

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

1 PARTICIPANTS:

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

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4 GUEST SPEAKERS:

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

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7 Dan Crippen, Executive Director, National Governors
Association

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1 TRANSCRIPT OF PROCEEDINGS

2 GOVERNOR MARKELL: Good afternoon to our
3 governors and our guests. If I had a gavel— oh,
4 I guess I do have a gavel. There it is. I want
5 to call this summer meeting to order.

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

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

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

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

23 Sunday morning we will begin with a
24 governors-only breakfast business session. The
25 summer meeting will conclude with a session on

1 cybersecurity. And I look forward to seeing you
2 at all of these sessions.

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

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

10 *(Applause.)*

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

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

20 *(Applause.)*

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

24 *(Applause.)*

25 GOVERNOR MARKELL: "*Bienvenidos.*" They

1 didn't really acknowledge that they understood
2 what I have to say. That's my problem. We
3 appreciate your being here.

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

12 GOVERNOR: So move.

13 GOVERNOR MARKELL: A second?

14 GOVERNOR: Second.

15 GOVERNOR MARKELL: Any questions? All
16 in favor?

17 *(Group says aye.)*

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

23 And with that, I very much want to thank
24 the hosts of this year's meeting, Governor Walker
25 and his wife Tonette. We really appreciate you

1 having all of us here. We're off to a great
2 start. A lot of us had a really good time at
3 Brewers Stadium. And I would like to invite
4 Governor Walker to come up and say a few words.

5 *(Applause.)*

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

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

20 We had a great time at Miller Park last
21 night. I think it was actually kind of funny. I
22 think back in 1998 was the last time we held an NGA
23 conference here in the State of Wisconsin. Before
24 that, it was all the way back to 1914, and that
25 was in Madison.

1 But in 1998, governors from all
2 across the country came here to Milwaukee. And
3 there was one particular governor that had such a
4 great time, he brought all his kids here—Terry
5 Branstad—that I swear he brought half the state
6 of Iowa last night. But they had a great time—
7 his kids and grandkids and their in-laws;
8 everybody was here. It was great to see that.
9 But that was a good example of the hospitality we
10 gave—there Terry is, right there—we gave a
11 few years ago, and we're glad to have the
12 Branstads and all the rest of you here as well.

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

19 For those of you who left early, you
20 missed out on that. We had a lot of fun. We had
21 a great time. I think the best outfit other than
22 the Brewers jersey I wore last night goes to Jan
23 Brewer, who actually has a Brewer, , , , Brewers jersey,
24 because the Brewers have Cactus League down in
25 your home state.

1 And so we had a nice picture with our
2 backs to the camera so it said Walker and Brewer
3 out there, which is kind of fun. So we had a
4 great time there. We hope you all had a wonderful
5 time. There were a lot of kids out on the field
6 and a lot of kids at heart who were out on the
7 field.

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

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

23 So it is going to be quite a sight. It
24 is going to be a wonderful time. We are going to
25 have a wonderful celebration. As many of you

1 know, Harley-Davidson has its 110th anniversary in
2 just a few weeks. And so this is our way of
3 showing off something unique to Milwaukee and to
4 Wisconsin.

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

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

18 GOVERNOR NIXON: Just thinking of 1982.

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

24 But thank you all for being here.
25 Tonette's out with the first spouses. We

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

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

12 *(Applause.)*

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

20 And my initiative, which is called
21 "*Better Bottom Line: Employing People With*
22 *Disabilities*," is really about providing governors
23 and policymakers with very practical ideas about
24 how we can put people with more disabilities to
25 work in our states; people who are not really yet

1 fully included in our labor force, people with
2 disabilities.

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

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

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

19 Now, many of you around this table
20 participated back in February in the sessions at
21 the winter meeting of the NGA. We heard from the
22 CEO of Walgreens, and we heard from other business
23 leaders as well that employed people with
24 disabilities, that it is not just a matter of
25 charity.

1 It is what's in the bottom line interest
2 of their companies. For them, this is not about
3 charity. It's about doing what's in the best
4 interest of their shareholders.

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

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

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

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

1 policymakers.

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

7 And, finally, in May the NGA hosted two
8 state institutes where we really drilled down into
9 the practical things that states can do to advance
10 employment opportunities for people with
11 disabilities.

12 We held one in Pittsburgh that was
13 hosted by Governor [Tom] Corbett, and we held one in
14 Seattle, which was hosted by Governor [Jay] Inslee. Thirty-three
15 governors sent state teams to those institutes.

16 We had more than 100 participants at
17 each event. Many of you sent your policy
18 staffers. Many of you sent experts from your
19 workforce agencies, your education agencies,
20 vocational rehab, health and budget and finance
21 officers. You really sent very, very capable
22 people, and it was great to spend so much time
23 with them.

24 On our team, we included a couple of
25 state legislators. Governor Inslee also included

1 a legislator on his Washington state team.
2 Governor Daugaard joined us out in Seattle, and he
3 attended every session for both days. And I
4 really want to thank you, Dennis, for your
5 participation and your leadership on this
6 initiative. Thank you very much.

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

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

21 Wisconsin and Delaware are also
22 partnering with Walgreens to launch what they call
23 REDI, which is Retail Employees with Disabilities.
24 It's something you're going to be seeing in
25 Walgreen stores across the country where these

1 retail stores will, in fact, employ people with
2 disabilities.

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

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

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

24 So as part of the institutes, we focused
25 on the business perspective. And we heard from a

1 number of business leaders representing all kinds
2 and all sizes—all types of business.

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

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

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

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

25 And all of the companies on the panel

1 represented different industries and different
2 sizes. Their answers revealed some common themes
3 and implications for state policymakers. And I
4 want to give you three takeaways I have from those
5 business panels.

6 One, skills are at the top of the list.
7 Businesses don't care about the disability. They
8 care about the ability. We've seen that in
9 Delaware where the state has partnered with the
10 regional IT firm called CAI, and an international
11 organization actually started in Denmark called
12 Specialisterne, which is dedicated to employment
13 of individuals with autism.

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

24 And as states, we can help educate and
25 prepare workers with a range of disabilities to

1 meet the skills that are needed by our businesses.

2 That's number 1.

3 Number 2: States need to stop approaching
4 businesses with an "ask." We have got to
5 transform the way we do this. And instead of, you
6 know, sending our people and vocational
7 rehabilitation to a business and saying, "I have a
8 favor to ask you. Can you please find a job for
9 these five people?" we've got to change our
10 mindset.

11 And instead, we have got to be business
12 partners to these businesses. These businesses
13 are looking for talented people. And, oftentimes,
14 they'll look to our department of labor to find
15 talented people.

16 And so we have really got to make sure
17 that we are offering to help solve the challenge
18 they face in finding people with particular
19 skills, with particular abilities instead of
20 focusing on the disability.

21 And number 3: Businesses want to hear from
22 other businesses. They told us very clearly that
23 businesses are more likely to buy into the
24 benefits of employed people with disabilities when
25 they know that a peer business, another business

1 in the private sector is already doing it.

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

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

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

23 Changing the mindset. So it's not
24 about going to ask a favor, by it's really
25 saying, " We understand you're looking for people

1 with particular skills. We're going to help you
2 find those kills."

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

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

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

25 Now, as a result of these institutes,

1 your state teams are already hard at work
2 implementing some of the best practices that they
3 gleaned from the meetings. For example, we've
4 already heard that many of you are working to
5 integrate people with disabilities as part of your
6 overall state workforce strategy, which is
7 fantastic.

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

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

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

1 in our states.

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

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

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

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

25 And I believe that if each of us focuses

1 on implementing at least one thing from this
2 blueprint in our states, then together we can
3 really move the needle on this very important
4 issue.

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

14 GOVERNOR DAUGAARD: Sure. Thank you.
15 First, let me say that I really applaud Governor
16 Markell for making this his initiative, "*A Better*
17 *Bottom Line: Employing People With Disabilities.*"

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

25 You know, some of you know both of my

1 parents were born deaf, and I came to this
2 initiative knowing, because of my parents, that many
3 individuals who have a disability know more about
4 hard work, perseverance and determination than
5 those without disabilities.

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

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

20 And they want to be seen for their
21 skills and abilities, not their disabilities.
22 And, of course, this belief was strengthened as a
23 result of participating with Governor Markell in
24 the workshops where I was present. I was
25 fortunate to meet many individuals with

1 disabilities who reinforced the beliefs I had and
2 really delivered and demonstrated that people with
3 disabilities have a lot to offer.

4 And it isn't about employing people with
5 disabilities in workshop environments. That can
6 be part of it for some who can't otherwise be
7 employed.

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

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

20 You know, I'm extremely fortunate to be
21 governor of a state where the economy is doing
22 pretty well. Jack Dalrymple and I joke, and Dave
23 Heineman in Nebraska, you know, who is going to have
24 the lowest unemployment rate in the nation? We
25 just slipped up above Nebraska in the last monthly

1 report. And South Dakota now is second lowest on
2 unemployment rate in the nation.

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

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

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

23 They've recognized the resource and the
24 value of employing citizens with disabilities. I
25 also learned through this initiative they need to

1 and can do more to ensure that every person in
2 South Dakota with a disability who wants to be
3 employed is employed.

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

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

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

24 And it's really our philosophy and our
25 commitment as a state and to help those private

1 employers see the way to make that happen for
2 them. And I encourage you all to do something
3 like that.

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

19 So I just want to say thanks again to
20 Governor Markell for this initiative. When you
21 see the title and you see, well, it's about
22 employing citizens with disabilities, I think it
23 would have been easy to see that as feel-good,
24 soft, easy-to-talk-about and then really produce
25 no concrete results.

1 And I have to admit when I first saw
2 that as the initiative, I thought, "I wonder if
3 that's what it will be." I was wrong. I was very
4 wrong. Governor Markell, you've done a great job
5 opening my eyes to the opportunity.

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

13 *(Applause.)*

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

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

21 GOVERNOR MARKELL: Yes, sure.

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

1 beginning.

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

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

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

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

23 We now turn our attention to health care,
24 and our keynote speaker is Jeffrey Brenner. A
25 number of you have heard him before. He came to

1 our—was it a Washington meeting? To one of our
2 Washington meetings. He did a fantastic job.

3 He is based in New Jersey in Camden.
4 He's the founder and the executive director of the
5 Camden Coalition of Healthcare Providers. He's a
6 family physician. He's been in Camden for 11
7 years as a frontline primary care physician for
8 patients of all ages.

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

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

20 He owned a private practice in Camden.
21 He's got experience in implementing electronic
22 health records, running a paperless office, open-
23 access scheduling, as well as firsthand knowledge
24 of the various challenges that are facing primary
25 care physicians and primary care generally in the

1 current system.

2 He is now serving full-time as the
3 executive director of the coalition. He spends a
4 lot of time meeting with stakeholders and
5 policymakers, including us in Delaware, advocating
6 for the models of care that the coalition has
7 developed and has demonstrated through some very
8 data-centric results.

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

15 *(Applause.)*

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

21 I'm deeply concerned about Medicaid.
22 I've been a frontline Medicaid provider for my
23 entire career, and we're not spending our dollars
24 well. We could do much, much better. The costs
25 keep going up, and as all of you know, the cost

1 drivers in Medicaid are colliding with all of our
2 other state priorities.

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

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

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

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

23 I wanted to start by talking about a few
24 stories. I work in Camden, New Jersey, one of the
25 poorest cities in the country. And ironically, or

1 perhaps sadly, it turns out to be a great place to
2 innovate health care, because nobody is fighting me
3 over more market share; that if I were in other
4 places or other communities, I wouldn't probably
5 be standing here and talking about the work that
6 I'm doing. In many ways that is identifying one
7 of the key problems in health care.

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

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

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

23 So in May, she had a six-day stay in the
24 hospital. A week later, a four-day stay. A week
25 later, a seven-day stay. Out for a little bit,

1 and then back in for 10 days, 11 days, back in
2 for four.

3 One year, pre-enrollment beginning to
4 work with her, she had \$745,000 in hospital bills
5 for three local hospitals in Camden, and she had
6 \$95,000 in payments just for her hospital care to
7 go back over and over and over. She had 55 total
8 stays in the hospital in a one-year period.

9 After we began to work with her, she
10 stopped going, because she hated the hospitals.
11 She didn't want to be there. And let me introduce
12 you to her. She gave us permission to tell you
13 her story. Her name is Lillian. And she is here
14 with her diploma. She worked with us for 90 days
15 for a program that we run.

