National Governors Association

2004 Annual Meeting

Plenary Session

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Seattle, Washington

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GOVERNOR KEMPTHORNE: Good morning, governors,

distinguished guests, all who are here. Let me officially call to order the 96th Annual Meeting of the National Governors Association in this beautiful city of Seattle, Washington. I say to all of you that I'm greatly looking forward to the next two days. It's interesting to note that while we have as much business to cover, we will actually do it with one shorter day, so tomorrow afternoon we will gavel adjournment, so there's much for us to cover.

At this opening plenary session we'll discuss the initiative which I chose for the year, which is A Vision For Tomorrow - A Lifetime of Health and Dignity. We'll also recognize our Distinguished Service Award winners, and finally we'll have a meeting of the executive committee.

May I have a motion for the adoption of the rules of procedure for this meeting?

(Whereupon a motion was made, seconded and carried.)

GOVERNOR KEMPTHORNE: As I stated in the opening, we're in Seattle, Washington. I know that I speak for all of the governors and their spouses when I say that we have been made to feel so welcome here. This is a world-class city; it's dynamic, it's beautiful, this is a great state, the Evergreen State, Washington, and Governor Locke and Mona Locke have headed up this effort for months so that this would be the successful meeting that it is going to be. The great hospitality which we have seen, starting off by the opportunity of sitting there at the Mariners game in a beautiful park, which is a park that Governor Locke, when he was the County Executive of King County, was instrumental in

helping to bring that to fruition. And then last night the great opportunity to go to Bill and Melinda Gates' home, and again, I think there's just no finer compliment paid to folks than when someone opens their home to you. We appreciate that greatly.

Gary, you and Mona have opened your home, the State of Washington, to America's governors. You've done it in outstanding fashion, it's very impressive. We appreciate it greatly, and I'd like to call upon you to officially welcome us to Washington.

GOVERNOR LOCKE: Well, thank you very much, Dirk, and to all the governors. It's a pleasure for Mona and myself to host all of you and to showcase the sights and the sounds and the culture and the people of the State of Washington. Mona's really helped along, Patricia Kempthorne put together a great program for the spouses and also for the children, and tonight we've got some more events for the whole family. I know many of you have already been to the Experience Music project, the Paul Allen museum on the history of rock music. I understand perhaps Governor

Huckabee will serenade us and lead some musical instruments tonight, and so we're looking forward to that, taking advantage of that, and tonight the Temptations Review for all the governors and the attendees.

So we're really proud to host all of you, and I know that, speaking for myself and some of the other governors, that when the governors get together we are truly able to share ideas and come up with best practices and help each other, and so I look forward personally to these two days of

meetings, and also want to make sure that all of you have a great, great time, and we're just so proud here in the state of Washington to have all of you here. Thank you.

GOVERNOR KEMPTHORNE: Gary, you are rightfully proud of the State of Washington, and if I may, again, on behalf of the governors, thank both you, but also all of the members of the professional staff in a variety of departments that have worked on this, and also the hundreds of volunteers. I try to thank volunteers as I see them throughout, but again, you have done just an outstanding job, and we appreciate that so much.

I'd also like to recognize the Honorable Kimitaka Kuze, a member of the Japanese House of Counselors. This is the sixth National Governors Association that Mr. Kuze has attended, and so we welcome him.

I would also like to recognize Ruben Barrales and Maggie Grant, who serve as the president's liaison with the President of the United States. Ruben and Maggie, I just want to thank you for your outstanding work that you do on behalf of the president with the governors.

Before I introduce the next part of the session, let me note that in support of the chairman's initiative the National Governors Association of Corporate Fellows were invited to compete for the opportunity to showcase innovative solutions that leverage technology and complement one of our long-term care initiative five areas of emphasis. During the next two days I would invite all of you to avail yourselves of the displays that are right outside the door. They're very impressive. This morning I went and visited

some of those, and to see some of the technology, where they actually have it there, is hands-on. They'll show you how it works.

I'd like just to thank those corporate fellows and acknowledge who they are. Aventis, Beverly Enterprises, Deloitte, ESRI, IBM, McKesson Health Solutions, Policy Studies, Inc. and UnitedHealth Group.

In addition, during this past year as I've worked on this initiative I've visited different parts of the state, the different states, to see examples. Governor Granholm in Detroit, Michigan, I had the opportunity to go to the General Motors plant and to visit their Mobility Division.

I was very impressed by what I saw, and so I've asked Jim Cornice, who is director of GM Mobility, to show us a demonstration right over here with a product that I think is going to be of great benefit to a number of Americans. Jim?

MR. CORNICE: Thank you, Governor. I'm very pleased on behalf of General Motors to demonstrate for you a General Motors exclusive feature we call Sit-N-Lift. The Sit-N-Lift power seat is currently an available option on 2004 and 2005 models of the Chevrolet Venture and Pontiac Montana midsize van shown here, and is being expanded this fall into models of Chevrolet, Pontiac, Buick, and Saturn as well.

Now, Sit-N-Lift features a slide-out footrest for proper positioning and comfort of the occupant, full power, one-button operation via remote control device, 300-pound capacity, and because Sit-N-Lift was developed by General Motors engineers for installation in General Motors

dealerships, full coverage under the new vehicle warranty for three years and 36,000 miles.

Now, Sit-N-Lift was developed for people with disabilities, for the elderly, and for anyone who needs some assistance to more comfortably enter and exit a vehicle, and particularly the 44 million family caregivers who are taking care of loved ones, are particularly advantaged by Sit-N-Lift.

More information can be found about Sit-N-Lift at our Web site at www.gmmobility.com, and Governor, thank you again for the opportunity to demonstrate this exclusive General Motors feature.

GOVERNOR KEMPTHORNE: Well, Jim, thank you very much. Let me thank Tess Moore for her participation there. Extremely well done. Vanna White is concerned.

Jim, I will just note that I'm less than two weeks from having had back surgery because of a ruptured disk. Anyone who has tried to help someone in and out of a car and helping to move them, not only are you helping the individual, but the caregiver, trying to get them in and out of a vehicle. You're going to protect their back and their well-being as well.

I would also note, I know that Governor Martz is delighted with the name of that particular GM product. It's called Montana. Jim, I just conclude by saying that, would you take back the message that we'd love to see a model called "Idaho"? One of the vice presidents of Ford Motor will be with us tomorrow, and we'll see who is -- (laughter) -- thank you very much.

