105th SUMMER MEETING

OF THE

NATIONAL GOVERNORS ASSOCIATION

Friday, August 2, 2013

SUMMER MEETING

GRAND BALLROOM C

THE WISCONSIN CENTER

MILWAUKEE, WISCONSIN

Reporter: Jessica R. Waack, CRR, RDR, CSR
Notary Public in and for the State of Wisconsin
PARTICIPANTS:

Governor Jack Markell, Delaware, Chair
Governor Mary Fallin, Oklahoma, Vice Chair

GUEST SPEAKERS:

Jeffrey Brenner, MD, Founder and Executive Director,
Camden Coalition of Health Care Providers

Dan Crippen, Executive Director, National Governors Association
GOVERNOR MARKELL: Good afternoon to our governors and our guests. If I had a gavel—oh, I guess I do have a gavel. There it is. I want to call this summer meeting to order.

We’ve got a very full agenda for the next two and a half days. Following this session, the Education and Workforce Committee will discuss innovations in workforce training and employment services to create jobs and grow family incomes.

At the same time, the Health and Homeland Security Committee will discuss two topics: providing for our veterans and homeland security preparedness.

Saturday's business agenda begins with a joint meeting of the Economic Development and Commerce Committee and the Natural Resources Committee to discuss the state of our country's infrastructure.

We will then have a governors-only luncheon business session followed by a session advancing corrections reform across the country.

Sunday morning we will begin with a governors-only breakfast business session. The summer meeting will conclude with a session on
cybersecurity. And I look forward to seeing you at all of these sessions.

We are honored today to be joined by several distinguished guests from the international community, and I would ask you to please stand so that we can recognize you.

First of all, it is a great honor to recognize the ambassador to the United States from Morocco, Ambassador Bouhlal.

(Applause.)

GOVERNOR MARKELL: Ambassador Bouhlal is really a great guy. He's doing a wonderful job here on behalf of Morocco, and he's also here representing the U.S.-Arab Chamber of Commerce.

We've got representatives of the Canadian Interparliamentary Group and the Canadian Consulate. We ask for all of you to stand and be recognized. Thank you. Thank you very much.

(Applause.)

GOVERNOR MARKELL: We've got representatives from the Mexican Governors Association, CONAGO. Thank you.

(Applause.)

GOVERNOR MARKELL: "Bienvenidos." They
didn’t really acknowledge that they understood what I have to say. That's my problem. We appreciate your being here.

If I could have a motion for the adoption of the Rules of Procedure for the meeting? Governors, as you know, under our new policy process, that we adopted policies for two years at the winter meeting. If anybody has any questions regarding the policies, please see David Quam of the NGA staff. So if I could have a motion for the adoption of the rules.

GOVERNOR: So move.

GOVERNOR MARKELL: A second?

GOVERNOR: Second.

GOVERNOR MARKELL: Any questions? All in favor?

(Group says aye.)

GOVERNOR MARKELL: All right. Very good. And I want to announce that Governor Malloy will be chairing the 2013-2014 nominating committee. Governor Malloy, thank you for doing that.

And with that, I very much want to thank the hosts of this year's meeting, Governor Walker and his wife Tonette. We really appreciate you
having all of us here. We're off to a great
start. A lot of us had a really good time at
Brewers Stadium. And I would like to invite
Governor Walker to come up and say a few words.

(Applause.)

GOVERNOR WALKER: Well, thank you, Jack,
not only for the introduction, but thank you for
your leadership. We mentioned earlier at the
press conference, but I think all of us as
governors appreciate Jack's leadership and the
incoming leadership of Mary Fallin. You've been a
great team for the past year, so we appreciate it.

Welcome to Wisconsin. We're glad to
have you here. I hope those of you who were in
yesterday had a good time, I know not only the
governors and the families, but I know a
number of the folks you just introduced, but I
saw a number of our international guests here as
well.

We had a great time at Miller Park last
night. I think it was actually kind of funny. I
think back in 1998 was the last time we held an NGA
conference here in the State of Wisconsin. Before
that, it was all the way back to 1914, and that
was in Madison.
But in 1998, governors from all across the country came here to Milwaukee. And there was one particular governor that had such a great time, he brought all his kids here—Terry Branstad—that I swear he brought half the state of Iowa last night. But they had a great time—his kids and grandkids and their in-laws; everybody was here. It was great to see that. But that was a good example of the hospitality we gave—there Terry is, right there—we gave a few years ago, and we’re glad to have the Branstads and all the rest of you here as well.

I look around, I saw so many folks having a good time. Late in the evening, I think late enough so that people had consumed enough of the Miller products there, I got up and sang. And Marianne and Dennis joined me. They didn't sing, but they were the backup.

For those of you who left early, you missed out on that. We had a lot of fun. We had a great time. I think the best outfit other than the Brewers jersey I wore last night goes to Jan Brewer, who actually has a Brewer, Brewers jersey, because the Brewers have Cactus League down in your home state.
And so we had a nice picture with our backs to the camera so it said Walker and Brewer out there, which is kind of fun. So we had a great time there. We hope you all had a wonderful time. There were a lot of kids out on the field and a lot of kids at heart who were out on the field.

And tonight we're going to try to live up to the hype of last night. A number of you are going to be joining me out on Harleys. For those of you who are looking to tonight's activities, I advise you to be at the Harley-Davidson Museum, which is just down the way, before 7:00 p.m. Because about 7, you're going to hear the roar of more than a hundred Harley-Davidson motorcycles.

A number of you are going to be joining with us. Our vice chair even took lessons, and she's going to be roaring down, as well as a number of other governors here. And we're going to be joined by about a hundred combat veterans, including about a half dozen who are disabled veterans who are gonna be riding in sidecars.

So it is going to be quite a sight. It is going to be a wonderful time. We are going to have a wonderful celebration. As many of you
know, Harley-Davidson has its 110th anniversary in just a few weeks. And so this is our way of showing off something unique to Milwaukee and to Wisconsin.

And then tomorrow night, we're going to be down at the lakefront, Lake Michigan, beautiful Lake Michigan, one of our great Great Lakes, and we're going to have a wonderful time there. Discovery World Museum is literally on top of the lake itself. So we're looking forward to having a good time. It's great to see all of you here.

I have to kid Governor Nixon. I didn't see him out on the field last night at Miller Park, because I know, just like I would be at Busch Stadium, it's a little tough when it's a brew town and a brew state, but I know he's going to be out for all the other good activities.

GOVERNOR NIXON: Just thinking of 1982.

GOVERNOR WALKER: That's right. And you would have enjoyed it. You could have rubbed it in, because we had about half the team from 1982, out there. We didn't bring the Cardinals up at all. So that's all right. Game 7.

But thank you all for being here.

Tonette's out with the first spouses. We
appreciate you all being here. We hope, as a number of you have already, Dennis and Linda were in a little bit early, Jack's sticking around a little bit in Door County. We appreciate that. And we'll figure out a little fishing spot for him on the way.

Anybody else who wants to stay a little late, we'll find a way to help you get connected to whatever you and your family and your staff want to be connected with. But we appreciate you all being here. Thanks.

(Applause.)

GOVERNOR MARKELL: Thank you, Scott. You know, one of the privileges of being the chair of the NGA, you get to choose an initiative for the organization to spotlight during the year. And we all know how critical jobs and employment are to the citizens of our state and to our economies.

And my initiative, which is called "Better Bottom Line: Employing People With Disabilities," is really about providing governors and policymakers with very practical ideas about how we can put people with more disabilities to work in our states; people who are not really yet
fully included in our labor force, people with
disabilities.

And the numbers are staggering. Of the
estimated 54 million Americans living with a
disability, only 20 percent are employed or
seeking employment compared to almost 70 percent
of Americans without a disability.

And as governors, we know that when
barriers prevent a significant segment of our
population from participating in our workforce,
talent is being wasted, and our economic
competitiveness suffers. We all want to be "jobs
governors," and we want to be "jobs governors" for
all of the people in our state who want to work.

So this year my initiative focused on
ways that states and businesses can work together
to include more people with disabilities in
employment throughout the nation.

Now, many of you around this table
participated back in February in the sessions at
the winter meeting of the NGA. We heard from the
CEO of Walgreens, and we heard from other business
leaders as well that employed people with
disabilities, that it is not just a matter of
charity.
It is what's in the bottom line interest of their companies. For them, this is not about charity. It's about doing what's in the best interest of their shareholders.

At the end of the winter meeting, I promised you we'd be coming up with some very practical things that governors can do to advance employment opportunities for individuals with disabilities in our states. And we have done just that. We've identified five key areas where governors can move the needle.

But before I dive into those five areas, let me tell you a little bit about the process that we used to get to where we are.

Since last July, my team and the NGA staff have conducted more than 60 meetings with subject matter experts, including state practitioners, to inform this work. And I want to thank the NGA staff for really having done an outstanding job.

Last fall, we held two roundtables to collect information from experts in the field. That included advocates. That included self-advocates who were living with disabilities. It included business leaders and researchers and
policymakers.

In February at the NGA [winter meeting], you all joined me in hearing directly from business leaders about, as I've said a moment ago, why employing people with disabilities is better for their own bottom lines.

And, finally, in May the NGA hosted two state institutes where we really drilled down into the practical things that states can do to advance employment opportunities for people with disabilities. We held one in Pittsburgh that was hosted by Governor [Tom] Corbett, and we held one in Seattle, which was hosted by Governor [Jay] Inslee. Thirty-three governors sent state teams to those institutes. We had more than 100 participants at each event. Many of you sent your policy staffers. Many of you sent experts from your workforce agencies, your education agencies, vocational rehab, health and budget and finance officers. You really sent very, very capable people, and it was great to spend so much time with them.

On our team, we included a couple of state legislators. Governor Inslee also included
a legislator on his Washington state team.

Governor Daugaard joined us out in Seattle, and he attended every session for both days. And I really want to thank you, Dennis, for your participation and your leadership on this initiative. Thank you very much.

And as you can see, there was quite a broad range of perspectives, and it made for a very rich discussion. And the state teams were able to learn best practices, not only from experts in the field, but also from each other.

Many of you are already doing innovative things in your states. For example, right here in Wisconsin, Governor Walker's been doing good work supporting youths with disabilities in their preparation for the workforce. Wisconsin has a lot of innovative practices to share, including a work experience program where the state helps employers cover the costs associated with job training.

Wisconsin and Delaware are also partnering with Walgreens to launch what they call REDI, which is Retail Employees with Disabilities. It's something you're going to be seeing in Walgreen stores across the country where these
Retail stores will, in fact, employ people with disabilities.

We heard a lot from your teams about things that governors can do internally to make state government friendlier to people with disabilities. Obviously, as governors, we have the ability to make our state employment practices, our processes, materials and websites more accessible and welcoming for people with disabilities. A good example is in Maryland, where Governor O'Malley started posting his video messages with closed captioning.

Earlier this year, Governor Daugaard recorded a video message to South Dakota state government employees encouraging awareness and inclusion of people with disabilities as part of a statewide focus on culture. He started the video in sign language, and it has captions throughout.

There's a lot that we governors can do within our state governments, but business plays an incredibly important role here too. And we cannot just get to scale on this issue without having businesses embrace this.

So as part of the institutes, we focused on the business perspective. And we heard from a
number of business leaders representing all kinds and all sizes—all types of business.

We did this so we could learn directly from them about how we can support them in hiring people with disabilities. And this for me was a major focus to make sure we understood from the business perspective what we can do better.

In Pittsburgh we visited Highmark, a major health insurance provider, Bank of America and Bayer Company as well as Bender Consulting, which is a disability-owned firm in Pittsburgh; also, all participated on that panel.

In Seattle, we were hosted by Microsoft; executives from Nordstrom; and the CEO of a disability-owned firm in Portland called Incight participated on that panel. It's very powerful to hear from these business leaders who report that employing people with disabilities is for the better of their bottom line.

And I asked the business panelists to focus on one simple question: What can states do to make businesses more likely to hire people with disabilities? Because that really has got to be our focus.

And all of the companies on the panel
represented different industries and different
sizes. Their answers revealed some common themes
and implications for state policymakers. And I
want to give you three takeaways I have from those
business panels.

One, skills are at the top of the list.

Businesses don't care about the disability. They
care about the ability. We've seen that in
Delaware where the state has partnered with the
regional IT firm called CAI, and an international
organization actually started in Denmark called
Specialisterne, which is dedicated to employment
of individuals with autism.

Now, CAI is a company; it's an IT
cOMPANY that employs thousands of people across
the country. They've just done this within the
last two months. They have committed to hire
people who have autism for more than 3 percent
of their consultant workforce, because they
recognize that these individuals are especially
qualified for technology roles like software
testing, data quality assurance programming, data
mining and data entry.

And as states, we can help educate and
prepare workers with a range of disabilities to
meet the skills that are needed by our businesses.

That's number 1.

Number 2: States need to stop approaching businesses with an "ask." We have got to transform the way we do this. And instead of, you know, sending our people and vocational rehabilitation to a business and saying, "I have a favor to ask you. Can you please find a job for these five people?" we've got to change our mindset. And instead, we have got to be business partners to these businesses. These businesses are looking for talented people. And, oftentimes, they'll look to our department of labor to find talented people. And so we have really got to make sure that we are offering to help solve the challenge they face in finding people with particular skills, with particular abilities instead of focusing on the disability.

And number 3: Businesses want to hear from other businesses. They told us very clearly that businesses are more likely to buy into the benefits of employed people with disabilities when they know that a peer business, another business
in the private sector is already doing it.

One of the things that we as governors can easily do is bring our business leaders together to talk about this topic so they can hear from each other and so that they can learn from each other.

And the insight from the business panelists at these institutes reinforce the same thing that we heard from businesses who participated in the fall roundtables and in the NGA winter meeting. Now, as leaders of these states, we can respond to that advice, and we can support businesses better in the future.

Now, supporting businesses is one of the five practical things that governors can do to advance employment opportunities for individuals with disabilities in our states. And together, the five practical recommendations that surfaced over the last year are: Number 1: Make employing people with disabilities part of the broader state workforce strategy. That's really what I just mentioned.

Changing the mindset. So it's not about going to ask a favor, by it's really saying," We understand you're looking for people
with particular skills. We're going to help you
find those kills."

Number 2: Find and support more businesses
who hire people with disabilities. Number 3: It's a
lot easier for us to go to businesses and tell
them that this is something that they ought to
consider when we as states are model employers
ourselves. And there's a lot of work we can do to
put people to work in our states.

Number 4: We've got to do a better job of
helping our young people prepare for an
expectation of a lifetime of work rather than the
expectation of a lifetime on public benefit. And
there's a lot that we can do. That's right within
our control.

And Number 5: We've got to make the best use
of scarce resources to advance employment
opportunities for people with disabilities. Most
of us come from states where resources are still
scarce, and there are federal resources we can tap
into. There are also private and foundation
resources that we can tap into. And so what we
did is we designed our meeting agendas around
these topics.

Now, as a result of these institutes,
your state teams are already hard at work
implementing some of the best practices that they
gleaned from the meetings. For example, we've
already heard that many of you are working to
integrate people with disabilities as part of your
overall state workforce strategy, which is
fantastic.

We've also heard that states are
starting to focus more on finding supporting
businesses that give people with disabilities a
shot. And one of my biggest takeaways from all of
this is that governors can play this important
role of bringing together businesses so they can
talk to each other.

It is very powerful for these businesses
to hear from each other. And I've heard this from
a number of states. And Governor Branstad was
just telling me that he is planning on pulling
together a summit of these business leaders on
this issue. Governor Corbett did the same thing,
and I understand that it was a big success.

As I mentioned a moment ago, we've got to
walk the walk. It's incredibly important for us
to reach out to businesses, but we've got to walk the
walk. And we can employ people with disabilities
in our states.

Governor [Deval] Patrick has been working on this in Massachusetts since 2009. His state team is working to develop a strategic approach to take their model employment effort from Version 1.0 to Version 2.0, and that is, in part, part of the information that his folks gleaned from the NGA institute.

Another example is Governor Inslee of Washington. He's signed an executive order, the second since he was in office. He actually signed it during our NGA meeting out there on Employing People With Disabilities to increase the number employed by his state government.

And for more ideas about things that you can do in your states, I encourage you to take a look at the final publication of the initiative, our blueprint right here. And you all should have one at your seat.

And it is full of a lot of really good ideas. It's practical. Please don't let this be just another report that sits on a shelf someplace. There's a lot of really practical, concrete things that you can do.

And I believe that if each of us focuses
on implementing at least one thing from this
blueprint in our states, then together we can
really move the needle on this very important
issue.

And with that, I very much appreciate
your attention today, and I certainly appreciate
the support over the last year. As I mentioned,
Governor Daugaard came out to Washington.
He was as extraordinarily compelling as he was in
February with all of us in Washington, D.C., and I was
wondering, Governor, if maybe you would take a
minute to share some of your insights and
experience on this topic.

GOVERNOR DAUGAARD: Sure. Thank you.
First, let me say that I really applaud Governor
Markell for making this his initiative, “A Better
Bottom Line: Employing People With Disabilities.”

A few words really says it all. A
better bottom line is something that we can sell
to our employers and to ourselves as we look at
the state government as an employer, because it's
not about helping those who need a hand up, but
it's helping all of us helping ourselves as well
as helping our citizens with disabilities.

You know, some of you know both of my
parents were born deaf, and I came to this initiative knowing, because of my parents, that many individuals who have a disability know more about hard work, perseverance and determination than those without disabilities.

Those with disabilities have to have determination and perseverance. They have to, to overcome the obstacles and challenges that most of us cannot even imagine.

I also came to Jack’s initiative knowing that the majority of people with disabilities want to be employed. We all want to be self-reliant and feel the dignity of taking care of ourselves, and no one likes to feel dependent on others. If they can support themselves, they want to. They want to support their families. They want to contribute to society in whatever way they can, with whatever knowledge and skills and abilities they do possess.

And they want to be seen for their skills and abilities, not their disabilities.

And, of course, this belief was strengthened as a result of participating with Governor Markell in the workshops where I was present. I was fortunate to meet many individuals with
disabilities who reinforced the beliefs I had and
really delivered and demonstrated that people with
disabilities have a lot to offer.

And it isn’t about employing people with
disabilities in workshop environments. That can
be part of it for some who can’t otherwise be
employed.

But for many citizens with disabilities,
to confine them in a sheltered workshop is really
cheating them of the opportunity they deserve to
be out in the workforce in the mainstream with the
rest of us doing what we all do to make our
society work.

And what I learned about was how much
more as governors we can do to help tap this
incredibly underutilized resource. By doing so,
what a difference we can make for people with
disabilities and private industry in our
respective states.

You know, I’m extremely fortunate to be
governor of a state where the economy is doing
pretty well. Jack Dalrymple and I joke, and Dave
Heineman in Nebraska, you know, who is going to have
the lowest unemployment rate in the nation? We
just slipped up above Nebraska in the last monthly
report. And South Dakota now is second lowest on
unemployment rate in the nation.

Of course, that is great, because it
shows our economy is doing well. It's a two-edged
sword. And you talk to employers in South Dakota,
and what's their common concern now? "Where are
we going to get workers? How are we going to find
the people that we need as we expand and add
jobs?"

And here is one answer to that question.
Citizens with disabilities can be one answer to
that question. And how much more important is it
in my state where workers are in short supply to
make use of every citizen that wants to work,
whether they have a disability or not. We can't
afford to leave one person out of the workforce.

I also learned through this initiative
there are numerous private businesses that are far
ahead of state government in employing citizens
with disabilities. And we heard about some of
those employees at NGA in February and at some of
those summits.

They've recognized the resource and the
value of employing citizens with disabilities. I
also learned through this initiative they need to
and can do more to ensure that every person in
South Dakota with a disability who wants to be
employed is employed.

But I quickly realized I have to use my
role as governor to provide the necessary
leadership to ensure this happens. I can show
leadership by ensuring state government is setting
the example, not asking or presenting the
opportunities to private industry when we haven't
done it ourselves.

So the first thing we need to do is make
sure state government is setting that example, and
I'm going to be doing that. I also learned as a
result that I can bring together the business
community. And that was one of the five points
that Governor Markell pointed out is found in the
blueprint that's at each of our seats here.

We can get together the business
community, we can get together state agencies,
people with disabilities and advocates in South
Dakota or in our own states to develop a road map
to ensure that employment of citizens with
disabilities is a priority.

And it's really our philosophy and our
commitment as a state and to help those private
employers see the way to make that happen for
them. And I encourage you all to do something
like that.

Last week I announced the appointment of
a task force consisting of 39 South Dakotans. The
business community is represented, individuals
with disabilities, legislators, private providers
of services to citizens with disabilities and
cabinet secretaries from five of our state
agencies, and their job is to develop some
specific recommendations that are probably going
to be drawn from this blueprint and from our own
experiences in South Dakota, but show how we can
become a leader and follow some of these
blueprints that have been laid out by some of you
in your states and take the best ideas where
they're found and adapt them to South Dakota's
situation.

So I just want to say thanks again to
Governor Markell for this initiative. When you
see the title and you see, well, it's about
employing citizens with disabilities, I think it
would have been easy to see that as feel-good,
soft, easy-to-talk-about and then really produce
no concrete results.
And I have to admit when I first saw that as the initiative, I thought, "I wonder if that's what it will be." I was wrong. I was very wrong. Governor Markell, you've done a great job opening my eyes to the opportunity.

And how stupid. I should have been one of those that had theirs widest open. I really thank you for making this your initiative. I know I can do better as governor to make South Dakota a better state for all of our citizens. And I want to assure that the report your initiative produced is not going to sit on my shelf. Thank you.

(Applause.)

GOVERNOR MARKELL: Thank you. And to anybody else who thought this might just be a feel-good, soft thing, read the report. There's actually very good stuff in here, very, very concrete.

MR. CRIPPEN: Governor, can I interrupt for just a second?

GOVERNOR MARKELL: Yes, sure.

MR. CRIPPEN: Before we pass on too far beyond the presentation, I just wanted to share with everyone how active you were in this initiative. This was your idea from the very
beginning.

And a little like Governor Daugaard, we weren't quite sure what it meant, and we didn't have many folks at NGA who were familiar with it. So we learned along with you. By our recollection, you've now keynoted 10 events or so on this issue.

You've been given national awards. Five, in fact, that I could name for you: Tony Coelho Award, Spirit of the ADA Award, award from the Council of State Administrators and VOC Rehab, the LeadOn Award. (I thought it was Right On at first, but it's the LeadOn Award.) The Champion of Equal Opportunity CEO award.

So I just wanted to say from us at NGA, it's been a pleasure working with you. It's always good when you're that active. And you were, as I said, there from the beginning until the end.

GOVERNOR MARKELL: Thank you, Dan. And I want to thank the NGA staff as well for doing an excellent job.