16 We meet patients right at the bedside.
17 We go right to the hospital bed and we say, "We
18 bet you don't want to be here anymore. And most
19 of the patients say, "Absolutely. I'm sick of the
20 hospital."

21 And then we follow them in their own
22 hospital. We visit their home. We go with them
23 to their primary care office, with them to their
24 specialty office. It's a very data-driven
25 intervention. We collect data from all the

1 hospitals.

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

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

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

20 Her story is that she and her family
21 were overwhelmed by the ventilator. They were
22 terrified of it. If you could imagine what it
23 would be like to be hooked up to a ventilator.

24 And that anxiety was driving her to go
25 back to the hospital over and over. We convinced

1 the insurance company to let her go to a long-term
2 care unit for just a little while, enough time for
3 the family to get trained on how to manage the
4 ventilator. And then [we] helped her form a care team
5 with her primary care provider and pulmonologist.
6 And she hasn't been back to the hospital.

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

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

23 Give you another case, lest you think
24 this is just a case of poverty. This is a
25 middle-class woman, and she was in a hospital that

1 is actually part of a five-hospital system that is
2 completely connected electronically. So the
3 doctors have instant access to the records any time
4 a patient comes back.

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

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

19 So I want to tell you how I got started
20 in this. This is my primary care office. This
21 was my dream to open an office in Camden. It is
22 currently boarded up and closed, as are many
23 offices in the City of Camden.

24 Frankly, in many primary care offices all
25 over the country. And in my time in Camden, my

1 rates kept getting cut at the same time we built
2 new wings on the hospitals, we expanded the size
3 of the emergency rooms.

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

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

16 What we learned from this data set, we
17 put it in Excel, and that didn't work. We still
18 use Microsoft Excel and ArcGIS to analyze this
19 data. We learned that half the population of
20 Camden uses an emergency room or hospital in one
21 year. That someone went 324 times in five years.
22 Someone went 113 times in one year. We, the
23 public, spend \$108 million a year for Camden
24 residents, a city of 79,000 people, to go over and
25 over and over to the hospital.

1 Now, in our health care system in
2 America, we spend twice as much as every other
3 country. Let me say that again. We, in America,
4 spend twice as much as every other country on our
5 health care system. And we can do amazing things
6 for people. But I don't believe we're getting our
7 money's worth spending twice as much—. \$2.8
8 trillion, 18 percent of our economy.

9 But I can't get my head around a number
10 that big. But \$108 million, I know what that will
11 buy. And for one percent of that, a million
12 dollars, you could buy five of me. There's only
13 15 primary care offices in Camden, and they're all
14 getting boarded up. So, you know, we have to
15 reinvest that money out on the front line of care,
16 rather than building more hospitals, expanding
17 emergency rooms, buying more scanners.

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

22 If you look in every major city—those
23 cranes that are above buildings building new wings
24 and expanding hospitals—the market has responded.
25 If you overpay for something, you'll get too much

1 of it.

2 And we will eventually get a bubble of
3 hospital beds, of technical capacity, of
4 specialists, and we'll destroy the other part of
5 the market of being able to talk to people,
6 deliver their care, deliver decent primary care.

7 The most expensive patient in Camden had
8 \$3.5 million in receipts. Thirty percent of the costs
9 go to 1 percent of the patients. Eighty percent to 13
10 percent of the patients, and 90 percent of the
11 costs to 20 percent of the patients.

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

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

24 I can tell you—you the public—all of
25 us are paying \$150, \$300, \$500, where if these were

1 my patients, where I got \$19 to \$35 if they were
2 seen in my office, but we were paying 10, 20 times
3 more if they went and were seen in an acute
4 setting. Once again, if you pay too much for
5 something, you'll get too much of it. That's
6 what's happening in our health care system.

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

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

15 This is mapping out all the claims data
16 in Camden on a map, five years of data mapping out
17 the home address of every Camden resident. This
18 is only nine square miles, a very small community.
19 Six percent of the city blocks are 10 percent of
20 the land mass. 18 percent of the patients, 27
21 percent of the visits, and 37 percent of the
22 costs. This is just the emergency room and
23 hospital care.

24 So it turns out all over America, not
25 just in Camden, high-cost, complex patients are

1 living collected up into buildings, many of which
2 you guys are all funding through state funds and
3 federal funds.

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

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

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

21 As you get older and more disabled, it's
22 hard to live in the middle of nowhere. They
23 didn't let us show it to you, but these are town
24 hot spots of high cost, complex patients that
25 actually gets down to the building level that, you

1 know, even in a rural state [they] are collecting
2 high-cost patients into buildings.

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

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

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

21 And they had a 25 percent lower risk of
22 death from getting a visit every week or every
23 other week. And over the 10-year period, the
24 mortality benefit did not taper off. So let me
25 repeat: 25 percent lower risk of death.

1 You have to go way back in medical
2 history to find anything with that kind of impact.
3 When we give you drugs, when we treat your
4 cholesterol, treat your blood pressure, it's often
5 just a few percentage points of impact. This is a
6 stunning impact. You have to go back to the early
7 days of polio, to the early days of HIV meds to
8 see any kind of impact of this magnitude.

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

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

1 total cost to Medicare.

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

10 Sadly, better care at lower cost doesn't
11 have a constituency. Medications, medical
12 devices, hospital beds have constituencies.
13 Better care doesn't have a constituency. So we're
14 at a Blockbuster Video moment in the health care
15 system. We have too many hospital beds in
16 America. We have a bubble in hospital technology.

17 And we have to help this industry make a
18 shift. There had to have been a moment in
19 Blockbuster Video when a young executive came up
20 and said to the executive leadership, "People are
21 starting to rent videos online." And you can
22 imagine the leadership saying, "No, no, no, no.
23 We have internal data showing that the American
24 public every Friday night spends an hour and 15
25 minutes in our stores." Do you remember that?

1 And. You know, today they're boarded up all over
2 the country. They're a penny stock.

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

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

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

24 All of the states that inspire me, all
25 of the most innovative things happening in

1 health care are happening at the state level. You
2 can use your leadership, your bully pulpit to
3 reframe the issues and start talking about this in
4 different ways. Keep it simple.

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

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

18 I would encourage you to be all in or
19 all out. Pick a system, and run it well. I think
20 Arizona is a wonderful example of this. And what
21 Arizona did, my understanding of it, is they're
22 all in. Everything is carved in. And as a
23 result, they actively manage their contracts.
24 This is a procurement problem. If you want to
25 privatize, and you want to move to managed care,

1 you've got to manage those contracts. You can't be a
2 passive purchaser.

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

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

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

21 You know, where do I knock on the door
22 in state government if I have a good idea, and
23 I've proven it? I mean, it's really hard to
24 figure out how to navigate through state
25 government when you've got a good idea.

1 You know, we need a clear pathway of how
2 to test early-stage ideas, how to test mid-stage
3 ideas and bring good ideas through government. It
4 is really hard to figure out how to innovate and
5 bring ideas forward.

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

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

23 Health care is a local problem. The
24 fixes will be local. So we have to figure out if
25 you're going to procure through managed care, you

1 then have to actively manage those contracts so
2 that they are pushing accountability down to the
3 community level. If the doctors won't play nice
4 with the hospital; won't play nice with the
5 nursing home; won't play nice with the local V&A;
6 you're not going to fix this problem.

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

10 *(Applause.)*

11 GOVERNOR MARKELL: Yeah, Terry.

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

20 That's one of the big challenges that I
21 think we have as governors; how do we overcome the
22 tremendous amount of money and clout and
23 connections they have? Because you've got some of
24 the best leaders in the community serving on these
25 hospital boards. They have a tremendous amount of

1 resources. They're nonprofits. They're making a
2 lot of money, and they're building all kinds of
3 buildings.

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

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

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

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

25 So I just have a great respect for what

1 you've done. And I'd just be interested if you
2 got more insights on what governors can do to
3 overcome the tremendous clout and power of the
4 hospital lobby. In my previous job as president of
5 the medical school, we had the same thing.

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

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

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

22 So that's a capacity bubble problem. I
23 mean, we have created an enormous amount of
24 capacity that's a bubble. You know, 18 percent of
25 our economy is health care, 11 percent is housing,

1 and about 7 percent is finance.

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

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

19 The next thing I would do is move
20 toward global budgets as a fast as possible.
21 Because right now their economic model is the same
22 as the hotel industry and the airline industry,
23 which is, you know, people in beds. It's a
24 volume-based game. Every day what they do is look
25 at occupancy rates. It's not their fault. That's

1 the game that we set them up to play.

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

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

21 So, you know, ironically, here
22 competition divides the marketplace up, fragments
23 it to the point that the delivery is much lower
24 quality. So, you know, this is much more can-do
25 utility. You want one hospital doing amazing open

1 heart surgeries, not five of them doing mediocre
2 open heart surgeries.

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

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

17 DR. BRENNER: Yep.

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

24 DR. BRENNER: So let's be clear what the
25 Doylestown data is telling us, is that if we

1 scaled that project up, you would perhaps need a
2 third less hospital beds. So, you know, this is
3 like base closings. This is, you know, we have to
4 buy down capacity and force mergers, force
5 consolidation and begin to close institutions.
6 The sooner we do that, the better off we are.

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

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

19 You know, let's think about it. There's
20 a lot of discussion about health saving accounts
21 and using market-based composition in health care.
22 Let's be really clear that at the point you are
23 the most expensive you are on the way to the
24 hospital with your wife who is in labor at 29
25 weeks and about to have a premature baby. You are

1 not a consumer.

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

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

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

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

25 We are seeing a lot of consolidation of

1 hospitals. The issue is they're cherry-picking
2 the consolidation based upon where the least
3 amount of Medicaid or Medicare patients exist,
4 because they're looking for the people on
5 insurance. They're looking for people who can pay
6 the bill.

7 How do you determine then, where do you
8 have the consolidation? Because the hospitals are
9 using a business model to consolidate, not
10 necessarily a community model or a health care
11 model. I understand the business equation.
12 That's what it is, it's a business at this
13 point in time.

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

17 DR. BRENNER: You know, that's a great
18 question. Maryland solved this problem. In fact,
19 we had a solution in about 35 states all over the
20 country. When we had an economic downturn in the
21 '70s, we did something called all-pair rate
22 setting.

23 And what that meant is that regardless
24 of whether you're a Medicaid patient, Medicare
25 patient, or commercially insured patient, you had

1 the same payment at the hospital when you went to
2 the hospital.

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

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

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

22 So, you know, the other thing that would
23 solve this would be global budgets. Set a global
24 budget for a region. And Oregon has done that.
25 Colorado has done that or is beginning to do that.

1 Say, "Look. This is your budget. You guys
2 need to get your act together and figure out how
3 to spend within this budget."

4 GOVERNOR MARKELL: Is that the
5 capitation?

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

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

19 GOVERNOR MARKELL: Given what you said
20 about the way the current incentives work, you
21 said it's not the hospital's fault. It's just the
22 game. Those are the rules that have been made.

23 So how do you get there besides
24 forcing the consolidation? How do you redesign?
25 You know, if you do the Doylestown thing, which is

1 great, and you're gonna need a third less hospital
2 beds, that's great for everybody except for the
3 hospitals. So what is that strategy?

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

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

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

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

22 Interesting, when you go to their
23 conferences, they wouldn't disagree with me. They
24 would absolutely agree with everything I'm saying.
25 They're talking among themselves about this, but

1 they're terrified, because they have one foot in
2 this fee-for-service model.

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

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

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

23 What you can do is say for 30 days
24 before your hip, for the hospitalization, and then
25 all the rehab afterwards, six weeks afterwards,

1 we're just going to give you one price.

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

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

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

20 How do you differentiate—or maybe
21 that's the wrong way to put it. How do you
22 incorporate into what you're suggesting, the idea
23 of urban versus rural? Because the capacity in
24 the rural areas where you have a very high
25 percentage of older people in Hawaii right now,

1 and I suspect in one variation or another all the
2 rest of the states, the number of people over the
3 age of 60, 65 is increasing.

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

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

19 DR. BRENNER: There is a wonderful model
20 in south central Alaska. All of the most
21 interesting health care models are all in the
22 middle of nowhere. They're not academic health
23 centers. They're in south central Alaska, which
24 is a Native-American system in the middle of
25 Alaska.

1 It's a Geisinger Health Center, in
2 Danville, Pennsylvania. It's Camden, New Jersey.
3 You know, it's at the edges of the power
4 structure.

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

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

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

23 GOVERNOR ABERCROMBIE: Just one further
24 element in that. Could you discuss for a moment
25 the relevance of hospice care in this context?