I have mentioned the Corporate Fellow exhibits, and they exemplify technology. I'm very much looking forward to the comments that are going to be made in just a few moments by those that are participating, but long-term care, we've talked about it. I've heard from you governors individually, virtually every one of you, if not all of us have some example. It's not only from our constituents, but it's also from our own family situations. It may be grandparents that are being cared for, or maybe parents. In my case a dear mother, who I believe is an angel, hit with the dilemma of a stroke that takes away her mobility some five years ago. She is now 87. A father, her life mate and champion, at 88 is her caregiver. And yet with macular degeneration, the loss of his eyesight, boy, the challenges that that poses, transportation, cooking.

So they bring in a caregiver, they do all that they can. What about a spouse that may suddenly be diagnosed as having Alzheimer's or Parkinson's disease, muscular dystrophy, a variety of diseases we are yet to find the cure. So we talk about all of these things, but now we want to find out what are the best practices, what's taking place out there that we could utilize and put into place?

I want to thank the following governors who have served with me on this task force: Governors Baldacci, Bredeson, Guinn, Lingle, McGreevey, Napolitano, Perdue, Perry, Sanford and Sebelius.

One of the things that you find in front of you is a CD-ROM. This is the second in the series. We talk about a White Paper, but you now have it in the form of a CD-ROM

that is interactive. You'll see that there are clips from different public broadcast programs which governors and I have participated, whether in Washington, D.C. or Chicago.

I mentioned Chicago. We had a policy gathering of the states. We had 30 states, 30 because we had to cut off the attendance. We maxed out. One of the results of the gathering of those states are the top 20 action items that governors can take with regard to long-term care. There's a brief synopsis of that in front of you on paper, but that also in greater detail is part of the CD-ROM. I encourage you to take this with you, distribute it to your appropriate staff, discuss it with your staff, and then as you look at that top 20 -- and that's not an exhaustive list by any stretch of the imagination -- you're going to get new ideas here this morning. But then as we all, in January, deliver our state of the state messages, as we begin to put suggested actions in our states, we have begun a national movement. And you'll be applauded by advocacy groups all across the country because they appreciate that we brought this issue forward like this.

Now, to help us understand how innovations in community design and technological advancements will alter our conceptions about aging we're joined today by two distinguished panelists: John Fregonese, principle, Fregonese Calthorpe Associates, and Eric Dishman, director

and principle research scientist, Intel Proactive Health Research Lab.

During his presentation Mr. Fregonese will explore the challenges needed to transform today's communities into neighborhoods that promote active living, independence, and community-based living for an aging society. We have 77 million baby boomers that in eight years begin to turn 65. His remarks will focus on key elements of elder friendly communities.

Next, Eric Dishman will follow John with a discussion on how technology will help to transform homes into healthcare delivery systems and how today's technologies can enable baby boomers to take a more proactive approach to meeting their own health needs. Mr. Dishman will demonstrate technologies that support the health and wellness needs of the people in their homes and everyday lives. With that, we look forward very much to the presentations by these two gentlemen.

John, if I may, we'll begin with you.

MR. FREGONESE: Thank you. Thank you, Governor. It's really an honor to address such an august audience here, and it's certainly something that I look forward to. We're based in Portland, Oregon, but we work all around the country. We've worked in many of your states, and certainly I think every state is dealing with these issues, and while we're going to talk about community planning, which is done at the local level, there is a major role for the state to play in that, both for advocacy and for investment.

I'd like to talk a little bit, though, about the changes that you've all been hearing about in terms of demographics. Just looking at the numbers, we're now about

275 million people, median age of 35 years. In 2030 we'll be 351 million people, median age of 39 years. And that's a modest increase, it's going to be a population increase certainly not as big as we've had in the past, but it's going to continue to have that population increase.

With that increase in median age happening over these next few years, what happens is right now we're about 13 percent over 65. In 2030 we'll be 20 percent over 65. When you look at that increase in population and the number of people that are going to be there, that means that the increment, the new growth that's going to happen, 47 percent will be over 65. Now, when you're dealing with community design, you're dealing with how to design different urban areas and design solutions, you find that there's a big issue, in that various populations have different housing preferences and different housing needs.

Things change with age, unfortunately. I'm going to be 53 this year, so I'm experiencing this myself. Housing choices change as people age. People move to empty nester

housing, they tend to live in larger apartment complexes, and at some point they need assisted living, many of them, some in homes or some in apartment complexes that offer assisted living.

Also, in terms of transportation, mobility is decreased, especially auto mobility. The ability to drive a car becomes less and less, and people really need to have an independence. It's interesting in reading some of the material on this, the loss of independence of motion is one of the most traumatic things that can happen to an older

person, and it often leads to a premature death. So keeping activity and independence is one of the essential parts of healthy living, and certainly looking at transportation mobility, without depending on a car, is important.

Let's first talk about changing housing choices. As we go through life we change our housing choices. We might start out living with our family, we move to a dorm when we're a young adult, or apartment. As a younger couple we have starter housing and we have family housing. Typically older people have a change in housing style, too; as they get over 55 they change their choices quite a bit. And certainly the typical three-bedroom, two-bath or four-bedroom, two-bath home on a large lot in the suburbs, which is a very popular choice in the United States, doesn't become as popular when you get older.

This is from the National Association of Home Builders asking people, would you prefer the single family home in the suburbs or would you prefer a townhouse in the city? While most prefer a single family home in the suburb, it's interesting to see how that percentage changes with age, that you go from under 10 percent in the 25- to 34-year-old age bracket, to 25 percent as people get 55 and older.

The other thing that's interesting is to look at the factors people use when buying a home. If you look at the very top here, safety is primary concern for everyone across the board, regardless of age, but school district issues decline remarkably. And you'll see what increases relative to that is location close to shopping, highway access, and access to public transportation. And this is just at the

age 55. So you can see, people's choices about how and where they live change, and with the population aging, the cumulative choice of how we live is going to change as well.

But there's a problem, and this comes from, again, dealing with local planning around the country. Zoning and planning is done locally, and I believe very strongly that's the best way for community design to be done. There is a problem with perspective when you're just doing it locally and you don't see the bigger picture. People tend to, first of all, replicate whatever's there now. So you're working with people in a neighborhood, you're doing a plan for 20

years, but it's just human nature that you're going to replicate what's there now.

A lot of people for a lot of reasons favor large lot, expensive housing. Many times communities find that the tax systems in their states make inexpensive or rental housing a burden to them, and expensive, large lot housing they get property tax benefits. So absent any other information, cities tend to want large lot homes, expensive homes, they don't want inexpensive homes, they don't want townhouses or multifamily homes. And you find that often when you go to design communities for the needs of the population that will be here, there are barriers to higher density uses and rental units. The problem is the market can't respond to these changes. I think we all agree that this is a market economy and the market can adjust, but the combination of regulations at the local level often will prevent the market from responding to people's needs.