We now turn our attention to health care, and our keynote speaker is Jeffrey Brenner. A number of you have heard him before. He came to
our—was it a Washington meeting? To one of our
Washington meetings. He did a fantastic job.

He is based in New Jersey in Camden.

He’s the founder and the executive director of the
Camden Coalition of Healthcare Providers. He's a
family physician. He's been in Camden for 11
years as a frontline primary care physician for
patients of all ages.

The Camden Coalition is spearheading a
number of initiatives that are really designed to
address some of the underlying factors that lead
patients to use higher-cost forms of health care
delivery when more coordinated and lower-cost
interventions are available.

And to the governors, we just had a
conversation about this in our governors-only
meeting. I think you will be very impressed by
many of the insights that Dr. Brenner has to
offer.

He owned a private practice in Camden.

He's got experience in implementing electronic
health records, running a paperless office, open-
access scheduling, as well as firsthand knowledge
of the various challenges that are facing primary
care physicians and primary care generally in the
He is now serving full-time as the executive director of the coalition. He spends a lot of time meeting with stakeholders and policymakers, including us in Delaware, advocating for the models of care that the coalition has developed and has demonstrated through some very data-centric results.

As I mentioned, he's working with communities across the country, including ours, to assist them in developing the appropriate kinds of interventions to reach that holy grail of improving care and reducing costs for high-risk and high-cost patients. Dr. Brenner.

(Applause.)

DR. BRENNER: Thank you so much for the chance to come and speak with all of you. It's really an honor. And, Dan, thank you for the chance to work with your staff and with the National Governors Association.

I'm deeply concerned about Medicaid. I've been a frontline Medicaid provider for my entire career, and we're not spending our dollars well. We could do much, much better. The costs keep going up, and as all of you know, the cost
drivers in Medicaid are colliding with all of our
other state priorities.

We have to figure out how to deliver
better care at a lower cost, not just in Medicaid,
but in Medicare and your state employee insurance
programs and in the entire American health care
system.

In some ways, the problem is really a
problem of success. We can do incredible things
for people, but what that's created is an
incredibly complex system where many of us get
lost in the system.

And it's not just the poor that get lost
in the health care system. I bet you have stories
in your own family. I bet everyone in this room
can think of stories in their own family.

And many of us will pull strings to get
workarounds so that our family can navigate
through the delivery system. You'll call friends.
You'll call on people that you know. And that's
really a testament to a system that's gotten too
complex for us to be able to navigate.

I wanted to start by talking about a few
stories. I work in Camden, New Jersey, one of the
poorest cities in the country. Andironically, or
perhaps sadly, it turns out to be a great place to innovate health care, because nobody is fighting me over more market share; that if I were in other places or other communities, I wouldn't probably be standing here and talking about the work that I'm doing. In many ways that is identifying one of the key problems in health care.

I want to talk to you about a patient in Camden, a 52-year-old woman who is Spanish-speaking and repeatedly admitted to the local hospitals for shortness of breath. She's a Medicaid patient. She lives with her family, and in six months had six trips to the hospital, going in over and over and over.

She lives on a ventilator, and she has a hole in her neck. She's hooked up to a ventilator, and she has severe lung disease. I want to show you a visualization of her cost data.

This is just a simple graph in Excel. This is time along the bottom. Each of the red lines is a trip to the hospital, and the height of the red line is the length of stay.

So in May, she had a six-day stay in the hospital. A week later, a four-day stay. A week later, a seven-day stay. Out for a little bit,
and then back in for 10 days, 11 days, back in
for four.

One year, pre-enrollment beginning to
work with her, she had $745,000 in hospital bills
for three local hospitals in Camden, and she had
$95,000 in payments just for her hospital care to

go back over and over and over. She had 55 total

stays in the hospital in a one-year period.

After we began to work with her, she
stopped going, because she hated the hospitals.
She didn't want to be there. And let me introduce
you to her. She gave us permission to tell you

her story. Her name is Lillian. And she is here
with her diploma. She worked with us for 90 days

for a program that we run.

We meet patients right at the bedside.

We go right to the hospital bed and we say, "We
bet you don't want to be here anymore. And most

of the patients say, "Absolutely. I'm sick of the

hospital."

And then we follow them in their own

hospital. We visit their home. We go with them
to their primary care office, with them to their

specialty office. It's a very data-driven

intervention. We collect data from all the
hospitals.

So every morning we wake up with a list of everyone who's been admitted to the local hospitals. We have a tremendous amount of local data sharing.

The two young people that you see here, Ashwin and Corrine, are volunteers that worked with us for a year. It's called Teach Through America, an AmeriCorps program. And they worked as health coaches out in the field.

And behind them is Jason Turi, who is one of our nurses. It turns out that in a lot of this work, we don't need more doctors. We need more committed nurses. We need more social workers, and we need more young people out on the front line knocking on doors, going to people's homes, going to the bedside and helping patients navigate our incredibly complex and challenging health care system.

Her story is that she and her family were overwhelmed by the ventilator. They were terrified of it. If you could imagine what it would be like to be hooked up to a ventilator. And that anxiety was driving her to go back to the hospital over and over. We convinced
the insurance company to let her go to a long-term care unit for just a little while, enough time for the family to get trained on how to manage the ventilator. And then [we] helped her form a care team with her primary care provider and pulmonologist. And she hasn't been back to the hospital.

There are certain people who like to be in the hospital. If you are homeless in Camden, living in Tent City, having a flat screen TV and three square meals is probably a good thing. But for many, many patients they don't want to be in the hospital. And our current system really ignores them.

Twenty-five percent of our elderly patients, Medicare patients, are readmitted to the hospital within 30 days. That's an absolute failure to our seniors. People are really being thrown off a cliff when they're being discharged from an American hospital, because all of their medications are changed, they have many tests and follow-up. They're really overwhelmed with what's happened to them.

Give you another case, lest you think this is just a case of poverty. This is a middle-class woman, and she was in a hospital that
is actually part of a five-hospital system that is completely connected electronically. So the doctors have instant access to the records any time a patient comes back.

And since 1996, this patient had 102 emergency room visits, 54 admissions to the hospital, 147 CAT scans and 73 CAT scans of the head. This is one of the CAT scans. [Reference to visual aid.] That is actually enough radiation to increase your lifetime cancer risk. This is a middle-class woman with a master's degree.

So this is a failure of the American health care system. And that's really what I've learned in beginning to explore the terrain of outliers, of superutilizers. As people go more and more often, we ignore them. We don't have a system built to meet their needs. And it's a very expensive system as well.

So I want to tell you how I got started in this. This is my primary care office. This was my dream to open an office in Camden. It is currently boarded up and closed, as are many offices in the City of Camden. Frankly, in many primary care offices all over the country. And in my time in Camden, my
rates kept getting cut at the same time we built
new wings on the hospitals, we expanded the size
of the emergency rooms.

And I managed to get ahold of billing
data. This is business intelligence from the
three whole hospitals. And people like me never
get ahold of data like this. This was actually a
summer project by a medical student.

Let me show you what I found in the
data. [Refers to visual aid.] These are three competing hospitals, so
this would be, like, you know, Target and Wal-Mart
giving you their business intelligence and letting
you combine it. So this is very rare to
be able to put what's called an all-paired data
set together.

What we learned from this data set, we
put it in Excel, and that didn't work. We still
use Microsoft Excel and ArcGIS to analyze this
data. We learned that half the population of
Camden uses an emergency room or hospital in one
year. That someone went 324 times in five years.
Someone went 113 times in one year. We, the
public, spend $108 million a year for Camden
residents, a city of 79,000 people, to go over and
over and over to the hospital.
Now, in our health care system in America, we spend twice as much as every other country. Let me say that again. We, in America, spend twice as much as every other country on our health care system. And we can do amazing things for people. But I don't believe we're getting our money's worth spending twice as much—. $2.8 trillion, 18 percent of our economy.

But I can't get my head around a number that big. But $108 million, I know what that will buy. And for one percent of that, a million dollars, you could buy five of me. There's only 15 primary care offices in Camden, and they're all getting boarded up. So, you know, we have to reinvest that money out on the front line of care, rather than building more hospitals, expanding emergency rooms, buying more scanners.

The problem in America is that we set an incredibly high price if you cut, scan, zap and hospitalize, and we set a very low price if you talk to people. And the market has responded.

If you look in every major city—those cranes that are above buildings building new wings and expanding hospitals—the market has responded. If you overpay for something, you'll get too much
And we will eventually get a bubble of hospital beds, of technical capacity, of specialists, and we'll destroy the other part of the market of being able to talk to people, deliver their care, deliver decent primary care.

The most expensive patient in Camden had $3.5 million in receipts. Thirty percent of the costs go to 1 percent of the patients. Eighty percent to 13 percent of the patients, and 90 percent of the costs to 20 percent of the patients.

We ignore those 1 percent of patients unless you can cut, scan, zap and hospitalize them. We don't talk to them. We don't help them navigate through the health care system. Once again, that is not just the poor. This is your grandmother. These are our family members. These are disabled people with disabilities.

The number one reason to go to an emergency room in Camden is head colds. We had 12,000 visits for head colds, 7,000 visits for ear infections, 7,000 for viral infections, and on and on. These are all primary care problems.

I can tell you—you the public—all of us are paying $150, $300, $500, where if these were
my patients, where I got $19 to $35 if they were seen in my office, but we were paying 10, 20 times more if they went and were seen in an acute setting. Once again, if you pay too much for something, you'll get too much of it. That's what's happening in our health care system.

The bulk of patients using emergency rooms in America are insured patients. It's a myth that it's the uninsured driving utilization.

And a Medicaid card is an empty promise. You call for an appointment. You leave a message, no one calls you back, there aren't appointments available. And that's before the expansion. It's going to get even worse as time goes forward.

This is mapping out all the claims data in Camden on a map, five years of data mapping out the home address of every Camden resident. This is only nine square miles, a very small community.

Six percent of the city blocks are 10 percent of the land mass. 18 percent of the patients, 27 percent of the visits, and 37 percent of the costs. This is just the emergency room and hospital care.

So it turns out all over America, not just in Camden, high-cost, complex patients are
living collected up into buildings, many of which
you guys are all funding through state funds and
federal funds.

These are the two most expensive
buildings in the city. These are both beautiful
buildings under great management. Six-hundred patients in
North Gait Two, who are mostly dual-eligibles—
these are disabled seniors—had $12 million in
payments for their care to go back over and over
to the hospital.

The building at the bottom, 300
patients. It's a nursing home in subacute rehab.
Three-hundred patients had $50 million in payments to go back
over and over to the hospital.

We've mapped out data all over the
country now, and found the same patterns in newer,
specific buildings collecting high-cost patients.
Up in the state of Maine, with the help of
Governor [Paul] LePage and his commissioner, Mary Mayhew,
we mapped out three counties in a rural state.

As you get older and more disabled, it's
hard to live in the middle of nowhere. They
didn't let us show it to you, but these are town
hot spots of high cost, complex patients that
actually gets down to the building level that, you
know, even in a rural state [they] are collecting high-cost patients into buildings.

And the question for all of us is a service delivery innovation. Do we want to move these people around, or do we want to bring care to them.

So I want to close with a really important announcement that the Fountain of Youth has been discovered in Doylestown, Pennsylvania, and it's not in Florida. And this is a very important study. This is a randomized control trial with 1,700 patients over a 10-year period.

We will never have a bigger study to look at population health and care coordination. This was part of a Medicare chronic care demo. And in this model, it's a nurse going out every week or every other week in a very specific data-driven, high-fidelity model, and going out and visiting elderly Medicare patients.

And they had a 25 percent lower risk of death from getting a visit every week or every other week. And over the 10-year period, the mortality benefit did not taper off. So let me repeat: 25 percent lower risk of death.
You have to go way back in medical history to find anything with that kind of impact. When we give you drugs, when we treat your cholesterol, treat your blood pressure, it's often just a few percentage points of impact. This is a stunning impact. You have to go back to the early days of polio, to the early days of HIV meds to see any kind of impact of this magnitude.

If this were a pill, you would all be clamoring for it. The stock would have tripled. The most interesting part of this study is that the highest-risk patients, the sickest elderly patients, had a 50 percent reduction in the death rate just from having a nurse come out visiting them every week or every other week.

I think what this story really tells you is we have an excess mortality in our broken, fragmented, and uncoordinated system of 50 percent. Because if a nurse coming out and visiting your grandmother is enough to drop the death rate by 50 percent, something is profoundly wrong in today's American health care system. People are overwhelmed and confused. It also has, for the highest-risk cohort, a 33 percent reduction in hospitalization and a 22 percent reduction in
total cost to Medicare.

So here is the sad part of the story: Medicare, as a demonstration project, has tried to pull the plug on this project three times, most recently got so close to pulling the plug on it, that they actually had to dismiss the patients and stop seeing them until there was an article in the *Washington Post* calling attention to this.

Sadly, better care at lower cost doesn't have a constituency. Medications, medical devices, hospital beds have constituencies. Better care doesn't have a constituency. So we're at a Blockbuster Video moment in the health care system. We have too many hospital beds in America. We have a bubble in hospital technology. And we have to help this industry make a shift. There had to have been a moment in Blockbuster Video when a young executive came up and said to the executive leadership, "People are starting to rent videos online." And you can imagine the leadership saying, "No, no, no, no. We have internal data showing that the American public every Friday night spends an hour and 15 minutes in our stores." Do you remember that?
And. You know, today they’re boarded up all over
the country. They’re a penny stock.

You know, the story of America is that
capitalism creates and destroys, and that industry
has become obsolete. Hospital beds are becoming
obsolete. We don't need all the hospital beds we
have.

You know, many of you are using your
bonding authority to support and underwrite those
bonds. You’re doing ribbon cuttings for these
facilities. And every single crane that goes up,
every ribbon cutting you do, it is an invisible
tax on your employee benefit program. It's an
invisible tax on every business in your state. We
have too much of this.

So I want to make a couple suggestions
to you. I believe this is all shifting to
the state level. That you regulate these
facilities. You regulate the providers. That
everyone who needs to be here to fix the American
health care system is right here in this room.
That governors can take the leadership. States
can take the leadership.

All of the states that inspire me, all
of the most innovative things happening in
health care are happening at the state level. You can use your leadership, your bully pulpit to reframe the issues and start talking about this in different ways. Keep it simple.

And what I see over and over is that we often have carve-outs in our state-run systems, so you'll be moving to managed care and every different group, constituency group, comes and says, “No, no, no. We don't want to go on managed care. We want a carve-out.

And you end up carving out the behavioral health and you carve out meds, you carve out wheelchairs. You carve out all sorts of things, and it's to the point that your staff can't run the programs. You can't simultaneously run a contract on a fee-for-service managed care system.

I would encourage you to be all in or all out. Pick a system, and run it well. I think Arizona is a wonderful example of this. And what Arizona did, my understanding of it, is they're all in. Everything is carved in. And as a result, they actively manage their contracts.

This is a procurement problem. If you want to privatize, and you want to move to managed care,
you've got to manage those contracts. You can't be a passive purchaser.

We need to rethink telephonic case management. Nurses in cubicles aren't gonna have any impact on the homeless people with no phones. We are spending a lot of money all over the country on telephonic case management models that don't work. There is no evidence for them.

We've got to free the data and use it differently. We have data locked up in so many different silos in state government all over the health care system. Look what happened when a grumpy family doctor got ahold of data. And imagine what would happen if we freed the data across the country.

So there's nothing about HIPAA. If your lawyers tell you that HIPAA won't let you free the data, they are wrong. They are wrong. They are wrong! Get different lawyers. We've got to build a pathway to support and test innovation.

You know, where do I knock on the door in state government if I have a good idea, and I've proven it? I mean, it's really hard to figure out how to navigate through state government when you’ve got a good idea.
You know, we need a clear pathway of how
to test early-stage ideas, how to test mid-stage
ideas and bring good ideas through government. It
is really hard to figure out how to innovate and
bring ideas forward.

And the last recommendation is to push
accountability down to the community level. This
is a basic concept of accountability. The reason
that [William] Bratton did such an amazing job turning
around the New York City Police Department—and New
York has some of the lowest crime rates in the
country—is he pushed accountability down. He made
the precincts the unit of accountability, the
denominator, and then he made the precinct
captains the accountable manager.

We don't have accountable managers in
health care. When there are failures, we don't
know who to hold accountable. You can't hold your
managed care plan accountable, because they're too
far away from the point of care. We have to think
about how we push accountability down to the
community level.

Health care is a local problem. The
fixes will be local. So we have to figure out if
you're going to procure through managed care, you
then have to actively manage those contracts so that they are pushing accountability down to the community level. If the doctors won't play nice with the hospital; won't play nice with the nursing home; won't play nice with the local V&A; you're not going to fix this problem.

So thank you so much for the chance to come and talk with you. I welcome the chance to take some questions.

(Applause.)

GOVERNOR MARKELL: Yeah, Terry.

GOVERNOR BRANSTAD: First of all, Dr. Brenner, I think this is probably the most exciting presentation I ever heard. I just went through a very tough legislation where the Hospital Association threw everything they had at us in our effort to try to come up with a healthier Iowa plan. And so, I guess, your remarks really resonated with me.

That's one of the big challenges that I think we have as governors; how do we overcome the tremendous amount of money and clout and connections they have? Because you've got some of the best leaders in the community serving on these hospital boards. They have a tremendous amount of
resources. They're nonprofits. They're making a lot of money, and they're building all kinds of buildings.

I think what you said makes a whole lot of sense, and you, just as one family practice physician, have put together a really strong case, and I would be interested in getting more information.

Because we did get our health and wellness plan approved. The bottom line for the hospital is they just want to expand the Medicaid, "Give us the money," you know.

And I guess what you've given us is an indictment that the present system hasn't worked. It's gotten us worse and worse results. And my goal is that we want to become the healthiest state. How do we get there?

And I guess your approach, I think, makes the most sense. And I would just like, if there's more that you can add to it or—obviously, I'd like you to come to Iowa. If you can do this in Camden, New Jersey—and I've been there and visited the Campbell Soup Company, and I'll tell you, Camden's a tough place.

So I just have a great respect for what
you've done. And I'd just be interested if you
got more insights on what governors can do to
overcome the tremendous clout and power of the
hospital lobby. In my previous job as president of
the medical school, we had the same thing.

We had a chronic care consortium. We'd
finally get to the point where we thought we had a
plan, then the hospitals would bail on us, because
they could see that it was going to hurt their
bottom line.

DR. BRENNER: So I think the first step
to this is starting to talk honestly. You know,
there are great people that run hospitals, and
they're in a tough spot. I actually feel an enormous
amount of sympathy for the chief financial
officers and CEOs of hospitals.

We need to publicly shift the dialogue.
The most dangerous thing in America is an empty
hospital bed. It's an empty CAT scanner. It's an
empty gamma knife. It's a cardiologist with an
empty slot.

So that's a capacity bubble problem. I
mean, we have created an enormous amount of
capacity that's a bubble. You know, 18 percent of
our economy is health care, 11 percent is housing,
and about 7 percent is finance.

So what we have done is created an enormous health care bubble that's going to have to pop at some time. You know, there's a historic analog to this which is at some point a quarter of state budgets were psychiatric hospitals. And your predecessors, you know, because of lawsuits and other things, decided to pull the plug on this. And we popped the psychiatric hospital bubble and then spent 30 years cleaning up the mess afterwards.

You know, we're going to have to de-institutionalize health care, and we're going to have to have transitional money to do this. So there's a couple of things that I would do. I would say to your hospitals, "Ready, set, go. Merge and consolidate," because they're not going to make it all as tiny little hospitals.

The next thing I would do is move toward global budgets as a fast as possible. Because right now their economic model is the same as the hotel industry and the airline industry, which is, you know, people in beds. It's a volume-based game. Every day what they do is look at occupancy rates. It's not their fault. That's
the game that we set them up to play.

The third thing I would do is shift our language about this. Health care is a very messy market. It doesn’t follow any of the laws of a normal market. It’s actually much more akin to a utility. So how many train lines do you want going between two cities? How many water lines do you want running to your house? How many cable TV companies do you want to compete to give you cable service? How many NICUs do you want in Iowa City? How many gamma knives do you want? How many open heart surgery suites do you want?

You know, the problem is that by allowing them to compete and forcing them to compete, what they’re actually doing is dividing a limited market share of brain tumors or people who need open heart surgery into smaller and smaller groups. And it turns out the best way to destroy quality in health care is to lower the numbers of the procedure that you’re doing.

So, you know, ironically, here competition divides the marketplace up, fragments it to the point that the delivery is much lower quality. So, you know, this is much more can-do utility. You want one hospital doing amazing open
heart surgeries, not five of them doing mediocre open heart surgeries.

So this is a monopoly problem. You know, we don't have the right language. You know, we failed in this in the railroads. We tried to have railroads compete against one other, and then they all went belly up. You know, we're going to do that to the health care industry as well.

GOVERNOR QUINN: We have what are called safety-net hospitals in the inner city. They have much different problems in suburban or mega-hospitals. All of our major teaching hospitals in Chicago have billion-dollar construction programs. They've just about finished them.

DR. BRENNER: Yep.

GOVERNOR QUINN: Then you have the safety-net hospitals in the same city and at-risk neighborhoods which, you know, are having severe problems. So how do you go to the Doylestown model for these local safety-net hospitals that really are in dire straits?

DR. BRENNER: So let's be clear what the Doylestown data is telling us, is that if we
scaled that project up, you would perhaps need a third less hospital beds. So, you know, this is like base closings. This is, you know, we have to buy down capacity and force mergers, force consolidation and begin to close institutions. The sooner we do that, the better off we are.

Because when they go under, they go under haphazardly. They can't make payroll. They call you up, The whole place is falling apart. People are dying in there—I mean, it's a mess when you have haphazard closures.

So, you know, the best thing you could do would be to push merger and consolidation. But if you do that and keep the existing system, price will go up. So at the same time, you've got to move them towards a different model that's not a CLIP-based model but is moving either to global buckets, episode of care, other things.

You know, let's think about it. There's a lot of discussion about health saving accounts and using market-based composition in health care. Let's be really clear that at the point you are the most expensive you are on the way to the hospital with your wife who is in labor at 29 weeks and about to have a premature baby. You are
not a consumer.

You are on the way to the NICU with your recently born premature baby. You are not a consumer. You've just been diagnosed with cancer, and you're on the way to the gamma knife. You're not opening up *Consumer Reports* to see what's the best value in institutions.

So health savings accounts are really interesting and a compelling idea, but you're talking about essentially healthier people or healthy people. The point at which you are the most expensive you're 85 and in the last two years of life. You are not in a position to be a consumer at that point. You can't make a rational decision.

GOVERNOR MCCORRY: Just a quick question. First of all, one of our biggest issues, and I assume in all states, is that so many of our counties, especially the rural county, the largest employer is government and hospitals.