1 DR. BRENNER: Extraordinarily important.
2 And I think a big part of the outcomes in the
3 Doylestown data set were the connections that they
4 made with hospice and having a long-term
5 relationship with the whole family, having the
6 time to sit at the kitchen table and really build
7 a relationship with someone and then with all the
8 family members, to be able to have those
9 discussions.

10 You know, you can't do this in
11 10-minute, busy primary care offices. Think about
12 what we have. We have a totally failed model in
13 primary care of highly paid professionals running
14 from room to room to room in 10-minute encounters.
15 Meaningless encounters. That's what we're paying
16 for.

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

25 DR. BRENNER: I think hospice is that.

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

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

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

15 GOVERNOR MALLOY: With respect to what
16 you showed, is there a difference between
17 for-profit hospitals and not-for-profit hospitals?
18 And is one group getting it faster than the other?

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

23 And, you know, there's an argument about
24 managed care versus fee-for-service. I don't
25 care. Someone has to manage risk. Someone has to

1 pay claims. I don't care who does it. Just do it
2 well. Someone has to run a hospital. I don't
3 care who does it. Just do it well.

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

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

12 DR. BRENNER: Uh-huh.

13 GOVERNOR MALLOY: Okay.

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

19 The problem is these tiny little
20 hospitals don't have the layer of professional
21 management and professionalism on the board to
22 really run a complicated hospital. So when I go
23 around the country, the very large systems I
24 interact with are doing incredible work that you
25 can't do until you get to certain size and scale.

1 GOVERNOR NIXON: Could you give us a
2 little primer on some of the language for
3 consumers of health care that would help move the
4 ball down the field?

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

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

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

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

25 But what sort of language do you think

1 can be, you know, empowering and motivating to
2 individuals that will assist us in getting the
3 market-driven kind of solutions that we're talking
4 about?

5 DR. BRENNER: I'm going to say a really
6 sad thing. It's skepticism. And let me say why.
7 There's a very famous study that looked at
8 arthroscopy. This is knee surgery. Classic
9 thing. You get a scope on your knee.

10 The average patient is 40s to 50s.
11 They're overweight. They've had some swelling in
12 their knee, pain for a couple weeks. They go in
13 to see their primary care provider. They
14 eventually get to the orthopedist, and they get an
15 MRI. And the MRI shows wear and tear in their
16 knee.

17 And they finally did a study to find out
18 if an arthroscopy, where they put a scope in and
19 they do a trim job on the meniscus, the cartilage,
20 works. What they did is called a sham
21 arthroscopy.

22 You got randomized to either having the
23 usual procedure or just having the scope where
24 they just put it in and take it back out while
25 you're asleep. And you wake with a Band-Aid. You

1 have no idea which group you're in. They got
2 better at the exact same rate.

3 We do 650,000 arthroscopies a year. And
4 what happened is Medicare set a really high price
5 for it, and everyone raced to it. We built
6 capacity. We built ORs to do this. We put up
7 billboards, and then we ran out of sick people.
8 And then we worked down the continuum to less and
9 less sick people.

10 So this was a brilliant thing. The fact
11 that we can put a scope in and repair your knee is
12 incredible. And it works if you're an athlete.
13 If you were 25 and you have an acute tear, it's
14 incredible. If you are 250 pounds and 45 years
15 old and have wear and tear on your knee, it
16 doesn't work.

17 So the reason that people get better is
18 if I took any of you out of work for 12 weeks, put
19 you in physical therapy three times a week, told
20 everyone in your house to take care of you, you
21 all would be healthier at the end of 12 weeks.
22 That's why they get better.

23 So there are examples all across the
24 health care system of stuff that we're doing that
25 doesn't work and hurts people.

1 So there's a famous study looking at
2 angioplasty, stents in people's hearts. And if
3 you have an acute heart attack, it's a miracle.
4 They did a study where they took stable heart
5 disease and randomized you to a stent, or just
6 medication management, controlling your blood
7 pressure, controlling your cholesterol. They got
8 better at the exact same rate.

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

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

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

24 GOVERNOR HERBERT: Dr. Brenner, you hit
25 on an issue that I think a lot of us have thought

1 about, and that is, you know, unnecessary
2 procedures. I believe that probably doctors, like
3 yourself, are the most trusted people in our
4 communities. Everybody looks to a doctor with
5 great respect and reverence.

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

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

22 Can we trust the doctors and the
23 hospitals to do the right thing for me and my
24 health, as opposed to being motivated by something
25 else?

1 DR. BRENNER: I hate to say it, but we
2 have destroyed the American health care profession,
3 and its professionalism has eroded like many
4 fields in America.

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

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

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

24 So the way that Medicare and our country
25 pays for all doctor's bills is copyrighted and

1 trademarked by the trade association that sets its
2 own prices. I mean, that's a stunning thing.

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

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

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

21 You guys could correct that in your
22 Medicaid system, in your employee health plan
23 system. You could begin to send a signal back up
24 to the federal government that you're not going to
25 tolerate the biases that are built into that

1 schedule.

2 GOVERNOR MARKELL: One last question—
3 Janet.

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

12 DR. BRENNER: So we have a perfect study
13 in which 50 states you could track health costs.
14 And some states like Texas have set very severe
15 caps. And they have not seen lower trend lines
16 because they set the caps.

17 So it's absolutely true that doctors
18 practice defensive medicine. It's true that the
19 tort system doesn't work. It's true we need
20 changes. It won't fix the cost trends.

21 The cost trends are because of
22 unnecessary capacity. It's because of
23 irrationality in the system. It's because of
24 delivering too much of the wrong kinds of
25 services.

1 So, you know, you have lots of —the
2 AMA's answer to this, and the physician's answer to
3 this is always tort reform. And you say, "You
4 know, yes, you're right. The tort system needs
5 to be fixed." But that's not the answer to the
6 cost trends.

7 GOVERNOR MARKELL: Well, thank you,
8 Dr. Brenner. That was incredibly interesting.

9 *(Applause.)*

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

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

20 Many of you know we have just awarded
21 seven states a project for the next 12 to 18
22 months to see if they can take some of the
23 techniques Jeff and his colleagues have developed
24 and apply them to a state, see if they can be
25 replicated and scaled up. We don't know those

1 answers yet, but we think it might work. So we're
2 working with those seven states.

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

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

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

21 We're also working on payment system
22 reform. What does it take to gather the payments
23 together the way Jeff has done from various parts
24 and pieces of the system to be able to then
25 repartition them?

1 And that brings up an issue we haven't
2 often dealt with, which is antitrust. It's
3 ironic, but nonetheless true, as Jeff said,
4 they're not really competing for market share in
5 these very expensive patients and Medicaid
6 patients, and yet the Federal
7 Trade Commission was quite interested in what they
8 were doing.

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

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

20 And so we're trying to work with the FDC
21 to see if we can get some clearance and some
22 guidance on how they'll at least think of these
23 superutilizer projects. So all in all, we are
24 going to work intensively with a number of your
25 states to see what we can do to replicate Jeff's

1 work. In the meantime, we will have parts of this
2 system that we can offer to all of you as we move
3 along.

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

9 We're also about to release a compendium
10 of best contracting practices. Much of what Jeff
11 talked about you can actually replicate in
12 contracts, whether it's for your Medicaid patients
13 or whether it's for your employees and retirees.

14 And the compendium looks like this. And
15 so it's about eight chapters of pieces of the
16 contracting process that you can employ to require
17 transparency or look at other aspects that Jeff
18 mentioned, data reporting, of course, those kinds
19 of things.

20 We have a couple of contracts that have
21 much of this in it already. Arizona, I think, is
22 one; Tennessee is another. So there will be full
23 contracts as well for you to look at, but we've
24 also torn them apart and written chapters of kind
25 of the aspects of how you set prices, how you risk

1 adjust, how you might want to do the things you
2 want to do. You don't have to do it all by
3 regulation. You can do a fair amount of it by
4 just managing contracts.

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

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

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

23 And we'll essentially spend a weekend in
24 a room talking about what the state barriers are
25 in your state to true reform and try to get a

1 better sense of answers to five or six critical
2 questions.

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

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

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

23 So we're working from kind of the top
24 arterial gas level all the way down to some of the
25 things that Jeff does every day to see how we can

1 replicate this work, how we can expand it and how
2 to make available to you more tools, more
3 analytical tools, more knowledge of how to reform
4 the health care system.

5 You all have data. You have the
6 Medicaid data. If not, you should get it. You
7 have data on your employee populations. You have
8 the data or you can get it on your retiree
9 populations. You're the largest purchasers of
10 health care for many of you in your state. And so
11 you can move a lot of material around.

12 As I bored you back in February, states
13 have many, many levers to pull. You control the
14 entire supply of health care on most days. You
15 have antitrust powers. You have purchasing
16 powers. You have regulatory powers.

17 And by deploying those in good ways, you
18 can actually change the system with some
19 rapidity. So we're hopeful to be able
20 to help.

21 We had 24 or 25 of your governors'
22 health advisors in Washington earlier this week to
23 begin getting them ready to talk to each other as
24 well. I think it was the first time we had all
25 the health advisors together at once. And they've

1 begun those discussions, of course, and sharing
2 what they were working on.

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

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

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

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

24 GOVERNOR MARKELL: All right, Dan.
25 Thank you very much. We're going to be in

1 Nashville next summer for the 2014 summer meeting,
2 and I'm going to ask Governor Haslam to come up.
3 There he is.

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

7 *(Applause.)*

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

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

18 But Nashville is actually so much more.
19 Conde Nast just recognized Nashville as one of
20 five cities you should go to in the world before
21 you die. And since the next closest one is Paris,
22 I suggest you come to Nashville now.

23 But *Bon Appetit* named it the South's
24 tastiest and coolest city. And *Rolling Stone*
25 named it the best city for music. And I can go

1 on. Even the *New York Times* called it—it's the
2 U.S.'s "it" city right now.

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

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

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

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

25 It will give you great reassurance to

1 know that nothing has changed in terms of
2 politicians' views of the media. His remarks are
3 fairly blunt, I'll just put it that way.

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

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

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

19 Thanks.

20 *(Applause.)*

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

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

1 commitment to NGA and their commitment to working
2 with all of us.

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

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

14 This year actually marks the 25th
15 anniversary of the Corporate Fellows Program.
16 First one, back in 1988. Back then, there were
17 about a dozen companies. Today there are more
18 than a hundred.

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

25 *(Applause.)*

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

4 *(Applause.)*

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

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

10 GOVERNOR MARKELL: It is the original
11 group? Wow.

12 *(Photo taken.)*

13 GOVERNOR MARKELL: Thank you very
14 much.

15 *(Applause.)*

16 GOVERNOR MARKELL: We also want to
17 recognize a few companies for 20 years of service.

18 The first one is Merck. Saul, come on up.

19 *(Photo taken.)*

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

1 to them.

2 *(Applause.)*

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

7 *(Meeting concludes.)*

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1 STATE OF WISCONSIN)
) SS:
2 COUNTY OF MILWAUKEE)

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5 I, JESSICA R. WAACK, a Certified
6 Realtime Reporter, Registered Diplomate Reporter,
7 Certified Shorthand Reporter and Notary Public in and
8 for the State of Wisconsin, do hereby certify that the
9 above transcription of the NATIONAL GOVERNORS
10 ASSOCIATION meeting was recorded by me on
11 August 2, 2013, and reduced to writing under my
12 personal direction.

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

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Notary Public
In and for the State of Wisconsin

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My Commission Expires: September 1, 2013.

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

1 PARTICIPANTS:

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

4 GUEST SPEAKERS:

5 Mr. Steve Aos, Washington State Institute for Public Policy;

6 Mr. A.T. Wall, II, Rhode Island Director of Corrections; and

7 Mr. Dan Crippen, Executive Director, NGA

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1 TRANSCRIPT OF PROCEEDINGS

2 GOVERNOR MARKELL: Okay. We're going to
3 go ahead and get started. I know that all
4 governors believe that one of our most important
5 responsibilities, one of our most fundamental
6 responsibilities, is to keep our people safe, and
7 for years it seems the answer was about more
8 incarceration. And we saw what that does. We saw
9 the results from that.

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

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

24 While we saw some reduction in crime,
25 mounting costs have made sustaining that downward

1 trajectory very difficult. Now, over the last 25
2 years, corrections spending has gone from
3 approximately \$16.5 billion to more than \$50
4 billion, when adjusted for inflation, an increase
5 of more than 200 percent. And it makes
6 corrections the second fastest growing segment of
7 state spending only behind Medicaid.

