.

SPEAKER: Second.

CHAIRMAN HEINEMAN: Any discussion on the Natural Resources Committee?

(No response.)
Seeing none, all those in favor, please signify by saying aye.

(A chorus of ayes.)

All opposed, no.

(No response.)

The policy is adopted. We are now going to move to the Co-Chairs of the Special Committee on Homeland Security and Public Safety. Governor O'Malley [Md.] and Governor Mead [Wyo.], have you flipped a coin?

Who's going first today? They are both here.

GOVERNOR O'MALLEY: Go ahead.

CHAIRMAN HEINEMAN: Governor Mead first, then Governor O'Malley.

GOVERNOR MEAD: Is that what he said?

CHAIRMAN HEINEMAN: He agreed to it, I guess.

GOVERNOR MEAD: Well yesterday, we had a very good discussion with our Special Committee. We discussed 3 items; HHS 3I, HHS 4I, HHS 5I, and Mr. Chairman, I would also note that I think we had nearly, if not all, the TAGS from across the country
that were there. It was a great representation. We
had also, I think, most of the governors who serve
on the Council of Governors there. So, I'll turn it
over to Governor O'Malley.

CHAIRMAN HEINEMAN: Governor O'Malley.

GOVERNOR O'MALLEY: Thank you very much.

Governor, we had a great conversation yesterday,
and we will no doubt continue that today. A number
of us, Governor Branstad, Governor Gregoire [Wash.],
others

on the Governors Council, will be meeting with our
DOD friends later on today, and we'll follow that
up.

The policy matters are fairly straight forward
and simple. There are, I think, three of them. One
simply outlining the principles of homeland security
and emergency management. Another with regard to
armed forces, and another one on public safety.

This could be a huge win for first responders
throughout our country, because of this
organization, Mr. Chairman, the D Block and our
ability to make real interoperable communication.

So, I move all of those policy matters, and I ask my
co-chair for a second.
GOVERNOR MEAD: I will second. Thank you, Mr. Chairman.

CHAIRMAN HEINEMAN: There has been a motion and second. Any discussion?

(No response.)

Seeing none, all those in favor, please say aye.

(A chorus of ayes.)

Opposed, no.

(No response.)

Policies are adopted. We will now move to the policy report of the Executive Committee. Governor Markell.

GOVERNOR MARKELL: So, the NGA has a long-standing permanent policy that focuses on the relationship between states and the federal government. It highlights the limited authority of the federal government under the Constitution and the fact that all other powers are reserved for the states. And the Executive Committee reviewed the permanent policy, made some edits to highlight the issues that are most important to us, and so that
policy really serves as a cornerstone of the work that the NGA does and for all of our other policies. In addition, the Executive Committee is recommending adoption of a health policy that reflects principles to guide our discussions on national health policies. So, I move for the adoption of the Permanent Policy and the Health Policy and block.

CHAIRMAN HEINEMAN: Is there a second?

SPEAKER: Second.

CHAIRMAN HEINEMAN: Discussion?

(No response.)

Seeing none, all those in favor, please say aye.

(A chorus of ayes.)

Opposed, no.

(No response.)

Policies are adopted. We are moving at rapid speed here.

(Laughter.)

I asked you to be on time, and I appreciate that. We now need to move towards the major step in
aligning our policies with our priorities. There is one final motion we need to make, and I would ask Governor Jack Markell, our vice-chair for that motion.

GOVERNOR MARKELL: I can speak very slowly, if you would like?

CHAIRMAN HEINEMAN: It might help.

GOVERNOR MARKELL: I just want to thank all the committee leaders, committee members, for working to improve the process. I especially want to thank Governor Heineman for really doing a great job leading us through this effort this weekend and for the months leading up to it.

But with the adoption of all these new policies, which incorporate many of our long-standing priorities, I move that they officially replace all of our existing, other existing NGA policies.

CHAIRMAN HEINEMAN: Is there a second?

SPEAKER: Second.

CHAIRMAN HEINEMAN: Thank you. Any discussion on this one? I think we've hashed all
these out. All those in favor, please say aye.

(A chorus of ayes.)

Opposed, no.

(No response.)

Policy is adopted. We are in much better shape now. We do have a little bit of time, but I believe Governor Gregoire would like to give us a little update on the Council of Governors. So, we have an opportunity if you would like to do that, Governor.

GOVERNOR GREGOIRE: I just wanted to remind the council members that we're due at the Pentagon at 3:00 o'clock. We're going to have a pre-meeting here in the Senate Room at 2:00 o'clock, and it's obviously a very important meeting.

Mr. Chair, if I might. In light of our conversation over the course of the last couple of days, once we've concluded that meeting, then I'm going to suggest that Governor Branstad and myself report back to the body as a whole, with regard to the issues that we bring to the attention of Secretary [Leon] Panetta at that point.

CHAIRMAN HEINEMAN: And let me just
update. We now have over 40 governors who signed that letter. There's still an opportunity this morning. Pretty much at this stage of the game, we're trying to get those governors who were not present, and so I think that number will climb before your meeting this afternoon.

GOVERNOR GREGOIRE: Thank you, Mr. Chair.

CHAIRMAN HEINEMAN: Governor Branstad?

GOVERNOR BRANSTAD: I don't have anything to add. I just want to say that I'm really proud to see all the governors standing together on this very important issue of the National Guard.

CHAIRMAN HEINEMAN: All right. Any other issues while we are moving at this warp speed here this morning? This is great.

Okay, Neal, you were just, you didn't want to say anything there? Okay, he is going to invite us all to Hawaii, that would be good.

Let me just say, I didn't anticipate we would get done quite this quickly, but I did tell staff, "You know it was entirely possible, what we were going to do if it occurred." Well, let me make sure
everybody understands. Because we do not want to be
late for the President, okay? We do need to proceed
from this room directly to our buses, as I've
indicated earlier. And we will leave fairly
promptly, probably sooner than we anticipated. I
would ask all those who are present here in the
audience to wait for the governors to exit before
you move out. Because again, we've got a policy
here today trying to get everybody down to the White
House on time.

But with that, I want to thank the NGA staff
and all of you for attending. Particularly our
governors-only meetings, that was very, very
instructive, the last few days to get your comments
in a very candid and straightforward manner. And we
appreciate that, and we are adjourned. And it is
now time to head to the buses. Thank you very much.

(WHEREUPON, The proceeding were concluded at 9:29
a.m.)