And, of course, the argument the hospitals use is if you hurt the hospitals, you cut employment. They presented the jobs argument to us at a time when unemployment was high.

We are seeing a lot of consolidation of
hospitals. The issue is they're cherry-picking
the consolidation based upon where the least
amount of Medicaid or Medicare patients exist,
because they're looking for the people on
insurance. They're looking for people who can pay
the bill.

How do you determine then, where do you
have the consolidation? Because the hospitals are
using a business model to consolidate, not
necessarily a community model or a health care
model. I understand the business equation.

That's what it is, it's a business at this
point in time.

So how do you deal with that disconnect
between you tell us to consolidate, but some will
be left out because of the cherry-picking?

DR. BRENNER: You know, that's a great
question. Maryland solved this problem. In fact,
we had a solution in about 35 states all over the
country. When we had an economic downturn in the
'70s, we did something called all-pair rate
setting.

And what that meant is that regardless
of whether you're a Medicaid patient, Medicare
patient, or commercially insured patient, you had
the same payment at the hospital when you went to
the hospital.

Right now what we've done is, you know,
you've set a payment very low for Medicaid, in the
middle for Medicare and very high for commercial.
And they're all rushing to grab this small pool of
commercial patients.

I love marketplaces. I love
competition. Do you really want people fighting
over commercially insured patients with brain
tumors? Like, is that really the type of
competition we want?

So Maryland, we deregulated hospital
rate setting. And the only state that still has
it is Maryland. So what that means is that
regardless of what payer, you go to the door of
the hospital, and the hospital is getting paid the
same amount. So, I think, you know, we don't want
this stuff where we're dividing up marketplaces by
payer. It creates really awful dynamics in a
marketplace.

So, you know, the other thing that would
solve this would be global budgets. Set a global
budget for a region. And Oregon has done that.
Colorado has done that or is beginning to do that.
Say, "Look. This is your budget. You guys need to get your act together and figure out how to spend within this budget."

GOVERNOR MARKELL: Is that the capitation?

DR. BRENNER: It would be a regional capitation. So, you know, you could mathematically say, For this region of the state of Delaware, you currently spend this much, and you're only going to go up 1 percent a year, and if you go above that, you're not going to get it, and you have to fight among yourselves to fix it.

It's really hard at the state level to compel people to play nice. At most, you can set up a set of rules and say, If y'all locally can't figure this out, then, you know, you're going to go belly up.

GOVERNOR MARKELL: Given what you said about the way the current incentives work, you said it's not the hospital's fault. It's just the game. Those are the rules that have been made. So how do you get there besides forcing the consolidation? How do you redesign?

You know, if you do the Doylestown thing, which is...
great, and you’re gonna need a third less hospital
beds, that's great for everybody except for the
hospitals. So what is that strategy?

DR. BRENNER: So it's going to create
very different jobs. So instead of being an ICU
nurse or a floor nurse, you're going to become a
nurse that's a visiting home nurse. You're going
to be going to people's homes.

So, you know, what this does is shift to
a whole new category of jobs. Instead of being in
the hospital, they'll be out of the hospital.

Instead of a hospital system being a giant
hospital and having a very small outpatient
footprint, you're going to have a much bigger
outpatient footprint in a much smaller hospital.

These are just economic shifts. This is
like, you know, at some point the steel industry
needed to shift its model. And y'all as governors
can play a really strong leadership role in your
rhetoric and actions to send a signal to all of
them to begin shifting.

Interesting, when you go to their
conferences, they wouldn't disagree with me. They
would absolutely agree with everything I'm saying.
They're talking among themselves about this, but
they're terrified, because they have one foot in
this fee-for-service model.

And then they're getting all these
signals to get over in this value model, and they
don't know how to make the transition. So it's a
classic economic transition problem and a business
model transition problem that you can
help. Your state employee benefit program
could be a leader in this. Your Medicaid program
could be a leader in this.

GOVERNOR MARKELL: And what happens if
in this consolidation, the beds that get
consolidated away are the lowest-cost beds, in
other words, the lowest-cost hospitals? Because
in a world where the strongest survive, if the
strongest happen to be the ones with the most
commercial patients and the higher rates, where do
you go?

DR. BRENNER: That's where the global
budget or episode of care is. So an example of an
episode of care payment is right now we pay for
every little piece in a piecemeal way.

What you can do is say for 30 days
before your hip, for the hospitalization, and then
all the rehab afterwards, six weeks afterwards,
we’re just going to give you one price.

But, you know, we have fragmented the payer market so much that it's really hard for one payer to take the lead on that. And that's why government can pay such an important role, because you can get out in front and say, "Our Medicaid plan's gonna play episode of care where we're going to move to a global budget," and the rest of the marketplace would follow.

So you’re going to have to pull a couple levers at the same time. Encourage consolidation, but change how the payment happens.

GOVERNOR ABERCROMBIE: In the idea of global budgeting, you're saying region. Obviously, I'm from Hawaii. So the phenomenon we have there, actually separate islands and the majority of our population's concentrated on one island versus others doesn't necessarily fit so easily. But the rural-urban construct does.

How do you differentiate—or maybe that's the wrong way to put it. How do you incorporate into what you're suggesting, the idea of urban versus rural? Because the capacity in the rural areas where you have a very high percentage of older people in Hawaii right now,
and I suspect in one variation or another all the rest of the states, the number of people over the age of 60, 65 is increasing.

And the number of those people who are living longer is increasing, and, therefore, the question of expenses at the latter part of life, prolonging death rather than extending life and the expenses associated with it, are higher per participant. They're exponential. They're not arithmetical.

So how do you take into account then the question of when you're talking global budgets and consolidation and more utility versus free market, how do you take that into account where rural areas simply do not have even some of the basic capacity and you have to transfer people geographically in order to get basic services, especially as we have an aging population?

DR. BRENNER: There is a wonderful model in south central Alaska. All of the most interesting health care models are all in the middle of nowhere. They're not academic health centers. They're in south central Alaska, which is a Native-American system in the middle of Alaska.
It's a Geisinger Health Center, in Danville, Pennsylvania. It's Camden, New Jersey. You know, it's at the edges of the power structure.

So I think the answer to what you're striving for would be in the Doylestown data, which is, you know, it's a fairly rural area out by Doylestown. And having a nurse visit every week, every other week and a very structured intervention was enough to keep people out of the hospital.

And, also, begin to have the hard end-of-life discussions. You know, we don't have to ration health care. All we have to do is deliver great health care every day that's truly patient-centered, and the rest will all take care of itself.

You know, if you have good, honest, decent discussions with people, if you explain to them what's really going on, and you build a relationship with them, all of these other discussions take care of themselves.

GOVERNOR ABERCROMBIE: Just one further element in that. Could you discuss for a moment the relevance of hospice care in this context?
DR. BRENNER: Extraordinarily important.

And I think a big part of the outcomes in the Doylestown data set were the connections that they made with hospice and having a long-term relationship with the whole family, having the time to sit at the kitchen table and really build a relationship with someone and then with all the family members, to be able to have those discussions.

You know, you can't do this in 10-minute, busy primary care offices. Think about what we have. We have a totally failed model in primary care of highly paid professionals running from room to room to room in 10-minute encounters. Meaningless encounters. That's what we're paying for.

GOVERNOR ABERCROMBIE: Does the hospice idea include your idea with the patient-centered health care, which we're trying to implement, I wanted to have that include patient-centered hospice at the end, too. You don't necessarily have to go to a hospice. Why can't the hospice be in-home, if you will, with the visiting people?

Does that make sense?

DR. BRENNER: I think hospice is that.
You know, I think one of the most patient-centered services in America and the brilliant service is hospice. And lots and lots of hospice patients die at home. They don't die in facilities. That's really the core mission of hospice.

So, you know, I think hospice, frankly, is way out in front of us. We just don't use hospice. A lot of people don't get referred to hospice until a couple days before death, because the doctors are uncomfortable having a hard discussion, because you can't have a hard discussion in a 10-minute visit.

GOVERNOR MARKELL: Well, do you have something . . .

GOVERNOR MALLOY: With respect to what you showed, is there a difference between for-profit hospitals and not-for-profit hospitals?

And is one group getting it faster than the other?

DR. BRENNER: You know, I think that's a broader question of for-profit health care versus nonprofit. And to me it's immaterial. There is good behavior and misbehavior on both sides.

And, you know, there's an argument about managed care versus fee-for-service. I don't care. Someone has to manage risk. Someone has to
pay claims. I don't care who does it. Just do it well. Someone has to run a hospital. I don't care who does it. Just do it well.

So I think we've had the wrong argument all along, which is you can make any system work if you have the right expectations, if you manage it well, if you have transparency of data, public reporting of data.

GOVERNOR MALLOY: But it would seem that the for-profit hospitals are taking the lead on consolidation currently.

DR. BRENNER: Uh-huh.

GOVERNOR MALLOY: Okay.

DR. BRENNER: You know, I think they're seeing the forest through the trees. And, you know, local hospitals have local boards. It's local business people. It's local attorneys, and no one wants to give up local control.

The problem is these tiny little hospitals don't have the layer of professional management and professionalism on the board to really run a complicated hospital. So when I go around the country, the very large systems I interact with are doing incredible work that you can't do until you get to certain size and scale.
GOVERNOR NIXON: Could you give us a little primer on some of the language for consumers of health care that would help move the ball down the field?

When you think about the example you used about Blockbuster or Netflix or whatever, I mean, consumers ultimately made that choice as to whether or not to spend that hour and 15 minutes or to figure out how to do it some other way. It required a little work.

Because it seems like we're talking a lot about the business, obviously, and the systems and what not. But, ultimately, you're going to need consumers to be empowered inside the system to help drive decision-making to the right place.

What sort of language or discussions—because, I mean, regardless of the level, some of the most incredibly unempowered consumers in our world are people who are sick or hurt.

And all of us have had that where everybody here's waited in long lines or decided which doctor to try to see or which therapist or all the various workarounds you talked about before that we used.

But what sort of language do you think
can be, you know, empowering and motivating to
individuals that will assist us in getting the
market-driven kind of solutions that we're talking
about?

DR. BRENNER: I'm going to say a really
sad thing. It's skepticism. And let me say why.
There's a very famous study that looked at
arthroscopy. This is knee surgery. Classic
thing. You get a scope on your knee.
The average patient is 40s to 50s.
They're overweight. They've had some swelling in
their knee, pain for a couple weeks. They go in
to see their primary care provider. They
eventually get to the orthopedist, and they get an
MRI. And the MRI shows wear and tear in their
knee.
And they finally did a study to find out
if an arthroscopy, where they put a scope in and
they do a trim job on the meniscus, the cartilage,
works. What they did is called a sham
arthroscopy.
You got randomized to either having the
usual procedure or just having the scope where
they just put it in and take it back out while
you're asleep. And you wake with a Band-Aid. You
have no idea which group you're in. They got better at the exact same rate.

We do 650,000 arthroscopies a year. And what happened is Medicare set a really high price for it, and everyone raced to it. We built capacity. We built ORs to do this. We put up billboards, and then we ran out of sick people.

And then we worked down the continuum to less and less sick people.

So this was a brilliant thing. The fact that we can put a scope in and repair your knee is incredible. And it works if you're an athlete.

If you were 25 and you have an acute tear, it's incredible. If you are 250 pounds and 45 years old and have wear and tear on your knee, it doesn't work.

So the reason that people get better is if I took any of you out of work for 12 weeks, put you in physical therapy three times a week, told everyone in your house to take care of you, you all would be healthier at the end of 12 weeks.

That's why they get better.

So there are examples all across the health care system of stuff that we're doing that doesn't work and hurts people.
So there's a famous study looking at angioplasty, stents in people's hearts. And if you have an acute heart attack, it's a miracle. They did a study where they took stable heart disease and randomized you to a stent, or just medication management, controlling your blood pressure, controlling your cholesterol. They got better at the exact same rate.

So what happened is we stented heart attacks, and then we ran out of heart attacks. Then we started stenting 90 percent stenoses; blockages, 80 percent blockages; 70 percent blockages, because everybody wants to do it.

You know we floated a bomb; we built the wing; we built the OR. We overpaid for the local cardiology group. Now they're on board. Fill the beds.

So, you know, we use off-label use of our own technology. So it's that conundrum where we're the most amazing health care system in the world, because we can do all this cool stuff for people, and then we're doing too much of it unnecessarily.

GOVERNOR HERBERT: Dr. Brenner, you hit on an issue that I think a lot of us have thought
about, and that is, you know, unnecessary procedures. I believe that probably doctors, like yourself, are the most trusted people in our communities. Everybody looks to a doctor with great respect and reverence.

You go there, you say, "Take care of me, Doc. I don't feel good here. I've got a pain there. Tell me what to do." You know, we've had too many scopes being done on knees that are maybe inappropriate. Too many hysterectomies we've heard about in the past. We have doctors who are doing preventive medicine because of legal issues and liability concern.

How can we get to the point where the doctors are doing the right things for the right reasons, not just incentive? Because, "Well, one more procedure here, I can get that done. Whether they need it or not, I'll be careful, I'll give them another procedure and get paid." That's the concern that some have with profit, not-for-profit.

Can we trust the doctors and the hospitals to do the right thing for me and my health, as opposed to being motivated by something else?
DR. BRENNER: I hate to say it, but we have destroyed the American health care profession, and its professionalism has eroded like many fields in America.

So let's be clear who sets prices in health care. There is a committee called the RUC. It's gotten a lot of publicity and coverage lately. And the RUC is subcommittee of the American Medical Association.

And they meet four times a year in Chicago, and they decide the relative value, the price for everything in health care. There are about 15,000 prices in Medicare, and they make a recommendation to Congress about how the prices for Medicare should work. And 90 percent of the time, Medicare has taken their recommendations.

And it's a committee of doctors setting their own prices. And the codes attached to those prices are copyrighted and trademarked by the American Medical Association. You can't download that and even look at it. You've got to pay for it.

So the way that Medicare and our country pays for all doctor's bills is copyrighted and
trademarked by the trade association that sets its
own prices. I mean, that's a stunning thing.

And if you look around the room,
there's, like, three primary care docs and the
rest of the room are specialists. And the primary
care folks get outvoted every time. Because they
set a very high price if you cut, scan, zap and
hospitalize, a very low price if you talk to
anyone.

And then all over the health care system,
the insurers just negotiate a percent off of that
schedule. So when you go to negotiate with Aetna,
you say I want 125 percent of Medicare fees. And
they say, no, we'll give you 110 percent.

So the bias built into that system is
promulgated everywhere. And it goes back to the
origins of Medicare, that in order to negotiate and
buy off the AMA, they agree to usual and customary
charges. And incredible bias is built into that
fee schedule.

You guys could correct that in your
Medicaid system, in your employee health plan
system. You could begin to send a signal back up
to the federal government that you're not going to
tolerate the biases that are built into that
GOVERNOR MARKELL: One last question—

Janet.

GOVERNOR BREWER: Dr. Brenner, so many of our physicians in our hospital, they practice protective medicine, because they're afraid all the time if they don't do something, if they don't run a test, if they don't take advantage of everything that they've been taught, well, we're going to have those lawsuits coming upon them. What role does tort reform play into all of this?

DR. BRENNER: So we have a perfect study in which 50 states you could track health costs. And some states like Texas have set very severe caps. And they have not seen lower trend lines because they set the caps. So it's absolutely true that doctors practice defensive medicine. It's true that the tort system doesn't work. It's true we need changes. It won't fix the cost trends. The cost trends are because of unnecessary capacity. It's because of irrationality in the system. It's because of delivering too much of the wrong kinds of services.
So, you know, you have lots of — the
AMA's answer to this, and the physician's answer to
this is always tort reform. And you say, "You
know, yes, you're right. The tort system needs
to be fixed." But that's not the answer to the
cost trends.

GOVERNOR MARKELL: Well, thank you,

Dr. Brenner. That was incredibly interesting.

(Applause.)

GOVERNOR MARKELL: With that, I want to
ask Dan Crippen, NGA Executive Director, to
give us an update on the work of the association
in assisting states to control health costs while
maintaining quality.

MR. CRIPPEN: Thank you. You probably
won't be surprised to know we're trying to emulate
much of what Jeff is doing. We actually have an
agreement with Jeff in trying to utilize his
techniques.

Many of you know we have just awarded
seven states a project for the next 12 to 18
months to see if they can take some of the
techniques Jeff and his colleagues have developed
and apply them to a state, see if they can be
replicated and scaled up. We don't know those
answers yet, but we think it might work. So we're working with those seven states.

But in the meantime we're also working on pieces of what Jeff has done that we'll make available to everyone. Things like software to identify the most expensive patients. We can provide that to you for free. So we're looking at other pieces of this that we can replicate and distribute as well.

Workforce—we've mentioned how much we're working on workforce. Many of the folks who work with Jeff are community medical personnel. And we don't really have a definition of what the community medical worker is.

We don't have a training program that's recognized. We don't have a certification program in most of your states. And so there are things on workforce that we really need to replicate or at least be able to utilize some of these techniques.

We're also working on payment system reform. What does it take to gather the payments together the way Jeff has done from various parts and pieces of the system to be able to then repartition them?
And that brings up an issue we haven't often dealt with, which is antitrust. It's ironic, but nonetheless true, as Jeff said, they're not really competing for market share in these very expensive patients and Medicaid patients, and yet the Federal Trade Commission was quite interested in what they were doing.

And New Jersey passed some laws to help codify some of what Jeff was doing, regulations were written, and the FTC demanded to look at them and made some changes ultimately in negotiating with the state.

But as we get consolidation, whether you think of it as commercial population and monopoly-like positions, or whether you're working down in the trenches like Jeff, antitrust is going to become a much more important issue across the health care system.

And so we're trying to work with the FDC to see if we can get some clearance and some guidance on how they'll at least think of these superutilizer projects. So all in all, we are going to work intensively with a number of your states to see what we can do to replicate Jeff's
work. In the meantime, we will have parts of this
system that we can offer to all of you as we move
along.

So part of the answer, Governor, to your
question of can Jeff come to Iowa, I'm not sure he
can, but we can. And we would be glad to do that.
So we're going to be duplicating this work to the
extent that we can.

We're also about to release a compendium
of best contracting practices. Much of what Jeff
talked about you can actually replicate in
contracts, whether it's for your Medicaid patients
or whether it's for your employees and retirees.
And the compendium looks like this. And
so it's about eight chapters of pieces of the
contracting process that you can employ to require
transparency or look at other aspects that Jeff
mentioned, data reporting, of course, those kinds
of things.

We have a couple of contracts that have
much of this in it already. Arizona, I think, is
one; Tennessee is another. So there will be full
contracts as well for you to look at, but we've
also torn them apart and written chapters of kind
of the aspects of how you set prices, how you risk
adjust, how you might want to do the things you
want to do. You don't have to do it all by
regulation. You can do a fair amount of it by
just managing contracts.

We're also doing work in specific health
areas. Maternal and child health is one that's
important to all of you, of course. And we've
been working and continue to see how we can do at
maternal and child health.

As you all know, almost half of the
births in the country now are financed by
Medicaid. And so you have a big interest both
financially and health concerns of how maternal
and child fares in your states. And we'll be
continuing to work on that as well.

We have struck a deal with the Institute
of Medicine that we're going to begin holding some
statewide retreats. The basic notion is that the
IOM will bring to a state or within the state the
health care side of you state. And you, as
governors, can bring the political policy side of
the state.

And we'll essentially spend a weekend in
a room talking about what the state barriers are
in your state to true reform and try to get a
better sense of answers to five or six critical
questions.

We’re not going to answer those questions
to be sure. We might, if we're lucky. But the
real prospect is that we'll find at least what
some of the big impediments are, what the data
needs are, what the questions are. And we hope to
be able to jumpstart, therefore, some of the
reforms that you have in the states to parallel
what you're doing with state innovation grants and
other things.

Our test case is going to be the state
of Wisconsin in October. We'll do the first
retreat here. If any of you know Harvey Fineberg
who runs IOM, you'll know his enthusiasm. When I
talked to Harvey about this, he said, “Let's do 10
states.”

I said, “Harvey, let's do one. Let's see
how this works. I anticipate that it will be well
worth replicating. And if so, we'll be back to
you on whether you would like us to try and do
this exercise in your state or not.”

So we’re working from kind of the top
arterial gas level all the way down to some of the
things that Jeff does every day to see how we can
replicate this work, how we can expand it and how
to make available to you more tools, more
analytical tools, more knowledge of how to reform
the health care system.
You all have data. You have the
Medicaid data. If not, you should get it. You
have data on your employee populations. You have
the data or you can get it on your retiree
populations. You're the largest purchasers of
health care for many of you in your state. And so
you can move a lot of material around.
As I bored you back in February, states
have many, many levers to pull. You control the
entire supply of health care on most days. You
have antitrust powers. You have purchasing
powers. You have regulatory powers.
And by deploying those in good ways, you
can actually change the system with some
rapidity. So we're hopeful to be able
to help.
We had 24 or 25 of your governors'
health advisors in Washington earlier this week to
begin getting them ready to talk to each other as
well. I think it was the first time we had all
the health advisors together at once. And they've
begun those discussions, of course, and sharing what they were working on.

But equally importantly, we begin to learn what we might have to offer them and for them to tell us what you need. We may not have guessed right in some cases.

But I think if we can take successful experiments—if you'll let me call it that, Jeff—and test them other places and see how we can adopt them to both your state and other health practices, we can, I think, begin to advance.

Some of you are already testing other models. And we will, as we work our way through this, I think, have other models to offer as well that we can try to help you test.

So the whole point of the health care exercise is you guys have a lot to do with it. If you will decide to do so, we're happy to help you try that. As Jeff said, governors have a lot of say on how health care is delivered to their states. We stand ready to help you with that.

GOVERNOR MARKELL: All right, Dan.

Thank you very much. We're going to be in
Nashville next summer for the 2014 summer meeting,
and I'm going to ask Governor Haslam to come up.

There he is.

GOVERNOR HASLAM: So I'll make you a
deal. If you all come to Nashville, I promise not
to sing now or then.

(Applause.)

GOVERNOR HASLAM: Yeah, if you heard me
sing, you should have clapped louder. We are
excited to invite you to Nashville 2014. NGA will
be there next summer, July 10th through the 13th.

And everybody knows Nashville is music
city, and we intend to entertain you
appropriately with world-class musicians. And
we'll go to the Ryman Auditorium, the mother
church of the Grand Ole Opry and the Country Music
Hall of Fame.

But Nashville is actually so much more.

Conde Nast just recognized Nashville as one of
five cities you should go to in the world before
you die. And since the next closest one is Paris,
I suggest you come to Nashville now.