8 In Delaware, my state, we saw about a
9 125 percent increase in the number of prisoners
10 between the 1980s and today and a corresponding
11 growth in correctional expenses from \$41 million
12 to about \$260 million. And this is in a budget of
13 just over \$3.5 billion.

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

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

23 We've got better information systems.
24 We've got better social science. All of it can
25 improve our ability to manage our information

1 systems and evaluate the effectiveness of one
2 program or the other.

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

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

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

23 And to help us better understand these
24 and other options, we've invited two leaders in
25 the field to talk about ways that we can rethink

1 our sentencing and corrections practices.

2 Our first host speaker is Steve Aos.

3 He's a director of the Washington State Institute

4 For Public Policy. You may look at his name and

5 think I mispronounced it. But, in fact, I asked

6 him, and he said it's an old Norwegian name. The

7 'A' is silent.

8 Mr. Aos is an economist by training.

9 He's developed econometric models that

10 show the cost-benefit breakdown of different

11 programs and their impact on prison incarcerated

12 populations. And these models have been helpful

13 to a number of states in the reform efforts.

14 Steve, welcome.

15 *(Applause.)*

16 MR. AOS: Thank you, Governor, and,

17 governors. It is a pleasure to be here, to be

18 invited to talk to you today about what work we've

19 done in Washington State over about the

20 last 15 years to reform our criminal justice

21 system, our juvenile justice system, our

22 sentencing system and some of our prevention

23 programs all designed to try to reduce the crime

24 rates in the state of Washington.

25 And the message in these few minutes

1 that I'll have with you today is a simple one;
2 it's that you can ask your staff today to assemble
3 information for you that will allow you to put
4 that mix of programs together, evidence-based
5 programs about what works; you can also learn
6 about evidence-based programs that don't work.
7 That's important to know about those.

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

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

20 So this idea of putting together an
21 effective, evidence-based list of programs, a
22 portfolio of them, you can just put all of your
23 eggs in one basket, as it turns out. That's the
24 way to lower crime rates further and to save your
25 taxpayers money to boot.

1 I'll just go over that a little bit.
2 The institute that I direct that was created by
3 the Washington—there it is [indicated visual aid]. There's Olympia,
4 the state capital of Washington. That's
5 Saltwater. That's the bottom of Puget Sound right
6 there on one of the many, many, many, sunny days
7 that we have in Olympia, Washington. The Capitol
8 is right there. Governor [Jay] Inslee, who is not here
9 today; the governor's mansion is right next to the
10 Capitol there. The Institute—Seattle is up
11 around the corner.

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

19 And all of the work that we do comes
20 about, because the legislature passes a bill and
21 says, "Institute, tell us what to do on this
22 stuff. Study this topic, and come back to us."
23 The governor signs the bill, and that's how we
24 work.

25 Many of the things that we've been doing

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

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

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

23 And this is fantastic news. Crime rates
24 overall are down 45 percent throughout the nation,
25 very similar number in my state. They're down 48

1 percent if you just look at homicide rates, the
2 best-measured kind of crime, and it's about the
3 same number in my state.

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

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

17 We're going to go back from 1930 up to
18 2012. Here's the incarceration rate in the United
19 States. And I'm going to plot my state's rate on
20 there as well. I don't have your states on there
21 right here.

22 But you can see that for decades in the
23 years before World War II and the years after
24 World War II, the incarceration rates stood at
25 about one per thousand people were incarcerated.

1 In the years before television and after the
2 introduction of television, about one. And the
3 years before Elvis Presley and the years after
4 Elvis Presley, it was about one. It was a
5 constant rate of incarceration.

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

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

18 If we had followed in my state the
19 national trend, if we had stayed on the course of
20 that blue line, we would have about \$650 more
21 million per annum in our budget. So we've gone
22 through, as you all have, severe budget problems.

23 And our budget problems would have been
24 only that much worse if we had not adopted a
25 different set of policies, beginning in the 1980s,

1 on how we sentenced people and what we do with
2 them once they're sentenced.

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

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

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

23 I want to go through a couple of items
24 on that list here. Just not to bore you with too
25 many numbers here, but it's important to see what

1 the information will do. We look at adult
2 offender programs, juvenile offender programs,
3 prison and policing and prevention programs.

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

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

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

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

21 What those studies yielded is that you
22 can expect, on average, about a 7 percent
23 reduction in recidivism. Now, my heart was hoping
24 for 70 percent, but my head—the person that
25 went through doing the numbers—said 7 percent.

1 That doesn't seem like a lot to me, but that's
2 where the economic test became relevant.

3 We did a cost-benefit analysis, a return
4 on investment analysis of that, and that 7 percent
5 reduction in crime, generates—it's a cost of
6 about \$400 to put a person in one of these
7 programs—it generates about \$2300 in taxpayer
8 savings alone; of course, savings to the victims
9 for crimes that never happened.

10 So this bubbles up to the top of our buy
11 list for our legislature and for our governor in
12 terms of things you can do once the offenders are
13 in the prison system to try to reduce the overall
14 criminal recidivism rate. We did that by doing
15 the evidence—we had those 38 studies. This is
16 sort of a betting person's, investor's best result
17 that you could hope for from that kind of
18 programs.

19 We also do a risk analysis. Everybody
20 should be doing risk analysis because all these
21 numbers involve assumptions, estimates. And you
22 want to test your chance that the program might go
23 belly up.

24 This is what venture capitalists do in
25 the private sector. And this what we're trying to

1 do for where the numbers that we produce for our
2 legislature and our governor in Washington State.

3 This is a very low-risk investment, very
4 high-return investment.

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

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

20 The main point is you need to put
21 together a portfolio of all those programs if you
22 want to reduce the crime rate in your state, not
23 only next year, but in the long term and to avoid
24 the need to build prison beds. We think we've
25 reduced quite a bit here.

1 So to close, I just want to say this, to
2 repeat that point: This kind of information was
3 not available 10 years ago, even 15 years ago
4 maybe. We've been putting it together for our
5 state. Others around the country are putting it
6 together.

7 I think you can direct your staff to put
8 that together here. What works, what doesn't, its
9 ability now to calculate a return on investment.

10 And if you do that, and you get some mixes
11 together, I think you can find, as we have done in
12 Washington, that you can lower your crime rate
13 more than otherwise would have been and to save
14 taxpayers money to boot. Thank you very much for
15 your time. Thanks.

16 *(Applause.)*

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

25 GOVERNOR CHAFEE: Thank you, Governor.

1 As former mayors and governors, we know that
2 anytime we have a government agency that operates
3 365 days a year, 7 days a week, 24 hours a day,
4 it's gonna be expensive, and that's true with
5 corrections.

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

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

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

21 After graduating from law school, he
22 served as an assistant district attorney in
23 Manhattan before joining the Vera Institute of
24 Justice where he directed a sentencing program for
25 chronic offenders.

1 He then returned home to Rhode Island in
2 1985, to work in the governor's policy office on
3 criminal justice matters. In 1987, A.T. was
4 appointed assistant director of the Rhode Island
5 Department of Corrections, where he oversaw the
6 central management of all operations and served as
7 the director, second in command. And A.T. then
8 became interim director in 1999, and was appointed
9 permanent director the following year.

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

15 And Rhode Island, where it is very, very
16 challenging to be our director of corrections
17 because we have a strong correctional officers
18 union, the Brotherhood of Correctional Officers.

19 There's no question that A.T. has a very
20 difficult job. And despite this, he remains at
21 the forefront of the corrections reform,
22 constantly seeking out new, innovative and
23 effective strategies to improve rehabilitative
24 services, minimize recidivism and reduce costs.

25 A.T. will elaborate on some of these

1 methods, but I can attest he is a reformer in the
2 best sense of the word, not content to rest on
3 past practices if they're not working as well as
4 they could be.

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

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

16 *(Applause.)*

17 MR. WALL: Thank you so much, Governor
18 Chafee. That was a very generous introduction.
19 Steve Aos's name is intriguing. Though I suppose
20 I should tell you my name is Ashbel Tingley
21 Wall II, which probably tells you all you need to
22 know about why I'm known as A.T.

23 As governors, you, of course, have a
24 very large stake in corrections. And it's your
25 biggest stake in the criminal justice system, as

1 opposed to policing, which is local, the
2 judiciary, which is not in the executive branch.
3 But the consequences of all those decisions lie on
4 your plates.

5 And in many states, including our own,
6 it's the largest workforce in state government,
7 one of the largest consumers if not the largest
8 consumer of state dollars as well as the
9 percentage of the budget.

10 And it's done almost exclusively with
11 state as opposed to federal funds. And as your
12 corrections directors, we know that we're
13 responsible for public safety and institutional
14 security, and we also have an obligation to the
15 taxpayers to be responsible with their funds as
16 well.

17 I'm going to go in a somewhat different
18 direction than Steve did by talking about one of
19 the core costs of corrections as long as they're
20 institutions. This will be a major concern. And
21 that, of course, is health care. In our own state,
22 over one in every 10 correctional dollars is
23 actually spent on inmate health care. And in some
24 jurisdictions, it's larger than that.

25 And as budgets are crunched with ever

1 greater scrutiny over the past few years, there's
2 a focus, and an appropriate one, on the cost of
3 health care for the inmate population.

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

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

22 There are, of course, changes coming to
23 the health care landscape that we understand. But
24 the fact is that what I'm describing are avenues
25 that can be pursued right now regardless of

1 whatever else is going to happen in the coming
2 months and years in correctional health care.

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

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

20 We can never say no, and that means we
21 have to take you in, in whatever condition you
22 happen to be. And we have to keep you while your
23 condition might worsen or you develop new
24 health care issues. The great majority of the
25 people who come into the system are in the 17- to

1 39-year age range and, of course, in the cases of
2 long sentences, they then age in place.

3 They are low-income, by and large
4 jobless, transient, urban, disproportionately
5 people of color. Their lives are very
6 disorganized, and their physical and mental
7 condition makes it evident. And most inmates have
8 no health care insurance of any kind, whether it be
9 public or private, and didn't at the time that
10 they came in.

11 And they are an unhealthy population.
12 Study after study has documented that they have
13 higher rates of all of these different kinds of
14 diseases and medical and mental health conditions.

15 You know, of course that there is also a
16 constitutional entitlement to health care if you
17 are an incarcerated inmate per the U.S. Supreme
18 Court, a decision out of Texas, that was made in
19 the 1970s, and lasts until this day.

20 Interestingly, even though per the
21 Supreme Court's decision, inmates may be the only
22 sector of the population which has a
23 constitutional right to health care. It is also
24 one of those segments of the population, which by
25 law, is not entitled to health care insurance to

1 pay for it.

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

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

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

23 So electronic medical records do improve
24 care coordination. They improve the management of
25 chronic diseases, because it's easy to follow the

1 track on the computer as to what kind of care has
2 been given. And, of course, they also reduce
3 inappropriate treatments.

4 Medicaid management information systems
5 probably exist in all of our states. That's
6 really the electronic process whereby Medicaid
7 claims are collected, reviewed, and processed.

8 And the point here is that if you can
9 engage a third-party entity like your Medicaid
10 management information system to process
11 correctional claims, then what you can get is
12 verification that the rate is appropriate, that
13 the Medicaid rate is the rate being used
14 for reimbursement when inmates are sent outside
15 for hospitals, at which point they can be eligible
16 for Medicare. So it eliminates the risk of
17 overcharging.

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

25 So utilization review makes sure that

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

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

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

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

1 rates.

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

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

16 We have specialists that come into the
17 facilities in areas like orthopedics, gynecology,
18 podiatry, gastroenterology. And providing those
19 on-site, inside the prison, is working for us.

20 And it works for them, because they can see a
21 cluster of patients all at one time.

22 And, of course, all of these solutions
23 avoid the cost of transportation. When I told you
24 the cost of health care, I wasn't including the
25 add-on cost of the custody necessary to take the

1 inmate to the hospital and watch them 24/7 while
2 they are there. That jacks up the cost far beyond
3 the 10 percent that I already mentioned.

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

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

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

1 inmate health.

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

9 Of course, the truth is that 97 percent—
10 and that's a conservative figure—return to the
11 community following their incarcerations.

12 Recidivism rates vary, but they do tend to be
13 significant. The fact is that inmates are
14 sometimes at their healthiest at the end of their
15 term of incarceration, but they spiral down very
16 quickly upon release.

17 Why should that concern us as
18 corrections directors and our bosses, the
19 governors? Because the recidivism rates do
20 suggest that within three years, upward of 50
21 percent will be back in our custody. And if they
22 haven't attended to any of their health care needs,
23 it's one of the reasons they're gonna come back.