We've been working with the Metropolitan Mayor's Caucus

in Chicago and Chicago Metropolis, which is a business-based regional organization that advocates for a better region in Chicago, on looking at this housing needs assessment. Chicago's had a real problem. They have had a 50 percent increase in overcrowding, they have a real problem with getting housing where people need it. And you'll find that while most places have increased their stock of rental

housing between 20 and 40 percent in the last ten years, in Chicago region it's been only 2 percent, for a lot of reasons, mainly the state financial system, the rental housing is difficult for local governments to justify providing.

Another problem is the region is composed of six counties, but about 280 municipalities, and when you're doing planning on such a small scale you do really good planning for neighborhoods and parks and libraries, it's difficult to see the overall housing needs.

Just to look at the housing needs change, the dominant growth group in the last ten years was the age group from 30 to 54. Most people preferred single family homes, most of them were large lots. They have a pretty high attached single family home requirement, and 29 percent live in small apartments, two, four, eight to a unit. When you look at the population, the current population over 65, less people live in single family homes and 14 percent live in large apartment complexes. In fact, 71 percent of the population over 65, the majority of residents in large apartment complexes is 65 or older.

What we find when we compare the needs of people in the

region to what the zoning provides in the region, you'll find -- and not untypically -- an oversupply at the high end of large lot, fairly expensive single family homes, and an undersupply of a variety of housing types, apartments and condominiums, townhouses, and small lot single family. These are the things that elderly and also affordable people want to try to get, and certainly it's one of the things that is -- often you find barriers to this in local zoning for a lot of reasons. And the mayor's caucus there, to their credit, is really looking at this and trying to solve the issue.

Another issue is below market. There is a certain need for people that are not going to be able to afford any kind of unit the market can provide, 73,000 units over the next 30 years in Chicago. Now, certainly there's going to be those needs, those needs are going to increase, and they're going to increase for elderly. You all are under pressure with your budgets, and I certainly understand that you're not going to want to provide anything in subsidy that the market could have provided naturally. So it makes sense to try to encourage the conditions where the market can provide the housing people are going to need, even though it's going to be different than the status quo, and that's the hard part with local zoning.

To their credit, there's a lot of examples in the Chicago region of places. You all know about beautiful downtown Chicago, but many of you don't know about beautiful downtown Waukegan north of Chicago, an older industrial port

city on Lake Michigan, but looking at revitalizing a brownfield area to look at providing extra housing and opportunities in their downtown, target it towards seniors and others to be able to live in the downtown of Waukegan, where they have independence of mobility and the housing types they want. So you'll find a lot of local initiatives that we're going to talk about today and ways that governors can really encourage this kind of thing to happen.

Let's talk a little bit also about transportation issues as you get older. Basically when you get over 65 driver fatality rates per hundred million goes way up. It actually gets even higher than the proverbial teen driver, and total miles of travel drops off tremendously over time. So you find people, although they have a driver's license, they're more and more reluctant to drive. They feel their acuity going, they feel that the necessary reaction time for a person to safely operate a car starts to decline and people tend to look for options.

Paratransit's one of those options, and I'm sure all of you have programs to provide that. That's very expensive per ride. One of the other alternatives to that is to be able to simply walk. It's good for health, it's good for mobility, and it's good to have seniors out in the community and interacting with others in the community and so forth. So there's a lot of opportunities there for that.

Unfortunately, a lot of the development that's occurred over the last 50 years has been fairly auto oriented, and

it's difficult sometimes to find a place where you can walk, even as a fairly agile, middle-aged person, let alone an older person. In fact, it gets to the point where you can find a real challenge just to walk down the street to get a bottle of milk.

So we want to talk about one of the solutions is to build walkable cities, something that's been talked about for well over a decade, to try to really look at that and look at some of the ways of doing that and ways the governors can encourage that.

Walkability is really pretty simple. What makes people walk is walkable distances, practical destinations. I mean, one of the things that you see are these people who try to do walkability just by providing a sidewalk, and you can see sometimes these sidewalks through creativity wind back and forth like a drunken sailor. People are going to want to walk directly to a practical destination. In fact, we've found in surveys the number one destination of a walk is retail. So certainly having shops close to housing is important, and providing a pleasant and interesting environment at a human scale. Basically this is not a pleasant environment in many communities, it's going to be hot, windy, rainy. The natural thing of trying to provide

environments that people find themselves comfortable in.

There's a lot of places, and this is Colfax in Colorado, and that the cities like Denver, like others, have been working to transform their communities from where they are now to really a more walkable, more friendly area, and also at the same time providing housing opportunities in an

environment that is active for seniors, that provides them with the activities they want.

Let me look at a couple of them. Just a project that we worked on a decade ago, the 20/40 growth concept in Portland. A lot of initiatives, but one of them was really to try to build more walkable communities, both in the suburbs, out at Hillsboro, and by the Intel plant. Basically Hillsboro built a brand new walkable downtown called Orenco, and also in downtown in Portland, Oregon, the opportunity came up where the rail yard north of the downtown was being abandoned by Union Pacific, and that offered 100 acres of prime land. Rather than letting it lie fallow, we devised some ideas.

We've all heard about transit-oriented development, but light rail wasn't going to this area. So the private sector cooperated with the City of Portland and provided developer-oriented transit, providing transit service to this area in order exclusively to encourage housing. This is an area that's provided 4,000 housing units since 1999, it's one of the more popular areas. Most of the population is 55 and older, and it provides basically a walkable, independent and beautiful environment in an area that was primarily an abandoned rail yard.

One of the additional benefits is a reduction in congestion. The Portland metropolitan area is one of the few places where vehicle miles traveled per capita is going down, transit rider per capita is going up.

But I'd like to focus on Southern California. I have to admit that as a younger planner I used Los Angeles as a

whipping boy. I was born there, and I went to Oregon to go to college, and it was almost a requirement that you had to have the mantra, "Not like Los Angeles." Find out later in life, these people become clients, and you go back and you find actually Los Angeles has a lot of wonderful opportunity. It does have a situation where it's 17 million people. It's going to grow by six million more people, and there's very little vacant land left. It's sandwiched in between the mountains and the ocean, and it has certain limits with that kind of growth.

We've just completed an extensive plan for the region, 17 million people, 35,000 square miles. And I should add that the solution was to really focus on just 2 percent of the region making substantial changes, and building that 2 percent basically with a walkable community.