But *Bon Appetit* named it the South's
tastiest and coolest city. And *Rolling Stone*
named it the best city for music. And I can go
on. Even the *New York Times* called it—it's the U.S.'s "it" city right now.

So I can promise you, you will have a wonderful visit in Nashville. We also have the discussion we just had, more hospital beds are managed out of Nashville than any other city in the U.S. And you can come and decide for yourself, but that's the impact on policy.

We also make 300 million M&Ms every day and sell a little Jack Daniel's Whiskey along the way. So we have a whole lot to entertain you.

And for those who would love to, you're thinking, well, you know, I've kinda checked out the politics of Tennessee, and some of our Democrat friends might say, it feels a little red there for me to go; we're going to have dinner one time at The Hermitage—Andrew Jackson, the founder of the Democratic Party, his home.

And there will be two things that a Republican or Democrat will reassure all of us— that nothing has changed. His home contains more items of his personal effects than any other presidential home, including the newspapers that he marked up every night.

It will give you great reassurance to
know that nothing has changed in terms of
politicians' views of the media. His remarks are
fairly blunt, I'll just put it that way.

And the second thing is you can hear
about the Jacksons. And those who think that
politics just recently turned nasty: When
Jackson was in his last days at his home and
someone came and interviewed him and said, "Do you
have any regrets?" And they were thinking this is
his chance to be a statesman, because he's long
since retired from the presidency. He's in the
last stage of his life.

He said, "Yes. I wish that I shot
Calhoun and hung Clay." Calhoun was his own vice
president, so you can see how things were.

Regardless, we promise you both a fun
and entertaining and educational time, and we look
forward to seeing you next July in Nashville.

Thanks.

(Applause.)

GOVERNOR MARKELL: Did you say bourbon
and M&Ms?

At each summer meeting we take a moment to represent our corporate fellows. All governors
know that we have a wonderful relationship with
the fellows, and we very much appreciate their
commitment to NGA and their commitment to working

with all of us.

And as many of you know, this program
really facilitates the exchange of ideas in many
ways. The corporate fellows are the thought
partners with us in terms of improving public
policy. And we want to take this opportunity to
recognize a few of them.

I'm going to ask Governor Fallin to join
me up here. Governor Fallin is the chair of the
NGA Center For Best Practices, and she's going to
help me recognize some of our longstanding
companies.

This year actually marks the 25th
anniversary of the Corporate Fellows Program.

First one, back in 1988. Back then, there were
about a dozen companies. Today there are more
than a hundred.

And one of those companies has been a
member since the very beginning. And today we
recognize a founding member of the NGA Corporate
Fellows Program, that is AT&T. We're very
appreciative of this partnership over these many
years.

(Applause.)
GOVERNOR MARKELL: And I'm going to ask Wayne Fonteix of AT&T to please join us here. Now you can applaud.

(Applause.)

GOVERNOR MARKELL: This is an awesome picture. I'm assuming those are the governors who were there? Who are they?

MR. FONTEIX: It's the original group that met.

GOVERNOR MARKELL: It is the original group? Wow.

(Photo taken.)

GOVERNOR MARKELL: Thank you very much.

(Applause.)

GOVERNOR MARKELL: We also want to recognize a few companies for 20 years of service. The first one is Merck. Saul, come on up.

(Photo taken.)

GOVERNOR MARKELL: And there are a couple companies that we want to acknowledge that could not be with us. One is Ford Motor Company. The other is FMC, and we're very appreciative of them as well. And I know that all the governors join me in expressing our gratitude
to them.

(Applause.)

GOVERNOR MARKELL: That concludes this plenary session. Committee meetings are starting soon, and we look forward to seeing all of you over the next few days. Thank you very much.

(Meeting concludes.)
I, JESSICA R. WAACK, a Certified Realtime Reporter, Registered Diplomate Reporter, Certified Shorthand Reporter and Notary Public in and for the State of Wisconsin, do hereby certify that the above transcription of the NATIONAL GOVERNORS ASSOCIATION meeting was recorded by me on August 2, 2013, and reduced to writing under my personal direction.

In witness whereof I have hereunder set my hand and affixed my seal of office at Milwaukee, Wisconsin, on August 8, 2013.

______________________________
Notary Public
In and for the State of Wisconsin

105th SUMMER MEETING

OF THE

NATIONAL GOVERNORS ASSOCIATION

Saturday, August 3, 2013

SUMMER MEETING

GRAND BALLROOM C

THE WISCONSIN CENTER

MILWAUKEE, WISCONSIN

Reporter: Jessica R. Waack, CRR, RDR, CSR
Notary Public in and for the State of Wisconsin
PARTICIPANTS:
Governor Jack Markell, Delaware, Chair
Governor Mary Fallin, Oklahoma, Vice Chair

GUEST SPEAKERS:
Mr. Steve Aos, Washington State Institute for Public Policy;
Mr. A.T. Wall, II, Rhode Island Director of Corrections; and
Mr. Dan Crippen, Executive Director, NGA
GOVERNOR MARKELL: Okay. We're going to go ahead and get started. I know that all governors believe that one of our most important responsibilities, one of our most fundamental responsibilities, is to keep our people safe, and for years it seems the answer was about more incarceration. And we saw what that does. We saw the results from that.

In the early 1980s, the state prison populations totaled about 370,000. Over the last 30—over the next 30 years, the population grew by about 280 percent. It peaked at 1.4 million. From 300,000 to 1.4 million in 2009, when nearly 1 out of every 100 Americans was behind bars.

Now, since 2009, those numbers dropped slightly, but they remain at historic highs. And driving this increase, in large part, were some sentencing policies such as truth in sentencing requirements, three strikes law, and mandatory minimum sentences that put more nonviolent offenders behind bars for longer.

While we saw some reduction in crime, mounting costs have made sustaining that downward
trajectory very difficult. Now, over the last 25 years, corrections spending has gone from approximately $16.5 billion to more than $50 billion, when adjusted for inflation, an increase of more than 200 percent. And it makes corrections the second fastest growing segment of state spending only behind Medicaid.

In Delaware, my state, we saw about a 125 percent increase in the number of prisoners between the 1980s and today and a corresponding growth in correctional expenses from $41 million to about $260 million. And this is in a budget of just over $3.5 billion.

Now, fortunately, today we better understand what works and what does not work. We've got better risk assessment tools that can help us identify violent offenders so we can keep them off the street.

We know more about the types of programs that will help reduce the likelihood that nonviolent offenders will recidivate, and, instead, become productive members of society.

We've got better information systems. We've got better social science. All of it can improve our ability to manage our information
systems and evaluate the effectiveness of one
program or the other.

And we've also got greater public
support for enacting sentencing and corrections
reform. According to a Pew public opinion
survey conducted in 2012, the vast majority of
Americans support sending fewer low-risk
nonviolent offenders to prison, as well as
reinvesting in community-based action and
treatments and reducing prison terms for
nonviolent offenders with good behavior.

The end result is that a number of
states have been able to enact sentencing and
corrections reforms driven by data and analysis,
which are evidence-based and maintain public
safety while reducing costs.

Now, in your materials, you'll find some
background information on a series of actions you
can take and questions you can ask your key
advisors to help drive improvements in your
states. And this information's been provided by
the NGA Center for Best Practices.

And to help us better understand these
and other options, we've invited two leaders in
the field to talk about ways that we can rethink
our sentencing and corrections practices.

Our first host speaker is Steve Aos.

He's a director of the Washington State Institute
For Public Policy. You may look at his name and
think I mispronounced it. But, in fact, I asked
him, and he said it's an old Norwegian name. The
‘A’ is silent.

Mr. Aos is an economist by training.

He's developed econometric models that
show the cost-benefit breakdown of different
programs and their impact on prison incarcerated
populations. And these models have been helpful
to a number of states in the reform efforts.

Steve, welcome.

(Applause.)

MR. AOS: Thank you, Governor, and,
governors. It is a pleasure to be here, to be
invited to talk to you today about what work we've
done in Washington State over about the
last 15 years to reform our criminal justice
system, our juvenile justice system, our
sentencing system and some of our prevention
programs all designed to try to reduce the crime
rates in the state of Washington.

And the message in these few minutes
that I'll have with you today is a simple one;
it's that you can ask your staff today to assemble
information for you that will allow you to put
that mix of programs together, evidence-based
programs about what works; you can also learn
about evidence-based programs that don't work.
That's important to know about those.

So if you're spending money on
evidence-based things that don't work, you cut
them out. We've done them in Washington State.

You can ask your staff to put that
information together for you so you can put
together a portfolio of policies that address
crime. If you do that, what we found in
Washington, and I think you can get in your state,
is lower crime rates than you have today. And you
can save the taxpayers money and, of course, there
will be fewer victims in your state as well.

So this idea of putting together an
effective, evidence-based list of programs, a
portfolio of them, you can just put all of your
eggs in one basket, as it turns out. That's the
way to lower crime rates further and to save your
taxpayers money to boot.
I'll just go over that a little bit.

The institute that I direct that was created by the Washington—there it is [indicated visual aid]. There's Olympia, the state capital of Washington. That's Saltwater. That's the bottom of Puget Sound right there on one of the many, many, many, sunny days that we have in Olympia, Washington. The Capitol is right there. Governor [Jay] Inslee, who is not here today; the governor's mansion is right next to the Capitol there. The Institute—Seattle is up around the corner.

The Institute is right there. So that's the setting for the Institute where our job was created by the legislature in 1983. It's to carry out nonpartisan work. We have a board of directors, [an] equal number of Republicans and Democrats, House and Senate members. The governor appoints some people to our board of directors.

And all of the work that we do comes about, because the legislature passes a bill and says, "Institute, tell us what to do on this stuff. Study this topic, and come back to us."

The governor signs the bill, and that's how we work.

Many of the things that we've been doing
in the last 15 years have been in the role of what
I'll call an investment advisor. We get
directions on those bills from the legislature
that says, "What works and what doesn't work to
reduce crime? And rank those things by
benefit-cost analysis or return on investment to
taxpayers."

We're now doing it in K-12 education and
child abuse and neglect. And you can see some of
the other areas where we're actively pursuing this
kind of information. Again, the legislature
writes a bill that says, "Tell us what works, what
doesn't work. Rank order by return on investment
and come to a conclusion and get a report back to
us."

So I'm going to talk today about crime,
and not K-12 and other things that we've done work
on. And here's the good news. The good news is
crime rates. I think we all know this. But when
we look at the numbers, it's very interesting. We
can look at the United States--and we'll look at
my state of Washington.

And this is fantastic news. Crime rates
overall are down 45 percent throughout the nation,
very similar number in my state. They're down 48
percent if you just look at homicide rates, the
best-measured kind of crime, and it's about the
same number in my state.

So this is one of the great things about
being an American these days; crime rates
are down from what they were in 1980. If you had
visited Seattle back in 1980, and you visit today,
you have half as much a chance of getting
victimized by a crime as you did back then. And
it's pretty much true around the country as well.

So that's the good news. There's also
some news here at—let's talk about prison.
Prison is the major resource that most states use
to fight crime, along with policing. I'm going to
plot those adult incarceration rates that
Governor Markell mentioned a moment ago.

We're going to go back from 1930 up to
2012. Here's the incarceration rate in the United
States. And I'm going to plot my state's rate on
there as well. I don't have your states on there
right here.

But you can see that for decades in the
years before World War II and the years after
World War II, the incarceration rates stood at
about one per thousand people were incarcerated.
In the years before television and after the introduction of television, about one. And the years before Elvis Presley and the years after Elvis Presley, it was about one. It was a constant rate of incarceration.

That began to change in the late—especially 1980s and 1990s; we increased, as a nation, the number of people that we have incarcerated on any given day. Quintupled it. In my state, we also increased the inmate incarceration rate at a much slower rate than the nation as a whole.

So all of the states pretty much adopted this form as a way to address harms in crime but also a way to try to reduce the amount of crime in the states of Washington and others.

If we had followed in my state the national trend, if we had stayed on the course of that blue line, we would have about $650 more million per annum in our budget. So we've gone through, as you all have, severe budget problems. And our budget problems would have been only that much worse if we had not adopted a different set of policies, beginning in the 1980s,
on how we sentenced people and what we do with
them once they're sentenced.

I want to talk about that here—just shortly with you here. What works. So as I say,
our legislature has asked us to identify what works to reduce crime and what doesn't work.

When we get done, what we've adopted is sort of a *Consumer Reports* approach to that—to producing that information. We'll go through a couple of these numbers in a minute. Whether we're talking about education or child welfare or crime, we produce a report that looks very similar like this.

We go through a normal process to find out what the best research indicates about what works to reduce crime or increase high school graduation rates, if we were talking education, what doesn't work, what's been rigorously evaluated but doesn't work, and then what don't we know. And we rank everything by return on investment. Where did the taxpayers get their best crime-fighting buck for their dollars?

I want to go through a couple of items on that list here. Just not to bore you with too many numbers here, but it's important to see what
the information will do. We look at adult
offender programs, juvenile offender programs,
prison and policing and prevention programs.

They're sort of—all those programs,
prison and policing, the three p’s in a pod, that's
what we look at for our . . . for our legislature.

Here's what we found. Just to give you an
example. We found that in your prison system
today, you do a program called cognitive
behavioral treatment. It's sort of a general
class of programs.

We're doing this in a big way in
Washington State. What we did is we found 38
rigorous studies around the
country that have evaluated whether that works to
reduce recidivism or not.

Actually, I read over a hundred studies,
but most of them were lousy studies, so I threw
them out. We found 38 studies that you could hang
your hat on in terms of research design.

What those studies yielded is that you
can expect, on average, about a 7 percent
reduction in recidivism. Now, my heart was hoping
for 70 percent, but my head—the person that
went through doing the numbers—said 7 percent.
That doesn't seem like a lot to me, but that's where the economic test became relevant. We did a cost-benefit analysis, a return on investment analysis of that, and that 7 percent reduction in crime, generates—it's a cost of about $400 to put a person in one of these programs—i. t generates about $2300 in taxpayer savings alone; of course, savings to the victims for crimes that never happened. So this bubbles up to the top of our buy list for our legislature and for our governor in terms of things you can do once the offenders are in the prison system to try to reduce the overall criminal recidivism rate. We did that by doing the evidence—we had those 38 studies. This is sort of a betting person's, investor's best result that you could hope for from that kind of programs. We also do a risk analysis. Everybody should be doing risk analysis because all these numbers involve assumptions, estimates. And you want to test your chance that the program might go belly up. This is what venture capitalists do in the private sector. And this what we're trying to
do for where the numbers that we produce for our legislature and our governor in Washington State. This is a very low-risk investment, very high-return investment.

I'm not going to go through the rest of them for you, but we found a bunch of things in the adult offender programs. Some work, some don't. The ones that don't work we have stopped doing in Washington State. We stopped funding the programs. It was hard to do. Hard to write budgets. You get constituencies. But we cut those funds, put them in programs that work or put them in other areas of state government.

We looked at juvenile offender programs. Those programs tend to work a little bit better. We looked at prison and policing. I'll have some updated results for you. We're producing new results right now. I didn't want to anticipate those right now. And prevention programs.

The main point is you need to put together a portfolio of all those programs if you want to reduce the crime rate in your state, not only next year, but in the long term and to avoid the need to build prison beds. We think we've reduced quite a bit here.
So to close, I just want to say this, to repeat that point: This kind of information was not available 10 years ago, even 15 years ago maybe. We've been putting it together for our state. Others around the country are putting it together.

I think you can direct your staff to put that together here. What works, what doesn't, its ability now to calculate a return on investment. And if you do that, and you get some mixes together, I think you can find, as we have done in Washington, that you can lower your crime rate more than otherwise would have been and to save taxpayers money to boot. Thank you very much for your time. Thanks.

(Applause.)

GOVERNOR MARKELL: Thank you. I thought that was a great presentation, and I think what we ought to do before we go to questions, I'm going to ask Governor Chafee to introduce the next speaker. Then we're going to hear from a couple governors about what's going on in their states, and then we'll have more of a dialogue. Governor Chafee.

GOVERNOR CHAFEE: Thank you, Governor.
As former mayors and governors, we know that anytime we have a government agency that operates 365 days a year, 7 days a week, 24 hours a day, it's gonna be expensive, and that's true with corrections.

And I'm very happy to be here this afternoon to introduce an outstanding Rhode Islander, our director of corrections, A.T. Wall. A.T. was asked to speak with you today because he has earned over many decades a national reputation for excellence in the field.

His thorough approach to the corrections system considers all sides, all perspectives and all angles. And he truly views the system as rehabilitative rather than simply punitive.

After graduating from Yale and Yale Law School, A.T. had his choice of careers, but he served, as a young man, as a line probation officer and chose to enter the criminal justice and corrections.

After graduating from law school, he served as an assistant district attorney in Manhattan before joining the Vera Institute of Justice where he directed a sentencing program for chronic offenders.
He then returned home to Rhode Island in 1985, to work in the governor’s policy office on criminal justice matters. In 1987, A.T. was appointed assistant director of the Rhode Island Department of Corrections, where he oversaw the central management of all operations and served as the director, second in command. And A.T. then became interim director in 1999, and was appointed permanent director the following year.

Rhode Island is somewhat unique in that our corrections department is full service, meaning A.T. oversees not only all of our state prisons, but its probation and parole services as well.

And Rhode Island, where it is very, very challenging to be our director of corrections because we have a strong correctional officers union, the Brotherhood of Correctional Officers. There’s no question that A.T. has a very difficult job. And despite this, he remains at the forefront of the corrections reform, constantly seeking out new, innovative and effective strategies to improve rehabilitative services, minimize recidivism and reduce costs.

A.T. will elaborate on some of these
methods, but I can attest he is a reformer in the
best sense of the word, not content to rest on
past practices if they're not working as well as
they could be.

And there is a reason that A.T. has
served under Republican and Democratic governors.
There's also a reason that he's also the longest
serving state corrections director in the United
States, as well as the president of the Association
of State Correctional Administrators.

It is because he cares deeply about what
he does and brings a tremendous commitment to a
very difficult job. He is an asset to the state
of Rhode Island. I'm proud to introduce our
director of corrections, A.T. Wall.

(Applause.)

MR. WALL: Thank you so much, Governor
Chafee. That was a very generous introduction.

Steve Aos's name is intriguing. Though I suppose
I should tell you my name is Ashbel Tingley
Wall II, which probably tells you all you need to
know about why I'm known as A.T.

As governors, you, of course, have a
very large stake in corrections. And it's your
biggest stake in the criminal justice system, as
opposed to policing, which is local, the judiciary, which is not in the executive branch. But the consequences of all those decisions lie on your plates. And in many states, including our own, it's the largest workforce in state government, one of the largest consumers if not the largest consumer of state dollars as well as the percentage of the budget. And it's done almost exclusively with state as opposed to federal funds. And as your corrections directors, we know that we're responsible for public safety and institutional security, and we also have an obligation to the taxpayers to be responsible with their funds as well. I'm going to go in a somewhat different direction than Steve did by talking about one of the core costs of corrections as long as they're institutions. This will be a major concern. And that, of course, is health care. In our own state, over one in every 10 correctional dollars is actually spent on inmate health care. And in some jurisdictions, it's larger than that. And as budgets are cramped with ever
greater scrutiny over the past few years, there's a focus, and an appropriate one, on the cost of health care for the inmate population.

Health care is a tremendously complex field. You are leaders, as governors, in the states. And of necessity, you're generalists and not people that are gonna have a great deal of subject matter expertise in every single topic for which you're responsible. It's a broad range that you cover.

And, of course, I'm certainly no health care expert either. I'm a career corrections guy. But the fact is that while I lack the capacity to get into the weeds on this, and you don't need me to, probably don't want me to either, what I hope I can give you is some headlines, as it were, based on experiences in Rhode Island and elsewhere, some take-homes. And we do have copies of the six slides for you to take with you and to use in your own jurisdictions to ask some questions.

There are, of course, changes coming to the health care landscape that we understand. But the fact is that what I'm describing are avenues that can be pursued right now regardless of
whatever else is going to happen in the coming
months and years in correctional health care.

And what I would hope is that you would
courage your staff to pull together your
corrections directors, your Medicaid directors or
your corrections director in your individual
state, your Medicaid director, your health
director or commissioner and your director
responsible for substance abuse and mental health
to take a look at some of the areas that we'll
describe on these screens. And if any of them
look promising, to consider possible action in the
service of containing health care costs.

Who are these people? Well, let's bear
in mind that corrections has an ironclad no-
refusal policy. I tell my colleagues in the human
services that we are the ultimate entitlement
program. If the court says you have to go there,
we have to take you in.

We can never say no, and that means we
have to take you in, in whatever condition you
happen to be. And we have to keep you while your
condition might worsen or you develop new
health care issues. The great majority of the
people who come into the system are in the 17- to
39-year age range and, of course, in the cases of long sentences, they then age in place. They are low-income, by and large jobless, transient, urban, disproportionately people of color. Their lives are very disorganized, and their physical and mental condition makes it evident. And most inmates have no health care insurance of any kind, whether it be public or private, and didn't at the time that they came in. And they are an unhealthy population. Study after study has documented that they have higher rates of all of these different kinds of diseases and medical and mental health conditions. You know, of course that there is also a constitutional entitlement to health care if you are an incarcerated inmate per the U.S. Supreme Court, a decision out of Texas, that was made in the 1970s, and lasts until this day. Interestingly, even though per the Supreme Court's decision, inmates may be the only sector of the population which has a constitutional right to health care. It is also one of those segments of the population, which by law, is not entitled to health care insurance to
pay for it.

Most of that burden comes out of state appropriations in budgets passed year after year. Medicaid does not pay the health care costs of inmates while they are inside a prison setting.

So what's to be done? Well, I think we've been obliged as states to take matters on ourselves and to come up with some creative approaches. One is what I call process improvements. Electronic medical records, for example, instead of the old paper and pencil, stored-in-the-file approach.

First of all, it reduces the risk of medical errors. Interestingly, one looks at liability in lawsuits. It isn't necessarily in the area of, say, use of force or in the area of access to programs. It's in the area of health care. Liability for errors and omissions in providing health care, as given to inmates, is probably the largest sector of what we pay out in lawsuits and/or what the state pays out in lawsuits.

So electronic medical records do improve care coordination. They improve the management of chronic diseases, because it's easy to follow the
track on the computer as to what kind of care has been given. And, of course, they also reduce inappropriate treatments.

Medicaid management information systems probably exist in all of our states. That's really the electronic process whereby Medicaid claims are collected, reviewed, and processed. And the point here is that if you can engage a third-party entity like your Medicaid management information system to process correctional claims, then what you can get is verification that the rate is appropriate, that the Medicaid rate is the rate being used for reimbursement when inmates are sent outside for hospitals, at which point they can be eligible for Medicare. So it eliminates the risk of overcharging.