24 And second, they're going to come back
25 in older and in worse shape, and they're going to

1 cost more money. So options such as medical
2 parole are being considered in a lot of states.
3 We have it.

4 Somebody whose condition is
5 irreversible and likely to result in death within
6 six months and certified by the attending
7 physician and the medical director is eligible for
8 parole, and the parole board will vote. Somebody
9 whose health is going to be irreversibly declining
10 to the point where they're either bedridden
11 permanently or wheelchair bound permanently would
12 be another example of somebody that we might
13 medically parole.

14 But certainly a key is better health care
15 coordination upon release. We talk a lot about
16 prisoner reentry in the states, and rightly so.
17 And that kind of successful linking to health care
18 issues, I think, is extremely important.

19 So the stakes are high. I can tell you
20 in our own jurisdiction, we have paid as much as
21 \$2 million for a single patient, all state funds.
22 And I suspect that if you were to ask your cabinet
23 members, you would find similar cases in your
24 state.

25 So health care costs are inextricably

1 intertwined with the size of the institutional
2 population and the overall costs of running and
3 staffing facilities. A number of states, of
4 course, have looked at both of those larger issues
5 and recidivism challenges to figuring out how to
6 manage the growth of the population, even decrease
7 it while also enhancing public safety and saving
8 money.

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

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

22 *(Applause.)*

23 GOVERNOR MARKELL: I want to thank both
24 of our speakers. I thought both presentations
25 were excellent and very educational. And we'll

1 have a chance to ask them questions in a few
2 minutes. But before we do that, I would like to
3 ask Governor Dugaard and Governor Abercrombie to
4 talk a little bit about work that's going on in
5 South Dakota and Hawaii.

6 GOVERNOR DAUGAARD: Thank you, Governor.

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

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

20 The policies we changed included new or
21 improved probation accountability programs that
22 employed both regular and random drug and alcohol
23 testing. We restructured our sentencing framework
24 for nonviolent offenders. And we made the largest
25 investment in the history of our state into

1 behavioral health for offenders with addictions
2 and mental health needs.

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

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

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

23 And when I first heard this data, I
24 doubted it. I thought, that can't be right.
25 We're not that different. I think we're probably

1 counting differently. And as I looked into it,
2 no, that wasn't true. We weren't counting it
3 differently. We truly were incarcerating people
4 at a much higher rate.

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

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

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

21 So if you look at what that has done to
22 us, over the past 20 years, our spending on
23 corrections had tripled. It grew faster than
24 every area of spending in our state except
25 Medicaid.

1 And, prospectively, it was going to
2 cause our state over the next 10 years to have to
3 build a new women's prison probably within two or
4 three years, and another men's prison a few years
5 after that. And that was going to cost us in terms
6 of construction costs and operating costs over
7 \$120 million. And for a small state like ours,
8 with a very small budget, that's a lot of money.

9 So following the 2012 legislative
10 session, a little over a year ago, I directed my
11 staff to start having some stakeholder meetings
12 with everybody who's involved in the criminal
13 justice system in South Dakota.

14 And we had over 35 meetings with over
15 400 stakeholders from law enforcement, judges,
16 defense attorneys, prosecutors, Native American
17 tribal law enforcement, judiciary, treatment
18 providers, probation officers, Supreme Court
19 justices and lower court judges; everybody that
20 was connected in any way with the criminal justice
21 system. And we listened. We didn't come to them
22 with ideas or solutions, because we thought first
23 we need to really learn.

24 Everybody has their opinions and ideas
25 from their own experience, but, of course, all of

1 us have limited experiences. So we tried to draw
2 upon all these stakeholders, realizing they have
3 also their own narrow viewpoint of the world based
4 upon their experience. But we wanted everyone to
5 hear from one another.

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

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

19 And the group is charged with three
20 goals, and these were the sort of overarching
21 goals they were charged with. One, whatever you
22 do, safety first. Improve public safety.
23 Whatever recommendations you have for reform, if
24 you have any, at the end of the day, they must
25 improve public safety first.

1 Second, we still have to hold offenders
2 accountable. This isn't about being soft on
3 crime. It's about being smart on crime. And in
4 the end, we just have to hold offenders
5 accountable in a different way maybe, because the
6 third charge was to save money.

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

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

23 The policies that were adopted in the
24 end or recommended by this group were really,
25 truly developed in a collaborative fashion with

1 lots of input from all the stakeholders, but all
2 driven by the three goals of keeping the public
3 safe, keeping offenders accountable and saving
4 money.

5 One thing that we learned from our fact-
6 percentage of prisoners we were putting into
7 prison in any given year were nonviolent
8 offenders. We were locking them up using the most
9 expensive means for responding to accountability.
10 Not because we were afraid of them, because we
11 weren't. They were nonviolent. We weren't afraid
12 of them. We were just mad at them. So we were
13 using the most expensive way of holding them
14 accountable.
15

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

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

6 gathering in South Dakota was that a large

1 be required.

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

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

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

22 And we've been in touch with nearly all
23 of these groups from the early months of work and
24 had sent them regular updates. And this, I think,
25 was crucial to having them endorse and support the

1 legislation. By undertaking this inclusive,
2 palms-up effort with no preconceived notions about
3 what we were pushing—because we weren't pushing
4 anything to them. We wanted them to help us find
5 these solutions that they could feel comfortable
6 supporting with us.

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

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

19 And I would be remiss if I failed to
20 acknowledge a major partner in our effort was the
21 Pew Center on the States. We had applied to them,
22 because we were aware that they had guided other
23 states toward criminal justice reform. They did
24 not offer a cookie-cutter solution. Because our
25 solution was dependent upon our situation.

1 And so, for example, I don't know what
2 the percentage of new incarcerations in Wisconsin
3 are made up of violent versus non-violent. Theirs
4 may be quite different.

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

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

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

22 And so many of the people we were
23 incarcerating were drug and alcohol addicted. And
24 some of their crimes were essentially crimes of
25 abuse of those substances. They weren't hurting

1 anyone, but they were violating our laws.

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

9 And so they are held accountable in ways
10 that help them learn not to reoffend and reward
11 them for good behavior. So it's a carrot-and-a- 12 stick approach to people who have
addictions. And

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

16 So what more could we want really? We
17 save money. We hold offenders more accountable.

18 And we believe it will drive our crime rate down.

19 So it's a win-win-win situation in South Dakota.

20 And time will tell if I'm right about that. I

21 hope so.

22 GOVERNOR MARKELL: Thanks, Governor.

23 Governor Abercrombie.

24 GOVERNOR ABERCROMBIE: Thanks very much.

25 Governor Chafee introduced Mr. Wall by saying he

1 had a lot of experience with chronic offenders, so
2 I suspect that makes us a good group for you to be
3 speaking to today. I suspect all of us are guilty
4 of that in one way or another.

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

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

12 But not too many probation officers end
13 up in the governor's chair. And in that context,
14 which I'm sure you can verify, you get a pretty
15 eclectic view of the criminal justice system.
16 When you begin every day of your working life at a
17 booking desk, it gives you a certain view.

18 And in my instance or in my case,
19 rather, dealing both with making recommendations
20 as well as supervision, everything from traffic
21 tickets to murder, you don't find yourself siloed.
22 You have to have a broad view.

23 So one of the principal elements in my
24 campaign to become governor involved the criminal
25 justice system. What had happened in previous

1 administrations, both Democrat and Republican in
2 our state, was they were unable to find either a site
3 or sites or the will and the legislature to build
4 new facilities or additional facilities, and we
5 started shipping prisoners out of the state.
6 That's the way we handled it.

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

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

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

22 And what happened, of course, because
23 there was a high percentage of those who were
24 prisoners who had native Hawaiian background—
25 the governor mentioned the Native American Tribal

1 circumstances, with high percentages of
2 social disorder and economic travail resulting in
3 high incarceration rates as well as offending—
4 they were cut off completely, of course, from
5 contact with families.

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

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

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

1 or anything else. It was leaving the state.

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

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

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

23 First of all, nobody came in from
24 outside and told us anything. What they came in
25 and said is, here are the services we can offer.

1 And what we discovered very quickly was, actually,
2 this was a good objective resource. Because they
3 had no axes to grind. They had no preconceptions.
4 They understood it was state by state, region by
5 region and so on. And they were terrific. They
6 were excellent.

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

15 What their view was, where it was being
16 hard was on the taxpayers, or that's what the
17 problem was and to really come to a conclusion.
18 So they did a comprehensive analysis. And they
19 identified what we considered inefficiencies in
20 the system and recommended policy changes.

21 They found areas where we initially came
22 up with the thought we could save \$3.5 million.
23 That's the way we sold this to the legislature.
24 We didn't come in with the idea that, oh, okay,
25 here's a whole bunch of new expenses you have to

1 make.

2 Quite the opposite. We said, Look.

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

4 And so when I went to the legislature, I wasn't

5 asking them for new dollars. I was saying,

6 guaranteed, we will save this money, but let me

7 invest it then. We're spending it anyway now.

8 See if we can invest this money, about \$3.5

9 million.

10 We said we'd increase system efficiency,

11 increase public safety, reduce recidivism and hold

12 individuals more accountable where restitution,

13 for example, was concerned. And so we passed

14 legislation to effectuate that. And I think we've

15 put out some information to you.

16 I hope that it got passed out. I'll

17 just highlight a couple things in it. Let me

18 highlight a couple of things that we found in

19 terms of inefficiencies. Now, whether this

20 applies as the governor indicated to every state,

21 I don't know. But I'm willing to bet some of

22 these things are probably ubiquitous to all of us.

23 I mentioned we had a decline in crime,

24 yet the prison population hadn't declined.

25 Inefficiencies in the criminal justice system were

1 really terrific. Here was the first one. It
2 hadn't occurred to me. Hawaii's pretrial process
3 was one of the longest in the nation. The
4 pretrial assessment process took so long in
5 Hawaii.

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

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

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

24 We released people most likely to
25 reoffend back into the community without any

1 follow-up supervision or monitoring worthy of the
2 name. And I'm speaking as a probation officer in
3 that regard. And restitution for victims was not
4 being adequately collected at all, which further
5 discourages the public with respect for the
6 system.

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

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

23 So let me just summarize as quickly as I
24 can here. So the \$3.5 million, let me tell you
25 what we did with that. We hired additional

1 corrections staff to complete risk and needs
2 assessment right from the beginning. We hired the
3 public safety department. We established a
4 research and planning office within public
5 safety.

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

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

22 And I'm going to finish up with a
23 practical demonstration of what we did with the
24 courts. We worked very, very quickly and
25 collaboratively with the chief justice and the

1 judges. We brought them in. I can't emphasize
2 enough to you how important it is to bring the
3 judiciary system in.

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

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

22 The whole program that I'm going to
23 reference in here, and I'll just summarize very
24 quickly, that's about \$1,500 a year. The drug
25 court, it's different; HOPE court is different

1 than drug court. I want to emphasize that to you.
2 Just don't do drug courts, you're going to get
3 tangled up in a whole lot of problems, because you
4 have high risk and low risk. If you put them all
5 in the same thing, it won't work.

6 That jumps to \$6,300 a year. You think,
7 oh, that's a lot. For us, I don't know about you,
8 but our prison beds cost \$46,000 a year, and
9 that's maybe low for some of you here. I don't
10 know—\$46,000. Can you imagine if you spent the
11 \$46,000 on making sure you had preschool and
12 digital devices in kids' hands and got them proper
13 nutrition and reference? \$46,000.

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

22 Inevitably you're going to get people
23 who will criticize a justice reinvestment
24 initiative. That's what we called it. I think,
25 Governor, you had the same title, right? Justice

1 reinvestment? We didn't call it reinvention. We
2 didn't call it reform. We talked about
3 reinvestment, that we were investing in a system
4 that was going to pay dividends to the public.

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

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

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

23 The judges supervise a large number of
24 felony probationers. Now, for an ex-probation
25 officer like myself, 50, 60, 70, 100 cases—

1 Judge Alm currently supervises 2,000 felony
2 probationers. And they target the toughest
3 offenders. We're not taking the easiest ones. We
4 target the toughest ones.

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

13 And then if they can't make it through
14 that, then we get to the drug court situation. We
15 focus on supervising, provision, and treatment
16 resources for high- and moderate-risk offenders.
17 Drug court costs between \$5,000 and \$8,000 per year
18 as measured against the \$46,000. And the results
19 are very, very good.

20 Since September 2012, we make sure that
21 this is a last-chance privilege, that the program
22 is going to be rigidly enforced across the board.
23 And since September 2012, there have been two drug
24 court graduations involving 41 offenders. Fourteen were
25 previously in HOPE probation and were failing.