This has provided a lot of benefits in transportation, but primarily it helps in an area where, again, 40 percent of the new population is going to be over 65, to provide housing options that allow independence of living late in life. The one thing you see with a region this big is that these options occur at a small scale. Basically for this to be successful you have to have a bottom-up approach because you need thousands of successes in thousands of locations. Like Covina, this is an example. A great little downtown, a place that has a nice main street, but no connection to the metro link. So part of this program is to look at having Covina make this connection to the metro link an opportunity to make it more walkable, more beneficial, and also to have housing as well.

There's another place that you can look at as part of the inner city, is really rather than having places abandoned, for example, this is the Wilshire corridor in Los Angeles, to look at transforming some of these places and adding walkability, housing, and a really active lifestyle. Lots of choices throughout the region that you can make for these situations as well.

All of this really points to, you know, a number of things that local governments may want to take on, and there's certain things that I think that as a state you're not involved directly in the local government activities, that's local zoning in most states, but there are a lot of ways that you can influence them. First of all, develop a state or regional housing needs analysis. One of the things that's interesting is how little people know about how these changes are going to affect their housing programs. Just letting people know what the housing needs are going to change and to adapt to them when they do their zoning is important.

Monitor local housing markets. I mean, in a sense it's important to look at what's happening. Over time you're going to see an increase in demand for different kinds of housing. When that housing isn't provided you're going to find some crises provided. It's important at that time for the State to intervene, and even developing some kind of fair share programs where you hit a crisis, where people share the different types of housing maybe that don't make financial sense from a tax point of view, but are essential from a point of view of equity.

Develop incentives and models for more flexible zoning. And for transportation certainly support well-rounded transportation policies, support connecting land use and transportation together so that those things work together. You can't really make communities walkable without looking at those connections. I know many of you have initiatives that way. Encourage the development of walkable cities and regions, and raise the issues of seniors and mobility. I think while you all are going to be asked to provide additional transit and transit services for seniors, keeping them mobile, keeping them active by the kind of community design you have is an essential part of the future. Thank you.

GOVERNOR KEMPTHORNE: John, thank you very much. Now let me call upon Eric Dishman.

MR. DISHMAN: All right. This is the frightening moment where the Intel guy has to get some technology to work. Everyone always loves this. It's always very perverse. It's like, Oh, please don't let it work, don't let it work. All right. I've got a couple things to turn on. I brought some toys today. Let's see. All right. It is an honor to be here. Let me switch one more. Oh, here we go, "Inventing Wellness." Inventing technology that actually works well would be a better project.

It is an honor to be here. It is also a relief to be here, because as Intel and some of the technology companies that we've been working with trying to drive innovation towards wellness, trying to drive home-care technologies, very few parts of government are standing up and saying, you

know, the age wave is coming. How do we get out in front of it with some innovative new technologies and actually do something about it?

So I know what a lot of you are thinking. I get this all the time. I just spoke to about 4,000 gerontologists in Nevada, and I could actually see them in the front row going, "He's our speaker? He's going to talk about aging?" I get this all the time. In fact, this one man came up to me and said, "What's a young'un from Intel doing in a place like this?"

Part of the answer to that question is I've been thinking about this for 20 years. I'm 36 years old, but when I was 16 my grandmother, married to my grandfather, pictured here, who lives in Kannapolis, North Carolina, got Alzheimer's. And if you think about it, a 16-year-old teenage boy, I didn't have time to get my driver's license until I was 18 because I was caring for my parents, they were caring for my grandfather, my grandfather was caring for my grandmother. So since the time I was 16 it left this impression that we have got to be able to do something to help the five to ten people it takes to help care for somebody who has Alzheimer's or some other form of cognitive decline, and those seeds have stuck with me for quite a long time.

The other thing is I was once out fishing with my grandfather, and he actually liked to go fishing at night because he said the fishing was better, and so we had this great moonrise, and he told me one day, he said, "Never

accept the possibility of something being impossible." And I said, "Well, why do you say that now?" He said, "Because I never could conceive that we could go to the moon. It was not in the realm of consciousness that was conceivable or possible, and now, you know, we've got all these technologies and things that I can't imagine." So he had this perspective on impossibility and said, don't perceive, don't let that notion of impossibility happen.

I'm going to wear two hats in this talk. One is as the director of this little tiny lab at Intel, and before you think we've got hundreds of people working on this I should tell you we've grown from one, two years ago, that was me, to ten, so we've had good growth. This is not a huge Intel effort, but it's getting a lot of press and a lot of attention, which is good, which is exactly what needs to happen.

Our job with this project is to say how can technologies, broadly construed -- I'm not talking about big PCs. Certainly PCs will be in the loop, and cell phones and other kinds of things. How can they help today's, and, even more importantly, tomorrow's seniors to live better with or even prevent -- and we focused on three areas: Cancer, cognitive decline and cardiovascular disease. We chose those three because they count for $600 billion of the $1.5 trillion healthcare bill in the United States, and we're

about to double the population who tend to have those diseases the most over the next fifteen to twenty years. We're spending 15 percent of our GDP on healthcare now. The

solution is not to spend 30 percent. We have to sort of change the model. We have to change the paradigm somehow. So what do we do?

I'm not your typical Intel person. I'm a social scientist. I'm not one of these people that can build a computer out of parts and a paper clip and a gum wrapper. I actually go out and study people, and I have people on my team who go and live with seniors and their caregivers around the country. And we really do that first before we ever build the first system, to say, what are the needs, let's understand a day in the life of people living with these diseases.

Too often as a culture we are so optimized and operationalized for treatment and for understanding disease through a microscope and what drug delivery we're going to give to people once they're already ill, that many of those so-called experts on the diseases have actually never gone to see what the lived experience of what caregivers and seniors struggling with these things are like. Once you do, and if you take a bunch of really smart engineers with you, you start to go, oh, my gosh, we have technologies that could help with that.

So that's what we do. We try do conduct outcome studies modeled after evidence-based medicine that say, how can we show that these technologies are going to help, that they're feasible, that they're efficacious, that they help with prevention or early detection, that they do cost savings? So we're not just trying to throw things out there. We're trying to go and do controlled trials and

studies that show that there's a "there" there.

And finally, our focus is on wellness, is on consumers, is on the home, and you'll see some of that in the spirit of some of the artifacts that I've brought today to share with you.

And finally, we're not a healthcare company; Intel's never going to be a healthcare company. We're doing this to try to catalyze more research and build university, government lab and industry partnerships to say there are innovations, there are new markets out there. Let's work together to start figuring out how are we going to take care of this coming age wave. So we're not even doing patenting on the kinds of things that you'll see today. We're sharing all the research with anybody and everybody. In fact, I'll be at Microsoft tomorrow laying open everything that we're doing in this space.