Utilization review of inpatient hospitalizations. I had no idea, but the fact is that it is not unusual for hospitals to keep an inmate for whatever period of time until somebody says, "Do you really still need to be housing and providing care to this individual, or can that inmate come back to the prison?"

So utilization review makes sure that
inmates don't overstay and that additional charges
aren't unnecessarily imposed. And it also makes
sure that they're only reimbursed for the days
they were there and the diagnostic codes that
correspond to their illnesses.

Negotiated rates of reimbursement for
hospital care. Inmates inside prisons do not get
Medicaid. If, however, you are an inmate that
requires hospitalization, and you are in the
outside hospital for 24-plus-one hours, Medicaid
will kick in. So on the 25th hour, you can be
reimbursed for an inmate's health care at Medicaid
rates.

And, in addition, even if an inmate is
not eligible for Medicare, when they go to an
outside hospital, you can negotiate through your
Medicaid director the Medicaid rate for that
inmate.

In other words, even if the inmate's not
titled to Medicare, the inmate's out there, the
Medicaid director can say to the hospital, "We
will only reimburse you at the Medicaid rate for
the care of that inmate." And the advantage of
that to the hospital is, frankly, it's better than
uncompensated care. They'll accept the Medicaid
rates.

Delivery of services. The inmates need
to bear some responsibility for their health care.
And one of the ways that it's done is to develop
what we call chronic care clinics behind the
walls. We have public health specialists. We
have physician extenders, people who actually run
these clinics and teach the inmates how to manage
their own chronic health care needs in areas like
asthma, diabetes.

And to form, in essence, a sort of
community of practice where the inmates will
support each other in maintaining those habits so
that they don't have to go out and be sent to
hospitals.

We have specialists that come into the
facilities in areas like orthopedics, gynecology,
podiatry, gastroenterology. And providing those
on-site, inside the prison, is working for us.
And it works for them, because they can see a
cluster of patients all at one time.

And, of course, all of these solutions
avoid the cost of transportation. When I told you
the cost of health care, I wasn't including the
add-on cost of the custody necessary to take the
inmate to the hospital and watch them 24/7 while they are there. That jacks up the cost far beyond the 10 percent that I already mentioned.

Medication and equipment. Bulk purchases through pharmacy management companies. There are companies out there that operate on the national level that will drop ship on a daily basis whatever pharmaceuticals are ordered. And they have the capacity to provide a whole lot of management information that helps us act on prescribing medications in a very sensible and cost-effective way.

Utilization review of the drugs. If you have a school of pharmacy in your state, I would encourage you to reach out to them and engage them in a contract. And the purpose of that contract is to provide utilization review, to provide a professional perspective on the dosages that are being given, on the formularies that are being used, on the amount of drugs, on the types of drugs.

And to work in connection with your pharmacy provider and your health care director to make sure that this is being done in the most fiscally responsible fashion consistent with
inmate health.

And there is out there a consortium that operates primarily in the West, but our state joined it, and so have others in which we combine our buying power in the area of medical equipment, for example, on wheelchairs, respirators, things like that, and get discounted prices, because we're buying as a single entity.

Of course, the truth is that 97 percent—and that's a conservative figure—return to the community following their incarcerations. Recidivism rates vary, but they do tend to be significant. The fact is that inmates are sometimes at their healthiest at the end of their term of incarceration, but they spiral down very quickly upon release.

Why should that concern us as corrections directors and our bosses, the governors? Because the recidivism rates do suggest that within three years, upward of 50 percent will be back in our custody. And if they haven't attended to any of their health care needs, it's one of the reasons they're gonna come back. And second, they're going to come back in older and in worse shape, and they're going to
cost more money. So options such as medical parole are being considered in a lot of states. We have it. Somebody whose condition is irreversible and likely to result in death within six months and certified by the attending physician and the medical director is eligible for parole, and the parole board will vote. Somebody whose health is going to be irreversibly declining to the point where they're either bedridden permanently or wheelchair bound permanently would be another example of somebody that we might medically parole. But certainly a key is better health care coordination upon release. We talk a lot about prisoner reentry in the states, and rightly so. And that kind of successful linking to health care issues, I think, is extremely important. So the stakes are high. I can tell you in our own jurisdiction, we have paid as much as $2 million for a single patient, all state funds. And I suspect that if you were to ask your cabinet members, you would find similar cases in your state. So health care costs are inextricably
intertwined with the size of the institutional
population and the overall costs of running and
staffing facilities. A number of states, of
course, have looked at both of those larger issues
and recidivism challenges to figuring out how to
manage the growth of the population, even decrease
it while also enhancing public safety and saving
money.

It is an exciting time to be in
corrections, and I say that as a guy who got his
start on the line 37 years ago. The approaches to
successful achievement of the goals of reduced
sentences, reduced cost, moderating growth and
achieving successful public safety are out there.

And my understanding is that we'll be
hearing from some governors about their own
experiences shortly. And I'm really looking
forward to hearing what's going on in other
states. It has been successful in my own. And as
the session continues, I'll look forward to
learning more. Thank you very much.

(Applause.)

GOVERNOR MARKELL: I want to thank both
of our speakers. I thought both presentations
were excellent and very educational. And we'll
have a chance to ask them questions in a few
minutes. But before we do that, I would like to
ask Governor Daugaard and Governor Abercrombie to
talk a little bit about work that's going on in
South Dakota and Hawaii.

GOVERNOR DAUGAARD: Thank you, Governor.

In January of this year, South Dakota's
legislature approved a number of criminal justice
reforms, a pretty comprehensive package that was
sweeping in scope and in substance and really was
a very far-flung effort on our part that we'd been
undertaking, worked toward for about a year. And
we were hopeful that those reforms are going to work
to save our taxpayers dollars while keeping our
public safe.

So I wanted to tell you a little bit
about what we did. And you may be interested in
that, in doing something or considering something
like it in your state.

The policies we changed included new or
improved probation accountability programs that
employed both regular and random drug and alcohol
testing. We restructured our sentencing framework
for nonviolent offenders. And we made the largest
investment in the history of our state into
behavioral health for offenders with addictions and mental health needs.

There's many other things that we did as part of this effort, and I'm sure you're going to hear about some of these same policies from Governor Abercrombie. We used some of his ideas, in fact.

But I'd like to talk about the process that our state followed and how this issue garnered pretty broad support in the end through the development process, through the passage of the legislation, and now even today as we execute it.

I had learned several years ago that our state had a higher imprisonment rate than most of our neighbors. In fact, all of our neighbors. Per capita, we presently lock up 75 percent more men than North Dakota. And North Dakota is very similar to South Dakota: rural state, agriculture state. Pretty similar and that surprised me. We incarcerate four times as many women as Minnesota does, our next-door neighbor.

And when I first heard this data, I doubted it. I thought, that can't be right. We're not that different. I think we're probably
counting differently. And as I looked into it, no, that wasn't true. We weren't counting it differently. We truly were incarcerating people at a much higher rate.

Then I thought, well, maybe we're doing it right. Maybe they're doing it wrong, and maybe we're safer because of that. I guess intuitively, you think you lock up more bad people, there's less crime, because the bad people are locked up. Well, that wasn't true either.

I thought we really need to look into this. As we did, I learned that over the past 10 years, 17 states have lowered their imprisonment rate. And during that same time, all 17 of them have also lowered their crime rate.

In fact, the crime rate in those states had fallen twice as fast as the crime rate has fallen in South Dakota. So our approach was not working. It wasn't better, and our high rate of imprisonment was also very expensive for us.

So if you look at what that has done to us, over the past 20 years, our spending on corrections had tripled. It grew faster than every area of spending in our state except Medicaid.
And, prospectively, it was going to cause our state over the next 10 years to have to build a new women's prison probably within two or three years, and another men's prison a few years after that. And that was going to cost us in terms of construction costs and operating costs over $120 million. And for a small state like ours, with a very small budget, that's a lot of money.

So following the 2012 legislative session, a little over a year ago, I directed my staff to start having some stakeholder meetings with everybody who's involved in the criminal justice system in South Dakota. And we had over 35 meetings with over 400 stakeholders from law enforcement, judges, defense attorneys, prosecutors, Native American tribal law enforcement, judiciary, treatment providers, probation officers, Supreme Court justices and lower court judges; everybody that was connected in any way with the criminal justice system. And we listened. We didn't come to them with ideas or solutions, because we thought first we need to really learn. Everybody has their opinions and ideas from their own experience, but, of course, all of
us have limited experiences. So we tried to draw upon all these stakeholders, realizing they have also their own narrow viewpoint of the world based upon their experience. But we wanted everyone to hear from one another.

So we had lots of information that we gleaned from these stakeholders, lots of opinions, lots of anecdotes, lots of facts, too. So it was very helpful and useful.

We did not go with a particular solution in mind. We started just by listening. And after three months of stakeholder meetings to learn about their ideas and their experiences, and appetite for reform, we formed a work group that included legislators, members of my staff, representatives from the cross-section of all these stakeholder groups that I talked about. And there were 18 members in total.

And the group is charged with three goals, and these were the sort of overarching goals they were charged with. One, whatever you do, safety first. Improve public safety.

Whatever recommendations you have for reform, if you have any, at the end of the day, they must improve public safety first.
Second, we still have to hold offenders accountable. This isn't about being soft on crime. It's about being smart on crime. And in the end, we just have to hold offenders accountable in a different way maybe, because the third charge was to save money.

And for the public and the work group members, we're also careful to define what they would not do. We said we're not interested in discussing the root causes of crime. We're not interested in looking at drug legalization. We're not looking at the death penalty here. All those issues have a relationship to criminal justice, but this isn't what we're looking at. We want other ideas for reform.

And the work group reviewed South Dakota data and looked elsewhere for evidence-based practices, because, of course, we don't need to reinvent the wheel. If other states have identified practices that research has proven do work, then let's use those practices rather than trying to invent something new.

The policies that were adopted in the end or recommended by this group were really, truly developed in a collaborative fashion with
lots of input from all the stakeholders, but all driven by the three goals of keeping the public safe, keeping offenders accountable and saving money.

One thing that we learned from our fact-gathering in South Dakota was that a large percentage of prisoners we were putting into prison in any given year were nonviolent offenders. We were locking them up using the most expensive means for responding to accountability. Not because we were afraid of them, because we weren't. They were nonviolent. We weren't afraid of them. We were just mad at them. So we were using the most expensive way of holding them accountable.

After the group finalized their policy recommendations, we immediately went to work, and we contacted nearly every legislator to explain the problem, the process we'd been going through, and now the solutions that this work group had put together in a formal package.

And with their solutions proposed, we also immediately then went to work on amending any statutes that would be affected by the policies and where statutory or legislative approval would
be required.

And then we also contacted the stakeholder groups, again, the sheriffs, the police, the judiciary, the victims groups, all these stakeholders that we'd been talking with and who had representatives on our work group and asked them for support in their endorsement of the policies that were ultimately recommended.

And after a couple months of tweaking and a compromise with the prosecutor's group, we had a package and a coalition. In the end, the Public Safety Improvement Act was sponsored by 70 out of the 105 legislators. It had both parties’ legislative leadership endorsement and sponsorship.

It was formally endorsed by the chief justice, the attorney general, the police chiefs association, the sheriffs association, the county commissioners, the states’ attorneys, the state bar, the victims network, the Council of Substance Abuse Centers and the Family Policy Council.

And we've been in touch with nearly all of these groups from the early months of work and had sent them regular updates. And this, I think, was crucial to having them endorse and support the
legislation. By undertaking this inclusive, palms-up effort with no preconceived notions about what we were pushing—because we weren't pushing anything to them. We wanted them to help us find these solutions that they could feel comfortable supporting with us.

And by undertaking that approach, we were able to enlist the support of virtually all of the stakeholders. And then stakeholders are comfortable, of course, legislators are comfortable.

And the package I would say then, as it turned out, is among the policies I'm most proud to have supported and seen in my first three years as governor. It shows the value of collaboration, and that process is really important. Both parties were involved. Affected stakeholders were involved, and it's fiscally prudent.

And I would be remiss if I failed to acknowledge a major partner in our effort was the Pew Center on the States. We had applied to them, because we were aware that they had guided other states toward criminal justice reform. They did not offer a cookie-cutter solution. Because our solution was dependent upon our situation.
And so, for example, I don't know what the percentage of new incarcerations in Wisconsin are made up of violent versus non-violent. Theirs may be quite different.

So each state is different, and I believe truly that their solution was really driven by our stakeholders and by our situation, our data and our laws.

But they chose South Dakota as a state to which they offered technical assistance. And they were especially helpful in the data analysis. When they took our corrections data, our judicial system data, and helped us look at it in different ways. And so I would recommend them as partners if any of you decide to advance an effort like this in your own state.

I want to re-emphasize, this isn't an effort to be soft on crime. It's not about soft on crimes. It's about smart on crime. We want to hold people who offend accountable. We want to also help people avoid reoffending.

And so many of the people we were incarcerating were drug and alcohol addicted. And some of their crimes were essentially crimes of abuse of those substances. They weren't hurting
anyone, but they were violating our laws.

Now, they were violators, and they had
to be held accountable, and we do. But we use
presumptive probation. We use evidence-based
practices that hold them accountable while they're
on probation or parole; they're swift and sure
sanctions proportional to the probation or parole
violation.

And so they are held accountable in ways
that help them learn not to reoffend and reward
them for good behavior. So it's a carrot-and-a-
stick approach to people who have
addictions. And

it does involve some investment up front and some
investment over time, but it's a lot cheaper than
building prisons and operating them.

So what more could we want really? We
save money. We hold offenders more accountable.
And we believe it will drive our crime rate down.
So it's a win-win-win situation in South Dakota.
And time will tell if I'm right about that. I
hope so.

GOVERNOR MARKELL: Thanks, Governor.

Governor Abercrombie.

GOVERNOR ABERCROMBIE: Thanks very much.

Governor Chafee introduced Mr. Wall by saying he
had a lot of experience with chronic offenders, so
I suspect that makes us a good group for you to be
speaking to today. I suspect all of us are guilty
of that in one way or another.

I think the other reason that I got
picked is that I'm a fellow probation officer.
You're still going. They got rid of me early on.

But I think that experience helped bring
a certain perspective now that I'm governor that
isn't necessarily available to others, prosecutors
and others connected to the justice system.

But not too many probation officers end
up in the governor's chair. And in that context,
which I'm sure you can verify, you get a pretty
eclectic view of the criminal justice system.

When you begin every day of your working life at a
booking desk, it gives you a certain view.

And in my instance or in my case,
rather, dealing both with making recommendations
as well as supervision, everything from traffic
tickets to murder, you don't find yourself siloed.

You have to have a broad view.

So one of the principal elements in my
campaign to become governor involved the criminal
justice system. What had happened in previous
administrations, both Democrat and Republican in our state, was they were unable to find either a site or sites or the will and the legislature to build new facilities or additional facilities, and we started shipping prisoners out of the state. That's the way we handled it.

The public-private partnerships got established around fairly—people went into business. Well, we'll take prisoners. We house prisoners.

REIT, Real Estate Investment Trusts, came into existence to say, well, we'll take prisoners, and we'll treat it like rent, real estate. We'll even get into arguments with the IRS about whether we should pay taxes. Human beings got turned into REIT elements.

And so we ended up spending tens of millions of dollars a year to ship people out of the state. Just to get a planeload out of the state was a quarter of a million dollars, just to ship them out of the state.

And what happened, of course, because there was a high percentage of those who were prisoners who had native Hawaiian background—

the governor mentioned the Native American Tribal
circumstances, with high percentages of social disorder and economic travail resulting in high incarceration rates as well as offending—
they were cut off completely, of course, from contact with families.

So we had a circumstance where one of the things I said was I wanted to get all the prisoners back into the state at least so we could begin that. Interesting enough, it became an element in the campaign as to whether that was a good idea or how foolish that was or what was I trying to do.

So when I was elected governor, I found somewhat the same phenomenon as had been discussed here earlier. Over the 10 years before I became governor, the state prison population grew 16 percent while the crime rate was decreasing.

Expenditures in the Department of Public Safety increased 63 percent over that time. And, of course, one-third—about 1700 people—of Hawaii’s prison population was housed out of state, again, at tens of millions of dollars. These are all those dollars leaving the state just on the cold-eyed, glint-eyed proposition there that money wasn’t invested either in personnel or facilities.
or anything else. It was leaving the state.

So we applied, as Governor Daugaard indicated, for technical assistance from the Council of State Governments Justice Center, the Pew Centers for the States, and the U.S. Department of Justice's Bureau of Justice Assistance—did a combination.

And I want to say that there was a comprehensive analysis done. We did the same thing as the governor indicated, went to all the stakeholders, including the legislature. Went to the legislature and said, “Let's get some data-driven information here.” Because as you just said, everybody's got an opinion, and everybody's got an anecdote or more.

So let's see what we can get. I want to also echo the governor's remarks. The people who came, you know, don't be suspicious right away, you know, if we're from Wisconsin or we're from Rhode Island or wherever, Maryland, we've got our unique and special circumstances. Nobody can come in from outside and tell us what to do.

First of all, nobody came in from outside and told us anything. What they came in and said is, here are the services we can offer.
And what we discovered very quickly was, actually, this was a good objective resource. Because they had no axes to grind. They had no preconceptions. They understood it was state by state, region by region and so on. And they were terrific. They were excellent.

Of course, they were all children. At least to me everybody's a child these days the way it's looking more and more. But it turned a good number of young people. And perhaps it was their innocent demeanor or something that allowed everybody to think that they didn't have an ax to grind or a special interest to pursue or that they weren't soft on anything.

What their view was, where it was being hard was on the taxpayers, or that's what the problem was and to really come to a conclusion. So they did a comprehensive analysis. And they identified what we considered inefficiencies in the system and recommended policy changes. They found areas where we initially came up with the thought we could save $3.5 million. That's the way we sold this to the legislature. We didn't come in with the idea that, oh, okay, here's a whole bunch of new expenses you have to
Quite the opposite. We said, Look.

We're dealing with stuff that's costing us money.

And so when I went to the legislature, I wasn't asking them for new dollars. I was saying, guaranteed, we will save this money, but let me invest it then. We're spending it anyway now.

See if we can invest this money, about $3.5 million.

We said we'd increase system efficiency, increase public safety, reduce recidivism and hold individuals more accountable where restitution, for example, was concerned. And so we passed legislation to effectuate that. And I think we've put out some information to you.

I hope that it got passed out. I'll just highlight a couple things in it. Let me highlight a couple of things that we found in terms of inefficiencies. Now, whether this applies as the governor indicated to every state, I don't know. But I'm willing to bet some of these things are probably ubiquitous to all of us.

I mentioned we had a decline in crime, yet the prison population hadn't declined.

Inefficiencies in the criminal justice system were
really terrific. Here was the first one. It hadn't occurred to me. Hawaii's pretrial process was one of the longest in the nation. The pretrial assessment process took so long in Hawaii.

And budget cuts from the previous recession took personnel away. One of the ways they did that is they brought people in and they just sat there in the courts. We cut bailiffs and so on in the courts. They were just sitting there. And that cost a fortune.

So we spent literally millions of dollars on totally unnecessary pretrial delays, because we hadn't assessed anybody as to what the situation was.

We found there were prisoners required to complete programs that never benefited public safety. Failure to put the right people in the right programs based on hard-core research contributed low-risk offenders spending longer behind bars, high-risk offenders unable to get to programs that are anyway associated with making the public safe.

We released people most likely to reoffend back into the community without any
follow-up supervision or monitoring worthy of the name. And I'm speaking as a probation officer in that regard. And restitution for victims was not being adequately collected at all, which further discourages the public with respect for the system.

So what we did is change all that. We reduced delays in the pretrial process. We went to work on getting effective programs by reinvesting that $3.5 million plus more right back into the system. And I'll tell you very quickly about how we did that. We began to hire people to actually carry out these programs with a very good way of doing it.

We had about, as I say, about 1,700 people out of the state. The analysis found that when we were keeping people in the state, unnecessary delay in the pretrial process contributed to a 117 percent increase in the jail population in the five years previous to my administration coming in, a 117 percent increase. It was just really astounding to me.

So let me just summarize as quickly as I can here. So the $3.5 million, let me tell you what we did with that. We hired additional
corrections staff to complete risk and needs assessment right from the beginning. We hired the public safety department. We established a research and planning office within public safety.

And then we added 15 new staff positions for victim services. This is something the public can see right away, because they think the victims are always getting screwed. The victims, when did they come into the picture? So that was visible to the public to try to create trust so that they're willing to give us a chance to reinvest that money and not think that it was just going to incarcerate people.

Victim services in public safety. In the prosecuting attorney's office and in the crime victim compensation commission, this increased staffing resulted in restitution collection and increased community supervision and treatment resources on individuals with the high risk of recidivism.

And I'm going to finish up with a practical demonstration of what we did with the courts. We worked very, very quickly and collaboratively with the chief justice and the
judges. We brought them in. I can't emphasize enough to you how important it is to bring the judiciary system in.

It's not crossing any constitutional lines by bringing your chief justice and the appropriate family court judges and administrative judges and so on in to work. As a matter of fact, they'll welcome it. Because let me tell you, both as a legislator and a governor, think about it, a lot of times, the only times we see anybody from judiciary is when they come in for their budget. Otherwise there's not much in the way of discussion with them.

Sometimes it's on the basis of, well, we don't want to be as seen as interfering with the justice system or so on. But it was very, very helpful to do that. In our particular situation—I think, A.T., you'll appreciate this in terms of expenditures—probation is usual, you know, the standard that we're used to. About a thousand dollars per year per person.

The whole program that I'm going to reference in here, and I'll just summarize very quickly, that's about $1,500 a year. The drug court, it's different; HOPE court is different
than drug court. I want to emphasize that to you.

Just don't do drug courts, you're going to get tangled up in a whole lot of problems, because you have high risk and low risk. If you put them all in the same thing, it won't work.

That jumps to $6,300 a year. You think, oh, that's a lot. For us, I don't know about you, but our prison beds cost $46,000 a year, and that's maybe low for some of you here. I don't know—$46,000. Can you imagine if you spent the $46,000 on making sure you had preschool and digital devices in kids' hands and got them proper nutrition and reference? $46,000.

So we thought we were able to make a real case for changes. And I'll conclude with an article by Judge Steve Alm from our state, who is the chief instigator of and supervisor of both the HOPE probation court and the drug court. And I'll just read you a couple of things that I think helped convince the legislature that this was the way to go.

Inevitably you're going to get people who will criticize a justice reinvestment initiative. That's what we called it. I think, Governor, you had the same title, right? Justice
reinvestment? We didn't call it reinvention. We
didn't call it reform. We talked about
reinvestment, that we were investing in a system
that was going to pay dividends to the public.

And so in order to make certain that
people did not misunderstand that by having a HOPE
court and a drug court, that we were going easy on
anybody, let me just summarize to you very quickly
what happens when you shift offenders into the
HOPE court.