1 They were headed back to prison until they were
2 given a last-chance opportunity in drug court.

3 So instead of costing Hawaii almost \$2
4 million in combined prison costs, these 14 are now
5 all employed. We've been following them since
6 September of last year. Everyone is employed.
7 Altogether they have paid \$21,000 in restitution
8 costs, traffic fines, court fees and child
9 support. It's not a whole lot of money, but it's
10 a lot different than spending \$2 million on them;
11 none of which has achieved anything.

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

19 But I can tell you that if you follow up
20 on what Governor Dugaard and I and others—by
21 the way, it's not just the two of us. There will
22 be shortly a public safety performance project
23 report coming out with Governor [Mike] Beebe, Governor
24 [Nathan] Deal, myself and, of course, Governor Dugaard
25 indicating these six things.

1 I'll quit with this, what motivated you
2 to tackle this issue in the first place? How did
3 you achieve the consensus across the political
4 parties and diverse stakeholders? What were the
5 major obstacles? How did you get past them? What
6 part of the state's reforms will have the biggest
7 impact and why?

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

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

19 GOVERNOR HICKENLOOPER: Thank you. Real
20 quick, thank you both for your remarks and
21 speakers. And I'm pretty sure it's Mitch Daniels
22 that said that he wanted to make sure that Indiana
23 was the worst place to commit a crime; the best
24 place to get a second chance, which I think is an
25 interesting sentiment.

1 What all four of you were talking about
2 is it does all come back to mental health. One of
3 the things that was touched on but not really gone
4 into is this whole issue of administration
5 segregation and how in many correctional systems
6 it becomes a default, because it's easier and
7 perceived as less risky.

8 And yet, again and again, we're often
9 releasing people with significant mental
10 health issues directly from years of isolation,
11 which only exacerbates the challenges they have.
12 And because they're deemed too risky to be
13 released into the prison population, so they keep
14 them in solitary confinement, then they release
15 them directly into the general population of the
16 community, which makes no sense.

17 We've been working, part of that in
18 Colorado, we were up to 7 percent of our total
19 prison population was in administration
20 segregation, which was an appalling number. We
21 got that down to about 4 percent. But when you
22 begin looking at it, so much of this is connected
23 to mental health.

24 And probably the worst thing you can do
25 to somebody who is emotionally unstable is lock

1 them up by themselves and just leave them there
2 for month after month.

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

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

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

21 So, you know, the people who are in
22 prison now have a higher risk by the nature of the
23 sentencing grid for violence. And that's sort of
24 the key thing. That's why we've had a lower rate
25 of incarceration than in other states, but we have

1 more crime control as a result of, in part,
2 because of the prison, because we're using it for
3 the highest-risk offenders, including drug
4 offenders.

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

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

24 Back when I first got into probation,
25 cocaine wasn't even a big deal then. Certainly

1 not crack cocaine. You were dealing with heroin,
2 and you were dealing with marijuana and the
3 toxicity of the marijuana and so on, wasn't
4 anywhere near where it is today.

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

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

19 And when we looked into the drug crimes,
20 we realized there was very little differentiation
21 between the casual user, the distributor, and the
22 manufacturer, I'll call it. So the guy that was
23 just caught using was treated very much the same
24 as someone who might be running a meth lab and
25 distributing the product.

1 We tended to treat all of them quite
2 harshly. And so one of the things that was done
3 was to differentiate the crimes, reduce the user
4 penalties. And for the more egregious
5 manufacturer or distributor, we actually increased
6 them.

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

12 And if we could instead get them on a
13 presumptive probation with some swift and sure
14 sanctions, evidence-based research in other
15 states had shown that if you treat them in their
16 communities where the risk of using is constantly
17 presented to them versus put them in prison and
18 treat them in an environment where they really
19 have no access anyway except through contraband or
20 black market, it's really kind of silly to think
21 that if Dennis goes to prison, and I'm addicted,
22 and I get treated, and I go cold turkey or get
23 weaned off in prison, and I have no opportunity to
24 reoffend and then I'm put out in the community,
25 back in the same circles of friends and the same

1 environments where I was tempted and used before,
2 my likelihood to be able to resist reoffense is
3 lower.

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

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

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

24 I know what my jail sentence is going to
25 be. But it doesn't result in the reimposition of

1 the entire prison term for which I was sentenced
2 and then part of which was deferred based on a
3 parole. I don't lose it all for one small
4 infraction. I lose some.

5 So those are some of the philosophies
6 behind the reinvention that we passed in the
7 legislature.

8 GOVERNOR TOMBLIN: We, in West Virginia,
9 we use the Justice Center also and Justice
10 Reinvestment and the study for a year with all
11 three branches of government working together.
12 And I was able to have a pretty unanimous bill
13 passed through the legislature.

14 But it kind of differs just a little
15 bit. We talk about early release and so forth for
16 good behavior. You know, the early assessment to
17 make sure the inmate is getting the correct
18 treatment they need when they go into the prison,
19 especially; we have, like many other states, a
20 high amount of substance abuse-related sentencing
21 going on there.

22 But, basically, part of our plan is to,
23 you know, assure that they do get the kind of
24 treatment while they're incarcerated.

25 Another thing that we have not done in

1 the past, and I think it's the reason that we've
2 had such a high rate of recidivism, is there's not
3 been a real home plan. Once the inmate's time is
4 finished, they walk out on the street. Most of
5 the time they go right back to the same
6 environment that got them in trouble before.

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

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

23 Yeah, I think the fact of having the
24 supervisor release back into the community,
25 making them follow strict rules will help them as

1 far as recommitting crimes like they'd done
2 before.

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

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

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

23 GOVERNOR DALRYMPLE: Mr. Chairman, I
24 like a lot of the ideas that I've heard here
25 today. I'd like to cut down on my workload, and

1 I'm wondering if I can get some information from
2 the state of Washington or from South Dakota on,
3 you know, some of the conclusions that you have
4 arrived at through all this analysis.

5 I would be very interested in seeing
6 anything that you have. And I don't know,
7 Mr. Chairman, if we have some kind of work
8 going on through our Best Practices on
9 Corrections, if there's something available
10 through NGA.

11 GOVERNOR MARKELL: That's what I was
12 going to suggest, which is we will have the NGA
13 staff circulate some of the best practices that
14 you heard about today, also picking up on the
15 comment that Governor Hickenlooper made regarding
16 Indiana, Mr. Daniels saying, you know, worst place
17 to commit a crime, best place to get a second
18 chance.

19 To me it ties in with what Governor
20 Tomblin was just talking about in terms of what
21 states are doing to make sure that folks coming
22 out have a decent shot of employment.

23 Because that does continue to be an
24 unbelievable source of frustration. It's not a
25 surprise that the recidivism rate is so high when

1 for so many of these people, they actually have so
2 little hope of finding employment when they get
3 out.

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

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

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

23 So I think this was a very, very
24 interesting conversation. I want to thank our
25 speakers very much for coming in, to the governors

1 who added. As well as to Governor Dalrymple's
2 suggestion and request, we will make sure that we
3 circulate the information to the governors. Thank
4 you all very much.

5 *(Applause.)*

6 *(Meeting concludes.)*

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1 STATE OF WISCONSIN)
) SS:
2 COUNTY OF MILWAUKEE)

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

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Notary Public
In and for the State of Wisconsin

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My Commission Expires: September 1, 2013.

25

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

1 PARTICIPANTS:

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

4 GUEST SPEAKERS:

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

7 Ms. Heather Hogsett, NGA Health and Homeland Security Committee.

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1 TRANSCRIPT OF PROCEEDINGS

2 GOVERNOR MARKELL: Well, good morning
3 everybody. Welcome to the closing session of the
4 2013 NGA Summer Session, and I would ask you if we
5 could start the meeting; please join me in
6 thanking Governor Walker for his great
7 hospitality.

8 *(Applause.)*

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

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

22 And as we've heard from many different
23 security experts, unless we really improve our
24 country's cybersecurity infrastructure, the
25 question is not if, but when, there will be some

1 kind of devastating, major coordinated cyber
2 attack.

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

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

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

21 And to help us explore this last
22 question around risk, we've invited Matt Devost,
23 who is an international security expert who
24 specializes in cybersecurity, counterterrorism,
25 critical infrastructure protection, and

1 intelligence and risk management issues.

2 He's currently the president and CEO of
3 the Terrorism Research Center.,
4 . He helps international clients
5 identify and manage cyber threats and what are
6 often complex operating environments.

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

13 *(Applause.)*

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

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

25 The level of activity from the threat

1 actors in cyberspace right now is greater than
2 I've seen over the course of the past 20 years.
3 And this is an issue I've been working on for 20
4 years.

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

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

23 So I'm going to talk about some of those
24 themes and themes of management, and incident
25 response, and others. In thinking about what is

1 your most likely attacker:. If you sit right down
2 now and think about it from a state perspective,
3 is it a nation-state? Is it an activist
4 organization? Is it an insider that's
5 disgruntled? Is it a criminal enterprise that
6 wants to steal financial data?

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

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

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

1 website?

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

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

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

20 So from a vulnerability perspective, we
21 need to do a better job of understanding and
22 managing those vulnerabilities so we raise the bar
23 and attackers are resource constrained just like
24 we are. So if we can increase the cost to the
25 attacker, they can attack less, and as a result we

1 get some inherent additional security.

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

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

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

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

23 But then towards the end of the cycle
24 when we've actually gone through the process,
25 there might be three or four systems that are in

1 that bullseye. Those afford the greatest level
2 of protection, the greatest level of monitoring.

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

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

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

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

1 your organization.

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

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

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

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

25 Again, public safety systems, things

1 that will be used to protect the citizens in the
2 context of other attacks so you don't have a
3 blended attack that can take place where they can
4 augment or increase the impact of a conventional
5 attack like terrorism by using a cyber attack in
6 parallel with it. So making sure that critical
7 communications is going to be there and your ability
8 to respond.

9 Citizen and personal data: obviously, a
10 big issue, and also a high-profile one, because it
11 tends to attract a lot of headlines. It tends
12 to be very polarizing. It impacts citizens at an
13 individual level.

14 If you talk to them about critical
15 infrastructure, they might not understand the
16 threat. If you talk to them about losing their
17 social security number, it puts it in a much more
18 personal context. If they've ever been subjected
19 to identity theft, it puts them in an even much
20 more sensitive context.

21 And then financial transaction systems
22 and data. We see all of the discussion in the
23 press about some of the state-sponsored attacks
24 around stealing intellectual property. But as
25 much activity as there is in that environment,

1 there is also criminal activity that takes place.

2 And there are actors that are making
3 hundreds of millions, if not billions, of dollars in
4 engaging in cybercrime. So where you have
5 financial transactions and financial resources
6 that are available, those attackers are going to
7 be targeting those types of systems as well.

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

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

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

25 My team—over the past 20 years I have

1 been running red teams—has a 100 percent success
2 record. There is always an attacker advantage.
3 What is key is what is going to be the impact of
4 that successful breach, and how do you manage that
5 when that takes place.

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

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

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

20 There are great enabling technologies
21 that support increasing the security posture
22 within the organizations. There is no one
23 technology or even one grouping of technologies
24 that is going to solve this problem for you. It
25 really is about management at a higher level.

1 But there are these things I like to
2 call silver concepts that can guide the discussion
3 space, engaging in that critical data review that
4 I talked about.

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

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

23 Mitigation and management. Not only
24 management of security in general, but mitigation
25 of attacks that do take place. How do you

1 respond? How do you measure your response? If
2 you just keep having attacks over and over again,
3 how do you know that you're getting better or that
4 you're raising the bar? We'll talk about that in
5 a little bit greater detail.

6 And then threat intelligence and
7 information sharing:. We've gotten better at this,
8 but the issue is a lot of times the breaches, the
9 fact that a breach took place is treated as
10 sensitive information, and we're not sharing.

11 What does that mean? It also means that
12 we're not sharing what the attackers did. Their
13 tactics, their procedures, techniques are not
14 being shared. So we need to get better at sharing
15 that kind of data as well, because it helps as an
16 enabler across all of the organizations.

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

25 We need the same types of mechanisms as

1 well among your organizations for sharing
2 information not only with each other, but with
3 private sector partners and with the federal
4 government.

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

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

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

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

25 So there were things that were

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

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

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

23 What they want is to have a diligent
24 profile. So they're putting the right programs in
25 place, the right protection strategies in place to

1 have shown that they are, you know, exercising due
2 care.