The second hat I'm wearing today is as the chair of something called CAST. Now, this is a success catastrophe,

is what my boss always calls this. About the time I had doubled, my little lab went from one person to two people, and we were studying and starting to build prototypes for Alzheimer's households, the press started calling us and saying, "Can we write about you?" I mean, that just doesn't happen at Intel, right? It just doesn't happen unless we've done something really bad or negative. And soon I started getting calls from people way up the ranks in the company from where I am saying, "How the heck did you get Intel to talk about aging publicly?"

We've got technology sitting in our labs, and I would

argue that all of you as governors have tech companies and university labs sitting in your state that have technologies that, if applied to wellness, if applied to the care of seniors and if applied to caregiving, that's where you're going to save hundreds of billions of dollars. But the problem is very few people pay attention to the space, and it's not incentivised to look at the aging in place technology opportunity.

Once all of these other researchers started calling me we held a little meeting, and we partnered with American Association of Homes and Services For the Aging. Because if you look out there and you say, all right, who understands the care holistically of someone's entire life, it's not hospitals, it's not all of the folks who are driving policy

on electronic medical records, which are really being driven by acute care settings. It's long-term care who have to figure about transportation, they have to figure out how to get heating to the person, nutrition, and treat the constellation of illnesses and problems that everybody has. So in terms of finding a partner who's going to look at wellness and look holistically at how technology could help with health and wellness, long-term care ends up being the place to actually incubate a lot of this research.

So we partnered with AAHSA, the American Association of Homes and Services for the Aging, to take a lot of these researchers who were calling and saying, All right, we'll create some sort of working group. And CAST, the Center for Aging Services Technologies, in 18 months has gone from informal conversations to 300 organizations who have joined

together to try to figure out how do we accelerate technology R&D for aging in place.

We did a demo in the Dirksen Senate Building on March 16th. These are just some of the players who were there, big players on the company side: Comcast, GE, HP, Honeywell. So these are not small companies, you've heard of most of these. But again, understand that one or two, or maybe ten, at most, employees within those companies are working on this. It's not huge efforts yet, but the seeds are just starting to grow, and we also had universities that were there.

So CAST has become this kind of lightning rod, and we'll really trying to answer the simple question. Simple to say, hard to do. How do you improve care for twice as many seniors at reduced costs? Because that's the conundrum over the next ten to fifteen years. One thing that we've got to do -- I took out all the demographic slides to save time, but remember, we have 34 million seniors in the United States today. India has 90 million, China has 140 million. There are other parts of the world to look to who, quite frankly, have better wireless buildout than we do as a nation, who quite frankly don't have the liability climate that we do, so their innovation in this space of aging in place technologies is light years ahead of where the U.S. is, and they already have more of their percentage of population over the age of 65. So one of the things I took out, but should mention, is look to the rest of the world for some advice.

This is a quote from Andy Grove, the well-known former

CEO and still chairman of the board of Intel, and I am so thrilled that he has started talking about this publicly because it's giving us ammunition to get other companies involved. He says, Healthcare is heading towards one of the biggest societal crises that we can imagine both here and abroad. Because it already counts for 15 percent of the GDP in the U.S. we can't, as a society, afford to devote any more of our economy to it. So we're going to have a schism. Keep in mind -- this is so true -- revolutions have been fought over sillier things, right, like taxation and dividing the economic pie, but this is life and death. This is who gets access to the healthcare mainframe and who doesn't? Serious words from a very serious man, and we're going to use those words to try to get more companies to say, You've got 80,000 employees working at Intel who are starting to do part-time caregiving. How is it that you think they can continue to work 70-hour weeks when they're going to start working 30-hour weeks taking care of an aging parent? No company, whether you think you're going to market into this aging in place space, can ignore the age wave and the economic realities of what are coming.

Our argument is that we have to make the home, and here I mean "home," it could be a long-term care facility where somebody's living, but it most often means their residence, as a major node of diagnosis and care. We have got to connect technologies for helping seniors themselves being more proactive about changing their behaviors and the boomers who are caring for them, and we also have to link all of that data. So telemedicine technologies and others,

and getting it back to the clinic, is an important part and piece of that.

The key and the magic of some of the technologies I'm going to show you today -- again, you know, if you're thinking Intel you're thinking laptop or PC. These are big computers that I'm holding in my hands right now for the kinds of things we want to do. All right? I'm going to show you some prototypes. This is called a mote. The magic of these little tiny cheap computers is that they become embedded in the environment and actually be able to collect real world, realtime data, behavioral, biological, that we've never before had for healthcare, ever.

Then you can develop a personal baseline on what is that person's temperature, how much do they sleep? I need to know deviations from that and then compare them to large population data sets. Then you can interact with them and try to change their behavior, not at a PC, but on whatever device they're comfortable with, everyday devices, whatever they're most familiar with, the TV, the cell phone, the alarm clock if it needs to be.

Then finally we've got to figure out how to support all of the sort of informal caregiving that's going on today and as it's going to grow. And telemedicine's a great starting place, but it's not the end of the story. The problem with telemedicine is if we stop all of our home health innovation at that, we continue to put the doctor and the nurse in the loop every single time. We can't scale the current

healthcare system to double the most expensive to care for, keeping the doctor and the nurse in the loop every single time. It's just not economically, numerically possible. That's why we have to start thinking about leveraging the family and friends that are out there.

So this chart, these are technologies: HDTV, speakers, cell phones, cameras. All of those are coming into the home, and they're coming in because of entertainment and communication industries and technologies, but we can exploit that for everyday and distributed health and wellness. I'm going to give you some examples of that as we go forward.

So we don't have to build out all of this new infrastructure in the home for aging in place. We need to leverage the infrastructure that's there today and that's going to be there over the next ten years for the largest parts of the population to say, how can these tools be used for health and wellness purposes.

I'm going to skip over a little bit of this, and I'm going to skip over a Vision video because I'd rather show you what we're really doing. Over the last year we've studied 100 households dealing with all forms of dementia, and many of them dealing with Alzheimer's. Again, social scientists study the needs first, bring the engineers along, start inventing magical solutions with new kinds of tiny

technologies that change the game.

So I'm going to give you a little bit of demos of a couple of these technologies. This is Barbara, lives in

Rochester, New York. This is a real person that we studied, she's 59. She was diagnosed in 1999 with unspecified dementia. Now, this becomes a problem because a lot of people are diagnosed with unspecified dementia. It's really unclear, quite frankly, until they pass away and you do an autopsy, what kind of dementia they had. We're going to come back to that in a minute.