First, this is a
judge-centered proposition.
Open court, you put the probationers in there.
Expectations are made clear right from the get-go.
They're swift. They take place right away. The
director is available. The bailiffs are available.
It takes place right away.

Seventy percent of the hearings are held
within 72 hours of arrest. 70 percent of the
hearings. Drug treatment is provided by those who
request it or say they cannot stop using drugs or
alcohol on their own.

The judges supervise a large number of
felony probationers. Now, for an ex-probation
officer like myself, 50, 60, 70, 100 cases—
Judge Alm currently supervises 2,000 felony probationers. And they target the toughest offenders. We're not taking the easiest ones. We target the toughest ones.

And what Judge Alm does is something that I used to do as an a probation officer, what we call reality therapy. If you've got 2,000 offenders in front of you, you're not going to screw around. And you let them know exactly what's going to happen. And we see to it that the judge is backed up. Absolutely. They understand very, very quickly what's going to happen.

And then if they can't make it through that, then we get to the drug court situation. We focus on supervising, provision, and treatment resources for high- and moderate-risk offenders.

Drug court costs between $5,000 and $8,000 per year as measured against the $46,000. And the results are very, very good.

Since September 2012, we make sure that this is a last-chance privilege, that the program is going to be rigidly enforced across the board.

And since September 2012, there have been two drug court graduations involving 41 offenders. Fourteen were previously in HOPE probation and were failing.
They were headed back to prison until they were given a last-chance opportunity in drug court. So instead of costing Hawaii almost $2 million in combined prison costs, these 14 are now all employed. We've been following them since September of last year. Everyone is employed. Altogether they have paid $21,000 in restitution costs, traffic fines, court fees and child support. It's not a whole lot of money, but it's a lot different than spending $2 million on them; none of which has achieved anything.

So we're not saying that this is a panacea. We're just in the process of trying to make this work. I brought several hundred prisoners back to Hawaii so far. I intend to get all 1,700—I intend to send nobody to the mainland if I can help it anymore, and bring the rest of them back.

But I can tell you that if you follow up on what Governor Daugaard and I and others—by the way, it's not just the two of us. There will be shortly a public safety performance project report coming out with Governor [Mike] Beebe, Governor [Nathan] Deal, myself and, of course, Governor Daugaard indicating these six things.
I'll quit with this, what motivated you to tackle this issue in the first place? How did you achieve the consensus across the political parties and diverse stakeholders? What were the major obstacles? How did you get past them? What part of the state's reforms will have the biggest impact and why?

Do you see a shift in public attitudes toward crime and punishment in your state? And, of course, what advice do you have for other governors about taking on justice reinvestment? I think I can speak for the governor and myself when I say the principal advice we have is: think about [it] as justice reinvestment and then act accordingly. Thank you very much.

GOVERNOR MARKELL: All right. Thank you, Governor Abercrombie, as well. Governor Hickenlooper.

GOVERNOR HICKENLOOPER: Thank you. Real quick, thank you both for your remarks and speakers. And I'm pretty sure it's Mitch Daniels that said that he wanted to make sure that Indiana was the worst place to commit a crime; the best place to get a second chance, which I think is an interesting sentiment.
What all four of you were talking about is it does all come back to mental health. One of the things that was touched on but not really gone into is this whole issue of administration segregation and how in many correctional systems it becomes a default, because it’s easier and perceived as less risky. And yet, again and again, we’re often releasing people with significant mental health issues directly from years of isolation, which only exacerbates the challenges they have. And because they’re deemed too risky to be released into the prison population, so they keep them in solitary confinement, then they release them directly into the general population of the community, which makes no sense. We’ve been working, part of that in Colorado, we were up to 7 percent of our total prison population was in administration segregation, which was an appalling number. We got that down to about 4 percent. But when you begin looking at it, so much of this is connected to mental health. And probably the worst thing you can do to somebody who is emotionally unstable is lock
them up by themselves and just leave them there for month after month.

GOVERNOR MARKELL: I'd like to ask a question. Like, in Washington State, as an example, to have such a lower level of incarceration than nationally—Dennis, the kind of thing that you were talking about in South Dakota and Neil, you mentioned it as well—but I mean, clearly, drug crimes have got to be treated very differently than they're treated in other places.

And so, is it a matter of a change in sentencing? Or, you know, what are the other things that are contributing, and, you know, in your case, perhaps, to such a lower level of incarceration primarily around the drug crimes.

MR. AOS: Well, the legislature adopted, in 1984, a new sentencing system. It's still in place in Washington State. And it focuses on the risk factors.

So, you know, the people who are in prison now have a higher risk by the nature of the sentencing grid for violence. And that's sort of the key thing. That's why we've had a lower rate of incarceration than in other states, but we have
more crime control as a result of, in part,
because of the prison, because we're using it for
the highest-risk offenders, including drug
offenders.

We've had some success in shortening
length of stay for certain of the drug offenders
who are in prison. We've had some other
nonsuccesses in doing that work too. So it's a
little bit of both on the sentencing end of the
scale.

GOVERNOR ABERCROMBIE: There's another
factor that's involved in that in terms of
incarceration length of time having to do with
drugs. And that depends on whether or not they're
a methamphetamine basis, crack basis. Because the
propensity towards violence and/or the occasion of
the person being in court as a result of their
addiction is not the addiction, per se, you know,
trading drugs or dealing in drugs, but as a result
of some violent crime, or an act of violence
associated with being mentally and physically
dysfunctional simply because of the
methamphetamines.

Back when I first got into probation,
ocaine wasn't even a big deal then. Certainly
not crack cocaine. You were dealing with heroin,
and you were dealing with marijuana and the
 toxicity of the marijuana and so on, wasn't
anywhere near where it is today.

So drugs in and of themselves have
changed dramatically in terms of toxicity. And
the type of crimes associated with drugs in some
instances have become more violent and, therefore,
the penalties associated with the particular crime
skew an easy assessment of what constitutes
drug crimes.

GOVERNOR DAUGAARD: I can talk a little
bit about South Dakota's situation. As we were
looking into our people who were incarcerated,
most of them were nonviolent. And a large
percentage of those nonviolent offenses were drug
or alcohol crimes. Just the crime of use or
abuse.

And when we looked into the drug crimes,
we realized there was very little differentiation
between the casual user, the distributor, and the
manufacturer, I'll call it. So the guy that was
just caught using was treated very much the same
as someone who might be running a meth lab and
distributing the product.
We tended to treat all of them quite harshly. And so one of the things that was done was to differentiate the crimes, reduce the user penalties. And for the more egregious manufacturer or distributor, we actually increased them.

And that was part of the give-and-take with some of the prosecutors to get their support. And I think, again, the vast majority of those folks that we were putting into prison were mostly users and low-level users.

And if we could instead get them on a presumptive probation with some swift and sure sanctions, evidence-based research in other states had shown that if you treat them in their communities where the risk of using is constantly presented to them versus put them in prison and treat them in an environment where they really have no access anyway except through contraband or black market, it's really kind of silly to think that if Dennis goes to prison, and I'm addicted, and I get treated, and I go cold turkey or get weaned off in prison, and I have no opportunity to reoffend and then I'm put out in the community, back in the same circles of friends and the same
environments where I was tempted and used before,
my likelihood to be able to resist reoffense is
lower.

Whereas if you can treat Dennis in the
community and reward him, under our presumptive
probation, every 30 days of good behavior gets 30
days off their probation sentence. Or in the case
of parole, off their parole sentence.

So if I'm near the end of my month, and
I've been 28 days clean, and my buddy Dan says,
"Hey, let's go out, and I got some meth." I'm
gonna say, "Dan, I just got two more days to be
clean, and I get a month off my sentence." I'm
going to learn and be rewarded for saying no. And
pretty soon it can become a habit. I'm in the
community where that temptation is presented.

So that's one of the philosophies behind
trying to use the swift and sure sanctions, both
positives like I just described, but also
negatives. That if I get caught using, then I
know I'm going to go to jail. Then I have a
quick hearing like under the Hawaii probation
program.

I know what my jail sentence is going to
be. But it doesn't result in the reimposition of
the entire prison term for which I was sentenced
and then part of which was deferred based on a parole. I don't lose it all for one small infraction. I lose some.
So those are some of the philosophies behind the reinvention that we passed in the legislature.
GOVERNOR TOMBLIN: We, in West Virginia, we use the Justice Center also and Justice Reinvestment and the study for a year with all three branches of government working together.
And I was able to have a pretty unanimous bill passed through the legislature.
But it kind of differs just a little bit. We talk about early release and so forth for good behavior. You know, the early assessment to make sure the inmate is getting the correct treatment they need when they go into the prison, especially; we have, like many other states, a high amount of substance abuse-related sentencing going on there.
But, basically, part of our plan is to, you know, assure that they do get the kind of treatment while they're incarcerated.
Another thing that we have not done in
the past, and I think it's the reason that we've
had such a high rate of recidivism, is there's not
been a real home plan. Once the inmate's time is
finished, they walk out on the street. Most of
the time they go right back to the same
environment that got them in trouble before.

So, basically, you know, if they
followed the rules and so forth while they had
been behind bars, they will be allowed early
release, but it will be supervised release for the
remainder of the term. If they still have
problems with substance abuse, then that treatment
will be provided for them.

And, also, we have something what we
call the shock treatment. That if you have minor
infractions while you're out, that the first time
it happens you will go directly back for 30 days.
If you come back out, it will be 60 days. The
third time you go back for the rest of your
term. Basically to, you know, just remind
them of what they left there and to don't do it
again.

Yeah, I think the fact of having the
supervisor release back into the community,
making them follow strict rules will help them as
far as recommitting crimes like they'd done
before.

Another thing is so many employers will
not look at hiring a felon. And we're working
through our Workforce West Virginia Program to be
able to offer insurance especially for those
working with money or valuables or
something that, you know, if you give this person
a chance and they happen to go astray, that the
bond will reimburse the employer.

At least it helps them in certain ways,
minimally at least, to find these former inmates
employment. Because I think, once again, if
you're out there, and you don't have a way to
support yourself or support your family once
you're released, you have a tendency to get back
into breaking and entering or dealing with drugs
or whatever.

So I think that's another part of it
that we've got to deal with is once they're
released, how do they go about supporting
themselves?

GOVERNOR DALRYMPLE: Mr. Chairman, I
like a lot of the ideas that I've heard here
today. I'd like to cut down on my workload, and
I'm wondering if I can get some information from the state of Washington or from South Dakota on, you know, some of the conclusions that you have arrived at through all this analysis. I would be very interested in seeing anything that you have. And I don't know, Mr. Chairman, if we have some kind of work going on through our Best Practices on Corrections, if there's something available through NGA.  

GOVERNOR MARKELL:  That's what I was going to suggest, which is we will have the NGA staff circulate some of the best practices that you heard about today, also picking up on the comment that Governor Hickenlooper made regarding Indiana, Mr. Daniels saying, you know, worst place to commit a crime, best place to get a second chance. To me it ties in with what Governor Tomblin was just talking about in terms of what states are doing to make sure that folks coming out have a decent shot of employment. Because that does continue to be an unbelievable source of frustration. It's not a surprise that the recidivism rate is so high when
for so many of these people, they actually have so little hope of finding employment when they get out.

But we will definitely have the NGA staff pull together much of this work including the work that's going on in all four, you know, Rhode Island and South Dakota and Hawaii and Washington State that you heard about today, but other states as well.

I think there are quite a few states, it sounds like a couple of you—we also did the Justice Reinvestment work in Delaware, and, you know, so we're implementing it now, signed the bill probably a year and a half ago.

And I think for all the reasons, I mean, this idea that we're seeing crime go down and incarcerations go up, the unbelievable increase in spending, and I think it is—maybe Neil said, imagine if you spend that money, the $46,000 that you were talking about per inmate and what we could do with that if we put it in other places.

So I think this was a very, very interesting conversation. I want to thank our speakers very much for coming in, to the governors
who added. As well as to Governor Dalrymple's
suggestion and request, we will make sure that we
circulate the information to the governors. Thank
you all very much.

(Applause.)

(Meeting concludes.)
I, JESSICA R. WAACK, a Certified Realtime Reporter, Registered Diplomate Reporter, Certified Shorthand Reporter and Notary Public in and for the State of Wisconsin, do hereby certify that the above transcription of the NATIONAL GOVERNORS ASSOCIATION meeting was recorded by me on August 3, 2013, and reduced to writing under my personal direction. In witness whereof I have hereunder set my hand and affixed my seal of office at Milwaukee, Wisconsin, on August 8, 2013.

Notary Public
In and for the State of Wisconsin

105th SUMMER MEETING

OF THE

NATIONAL GOVERNORS ASSOCIATION

Sunday, August 4, 2013

SUMMER MEETING

GRAND BALLROOM C

THE WISCONSIN CENTER

MILWAUKEE, WISCONSIN

Reporter: Jessica R. Waack, CRR, RDR, CSR
Notary Public in and for the State of Wisconsin
PARTICIPANTS:

Governor Jack Markell, Delaware, Chair
Governor Mary Fallin, Oklahoma, Vice Chair

GUEST SPEAKERS:

Mr. Matt Devost, president and CEO of Terrorism Research Center, Inc. and adjunct professor, Georgetown University

Ms. Heather Hogsett, NGA Health and Homeland Security Committee.
GOVERNOR MARKELL: Well, good morning everybody. Welcome to the closing session of the 2013 NGA Summer Session, and I would ask you if we could start the meeting; please join me in thanking Governor Walker for his great hospitality.

(Appause.)

GOVERNOR MARKELL: I know we all had a good time, and I think it's been very productive, so thank you, Scott.

Our conversation this morning is on cybersecurity. It continues to be one of our country's most significant vulnerabilities leaving personal information, intellectual properties, and critical infrastructure like the electric grid all at risk. From malware to spyware to distributed denial of service attacks, to phishing, to intrusion into industrial control systems. The threats that we face as a nation are growing in number, and they are growing in sophistication.

And as we've heard from many different security experts, unless we really improve our country's cybersecurity infrastructure, the question is not if, but when, there will be some
kind of devastating, major coordinated cyber
attack.

Every single one of our states has been
the target of attacks. Some of them have just
been relative nuisances, while others have resulted
in massive theft of individuals' personal
information.

And the challenge we face is that while
there have been significant efforts at the federal
level to protect the dot-mil and the dot-gov domains,
the role of states and the role of governors have
not been explored as much.

The question is: What action should we
be taking to protect state-owned critical systems?
How can states best partner with private sector
owner operators of critical infrastructures, one
of the components of an effective cyber incidence
response, and how do we best understand the threat
and the risk landscape? These are just a few of
the questions that we've got to consider.

And to help us explore this last
question around risk, we've invited Matt Devost,
who is an international security expert who
specializes in cybersecurity, counterterrorism,
critical infrastructure protection, and
intelligence and risk management issues.

He's currently the president and CEO of the Terrorism Research Center.

. He helps international clients identify and manage cyber threats and what are often complex operating environments.

He's been an adjunct professor at Georgetown University since 2002. He teaches the flagship graduate course of information in warfare and security. He's the founding director of the Cyber Conflict Studies Association. And I ask you to join me in welcoming Matt now.

(Applause.)

MR. DEVOST: I'm going to bring my water, because I just spent the last week at the Black Hat Security Conference in Las Vegas, so suffering from a little bit of Vegas voice here.

To cover my background. So, I'm not here to talk about threats; although, I throw this slide on here [shows visual aid] to have you understand that if you're not thinking about the threats here, the state-sponsored, the individual hackers, the activist organizations, you're obviously going to be missing the boat.

The level of activity from the threat
actors in cyberspace right now is greater than I've seen over the course of the past 20 years. And this is an issue I've been working on for 20 years.

I worked some of the first state-sponsored cyber attacks, cyber responses at the national government level. And what we're seeing now in the private sector of state-sponsored attacks is no comparison to what we were seeing years ago. So I'm not going to scare you—but you should be scared at this point. And I heard last year you got a briefing on the threat.

So I'm going to talk about putting that threat in context and some of the themes around managing cybersecurity. The reality is although we have that picture that I just showed you with all those different types of threats, you have to put that in context with regards to what threats will be targeting you; even more specifically, what targets will be targeting what resources within your organizations.

So I'm going to talk about some of those themes and themes of management, and incident response, and others. In thinking about what is
your most likely attacker. If you sit right down now and think about it from a state perspective, is it a nation-state? Is it an activist organization? Is it an insider that's disgruntled? Is it a criminal enterprise that wants to steal financial data?

If we're going to put these issues in the context of risk management, which at the end of the day is what this is about, you have to spend some time thinking about what is your most likely attacker. Even then, what is that attacker likely to target?

One of the greatest issues that I see is we try to apply all threats to all problems. We try to say that all data is critical within an organization. And really to manage this issue properly, we have to move beyond that and try to put it in a framework so we can understand and manage it. It's a threat and impact.

Again, looking at the impact of a particular attack should also drive the resources in what you're going to do. Is it going to be catastrophic impact because it's targeting a critical infrastructure? Is it going to be a nuisance impact because the activity defaces a
website?

Or is it going to be something that is an embarrassment to the organization based on data being released or sensitive information being released? So we can't do risk management without talking about threat. We also can't do it without thinking about the impact of these attacks.

And then the third kind of critical component is thinking about vulnerabilities. And this is the piece that I think is often the most overwhelming. The vulnerability environment is also something that needs to be managed with regard to what systems are in use, how they are used, and then what is the vulnerability profile.

When we look at the attacks that take place even with the most sophisticated of the state sponsored attacks, they don't have to bring their A game, because we let them use their B and C teams to get into our organizations.

So from a vulnerability perspective, we need to do a better job of understanding and managing those vulnerabilities so we raise the bar and attackers are resource constrained just like we are. So if we can increase the cost to the attacker, they can attack less, and as a result we
get some inherent additional security.

And make it about protecting the most important systems. Again, one of the greatest mistakes we often see is that we will sit down with an organization, we say what is important, and they say *everything* is important.

Well, you can't manage an environment where everything is deemed as important. You have to make decisions. You have to govern this issue just as you would govern other types of issues.

So if you sit down and look and say, okay, we have 50 types of data or 100 types of systems, how many of them fall squarely within the bulls-eye of what is critical? And have you even gone through the process of identifying what those data sets are, what those systems are, and then, are they critical or not?

I've had some customers where we've sat down, and there have been in excess of 50 different types of data. When you ask the individual players, they'll throw almost everything in the bullseye.

But then towards the end of the cycle when we've actually gone through the process, there might be three or four systems that are in
that bullseye. Those afford the greatest level of protection, the greatest level of monitoring.

Those are the systems that you’re trying to protect from having a critical incident or from having the data released. But you have to go through the process to manage that. Otherwise, you’re driving to manage everything out of context.

Just to put it in a theme that may be more understandable. Obviously, I chose this picture based on the security profile that we see here with the President with at least observable four secret service members walking with him. Because of the criticality of that position, we afford that level of protection.

But what if we tried to afford that level of protection to every member of Congress, or we tried to afford that level of protection to every member of Congress's staff? We would be resource constrained. We wouldn't be able to do it.

It's the same thing in cyberspace. It's about making critical decisions and identifying those points that are going to be the highest threat, the highest impact or the most critical in
your organization.

And, unfortunately, the model right now in a lot of organizations is that we try to do this with every single piece of data. If you try to protect everything—you know the old adage—you don't protect anything at all.

Examples of critical systems in data might include critical infrastructure. We hear a lot in the press about theft of intellectual property within organizations, and that obviously is a key issue.

But even more so of concern to me, you know, based on my 20 years of looking at these issues, and what we see by way of attacks out in the private sector right now is critical infrastructure as an attack target. Being able to degrade infrastructure, and all infrastructure right now, if it is critical, depends on computer systems and networks for the operation of that infrastructure.

I do not know of any infrastructure—I would welcome suggestions if you have one in your state—that is not controlled by computers or network technology in some capacity.

Again, public safety systems, things
that will be used to protect the citizens in the context of other attacks so you don't have a blended attack that can take place where they can augment or increase the impact of a conventional attack like terrorism by using a cyber attack in parallel with it. So making sure that critical communications is going to be there and your ability to respond.

Citizen and personal data: obviously, a big issue, and also a high-profile one, because it tends to attract a lot of headlines. It tends to be very polarizing. It impacts citizens at an individual level. If you talk to them about critical infrastructure, they might not understand the threat. If you talk to them about losing their social security number, it puts it in a much more personal context. If they've ever been subjected to identity theft, it puts them in an even much more sensitive context.

And then financial transaction systems and data. We see all of the discussion in the press about some of the state-sponsored attacks around stealing intellectual property. But as much activity as there is in that environment,
there is also criminal activity that takes place. And there are actors that are making hundreds of millions, if not billions, of dollars in engaging in cybercrime. So where you have financial transactions and financial resources that are available, those attackers are going to be targeting those types of systems as well.

Another key point that’s really emerged over the past several years, or has been driven home by the recent attacks over the past three to five years, is that we have to shift away from a perimeter security mentality.

We’ve been told for 20 years that security was about protecting the perimeter because it put it in a framework we understood, right? To try to protect the folks in this room, we put guards on the outside of the building, we put checkpoints.

But the reality in cyberspace is that the perimeter security has been and will continue to be broken into. So we need to start thinking about it in the context that the attacker is going to gain access to your environment. I can guarantee you.

My team—over the past 20 years I have
been running red teams—has a 100 percent success record. There is always an attacker advantage. What is key is what is going to be the impact of that successful breach, and how do you manage that when that takes place.

You want to raise the bar on trying to keep them from going out, but migrate away from thinking of things in context of having walls and perimeters. The entirety of the organization is at risk.

And that puts the defense in context, again, of the critical data. If I can't have the perimeter base mentality and keep everybody on the outside, then how do I protect that information on the internal network?

A lot of people ask, well, what technology should I implement? They are looking for the silver bullet. And the reality is there are no silver bullets in this space as well.

There are great enabling technologies that support increasing the security posture within the organizations. There is no one technology or even one grouping of technologies that is going to solve this problem for you. It really is about management at a higher level.
But there are these things I like to call silver concepts that can guide the discussion space, engaging in that critical data review that I talked about.

Assessment in self-awareness:. It amazes me when I encounter organizations that really don't have an accurate inventory of what the technology is on their network or what operating systems that they're running or what their vulnerability profile is. So there's a huge amount that can be done just by way of self-awareness that can help raise your security profile.

Training and awareness of employees and key staff is another critical thing. Pound for pound, especially against a lot of the attacks that we're seeing now, spear phishing and the like. I think you get more value out of training and awareness programs than you do out of anything else. If employees make fewer mistakes, it introduces less risk into your environment. So it's definitely an area to be focused on.