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

11 It's the same in the cyberspace.
12 Accept the fact that a breach will take place and
13 build some metrics around that. How quickly did
14 you detect the attack? How efficient was your
15 response? Are you getting better at responding to
16 attacks with fewer resources? Are they having
17 less of an impact? Are you able to recover more
18 quickly from an attack that takes place and
19 thinking about it in context of early detection?

20 And triage. When you have an attack,
21 are you triaging which systems are targeted that
22 are more important than others? And a lot of
23 organizations from an incident response system—
24 there may be 10 systems that are breached and
25 they're treated all as equal.

1 The reality is there may be one over
2 here that has a life-threatening illness or has a
3 huge impact in your organization based on the
4 attacker being successful. You have to go and
5 focus your resources on those first.

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

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

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

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

24 Spear phishing exercising:. If they're
25 going to be targeted via spear phishing, you can

1 engage in exercises against them to establish
2 metrics. This time 50 percent of the people
3 clicked. Let's try to get it down to 40 percent
4 next time. Raise awareness so when the attackers
5 actually go after them, they've seen it before.

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

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

20 But here's the desired security model:
21 And you notice that I didn't put duct tape over
22 all the holes, right? Because it's impossible to
23 put duct tape over all the holes. But if I can
24 put duct tape over half of the holes, it makes the
25 problem that much more manageable for me.

1 That is the kind of key thing we want
2 to do. We want to be engaging in cyber risk
3 management. This is a problem that needs to be
4 mapped just like everything else. So we're really
5 talking about an overall strategy for cyber risk
6 management or cyber risk governance.

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

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

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

24 Again, these attackers are successful
25 sending their B and C teams after us, because we

1 do a very poor job of managing what we already
2 have;. But then, also including security in the
3 design process for new technologies.

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

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

18 But you want to make sure that you're
19 making choices and decisions based on a framework
20 and availability of data that puts things in the
21 proper context. Which I think is why they asked
22 me to come and speak to you and not throw up a
23 whole bunch of slides about bad guys or share war
24 stories about systems that have been attacked, but
25 I'm welcome to do that during the Q&A.

1 But really think about this as a problem
2 that can be managed, that can't be absolutely
3 prevented, but you can put a management framework
4 around and do better by the systems that are used
5 in the state and the information that you've been
6 entrusted with.

7 So that concludes my formal remarks.
8 And I think we have a couple videos and then a Q&A
9 session. Thanks.

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

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

22 It's co-chaired by two leaders, Michigan
23 Governor Rick Snyder and Maryland Governor Martin
24 O'Malley. To help provide an overview of the
25 Resource Center as well as some of the work

1 underway in Michigan and Maryland, we've invited
2 both governors to make a few comments.

3 Governor Snyder could not join us in
4 person, but he's videotaped some remarks. And
5 after we see that videotape, I'm going to ask
6 Governor O'Malley to talk about what's going on in
7 Maryland. So with that, if we can run Governor
8 Snyder's videotape, that would be great.

9 [Video program begins]

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

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

25 Last year in Michigan we blocked 294

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

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

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

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

25 GOVERNOR O'MALLEY: And the presentation

1 was flawless. It's been a great honor, and I want
2 to thank you, Mr. Markell on this front and
3 charging the NGA staff to move forward with this.

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

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

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

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

25 Our most effective tools, we believe, are

1 the talents and the skills of our people. It's
2 our greatest defense. It's our greatest offense.
3 So we're investing in better programs in our
4 schools, in our high schools, in our community
5 colleges, our four-year universities ensuring that
6 students who are pursuing careers in this field
7 have experience necessary to excel.

8 In 2010, we created the Maryland Cyber
9 Security Center at College Park. And within our
10 community college system, we've established the
11 Pathways to Cybersecurity Careers Consortium.
12 And we're raising awareness and educating our
13 state employees through mandatory training,
14 through cybersecurity drills, and creating a
15 regimen through our emergency management agency to
16 make sure we do this on a regular basis moving
17 forward.

18 And we're also working with businesses
19 to develop employer-led training in this highly
20 skilled, high-demand sector. So we believe in our
21 state that the things that get measured are the
22 things that get done.

23 And I thought the presentation was
24 outstanding. And there are so many metrics in
25 this area that we need to bring to the floor;

1 create common vocabularies, common issues, common
2 dashboards so we can all have some sort of sense
3 that we're doing what we should and must to
4 responsibly protect our critical infrastructure,
5 which in this day and age, absolutely, positively
6 has to include our cyber networks.

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

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

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

1 National Guard in this new domain.

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

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

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

21 One, we're looking for stronger
22 collaborations between our states and our federal
23 partners. Second, we're looking at ways that
24 states can use their state-owned fusion centers to
25 support stronger and more robust cybersecurity

1 defenses on an intrastate as well as an interstate
2 basis.

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

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

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

22 GOVERNOR MARKELL: Thank you. Great
23 presentation in the arena of collaboration. I
24 understand that actually Delaware and Maryland are
25 looking together to participate in the Cyber
26 Aces Academy doing something together there.

1 And since I do have the microphone, I
2 should point out that we were one of the first
3 states, in Delaware, to host a Cyber Challenge
4 Camp to attract young people to pursue a career in
5 this area. We just graduated 47 students from our
6 fourth annual camp.

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

12 *(Applause.)*

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

24 Governor O'Malley, you know, mentioned
25 the great work being done in Maryland and the

1 incredible assets there to leverage. It's
2 something that I've learned in Delaware as well.
3 I know that probably many states around the
4 country. So, Heather, it's all yours.

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

14 A key focus of this work is looking at
15 how the National Guard can better be leveraged to
16 meet the needs of both states and the federal
17 government given its unique roles and
18 responsibilities.

19 Currently we know that all levels of
20 government face a shortage of qualified and
21 trained personnel to both protect cyber networks
22 in advance and in response to intrusions and attacks
23 when they occur.

24 The citizen soldiers of the National
25 Guard in their dual role serving both governors

1 and the President can offer a readily available
2 solution. National Guard units include personnel
3 who work in IT and cyber-related fields at Fortune
4 500 companies in some of the nation's top IT
5 firms.

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

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

20 And at least one state, guard personnel
21 perform cybersecurity computer network defense
22 missions on behalf of the Department of Defense
23 and have also performed network vulnerability
24 assessments for state agencies on behalf of the
25 governor.

1 Working through the Council of
2 Governors, NGA is supporting efforts to expand,
3 enhance, and expedite the use of these kinds of
4 capabilities. This will give governors another
5 tool in the toolbox to address cybersecurity
6 threats.

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

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

17 NGA helped promote this legislation and
18 has encouraged Congressional support for other
19 similar efforts. We, frankly, have seen a great
20 deal of support in Congress for these kinds of
21 initiatives, and both the House and the Senate
22 authorization bill include language this year that
23 would encourage, in fact, require the Department
24 of Defense to better consider the National Guard
25 capabilities and what it can bring to the table.

1 The Council of Governors, which is
2 chaired by Governor Branstad and Governor O'Malley
3 is meeting again this afternoon to continue its
4 discussions on these issues. One of the primary
5 goals of that meeting will be to encourage the
6 federal government to actively partner with states
7 to build and execute a comprehensive plan to
8 address the nation's cyber capabilities.

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

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

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

1 National Guard.

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

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

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

18 So as I say, we don't have all the
19 results in yet, but this can be done relatively
20 quickly, and use existing resources is what I'm
21 trying to drive at. The cyber capacity at the
22 university and the everyday training activity
23 within the State Department of Defense, i.e., the
24 attorney general and the staffing there is ongoing
25 anyway, so what we've done is formalize it.

1 And so that's the principle form of our
2 attempt to come to grips with some of the elements
3 that have been cited so clearly here today.

4 GOVERNOR MARKELL: Thank you, Governor.
5 Anybody else? So maybe I will ask Heather again,
6 because I think there is really interesting work
7 going on in the states across the country. And I
8 appreciate Governor O'Malley sharing some of the
9 details in Maryland.

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

15 MS. HOGSETT: Sure, excellent question.
16 I think there's a real opportunity here. And
17 we're seeing some slow signs of progress, I think.
18 The key thing is to encourage the Department of
19 Defense, frankly, to move very quickly and allow
20 State and National Guard units that want to move
21 forward and build this capability, to encourage
22 that this is sort of brought to the forefront
23 early and in all possible avenues for that
24 conversation.

25 U.S. Cyber Command is working on this.

1 You also have the Army and the Air Force and, of
2 course, the National Guard, and all of their
3 resources come from the Army and Air Force, are
4 working on this issue concurrently.

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

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

19 We're doing this with existing
20 equipment. Some of it has been donated. Some
21 part of the reason we're able to put this together
22 is nobody wants the hardware that we're using
23 right now. This is going to need some — I think
24 we're going to lose on some of this, by the way.

25 I don't think the results necessarily

1 are going to be totally successful, because our
2 defenses, if you will, are inferior in terms of
3 the servers, in terms of the routers *et*
4 *cetera*. I'm not sophisticated enough to go into
5 it any more deeply than that.

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

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

14 GOVERNOR MARKELL: Thank you. Governor
15 O'Malley.

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

22 I guess the point I would like to
23 underscore is that you have great expertise in
24 your own state. You know that you need a
25 governing structure for this. You know that, as

1 in other things, you need to conduct risk
2 assessment. You know that we need to do more
3 training and awareness of our employees.

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

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

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

25 GOVERNOR O'MALLEY: Can I ask Heather?

1 Can you run through the dashboard and some of the
2 other questions? Mr. Chairman, there are
3 materials that are available through the NGA staff
4 and through this center. There's a dashboard.
5 There's a checklist.

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

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

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

22 MS. HOGSETT: Yes.

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

25 MS. HOGSETT: Thomas would be the best

1 one.

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

9 Thank you.

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

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

20 GOVERNOR DAUGAARD: Thank you, Governor.
21 Yesterday the Economic Development and Commerce
22 Committee and the Natural Resources Committee had
23 a joint meeting and had a very productive session
24 on the state of our nation's infrastructure.

25 We had a couple of very good guest

1 speakers. First, we heard from Bill Shuster, U.S.
2 Representative Bill Shuster, who is the chairman
3 of the House Committee on Transportation and
4 Infrastructure. So we got the vantage point of
5 the House of Representatives.

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

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

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

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

23 We heard from a distinguished panel
24 including Joseph Carbone, president and chief
25 executive officer of The WorkPlace based in

1 Connecticut, and Ms. Theresa Waller, director of
2 the Iowa Workforce Development.

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

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

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

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

1 discussions.

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

5 *(Applause.)*

6 GOVERNOR MALLOY: That concludes my
7 report.

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

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

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

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

22 And we were joined and heard the
23 presentation of Allison Hickey, the assistant
24 secretary for the Department of Veterans Affairs.
25 They're making some important improvements there

1 to use modern technologies, sort of one-stop
2 portals and the like to create common platforms
3 that states can access so we can reach out to our
4 citizens regardless if they're transitioning out
5 of active Guard service or whether they're coming
6 out of the Army or Air Force or wherever they're
7 coming from.

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

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

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

24 So I want to thank all of the governors
25 who joined us, especially Governor Dalrymple who

1 stepped up as the vice chair of the committee for
2 Governor [Brian] Sandoval, who is unable to be with us
3 this weekend. Thank you, Mr. Chairman. No new
4 policies to report.

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

11 GOVERNOR WALKER: Sure. Thanks, Jack.
12 You've run such an efficient meeting, I'm right on
13 time. First of all, thank you all for coming to
14 Milwaukee and to Wisconsin. We appreciate it.

15 I personally, and on behalf of Tonette
16 and I and Matt and Alex, appreciate all governors
17 and their families, their extended families like
18 the Branstads and everybody else, and all the
19 others who came to our state.

20 If you indulge me for just a minute, I
21 want to thank Visit Milwaukee, which is our
22 Convention of Visitor Bureau, which did a fabulous
23 job of helping us connect and create the NGA
24 Milwaukee. Bridgett Haggerty, who was our
25 director of that, and she along with Mary and

1 Andrea and Susan and the whole staff, you saw a
2 lot of the folks going around with, I call it
3 blue—I think it's technically turquoise—shirts
4 that had NGA on. They were all volunteers from
5 the community helping out the last couple days. I
6 thank all of them.

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

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

24 I took your document you presented the
25 other day. We're going to include it in

1 October at our small business summit we have every
2 year. We're going to carve out a segment. Last
3 year, as Governor O'Malley talked about with
4 employing veterans, we did it for veterans.