Her husband Jim, who was an engineer, had to retire early to be her full-time caregiver. As he says, we're spending down our life savings frighteningly fast, and we're trying to keep her at home, but the daily challenges are stacking up. So I'm going to let you get to know Barbara a little bit more. Barbara's indicative of the kinds of millions of households around the United States who struggle with these kinds of issues.

Problem one: One of the first things to go for people like Barbara is forgetting names. Now, that may not sound like a big deal, but they go into self-imposed exile because of embarrassment. Again, when we talked to the Alzheimer's experts who study the disease through a microscope they said, Well, the reason people stop using the phone is because they can't press the numbers, they don't understand

numbers anymore. We go and interview them, talk to them, they dial the phone just fine. They don't answer the phone because it's terrifying, if you're losing names, to pick up the phone and talk to someone on the other end. This creates a couple of problems: Depression, social isolation. It's really hard to figure out what's going on with the disease if you now have this additional disease of

depression on top of it. Also, there's evidence that now if they stop using the phone or they're afraid to answer the front door like Barbara was, they're losing the cognitive capacities to keep doing those things, so it's a double whammy.

What are we doing? I'm going to show you a quick demo of something that we're trialing with 22 households, people with mild cognitive impairment or early stage Alzheimer's in Las Vegas and Portland, Oregon today. We've got a basic question that says, can a smarter phone help someone with memory loss to stay socially active and independent in their own home for a longer period of time? We do some very simple things. We give them caller ID on steroids, so I'll bring up this application.

What they can see are a range of things in their home, and little tiny sensors like this placed in chairs to let you know that they're there, that they got out of bed, that kind of thing. And for one thing, they and their entire

care network -- it's the elder as the center of the galaxy, right -- they can see how their social health is doing, how many people they've interacted with, how many e-mails they've done with them, and all of that gets munged together in this kind of visualization of what's going on here.

This ends up being important. The households that we studied each thought the other brother and sister were calling Mom, so nobody had called in five days. So the system proactively, if you want it to, will say, "Mom's phone hasn't rung in two days. Give her a call." That simple.

On the other end of things, as she gets a phone call, someone like Barbara, and there are sensors that let us know that she actually answers the phone. We need a lot more than just caller ID. What we need is something like this, and we're already showing positive results. Who's the person calling? Show me their image. Sometimes Barbara still won't remember based on that image, but she'll remember based on other people that they know in common. So you see this little social network map saying, Here's other people that you also know in common with Barbara. Most importantly, what did you last talk about with those people?

And we're using a range of technologies, from speech recognition and things that look at e-mail to try to help them just get the topics of what they talked about. Because

Barbara's going to call a working person like me, I'm working 70-hour weeks at Intel, and she's going to call me at 8:00, she's going to call me at 9:00, she's going to call me at 10:00, 11:00 and 12:00 to tell about the dripping faucet, and not remember that she's called me all the other times. So with the phone, when she calls out, before she puts the call through, says, Do you know, do you realize you've already called him three times today? You know, do you want to put that call through? And she can know, have some context for what you've already talked about with somebody. Simple technologies, here today, packaged to start doing this.

Now, long-term, as we put these into hundreds of healthy elders who are in their eighties, it is possible that changes in your social health as we're measuring these

kinds of things may be the best early indicators of Alzheimer's. I can't make that claim today. Five years from now I might be able to make that claim as we put these technologies in place and see if these subtle changes in social health and their interaction with the telephone give you a far better indicator than going to the doctor and visiting once every six or twelve months for this kind of artificial test.

Second example: Physical decline, fall risk. I'm going show you a quick demo. What we find with people like Barbara is that if they start to have physical decline -- this is me trying to make the cane work for the senate committee on aging, but hopefully I can make it work for you. A simple computer placed on the cane, four sensors in the tip of the cane. I'll turn it on. All right. We'll calibrate. Oh, it looks like it might actually work. And it's wirelessly, as I walk, sending data about how much force I'm putting on the cane. Now, this is already valuable because if Mom's cane hasn't moved in two days and she normally walks every day, that would be nice to know.

But what we believe, if we can catch this realtime, real world data, not this artificial walking that she does for her neurologist one minute at the clinic, is that we may be able to detect that she's moving into a time of life where she's becoming more unstable on her feet, you need to get a walker now. Let's prevent falls before they ever happen, both at the moment and longitudinally. Will it work? I don't know, but there's technology sitting in the labs of universities, there's technologies sitting in the

labs of companies around you, that if applied to this, some of those solutions are going to come and make a big difference.

Third problem with somebody like Barbara, in addition to the physicality: The cognitive tests, I've kind of mentioned this, are infrequent. Even if you have

Alzheimer's like Barbara, you go in once a year for your checkup to see how you're doing unless you're on a clinical trial. Now, the problem is, if you've been around Alzheimer's, it's highly variable. On Monday we would go into Barbara's house and you couldn't tell which spouse had dementia. On Tuesday she couldn't get dressed by herself, and on Wednesday she was somewhere in between. Think about it. We're sending them in for a cognitive test once every 12 months. Who knows if it was a particularly representative good day or bad day? And by the way, all 100 households that we studied download these cognitive tests off the internet the night before and practice them like crazy before they go in and see their doctor, right? We've got to change the way we do that diagnosis.

Simple things that we're doing. Barbara still is able to use the PC to do e-mail. We're looking at key strokes, so this graph shows e-mail versus instant messaging. We can already show a difference in what app she's doing based on whether she's doing e-mail or instant messaging. More importantly, let's look at the physical dexterity changes and the cognitive dexterity changes that are happening with her interacting with a device that she uses every single day. We're doing the same thing for the remote control in

the television.

Finally, more importantly, many of the seniors that we saw played solitaire or freestyle on the PC. This is actual data from patients, where we actually can look at the number of lost gains and the number of moves that they've played, and we can spot depression and other things showing up over the course of time that indicate they might not be doing well. Will this work and become a better tool than any cognitive assessment tool today? I have no idea, but again, we've got to do pilot projects, accelerate and look for these kinds of at-home diagnosis and assessment.

And this is the last one, I'm going to play just a quick video clip. This is hard to hear. This is not video designed to be shown for the press. This is video from field work to help us understand something. This is Barbara, we call her Betty here, but she lets us use her real name, Barbara. And this is Jim talking about the highlight of the day for them versus the highlight of the day for their neighbors.

(Video clip shown.)