Mitigation and management. Not only management of security in general, but mitigation of attacks that do take place. How do you
respond? How do you measure your response? If you just keep having attacks over and over again, how do you know that you're getting better or that you're raising the bar? We'll talk about that in a little bit greater detail.

And then threat intelligence and information sharing: We've gotten better at this, but the issue is a lot of times the breaches, the fact that a breach took place is treated as sensitive information, and we're not sharing. What does that mean? It also means that we're not sharing what the attackers did. Their tactics, their procedures, techniques are not being shared. So we need to get better at sharing that kind of data as well, because it helps as an enabler across all of the organizations.

If my value to a company was that I have perspective on only their organization, they would never hire me. The value is that I work with 70 companies and see the attacks that are taking place across all those 70 companies and the best practices that are being put in place to mitigate those and serve as a conduit to share that type of information.

We need the same types of mechanisms as
well among your organizations for sharing
information not only with each other, but with
private sector partners and with the federal
government.

Training and awareness we mentioned,
again, pound for pound, just raising awareness as
to what does an actual spear phishing attack look
like.

And I bring my Georgetown hat into this
one. This was an email message that I received
from a colleague at Georgetown, Bruce Hoffman, who
is very famous counterterrorism expert asking me
for feedback on a particular project he was
working on.

The problem was that this message didn't
come from Bruce Hoffmann! And that spreadsheet,
if I had opened it, would have allowed an external
attacker to take complete control of my computer.

I didn't click on the attachment
because I have a high level of awareness to be
suspicious. Bruce has never mentioned this
project to me in the past. He usually does not
interact with me over email. It's usually in
person or over the phone.

So there were things that were
interesting. And then when I hovered over the "from" and saw the address that it was coming from, it was pretending to be his personal email address at Yahoo. But if I looked in my address book, it was one character off from his email address. They had spoofed it and done a good job.

But there were several warning signs there. And you can train employees on these type of warning signs. You can train someone on how to protect critical information and have better behavior associated with their use of technology.

Establishing metrics is good. I throw this out as the metric that we use with talking with boards of directors and CEOs. I know enough of you have private sector experience to recognize the impact if I walk into the board of directors and told them their profile is negligent, right, and where there are best practices and then where you can draw the line up on the way to establishing best practice. In some organizations, I would say a large majority never gets to best practice.

What they want is to have a diligent profile. So they're putting the right programs in place, the right protection strategies in place to
have shown that they are, you know, exercising due
care.

Cyberterrorism isn't always
about prevention as well. You have to deal with
incidents. It would be like having a
counterterrorism strategy that says we're always
going to stop the bad guys, and we're not going to
put any program in place for what happens in
dealing with the consequences of a successful
attack.

It's the same in the cyberspace.

Accept the fact that a breach will take place and
build some metrics around that. How quickly did
you detect the attack? How efficient was your
response? Are you getting better at responding to
attacks with fewer resources? Are they having
less of an impact? Are you able to recover more
quickly from an attack that takes place and
thinking about it in context of early detection?

And triage. When you have an attack,
are you triaging which systems are targeted that
are more important than others? And a lot of
organizations from an incident response system—
there may be 10 systems that are breached and
they're treated all as equal.
The reality is there may be one over here that has a life-threatening illness or has a huge impact in your organization based on the attacker being successful. You have to go and focus your resources on those first.

And containment:. Right? Preventing the attacker from moving laterally in a network. Preventing them from getting full access to the critical data.

And then the intelligence sharing as a metric:. Not only what did I learn from this internality, but what can I share with others. And then what can I take from others into my processes to make our response better.

Employee awareness metrics:. Just a few that we see used out there. Getting employees to report incidents. Are you getting all of your incident reports from your IT staff, because they're detecting it on the network?

Or are you getting employees that are reporting, “Hey, my system acted kind of funny, Hey, I got this strange email? There are great metrics associated with that.

Spear phishing exercising:. If they're going to be targeted via spear phishing, you can
engage in exercises against them to establish metrics. This time 50 percent of the people clicked. Let's try to get it down to 40 percent next time. Raise awareness so when the attackers actually go after them, they've seen it before.

And then best practices:. What sort of leakage do you have out of your environments? What sort of data practices are being put in perspective? And there are metrics that you can track with regards to information being shared over USB sticks and all sorts of stuff on the digital loss prevention side as well.

Here is the unfortunate reality that right now in responding to these issues that we're playing Whack-a-Mole, okay? And I've got some great slides in other briefings that talk about the process of trying to find the program to capture this screenshot without getting my own personal computer infected with malware.

But here's the desired security model:

And you notice that I didn't put duct tape over all the holes, right? Because it's impossible to put duct tape over all the holes. But if I can put duct tape over half of the holes, it makes the problem that much more manageable for me.
That is the kind of key thing we want to do. We want to be engaging in cyber risk management. This is a problem that needs to be mapped just like everything else. So we're really talking about an overall strategy for cyber risk management or cyber risk governance.

What does that mean? That means that you have to set a strategy within your organization. You have to determine what your priorities are, unless you all have unlimited resources, which I don't think is the case.

You have to put it in the context of what is the actual threat. So having that awareness of who's targeting you. Who are targeting your peers? Getting the information from the government, but putting it in that true context.

Having mitigation and ongoing management processes for how you manage the security profile for the devices that are in use in the organization, that are introduced into the organization, and then how you manage them on an ongoing basis.

Again, these attackers are successful sending their B and C teams after us, because we
do a very poor job of managing what we already have. But then, also including security in the design process for new technologies.

Do you have a new platform that's going to be put in place? Do you have a security plan associated with the development of that technology? And then training and awareness and then response and recovery. Right? So when you do get breached—and I guarantee you that you will get breached—that you have some sort of plan to contain and manage and reduce the impact of that incident.

And, of course, the challenges as with all things, you have to do it in the context of the resources that you have available to you, which means that you have to make changes and decisions.

But you want to make sure that you're making choices and decisions based on a framework and availability of data that puts things in the proper context. Which I think is why they asked me to come and speak to you and not throw up a whole bunch of slides about bad guys or share war stories about systems that have been attacked, but I'm welcome to do that during the Q&A.
But really think about this as a problem that can be managed, that can't be absolutely prevented, but you can put a management framework around and do better by the systems that are used in the state and the information that you've been entrusted with.

So that concludes my formal remarks.

And I think we have a couple videos and then a Q&A session. Thanks.

GOVERNOR MARKELL: Thank you very much, Matt. As many of you know, the NGA Center For Best Practices recently created the Resource Center of State Cybersecurity. Its mission is to help governors improve their cyber posture by providing advice and some policy recommendations and resources that governors can adopt.

Many of you participated in the Department of Homeland Security classified briefing on cybersecurity threats at our winter NGA meeting. This is just one example of what the Resource Center does.

It's co-chaired by two leaders, Michigan Governor Rick Snyder and Maryland Governor Martin O'Malley. To help provide an overview of the Resource Center as well as some of the work
underway in Michigan and Maryland, we’ve invited both governors to make a few comments. Governor Snyder could not join us in person, but he’s videotaped some remarks. And after we see that videotape, I'm going to ask Governor O'Malley to talk about what's going on in Maryland. So with that, if we can run Governor Snyder's videotape, that would be great.

[Video program begins]

GOVERNOR SNYDER: Hi, I'm Michigan Governor Rick Snyder. As we move into the 21st Century, the benefits and convenience of online technology enhance our lives more and more each day.

Unfortunately, at the same time, attacks on our personal safety and economic security through the Internet continue to grow and expand. As co-chair of the Cyber Resource Center with Governor O'Malley, we are committed to working with the NGA and other states to enhance the cyber security posture for everyone, whether it's identity theft, espionage or those who prey on our children, these threats affect all of us, families, businesses, and government at all levels.

Last year in Michigan we blocked 294
million spam emails. We moved 31.5 million pieces of malware from email and blocked 187,000 cyber attacks daily. It's important that we are active in fighting these ongoing threats. And Michigan is a leader in protecting this vulnerable ecosystem.

We are reorganizing agencies to improve governance. We're revamping cyber training programs for state employees to improve a culture of awareness. And through the Michigan Cyber Range, which tests and improves capabilities, Michigan is strengthening cybersecurity.

In 2011, we launched with great success our cyber initiative during Michigan's cyber summit. Today I'm glad to announce that in October, we'll host the 2013 Michigan Cyber Summit to continue this important work. We're committed to cybersecurity as we strive to safeguard our families, protect our infrastructure and shield our economy. Thank you. [Video presentation ends.]

GOVERNOR MARKELL: Okay. We appreciate Governor Snyder's presentation by video. And with that, I'm going to turn it over to Governor O'Malley.

GOVERNOR O'MALLEY: And the presentation
was flawless. It's been a great honor, and I want
to thank you, Mr. Markell on this front and
charging the NGA staff to move forward with this.

I think that most of us, when we talk
about that imperative of security, find ourselves
between two different eras; one pre-9/11, one
post-9/11. And one of the big new domains that
has emerged in addition to air and land and sea
and space is this domain of cybersecurity.

But there is a lesson that I think all
of us have learned post-9/11, post-Katrina and
other events and that is, waiting for help to come
from Washington or even clear advice in these
changing times to come from Washington before we
act is not a security strategy. And it's
irresponsible.

And we've seen most recently, I think,
in South Carolina the damage that can be done by
hackers and attackers.

So, Mr. Chairman, in Maryland, cybersecurity
is a key component of our Homeland
Security efforts, and it's also an emerging sector
of our innovation economy, creating lots of jobs
in public and private sectors as well.

Our most effective tools, we believe, are
the talents and the skills of our people. It's
our greatest defense. It's our greatest offense.
So we're investing in better programs in our
schools, in our high schools, in our community
colleges, our four-year universities ensuring that
students who are pursuing careers in this field
have experience necessary to excel.
In 2010, we created the Maryland Cyber
Security Center at College Park. And within our
community college system, we've established the
Pathways to Cybersecurity Careers Consortium.
And we're raising awareness and educating our
state employees through mandatory training,
through cybersecurity drills, and creating a
regimen through our emergency management agency to
make sure we do this on a regular basis moving
forward.
And we're also working with businesses
to develop employer-led training in this highly
skilled, high-demand sector. So we believe in our
state that the things that get measured are the
things that get done.
And I thought the presentation was
outstanding. And there are so many metrics in
this area that we need to bring to the floor;
create common vocabularies, common issues, common
dashboards so we can all have some sort of sense
that we’re doing what we should and must to
responsibly protect our critical infrastructure,
which in this day and age, absolutely, positively
has to include our cyber networks.

And partnerships and collaboration are
key. Governor Hickenlooper is fond of saying
collaboration is the new competition. And that is
clearly true in cybersecurity.

That’s why in 2012, we partnered with
NIST, the National Institute of Standards and
Technology, along with the National Cybersecurity
Center for Excellence, where experts from industry
and academia are demonstrating cyber solutions
that are scalable, that are affordable, that are
effective.

We also partnered, Mr. Chairman, with
the tremendous resource that we have in our state
in our Air and National Guard, Maryland’s 175th
Network Warfare Squadron. And these men and women
are outstanding. They’ve come in. They’ve helped
us in our exercises, in our drills, in our
training. And I know the Council of Governors is
anxious to explore a better defined role for our
National Guard in this new domain.

This year we also signed a $3 million cybersecurity tax credit into law to accelerate job growth in this field. And for all of the focus that we've seen on the national level, we still have a lot of work to do in order to elevate the collaborations between our federal government and states in this realm.

And that's where the NGA Resource Center on State Cybersecurity is working. We're working to fill that void. One of these tools is the Governor's Call to Action for Cybersecurity that will lay out a framework that all of us can pursue. You know, governance authority, risk assessments, continuous vulnerability, and threat assessments, and the like.

We also introduced an electronic dashboard that governors can use to understand their state's level of readiness at a glance. And moving forward, we're exploring four other areas.

One, we're looking for stronger collaborations between our states and our federal partners. Second, we're looking at ways that states can use their state-owned fusion centers to support stronger and more robust cybersecurity
defenses on an intrastate as well as an interstate
basis.

Third, we're working to develop
effective state policies to address the security
of our data and our own infrastructure.

Fourth, we'll be making recommendations on how governors
can best develop a more highly skilled workforce
to fill the ranges of need that are out there in
this new domain. So the work of the resource
centers is essential. It's critical.

I want to thank all of the abled staff
that have been working on this. Governor Markell,
again, thank you for your leadership on this, and
also the grant makers who have made this work
possible; the American Gas Association, Citi,
Deloitte, Edison Electric Institute, Good Technology, Hewlett-Packard, IBM, Northrop
Grumman, Nuclear Energies, Symantec, and VMware.
And I want to thank you again for the opportunity
to bring everybody up-to-date.

GOVERNOR MARKELL: Thank you. Great
presentation in the arena of collaboration. I
understand that actually Delaware and Maryland are
looking together to participate in the Cyber
Aces Academy doing something together there.
And since I do have the microphone, I should point out that we were one of the first states, in Delaware, to host a Cyber Challenge Camp to attract young people to pursue a career in this area. We just graduated 47 students from our fourth annual camp.

Governor O'Malley mentioned the Air Guard, and I think I see the TAG of the Wisconsin Guard over there. Nice to see you again. Thank you very being here. Let's all recognize the TAG, please.

(Applause.)

GOVERNOR MARKELL: He has been with us several times this weekend, so we really appreciate that. And I was actually going to turn the conversation in that direction for a moment, because Heather Hogsett from the NGA Health and Homeland Security Committee is going to provide us a brief update of NGA's effort through the Council of Governors, which Governor O'Malley mentioned, and the effort to improve how states can leverage their National Guard assets to support cyber security.

Governor O'Malley, you know, mentioned the great work being done in Maryland and the
incredible assets there to leverage. It's something that I've learned in Delaware as well. I know that probably many states around the country. So, Heather, it's all yours.

MS. HOGSETT: Great. Thank you, Governor Markell. As Governor O'Malley mentioned and Governor Markell has now mentioned, in addition to the work of the Cybersecurity Resource Center, NGA is working through the Council of Governors to build a strong partnership with the Departments of Defense and Homeland Security to address national cybersecurity vulnerabilities.

A key focus of this work is looking at how the National Guard can better be leveraged to meet the needs of both states and the federal government given its unique roles and responsibilities. Currently we know that all levels of government face a shortage of qualified and trained personnel to both protect cyber networks in advance and in response to intrusions and attacks when they occur.

The citizen soldiers of the National Guard in their dual role serving both governors
and the President can offer a readily available solution. National Guard units include personnel who work in IT and cyber-related fields at Fortune 500 companies in some of the nation's top IT firms.

This built-in talent can provide states and the federal governments with access to leading-edge civilian-acquired skill sets that are not otherwise available or readily built within the government.

Some National Guard units have taken the initiative to start to leverage these capabilities. For instance, in several states the National Guard is actively coordinating with Homeland Security advisors and emergency managers to build cyber incident response plans. They are also participating and actively take part in national level exercises to test cyber response capabilities.

And at least one state, guard personnel perform cybersecurity computer network defense missions on behalf of the Department of Defense and have also performed network vulnerability assessments for state agencies on behalf of the governor.
Working through the Council of Governors, NGA is supporting efforts to expand, enhance, and expedite the use of these kinds of capabilities. This will give governors another tool in the toolbox to address cybersecurity threats.

At the same time, NGA is also coordinating with Congressional offices to increase awareness of the Guard as a readily available and cost-effective solution to the nation's cybersecurity challenges.

Bipartisan legislation was introduced this past spring in both the House and the Senate to provide the Guard a stronger role in cyber security and to provide each governor with a cyber incident response team.

NGA helped promote this legislation and has encouraged Congressional support for other similar efforts. We, frankly, have seen a great deal of support in Congress for these kinds of initiatives, and both the House and the Senate authorization bill include language this year that would encourage, in fact, require the Department of Defense to better consider the National Guard capabilities and what it can bring to the table.
The Council of Governors, which is chaired by Governor Branstad and Governor O'Malley is meeting again this afternoon to continue its discussions on these issues. One of the primary goals of that meeting will be to encourage the federal government to actively partner with states to build and execute a comprehensive plan to address the nation's cyber capabilities.

So NGA will continue to support these and promote other efforts and opportunities for states to work in national-level initiatives as partners with the federal government. And, Governor Markell, thank you for the opportunity. I'm happy to answer any questions if there are any.

GOVERNOR MARKELL: Thank you, Heather, and thank you for the great job that you're doing. And what I would like to do at this point is open it up to all of the governors, any questions, either for our speaker or Governor O'Malley, for Heather or for, you know, anybody else.

GOVERNOR ABERCROMBIE: I just wanted to maybe follow up on what Heather was talking about in terms of the Guard. What we've put together is a Cybersecurity Center at the university and the
National Guard.

And we've just had an exercise. We hired the top hackers that were willing to say there's a lot of braggarts out there, right, Matt? Who say, you know, we can breach anything. We can do whatever it is.

I don't have all the results in, but that's what we're doing right now—setting up our own cyber defense, if you will, and doing war games to try and see where our vulnerabilities are.

We call it a cyber range really, and it's a combination of the Guard capacity and the university as the point on our cyber defense spear. It's an anti-computer access project—I guess is the best way that we could say what it is.

So as I say, we don't have all the results in yet, but this can be done relatively quickly, and use existing resources is what I'm trying to drive at. The cyber capacity at the university and the everyday training activity within the State Department of Defense, i.e., the attorney general and the staffing there is ongoing anyway, so what we've done is formalize it.
And so that's the principle form of our attempt to come to grips with some of the elements that have been cited so clearly here today.

GOVERNOR MARKELL: Thank you, Governor.

Anybody else? So maybe I will ask Heather again, because I think there is really interesting work going on in the states across the country. And I appreciate Governor O'Malley sharing some of the details in Maryland.

But what's the most important thing that governors can do now if they want to sort of take this to the next level and to dig into the resources that are available to them through the NGA.

MS. HOGSETT: Sure, excellent question.

I think there's a real opportunity here. And we're seeing some slow signs of progress, I think. The key thing is to encourage the Department of Defense, frankly, to move very quickly and allow State and National Guard units that want to move forward and build this capability, to encourage that this is sort of brought to the forefront early and in all possible avenues for that conversation.

U.S. Cyber Command is working on this.
You also have the Army and the Air Force and, of course, the National Guard, and all of their resources come from the Army and Air Force, are working on this issue concurrently.

I think through the council discussion today, we'll have a good opportunity to drive that discussion forward. I think there has been a great deal of interest. And Congressional support has certainly moved that conversation further along. I think governor support for encouraging that to move as quickly as possible is going to be critical.

GOVERNOR ABERCROMBIE: Jack, just one further point on that. I should have added, though, because I realize I maybe sound a bit too optimistic there. You know, we just put this together, and I'd be interested in maybe having Matt comment at the appropriate point.

We're doing this with existing equipment. Some of it has been donated. Some part of the reason we're able to put this together is nobody wants the hardware that we're using right now. This is going to need some — I think we're going to lose on some of this, by the way. I don't think the results necessarily
are going to be totally successful, because our defenses, if you will, are inferior in terms of the servers, in terms of the routers et cetera. I'm not sophisticated enough to go into it any more deeply than that.

The point is that those who do know tell me that the equipment that we're using—I think we got top-notch people, but—the equipment that we're using, from their point of view, is inferior.

And what's being told to me is we're going to have to make an investment if we want to go through more than just the motions of being able to defend ourselves.

GOVERNOR MARKELL: Thank you. Governor O'Malley.

GOVERNOR O'MALLEY: Mr. Chairman, I just wanted to underscore that none of us need wait for the National Guard and the Department of Defense and all of those collaborations to come on board. I mean, some states will have an Air Guard that has greater expertise than others.

I guess the point I would like to underscore is that you have great expertise in your own state. You know that you need a governing structure for this. You know that, as
in other things, you need to conduct risk assessment. You know that we need to do more training and awareness of our employees.

And you have the ability to do all of those things and also to draw from your own financial services and other industry leaders to form your own Cybersecurity Council, I guess, and say, look, why are we waiting for Washington and the National Guard and every acronym in the arsenal to catch up with this and let us know? In the meantime, what do I need to do so I don't have a sort of breach that South Carolina had of personal information?

GOVERNOR MARKELL: And that's really what I was trying to get at, and I think, you know, I've asked in Delaware, the head of the Department of Technology and Information for all the steps that we're taking, and it looks to me like a pretty good list.

But I'm just not sure what resources are available at NGA so that when I get that list back, I can sort of test it against, you know, some best-in-class set of standards; we have put that together.

GOVERNOR O'MALLEY: Can I ask Heather?
Can you run through the dashboard and some of the other questions? Mr. Chairman, there are materials that are available through the NGA staff and through this center. There's a dashboard. There's a checklist.

And we're not talking about reams and volumes of paper. We're talking about the simple sort of steps and actions you can take and go through, and that's available through this center.

And there's also the names and emails of our other partners who are part of this board who would be delighted to have a governor call them or to reach out to them and say, what advice can you give me on this, that, or the other piece?

But as with the other Homeland Security aspects, there is no substitute for the drilling, the training, and the metrics that the distinguished presenter laid out for us. Is that accurate, Heather?

MS. HOGSETT: Yes.

GOVERNOR MARKELL: All right. Well, I would . . . who at NGA is the . . . ?

MS. HOGSETT: Thomas would be the best
GOVERNOR MARKELL: Okay. So I would ask Thomas, if you could make sure that all governors receive the kind of checklist that Governor O'Malley is talking about to make sure that as we are questioning the people within our states, that we're asking all the right and all the tough and all the appropriate questions, okay? All right.

Thank you.

With that, I want to thank all of you for the session. What I want to do now is call on the committee chairs. Matt, thank you very much for your presentation. Thank you.

I want to call on the committee chairs to give brief reports on the work of their committees. And I want to start with the Economic Development and Commerce Committee, the Natural Resources Committee and the Governor of South Dakota, Governor Daugaard.

GOVERNOR DAUGAARD: Thank you, Governor.

Yesterday the Economic Development and Commerce Committee and the Natural Resources Committee had a joint meeting and had a very productive session on the state of our nation's infrastructure.

We had a couple of very good guest
speakers. First, we heard from Bill Shuster, U.S. Representative Bill Shuster, who is the chairman of the House Committee on Transportation and Infrastructure. So we got the vantage point of the House of Representatives.

And then immediately following his answers to questions, we received another distinguished guest, the newly appointed Secretary of the United States Department of Transportation, Anthony Foxx, who held forth on his viewpoints on our infrastructure.

And we had great questions from the governors that were there. And I want to thank everyone who was present at that meeting and for their participation in the discussion.

GOVERNOR MARKELL: Thank you. For the Education Workforce Committee, Governor Malloy.