5 This year we're going to carve out a
6 segment specifically to talk about the benefits,
7 not the charity, but the benefits of employing
8 people with disabilities. And we're going to
9 build off of that going into the next year. So we
10 appreciate your leadership in many ways, not just
11 the effect on your state, but on each of us
12 respectively.

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

18 And to Governor Hickenlooper,
19 congratulations on being the incoming vice chair.
20 Unlike Governor Nixon and I who kid about beer,
21 I'm perfectly comfortable about drinking Coors
22 Light. Because if you didn't know it, all of the
23 Coors Light east of Mississippi is brewed here in
24 Milwaukee. So we're particularly appreciative of
25 that.

1 And just, finally, on a serious note, in
2 addition to wishing all of you safe travels, most
3 of you will fly out of General Mitchell
4 International Airport, which is just a few minutes
5 down the way. I'm going to be departing in a few
6 minutes to go a couple minutes south of that,
7 community called Oak Creek, which is a suburb of
8 Milwaukee.

9 On August 5th last year, a year from
10 tomorrow, we lost six lives at that Sikh temple.
11 Today we're going to be memorializing those six
12 lives. And I appreciate Dick called me, and others
13 reached out. I appreciate that. We're not just
14 going to be remembering those lives that were
15 lost, in a very real sense we're going to be
16 celebrating the unity I saw not just from the
17 members of that temple, but of the larger
18 metropolitan community and really the state that
19 came together and supported them.

20 It's a shining example that they've
21 given to all of us here in Wisconsin. The old
22 adage that Martin Luther King said: hatred doesn't
23 drive out hatred; only love does that. And we
24 certainly saw that in the Sikh community, and they
25 inspired us all. So we'll be departing for that

1 in just a little bit, but we appreciate you all
2 being here.

3 GOVERNOR MARKELL: Thank you, Governor.

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

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

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

20 I think many of the reporters who are
21 here have been surprised about how little we talk
22 about politics within our meetings and how much
23 this is really about trying to advance public
24 policies, whether we're Democrats or Republicans.
25 And I appreciated the opportunity to work with all

1 the governors.

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

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

16 *(Applause.)*

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

23 I just want to very much thank you for
24 that. And I'm calling on you now in your role as
25 chair of the nominating committee to report on the

1 decisions of the committee and to nominate next
2 year's leaders of the NGA.

3 GOVERNOR MALLOY: Thank you, Governor.

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

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

21 GOVERNOR MARKELL: Thank you, Governor.

22 Second?

23 GOVERNOR BRANSTAD: Second. Second.

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

1 aye.

2 *(Group says aye.)*

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

5 With that, Governor Fallin,
6 congratulations. And I'm happy to turn this great
7 responsibility and opportunity over to you.

8 *(Applause.)*

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

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

25 And I'm certainly looking forward to

1 working with Governor Hickenlooper of Colorado,
2 who's been a great friend of mine. We've done
3 several projects together already, and I know that
4 we'll have a wonderful working relationship and
5 got a lot of good things that we're going to work
6 on in the future.

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

16 *(Applause.)*

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

25 She has headed up the spouse's

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

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

15 Wade is actually going to be taking over
16 as the First Spouse Leadership Council Chair. And
17 so it's a new role for him, but we also are joined
18 by one of our six children that we have between
19 us, and that is my daughter, Christina Fallin.
20 It's always important to have your family support
21 when you do a job like this.

22 But more importantly, Governor Markell,
23 I'd like to extend on behalf of our fellow
24 governors a plaque, a gavel, maybe it's your final
25 gavel that you can gavel the end of your term that

1 expresses our appreciation that is engraved to
2 you.

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

10 *(Applause.)*

11 GOVERNOR FALLIN: Thank you so much.
12 Well, I am very eager to begin this next year. We
13 have a lot of work ahead of us. And the NGA work
14 that it does is very important. It is certainly
15 very valuable to our nation.

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

20 We had a great lineup of speakers of
21 topics and a lot of fun activities. As I've
22 mentioned a couple of times, I've done some things
23 this week like riding a Harley, certainly the
24 slide, the batting practice, last night on the
25 Coast Guard boat, all those things were a lot of

1 fun. The band was fun. You've had so many great
2 activities for us. But we appreciate you and your
3 team and your staff and all the tremendous work
4 you do.

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

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

16 *(Applause.)*

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

22 We've had so many discussions this past
23 week about the importance of our economy, our
24 workforce, education, and how we align all those
25 systems to be able to meet our individual state's

1 needs, and certainly to be able to build a highly
2 skilled, educated workforce that works for
3 America.

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

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

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

25 And if you look at some of the

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

9 If you look at U.S. 15-year-olds in math
10 skills, we rank 25th in the world at math skills.
11 And if you look at science, we rank 34th — excuse
12 me. Sorry. We rank 17th in science skills out of
13 34 countries—in our nation.

14 And to me ranking that low as a nation
15 as great as we are is just unacceptable. And
16 those are things that we can work together as
17 governors to lead America back, to restore it back
18 to the greatness of having one of the best
19 educated, skilled workforces in our nation.

20 Our nation's future economic security
21 will require significant improvements in our
22 education and workforce programs and help us to
23 provide a pipeline to better skilled, educated
24 workforce so we can meet tomorrow's jobs.

25 It will also require a closer working

1 relationship, closer collaboration with our high
2 schools, with our colleges, with our workforce
3 training programs or our vocational education
4 training programs.

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

12 But today, if you look at that number,
13 it has dropped to roughly 40 percent for jobs
14 available to high school graduates or dropouts and
15 fewer than a third of those jobs will pay \$25,000 a
16 year. Or, in other words, if you reverse that,
17 looking at it in another way, two-thirds of our high
18 school jobs available today will make less than
19 \$25,000.

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

24 So while a high school diploma was
25 sufficient for most of our parents' generation—

1 and, Governor Branstad, you may have mentioned
2 this yesterday—to have access to a good life,
3 we know that today we have to have an educated
4 workforce that has mainly an associate degree or a
5 college degree or some type of relevant workforce
6 training certificate to meet the new minimum of
7 what's required for today's jobs and the jobs that
8 we're going to be looking at in the future.

9 As a nation, we have to do a better job
10 of providing for all of our students with
11 opportunities to successfully be able to navigate
12 through our education system. To make sure that
13 they're entering into a pipeline with some type of
14 either education beyond high school or entering
15 into a pipeline into a career technology field.

16 Because there are too many students who
17 are capping their own potential by limiting their
18 access to furthering themselves into the middle
19 class, into the quality of life that we want to
20 have for all of our children.

21 You know, several years ago the NGA
22 launched one of its major initiatives, and it was
23 to have more degree completion within a workforce,
24 within our high schools, our colleges and
25 certainly within our career technology programs,

1 and we called it *Complete College America*,
2 basically, in the majority of our states.

3 And it was a challenge for us to get
4 more degree-completion into the pipeline of our
5 workforce. Well, nationally we know that just
6 more than three-fourths of our public high school students
7 will make it to graduation.

8 And if three-fourths of them make it to their
9 graduation, we know that those that continue on
10 with postsecondary education, that only half of
11 those will actually finish that education.

12 And so that makes us fall behind as a
13 nation when you look at those international
14 demographics as to where we fall in those rankings
15 with the math and the science and the reading
16 skills that we have.

17 Additionally, two-thirds of the workforce is
18 now of working age. And one of four of the adults
19 in America lacks basic literacy skills and also
20 has troubles with numbers. And that certainly
21 doesn't help when it comes to qualifying for the
22 type of jobs that we have today.

23 So our challenge as a nation, our
24 challenge as governors is very clear. We have to
25 get more students and to more—higher academic

1 standards not only within our high school systems,
2 but we also have to help them graduate from high
3 school.

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

12 Now, as a nation, we also have to do
13 several things to be able to meet this challenge.
14 In *America Works*, this program will help us lay
15 out a pathway, a roadmap, if you will, to how do
16 we achieve a stronger, more vibrant economy with a
17 stronger, more highly skilled, educated workforce.

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

25 So we're going to work with the private

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

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

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

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

23 So we want to give you a roadmap of
24 where you are, and where you need to be going. If
25 you look at this chart, you're looking at data on

1 Oklahoma workforce and education and needs results
2 itself. [Reference to visual aid.]

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

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

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

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

1 in Oklahoma.

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

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

13 You can even see our higher education
14 degree levels, the more associate degrees, higher
15 education degree levels, the career technology
16 certificates that are going to be needed in the
17 red and the green and the purple and see the
18 mismatch even in our state.

19 So in simplest terms, what we're hoping
20 to do with this initiative, *America Works*, is to
21 help states be able to generate the level of data
22 that will be pertinent, that will be important for
23 them as they begin to work to identify specific
24 policy levels, their budgetary strategies within
25 each of their states to begin to align those

1 results between the education system itself and
2 the needs of an emerging workforce.

3 And so as we begin this initiative, we
4 want to make it really clear that the role of
5 education must be more than just to prepare our
6 individuals, to have some type of degree once they
7 complete.

8 We also want to collaborate with the
9 private sector, with the employers to make sure
10 that our students, to make sure that our working
11 adults have the type of work skills that will be
12 needed, that will be pertinent toward the type of
13 jobs that we're going to be creating.

14 And we also need to understand that
15 postsecondary degrees and relevant workforce
16 certificates is now the new minimum, the new
17 minimum for our nation. Things have changed since
18 our parents went to school 50 years ago.

19 And without it, if we don't set these
20 new standards, if we don't work on this pipeline
21 for prosperity, our young folks are going to be
22 facing many different hurdles as they try to enter
23 into the middle class, try to achieve the American
24 dream. And it will also limit our ability as a
25 nation to be able to be stronger, to have a more

1 vibrant economy in moving forward.

2 So just to recap, *America Works,*
3 *Education and Training For Tomorrow's Jobs* will
4 focus on engaging our education, our business, our
5 government leaders in a dialogue about what we can
6 do as governors to be able to work more closely
7 with our K -12 education systems, our
8 universities, our community colleges, our
9 technical colleges, our workforce training
10 programs and certainly help meet the future labor
11 demands.

12 We're going to support our governors and
13 their staff with the use of data and information
14 that we're going to prepare for each of your
15 various states to talk about future labor demands.

16 We're going to prioritize the changes
17 that our states need to make in the education and
18 workforce training systems to be able to meet
19 these demands. And then we're going to take
20 action steps to make sure that we have the type of
21 results that we desire.

22 I think there's nothing more critical
23 than securing the economic future of America, and
24 also being able to prepare our workforce for the
25 21st-century jobs. And that is something that

1 we're looking forward to working on with each of
2 our governors.

3 I want to thank the NGA staff. I want
4 to thank Richard Laine and his team. Richard is
5 the Director of our Division of Center, works with
6 the Center of Best Practices. But our Director of
7 Education—where is Richard at? Way over there.
8 You changed sides on me.

9 But, Richard, thank you for all that you
10 and your team have done to put together this
11 brochure. We will be scheduling several summits
12 across the nation with our various governors in
13 the business sector to be able to bring forth the
14 data that we are compiling for each state.

15 It will be certainly up to each governor
16 what they want to do with the data, how they want
17 to implement it, how they want to work with their
18 educational pipelines and their workforce training
19 programs. But I think it is something that is
20 very critical if we are going to continue to bring
21 a stronger, more vibrant economy, and, as we've
22 all talked about, bringing those jobs back to
23 America, keeping those jobs in America and making
24 sure that our children have the best future
25 possible, and, frankly, to be able to find jobs

1 here in our great nation.

2 So it's been a great meeting. I want to
3 thank you for the great honor to be able to serve
4 as your chair. Governor Hickenlooper, looking
5 forward to working with you.

6 Once again, Governor Walker, thank you
7 for all of your team has done. It's been a great
8 time. We've had a great meeting. Governor
9 Markell, thank you for your service to our
10 organization. We really appreciate it. And if
11 there is no further business, we are officially
12 adjourned.

13 *(Meeting concludes.)*

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1 STATE OF WISCONSIN)
) SS:
2 COUNTY OF MILWAUKEE)

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5 I, JESSICA R. WAACK, a Certified
6 Realtime Reporter, Registered Diplomate Reporter,
7 Certified Shorthand Reporter and Notary Public in and
8 for the State of Wisconsin, do hereby certify that the
9 above transcription of the NATIONAL GOVERNORS
10 ASSOCIATION meeting was recorded by me on
11 August 4, 2013, and reduced to writing under my
12 personal direction.

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

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Notary Public
In and for the State of Wisconsin

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My Commission Expires: September 1, 2013.

25