A highlight of their day is when Barbara can make coffee by herself. A highlight of their friend's day is they bought a new car and they're all excited about it. Your perspectives change. The young, mostly male engineers sitting in the labs of most technology companies have no idea that there are millions of people out there who need help getting dressed or making coffee or making tea. But

again, apply that imagination to the space, and then we're going to show you a demo with Matthai. Matthai Philipose is a researcher at the Intel Research Seattle Lab here. A system that's not working yet, this is not a product, and again, Intel is not making products, but a research prototype to try to figure out how is somebody like Barbara having trouble, and how can we intercede to help?

One point I should make here. Barbara was sent to her doctor numerous times where they believed her dementia was getting worse. She basically was dehydrated because she was forgetting to get enough to drink. So step number one is we built a system that if it's 2:00 in the afternoon and the motion sensors and the faucet sensors have said she hasn't gotten anything to drink, then the system finds her in the house and plays a commercial for her favorite tea, to try to get her to go up in there, and if she doesn't do that it puts an alert up on the TV that says, "You need to go get something to drink now," right? Don't intercede until you've reached some critical threshold. Hopefully they'll do it on their own, but if not, her doctor's going to start increasing her medication, thinking her dementia's getting worse, and she's just not drinking enough tea and water. Problem number one.

Problem number two is how can we use computer science and artificial intelligence and all the things that we have

out there for other purposes like military and in cars and say, can we figure out that she's having trouble with tea and use the television sitting right there in the kitchen to try to help step her through the sequences of what's to you

and me a simple task, but from what's to her is the short distance between being permanently institutionalized and being able to stay in her own home.

So we'll switch laptops here. This is the last demo. This is very crude. We're taking little tiny RFID tags, some of them look like this. You've heard about Wal-Mart trying to put an RFID tag in every single object. Well, if there's a tag on every single object in your home then you're going to be able to figure out something about what the objects are that they are interacting with. So right now Matthai's wearing a little wireless computer that's in this big ugly Michael Jackson-like glove, but someday that will be in a watch, and just by the objects that he's interacting with on an everyday basis the system's starting to guess what activity he's trying to do, right? This is very crude and very early. But if the National Science Foundation is going to fund artificial intelligence researchers, why not fund them to try to fix that problem and make it real, because it might lead to a solution.

Then over time, as he starts to use more and more objects it's going to guess, oh, they did that activity of

daily living, they made tea by themselves. We can use this underlying infrastructure to try to proactively intervene and say, Barbara, if you're having trouble with this task, this is where the coffee is, this is where the tea is. If you come to our lab in Oregon we can show you a better working system of all this. Then the caregiver can look in remotely and say, did they achieve this? The caregiver doesn't want an e-mail every time they pick up the spoon,

right, but they do want to be able to look in and see that they got something done, they were able to do something by themselves.

Now, this has huge implications for the long-term care industry, who today use paper forms and interviews with people with memory loss and say, were you able to do these things on your own, to decide whether they're going to be reimbursed for Medicare or Medicaid or not. And if we can automate, using the same technology that's going to provide value to Barbara, but automate a lot of the data capture that the long-term care staff are having to do, they can go back to being personal high touch care and let the computers do what they're good for.

So I'll close with this: How do we move from these kinds of early research prototypes to productizing these kinds of things? First of all, we've got to re-imagine the healthcare mainframe paradigm, where we send everybody to the mainframe hospital once they're already ill. Second of all, we've got to re-imagine what all this digital home technology is for. My industry's trying to go out and figure out how to get your VCR to stop blinking. There are more important social problems for them to be spending their energy on than that problem.

Then finally, we've got to re-imagine who elders are, because this next generation of elders are going to be very different, and they're going to have a different set of technical capabilities, a different feeling about privacy, and a different set of expectations about what government, state and federal, are going to do for them.

There's four issues that come up all the time when companies come to us, and it's leadership. Very few places, I think, with the exception of this initiative within the governors, are trying to push corporate America to create aging in place systems as new and necessary markets. This is funded not by the charitable foundation of Intel, but by the long-term research labs. And it's key, I hope that NGA will keep this initiative on health and dignity for a lifetime beyond just this one-year thing. It's critical that you use your influence to try to get key executives, executive roundtables to say, what kinds of solutions do you have in our state that might actually help, and be done in very small pilot projects. Start small and then grow it from there.

Second issue: Liability. That thing that we're doing with the cane I want to put into people's shoes, and I know a really good technology company who has a bunch of technologies that could track people's movements in shoes for very cheap, but they won't even touch this space because they don't want their brand associated with aging, and they're too afraid of being sued. They won't even give us three of them to go out and do research on this, so there's liability problems.

State licensure is an issue because a lot of these are about care across state boundaries, and a lot of companies look at this and say, If I'm only going to be able to end up selling these solutions to three states, why bother? I'm a big global nation. I'll just go focus on China, India, Japan and the rest of the world.

And then finally, funding. Most of the pilot projects that are going on today in many of your states, and I've visited 30 states this year who are trying to do these kinds of things, are very small. Can we cooperate through agencies on aging or small Medicaid grants? Can you work with our CAST organization that has these 300 organizations scattered across the country, ready to do these kinds of pilot projects? And I'm hoping that NGA and CAST might work together to advocate for some federal R&D that's going to fund this kind of aging in place technology research.

Thanks for your time.

GOVERNOR KEMPTHORNE: John and Eric, thank you for outstanding presentations. Thank you for bringing not just intelligence, but passion to this issue.

Let me open this up now to comments and questions from the governors to our panelists.

John, let me begin with one. We consider the demographics that a couple may reach a point in life, maybe they're the empty nesters, and they want to build that new nest, that dream home, mid-fifties. But they're not yet thinking about making the additional width in the hallway, the additional openings in the doorways, and yet, if it's a 30-year mortgage, they'll be in their eighties before they retire the mortgage. Probably by then they will wish that they had done so, and then will they have the finances to go and redo. So can you just address that?

MR. FREGONESE: I think it's a really good point. I read another statistic that 70 percent of people, when they hit 65, will stay in that location the rest of their

lives. So I think the decisions you make at that point are really important, when you're in your fifties, when you make that decision to build your empty nest. And I think it shows up in a lot of people choosing, for example, a two-story townhome rather than a one-story -- you know,

rather than a relatively flat thing, because going up and down stairs is even more frequently a problem than the width of the hallway for the wheelchairs and so forth.

I think the problem is the market being able to provide something that appeals to the 50-year-old person who's not thinking of being 80, they're thinking of being active and so forth, but something that's adaptable in that, and really raising people's awareness to that. And I think that to do that you've got to have good marketing, good products, and also the ability to innovate. And one of the things that we've found in our work around the country, first of all, the development community tends to be very conservative in doing what they've done before because that's what works, they don't want to take as much risk, and also sometimes zoning codes and building codes tend to replicate what's there, and it's difficult to do some innovation.