GOVERNOR MALLOY: Yes. Thank you. At the Education Workforce Committee, governors discussed increasing workforce innovation to close the skills gap, create jobs, and grow family incomes.

We heard from a distinguished panel including Joseph Carbone, president and chief executive officer of The WorkPlace based in
Connecticut, and Ms. Theresa Waller, director of the Iowa Workforce Development.

Governors discussed what we’re doing in our states to accelerate job creation and economic growth. Governors also discussed the reauthorization of the Workforce Investment Act, WIA, and the importance of restoring the WIA 15 percent set-aside which helps governors employ innovative job training programs that meet the needs of our local employers.

Finally, we'd be remiss if we did not take a moment to recognize Joan Wodiska, Director of Education and Workforce Committee, who is departing the NGA after a decade with the organization.

Joan has accepted a new challenge working with all of our colleges and universities to ensure that our higher education systems continue to be the best in the world.

For more than nine years, Joan has worked on behalf of our state. When she was hired, she was charged with putting governors back in the forefront of national policy debates concerning public education. And there is no doubt that governors are in the forefront of those
discussions.

She has been a fierce and effective advocate on our behalf, and I would ask all of you in joining in applauding her service to the NGA.

(Applause.)

GOVERNOR MALLOY: That concludes my report.

GOVERNOR MARKELL: Thank you. And I want to add my word thanks to Joan who has just done a wonderful job. So thank you, Joan.

Governor O'Malley on behalf of the Health and Homeland Security Committee.

GOVERNOR O'MALLEY: Mr. Chairman, thank you. Mr. Chairman, on Friday the Health and Homeland Security Committee met. We discussed two important topics.

One of them has to do with making sure that we're doing everything in our power to connect our veterans to employment opportunities and other benefits when they come home from the battlefield.

And we were joined and heard the presentation of Allison Hickey, the assistant secretary for the Department of Veterans Affairs.

They're making some important improvements there
to use modern technologies, sort of one-stop
portals and the like to create common platforms
that states can access so we can reach out to our
citizens regardless if they're transitioning out
of active Guard service or whether they're coming
out of the Army or Air Force or wherever they're
coming from.

We also had presentations from Secretary
of Labor Leonard Howie from my state as well as
Caleb Cage from Nevada, his office of Veteran
Services.

And the second half of that hearing, we
heard from Craig Fugate, who is the administrator
of our Federal Emergency Management Agency, who
led a dialogue on building and strengthening the
core capacities that we need to respond in the
aftermath of natural disasters, fires, tornadoes,
hurricanes, whatever hits us.

So those lessons were incredibly
valuable that we discussed coming out of the
Boston Marathon Bombing and Hurricane Sandy:
inoperable communications, and triage, and search
capacity, and the like.

So I want to thank all of the governors
who joined us, especially Governor Dalrymple who
stepped up as the vice chair of the committee for Governor [Brian] Sandoval, who is unable to be with us this weekend. Thank you, Mr. Chairman. No new policies to report.

GOVERNOR MARKELL: Thank you, Governor.

And I mentioned Governor Walker earlier, because I wasn't sure he'd be able to be here until now. But once again, Scott, thanks for doing a great job. Do you want to make any closing comments before you take off?

GOVERNOR WALKER: Sure. Thanks, Jack.

You've run such an efficient meeting, I'm right on time. First of all, thank you all for coming to Milwaukee and to Wisconsin. We appreciate it. I personally, and on behalf of Tonette and I and Matt and Alex, appreciate all governors and their families, their extended families like the Branstads and everybody else, and all the others who came to our state.

If you indulge me for just a minute, I want to thank Visit Milwaukee, which is our Convention of Visitor Bureau, which did a fabulous job of helping us connect and create the NGA Milwaukee. Bridgett Haggerty, who was our director of that, and she along with Mary and
Andrea and Susan and the whole staff, you saw a lot of the folks going around with, I call it blue—I think it's technically turquoise—shirts that had NGA on. They were all volunteers from the community helping out the last couple days. I thank all of them.

I also want to thank—I stopped by the command center last night, but we had a tremendous effort—our Wisconsin State Patrol, the Department of Natural Resources, the Wisconsin National Guard, Wisconsin Emergency Management Number, the state agencies joined with the Milwaukee County Sheriff's Office, the Milwaukee Police Department, our wonderful partners at the federal level, the FBI, the Coast Guard as we honored last night, but today is actually Coast Guard Day; I want to thank all of them.

Governor Markell, just on a personal note, I want to tell you not only your leadership over the past year, but both through this session and earlier ones that you've held with your focus on employing people with disabilities have been inspired yet again.

I took your document you presented the other day. We're going to include it in
October at our small business summit we have every year. We're going to carve out a segment. Last year, as Governor O'Malley talked about with employing veterans, we did it for veterans. This year we're going to carve out a segment specifically to talk about the benefits, not the charity, but the benefits of employing people with disabilities. And we're going to build off of that going into the next year. So we appreciate your leadership in many ways, not just the effect on your state, but on each of us respectively.

And to our friends, Governor Fallin, who I have been a friend with since even the year before we were elected, but particularly now have the bond of being fellow Harley riders, welcome to you on your new role of leadership.

And to Governor Hickenlooper, congratulations on being the incoming vice chair. Unlike Governor Nixon and I who kid about beer, I'm perfectly comfortable about drinking Coors Light. Because if you didn't know it, all of the Coors Light east of Mississippi is brewed here in Milwaukee. So we're particularly appreciative of that.
And just, finally, on a serious note, in addition to wishing all of you safe travels, most of you will fly out of General Mitchell International Airport, which is just a few minutes down the way. I'm going to be departing in a few minutes to go a couple minutes south of that, community called Oak Creek, which is a suburb of Milwaukee.

On August 5th last year, a year from tomorrow, we lost six lives at that Sikh temple. Today we're going to be memorializing those six lives. And I appreciate Dick called me, and others reached out. I appreciate that. We're not just going to be remembering those lives that were lost, in a very real sense we're going to be celebrating the unity I saw not just from the members of that temple, but of the larger metropolitan community and really the state that came together and supported them. It's a shining example that they've given to all of us here in Wisconsin. The old adage that Martin Luther King said: hatred doesn't drive out hatred; only love does that. And we certainly saw that in the Sikh community, and they inspired us all. So we'll be departing for that
in just a little bit, but we appreciate you all being here.

GOVERNOR MARKELL: Thank you, Governor.

And if you could please pass on to your whole team, the volunteers and everybody else our appreciation for the great job that they did and certainly to Tonette as well.

I want to thank all the governors for giving me the opportunity this last year to serve as chair of the NGA. It was a great experience for me personally. I think we got a lot done.

Certainly I really appreciate all the support on the Better Bottom Line initiative, but really all the work that we did, whether it was our visits to Washington and bipartisan delegation of governors visiting Washington, the work that you all have done within the NGA committees and the like and I really think advancing the ball.

I think many of the reporters who are here have been surprised about how little we talk about politics within our meetings and how much this is really about trying to advance public policies, whether we’re Democrats or Republicans.

And I appreciated the opportunity to work with all
the governors.

I also want to thank the NGA staff, who I believe does an excellent job. The work that they did in supporting me on the initiative was absolutely first-class. And as you can tell from people like Heather, and Joan, who was mentioned earlier, but all the staff who support our committees and the work that goes on in federal relations, the NGA staff just does an outstanding job.

So, Dan, I want to thank you and your entire—this Dan. I'll thank you in a second— but, Dan, I want to thank you and your entire team for the great work that you do. Yeah, thank you.

(Applause.)

GOVERNOR MARKELL: With that, I do want to call on Governor Malloy, who we had just an unbelievably important session yesterday, governors-only, and Governor Malloy took the lead along with Governors Fallin and [Chris] Christie in that conversation.

I just want to very much thank you for that. And I'm calling on you now in your role as chair of the nominating committee to report on the
decisions of the committee and to nominate next year's leaders of the NGA.

GOVERNOR MALLOY: Thank you, Governor.

I very much appreciated your leadership over the past year, and I want to thank you publicly for the great leadership and your commitment to finding employment opportunities for those with disabilities and have enjoyed working with you on that as well.

On behalf of the 2013-2014 nominating committee, I nominate the following governors to serve on the NGA's Executive Committee and move their adoption in block. Governor [Mike] Beebe of Arkansas, Governor Walker of Wisconsin, Governor [Mark] Dayton of Minnesota, Governor Branstad of Iowa, Governor [Steve] Bullock of Montana, Governor [Gary Richard] Herbert of Utah, Governor Markell, we're going to keep you around, Vice Chair Governor Hickenlooper of Colorado, and Chair, Governor Fallin of Oklahoma.

I move that.

GOVERNOR MARKELL: Thank you, Governor.

Second?


GOVERNOR MARKELL: I call on for a vote on accepting the nominations. All in favor say,
aye.

(Group says aye.)

GOVERNOR MARKELL: All opposed nay. The ayes have it.

With that, Governor Fallin,

congratulations. And I’m happy to turn this great

responsibility and opportunity over to you.

(Applause.)

GOVERNOR FALLIN: Well, thank you so much, Governor Markell. And you have been an outstanding leader of the National Governors Association, and I very much have enjoyed working with you on your initiative on employing those with disabilities and giving them a better tomorrow.

And you have certainly left your mark upon our nation. You certainly have helped so many people around our nation focus on the importance of helping those with disabilities be able to find jobs and helping encourage us to work the private sector and even within our own state entities to put an emphasis on that particular idea. So thank you so much for your great leadership.

And I’m certainly looking forward to
working with Governor Hickenlooper of Colorado, who's been a great friend of mine. We've done several projects together already, and I know that we'll have a wonderful working relationship and got a lot of good things that we're going to work on in the future.

But, Governor Markell, I also want to say that we know that when you're in a leadership position of a national organization like this, that not only does it take a tremendous amount of your time to do this job, but it also takes a tremendous amount of your staff's time. As my staff has reminded me, it takes a tremendous amount of staff time. Thank you to your staff. Thank you to your staff for all that they have done.

(Applause.)

GOVERNOR FALLIN: It's been a great pleasure for my staff to work with your staff. As you'll find, Governor Hickenlooper, our staffs will become very close as we continue to move forward. Thank you to your staff, and I know she's not here, but I also want to say thank you to your wife, Carla Markell, who is the First Lady of Delaware.

She has headed up the spouse's
leadership group and put on a nice agenda for our
spouses, which is very important to help them feel
engaged in the National Governors Association.
And I know they’ve had some great programming and
some good bonding among themselves. So please
express our thank you to your wonderful wife for
all that she has done to help with this
organization.

And I also want to just say something to
one other person, and that is how much we
appreciate our spouses. Because as I move into
this position too, I have to say thank you to my
husband, Wade Christensen, who is behind me. And
I appreciate him.

Wade is actually going to be taking over
as the First Spouse Leadership Council Chair. And
so it's a new role for him, but we also are joined
by one of our six children that we have between
us, and that is my daughter, Christina Fallin.

It's always important to have your family support
when you do a job like this.

But more importantly, Governor Markell,
I'd like to extend on behalf of our fellow
governors a plaque, a gavel, maybe it's your final
gavel that you can gavel the end of your term that
expresses our appreciation that is engraved to
you.

And it just says, "Presented to Governor
Jack Markell of Delaware in commemoration of your
leadership for the National Governors
Association." And just to tell you how much the
other governors, certainly our private sector
members and our staff, appreciate your leadership
this past year. Congratulations to you.

(Applause.)

GOVERNOR FALLIN: Thank you so much.

Well, I am very eager to begin this next year. We
have a lot of work ahead of us. And the NGA work
that it does is very important. It is certainly
very valuable to our nation.

We've had a great week. Thank you,
Governor Walker, and your team and your staff and
all the volunteers, all the corporate sponsors
that made this convention possible.

We had a great lineup of speakers of
topics and a lot of fun activities. As I've
mentioned a couple of times, I've done some things
this week like riding a Harley, certainly the
slide, the batting practice, last night on the
Coast Guard boat, all those things were a lot of
fun. The band was fun. You've had so many great activities for us. But we appreciate you and your team and your staff and all the tremendous work you do.

As all of you know, each year the National Governors Association's Chair has the opportunity to select an initiative to work and to focus on as a group of governors across our country, and I am very proud to be able to announce my initiative.

If I can ask the staff, if you haven't already, to begin passing this out. It's going to be called America Works. Education and Training For Tomorrow's Jobs. And I think that is something...

(Applause.)

GOVERNOR FALLIN: I think that is something that certainly Democrat and Republican governors, along with our corporate fellows and our private sector members, are very in tune with, very engaged with.

We've had so many discussions this past week about the importance of our economy, our workforce, education, and how we align all those systems to be able to meet our individual state's
needs, and certainly to be able to build a highly
skilled, educated workforce that works for
America.

As we all know, as global economic
regions have become more competitive, not only
here in the United States but throughout the
world, our workforce demands more specialized and
more specialized services, more specialized
skills.

We also know that we have various public
resources that are available for workforce
training, and we have a lot of different workforce
programs. So we need a thoughtful, comprehensive
approach that will prepare our workforce to keep
pace with a very competitive, global economy.

And it's an issue that not only calls
for national attention, but it also calls for
gubernatorial attention. And our governors can
help lead the way in helping us create a workforce
in America that meets the demands of our employers
in our states and also help us build a highly
skilled, educated workforce so that we can
re-shore jobs back to America. Bring America back
to its greatness.

And if you look at some of the
statistics internationally and where America stands in comparison to many other nations in skill sets, in the education that we have, and you look at our rankings, just in the area of reading alone, when you take 15-year-olds in the reading skills, actually, our 15-year-olds rank 15th in the world of 34 countries in a current study in reading skills.

If you look at U.S. 15-year-olds in math skills, we rank 25th in the world at math skills. And if you look at science, we rank 34th — excuse me. Sorry. We rank 17th in science skills out of 34 countries—in our nation.

And to me ranking that low as a nation as great as we are is just unacceptable. And those are things that we can work together as governors to lead America back, to restore it back to the greatness of having one of the best educated, skilled workforces in our nation. Our nation's future economic security will require significant improvements in our education and workforce programs and help us to provide a pipeline to better skilled, educated workforce so we can meet tomorrow's jobs.

It will also require a closer working
relationship, closer collaboration with our high
schools, with our colleges, with our workforce
training programs or our vocational education
training programs.

And it will certainly require
collaboration with our employers to make sure that
we know, as governors, what type of skill sets our
employers need. If you consider this, nearly 50
years ago, more than 75 percent of our jobs in
America only required a high school degree or less
to get a good wage.

But today, if you look at that number,
it has dropped to roughly 40 percent for jobs
available to high school graduates or dropouts and
fewer than a third of those jobs will pay $25,000 a
year. Or, in other words, if you reverse that,
looking at it in another way, two-thirds of our high
school jobs available today will make less than
$25,000.

And that's not good for our national
economy. It's certainly not good for your family.
It's certainly not good for our children. It's
certainly not good for our future.

So while a high school diploma was
sufficient for most of our parents' generation—
and, Governor Branstad, you may have mentioned this yesterday—to have access to a good life, we know that today we have to have an educated workforce that has mainly an associate degree or a college degree or some type of relevant workforce training certificate to meet the new minimum of what's required for today's jobs and the jobs that we're going to be looking at in the future.

As a nation, we have to do a better job of providing for all of our students with opportunities to successfully be able to navigate through our education system. To make sure that they're entering into a pipeline with some type of either education beyond high school or entering into a pipeline into a career technology field. Because there are too many students who are capping their own potential by limiting their access to furthering themselves into the middle class, into the quality of life that we want to have for all of our children.

You know, several years ago the NGA launched one of its major initiatives, and it was to have more degree completion within a workforce, within our high schools, our colleges and certainly within our career technology programs,
and we called it *Complete College America*, basically, in the majority of our states. And it was a challenge for us to get more degreed-completion into the pipeline of our workforce. Well, nationally we know that just more than three-fourths of our public high school students will make it to graduation. And if three-fourths of them make it to their graduation, we know that those that continue on with postsecondary education, that only half of those will actually finish that education. And so that makes us fall behind as a nation when you look at those international demographics as to where we fall in those rankings with the math and the science and the reading skills that we have. Additionally, two-thirds of the workforce is now of working age. And one of four of the adults in America lacks basic literacy skills and also has troubles with numbers. And that certainly doesn't help when it comes to qualifying for the type of jobs that we have today. So our challenge as a nation, our challenge as governors is very clear. We have to get more students and to more—higher academic
standards not only within our high school systems,
but we also have to help them graduate from high
school.

We have to help them move up into better
opportunities by furthering their education,
whether it is going into an associate degree, a
four-year college degree, or even beyond, or getting
a workforce career certificate so they can have a
career path of some sort that will help us have a
more sustainable, stronger national economic
security for our nation.

Now, as a nation, we also have to do
several things to be able to meet this challenge.

In *America Works*, this program will help us lay
out a pathway, a roadmap, if you will, to how do
we achieve a stronger, more vibrant economy with a
stronger, more highly skilled, educated workforce.

And we believe the first step that we
have to take as governors in a state is to
develop a good set of smarter data so that we know
where our workforce falls within each of our
states so we can better understand what is needed
by our employers, our industries, our
associations.

So we’re going to work with the private
sector. We're also going to work with our state
government, with all the different entities to
build the collaboration between industry and
business and our education pipeline, our workforce
pipeline to make sure we have the skill sets
needed in America.

We're also going to work on improving
the quality and expanding the capacity of the
education and training institutions that prepare
our workforce.

And then we're going to encourage and
create innovative partnerships among our business
community, among our education institutions and
certainly among governments. There are so many
great examples across our various states.

So let me just make this initiative even
a little bit more tangible to you. And there's
going to be a slide that we're going to show you
here. This is just Oklahoma alone. And we're
going to give each of your states this type of
analysis of data. Because if you don't know where
you are, any road will get you there.

So we want to give you a roadmap of
where you are, and where you need to be going. If
you look at this chart, you're looking at data on
Oklahoma workforce and education and needs results itself. [Reference to visual aid.]

If you start with the bottom graph, it shows that Oklahoma’s current education level from the percent of those with a high school diploma and below, that’s in the blue, in the bottom right now, and it’s a little bit over 45 percent.

The red graph that you see, which is there in the middle, it shows that 31 percent of Oklahoma’s workforce has some type of college or associate degree in our workforce or even a career technology certificate.

And the green bar shows about 15 percent of Oklahoma’s workforce has a bachelor degree or above on that. And then the purple—actually, the purple shows doctorate or master’s levels degrees.

So if you compare that and you look at the chart up above on there, you’ll see that the top bar shows the percentage breakdown of degree level required for the jobs that are going to be created that we measured in our state and looking at our various industries and skill sets needed, of the degrees that will be needed and the workforce needed in the years 2010 through 2020,
in Oklahoma.

So the blue bars, as you can see, we got a pretty big gap in our skill sets and what types of jobs are going to be required for high school compared to what types of jobs will be available with those that have a high school degree on the top bar, which is 22 percent.

And this graph clearly shows that there's a mismatch in the degree to which we are educating our young people and the educational needs that will be demanded as we help move them into jobs and help grow our economy.

You can even see our higher education degree levels, the more associate degrees, higher education degree levels, the career technology certificates that are going to be needed in the red and the green and the purple and see the mismatch even in our state.

So in simplest terms, what we're hoping to do with this initiative, America Works, is to help states be able to generate the level of data that will be pertinent, that will be important for them as they begin to work to identify specific policy levels, their budgetary strategies within each of their states to begin to align those
results between the education system itself and
the needs of an emerging workforce.

And so as we begin this initiative, we
want to make it really clear that the role of
education must be more than just to prepare our
individuals, to have some type of degree once they
complete.

We also want to collaborate with the
private sector, with the employers to make sure
that our students, to make sure that our working
adults have the type of work skills that will be
needed, that will be pertinent toward the type of
jobs that we're going to be creating.

And we also need to understand that
postsecondary degrees and relevant workforce
certificates is now the new minimum, the new
minimum for our nation. Things have changed since
our parents went to school 50 years ago.

And without it, if we don't set these
new standards, if we don't work on this pipeline
for prosperity, our young folks are going to be
facing many different hurdles as they try to enter
into the middle class, try to achieve the American
dream. And it will also limit our ability as a
nation to be able to be stronger, to have a more
vibrant economy in moving forward.

So just to recap, *America Works, Education and Training For Tomorrow's Jobs* will focus on engaging our education, our business, our government leaders in a dialogue about what we can do as governors to be able to work more closely with our K-12 education systems, our universities, our community colleges, our technical colleges, our workforce training programs and certainly help meet the future labor demands.

We're going to support our governors and their staff with the use of data and information that we're going to prepare for each of your various states to talk about future labor demands.

We're going to prioritize the changes that our states need to make in the education and workforce training systems to be able to meet these demands. And then we're going to take action steps to make sure that we have the type of results that we desire.

I think there's nothing more critical than securing the economic future of America, and also being able to prepare our workforce for the 21st-century jobs. And that is something that
we’re looking forward to working on with each of
our governors.

I want to thank the NGA staff. I want
to thank Richard Laine and his team. Richard is
the Director of our Division of Center, works with
the Center of Best Practices. But our Director of
Education—where is Richard at? Way over there.

You changed sides on me.

But, Richard, thank you for all that you
and your team have done to put together this
brochure. We will be scheduling several summits
across the nation with our various governors in
the business sector to be able to bring forth the
data that we are compiling for each state.

It will be certainly up to each governor
what they want to do with the data, how they want
to implement it, how they want to work with their
educational pipelines and their workforce training
programs. But I think it is something that is
very critical if we are going to continue to bring
a stronger, more vibrant economy, and, as we’ve
all talked about, bringing those jobs back to
America, keeping those jobs in America and making
sure that our children have the best future
possible, and, frankly, to be able to find jobs
here in our great nation.

So it's been a great meeting. I want to

thank you for the great honor to be able to serve

as your chair. Governor Hickenlooper, looking

forward to working with you.

Once again, Governor Walker, thank you

for all of your team has done. It's been a great

time. We've had a great meeting. Governor

Markell, thank you for your service to our

organization. We really appreciate it. And if

there is no further business, we are officially

adjourned.

(Meeting concludes.)
STATE OF WISCONSIN )
     ) SS:
COUNTY OF MILWAUKEE )

I, JESSICA R. WAACK, a Certified Realtime Reporter, Registered Diplomate Reporter,
Certified Shorthand Reporter and Notary Public in and for the State of Wisconsin, do hereby certify that the above transcription of the NATIONAL GOVERNORS ASSOCIATION meeting was recorded by me on August 4, 2013, and reduced to writing under my personal direction.

In witness whereof I have hereunder set my hand and affixed my seal of office at Milwaukee, Wisconsin, on August 8, 2013.

_______________________________
Notary Public
In and for the State of Wisconsin