But I think that there are a number of models out there, certainly some of the housing that I've seen in some of these Intel projects where we do a lot of work -- it's not the only thing, but we tend to do a lot of work there and I see it -- it looks to me like it's really good to the point where you just can't get around yourself. And Eric and I were talking, that that's the kind of community where you could actually, with the wireless network, you might be

able to track these people, and they can be independent in the neighborhood, and they could actually get out and be somewhat independent, go for a walk, and still be able to provide the kind of support that Eric's technology was talking about.

GOVERNOR KEMPTHORNE: I appreciate that. I can envision a governor's conference on housing and communities team up with home builders, their national association. And again, how we can lay out the challenge, but the fact that there are solutions there.

Governor Warner?

GOVERNOR WARNER: Kind of follow-up to Dirk's question. Dirk's question was about the house itself. You had a lot of those slides showed the corner, and then suddenly making it more walkable, the walkability. Recognizing that a lot of that is driven by local zoning, are there any particular state models that have been the most supportive of giving the impetus to the locals to transform those neighborhoods? What's the key that we can do as governors to encourage that more progressive zoning approach?

MR. FREGONESE: I think it's through a couple of things. First of all, there are rewards for innovation, models, education. Sometimes it's just really doing that. Also you have to realize that a lot of those corners are state highways, and your state highway department has a lot

to do as to how walkable those communities are, and expanding the role of the state highway department from moving cars from one part of the state to the other, to really understanding context in this design is important.

I would say there's a number of states -- and this isn't universal to states I've worked in. Certainly Oregon has gone a long way in that, but I think actually Idaho, not to pander to the governor here, but actually I've recently interacted with the Idaho Department of Transportation, and they've actually been quite progressive at leading communities to the point where they're looking at making that land use transportation connection. That's certainly how you invest in your state transportation system and how you invest, if you have a housing program, in that housing program can have a big impact on leading communities.

I think it's important any time you're dealing with local governments not to give them the impression that it's going to be a top-down directive thing. They tend to rebel and don't get very productive, but they do react to good information. Most of these elected officials are really concerned about doing the right thing for their people, and I think innovation and assistance and incentives goes a long way towards this. And there's a ton of it happening out there, so it's not like -- you'll be overwhelmed with people requesting your help, as opposed to when you use a

regulatory board you have to push the people who don't want to do it. You're spend your time helping the people.

GOVERNOR KEMPTHORNE: Governor Hoeven?

GOVERNOR HOEVEN: Thanks, Governor Kempthorne. I

want to compliment you for focusing not only this plenary session, but really much of the governors meeting on such an important quality of life issue, and I thought both of the presentations were very interesting and presented outstanding ideas.

I do have a question for Eric. With the development of these new technologies, which are interesting, exciting, and probably limited only by our imagination, one of the things that strikes me is that we're going to have to create a comfort level with the people that are actually using that technology. So my question is, how do you handle the privacy issue? How do you get people, seniors, whoever is using this technology, how do you get them comfortable with this new technology so that they don't feel like they're being watched or, you know, kind of that Big Brother syndrome? It seems to me that's going to be very important in terms of getting acceptance, in terms of how we use this technology, so they don't feel like they're under surveillance, for example, Oh, my son has all this technology in the house to watch me, which might create discomfort. So how are you approaching that aspect of using this new technology?

MR. DISHMAN: It's a great question, and I'm glad you asked it. One of my concerns is that some companies use those sort of privacy fears as an excuse from sort of getting their feet wet and to try to go look. Because what we've found is that if you make it symmetric, and what I mean by that is we're putting some of the sensors in the home of the senior, but we're also putting some of the

sensors in the homes of the other people who are part of their care network. So that it's not surveillance now, it's communication, and you're extending both side's ability to kind of remotely notice things about each other.

A lot of the companies that went out and tried to do this that say, yes, it's the caregiver sort of looking in as God on sort of the activities that they're doing -- I'll give you a simple example. We took people and put a simple pressure sensor that cost $12 at Radio Shack, connected it to that little wireless computer and put it into their favorite chair. We used the internet, so all they've got to do is sit down. And they sit down in their favorite chair, so when Mom's sitting in her favorite chair it turns on a lamp in the caregiver's house to let them know Mom's sitting in her favorite spot. And then we do it vice versa, right? Daughter sitting here, turns on lamp in favorite spot.

Now, the adult children when we did this were like, Oh, my God. If my mom knows every time I'm home the phone's going to ring off the hook. It didn't happen. And what both parties reported was they felt like, oh, my gosh, I just feel safe knowing that they're there.

Now, I don't want to downplay the privacy issues, there's huge ones, and everything that we're building has security, and the challenge is to figure out, especially with people who we're studying, who sometimes have power of attorney for themselves and sometimes don't, how do you design an interface in such a way that they can decide, my neighbor gets this data about how many steps I'm taking, my doctor gets this data. And that is a hard, hard user

interface problem that I don't want to sort of downplay. That's part of our research, is to figure out how do you design the system such that they can do that.

But overwhelmingly most of the people, once we study them and talk to them, are like, you know, I'm on the verge of being institutionalized, or I'm trying to spend down and trying to figure out how to get a 24-hour home care nurse who's going to change every three months because of the turnover in that field. I'm perfectly willing to give up some step data and how restless I am at night to the people in my care chain if it's going to help. So it's kind of both ends, and it's a really complicated issue that I'm glad you brought up.

GOVERNOR KEMPTHORNE: Two more questions. Governor Granholm, and then Governor Sebelius.

GOVERNOR GRANHOLM: Actually, Governor Hoeven asked my question.

GOVERNOR KEMPTHORNE: Okay. Governor Sebelius?

GOVERNOR SEBELIUS: Thank you, Mr. Chairman, and I, too, appreciate the topic that we're dealing with and the fact that all of us around the table are learning good strategies for our own aging process. I'm thrilled that this research is going on, but this is for Eric.

I know that from the insurance company standpoint there were lots of battles, and still are, about telemedicine payments, how much third-party reimbursement, and some of it is very arcane, where you can drive a patient 120 miles and get paid for a visit, but if you're going to do it by telemedicine there's still no payment.

Looking at this, and long-term care insurance, which often provides lots of home health services, recognizing it's better to keep people in homes than in a nursing home, it's less expensive, how much is the discussion going on with insurance companies about retrofitting homes, and whether that could be paid for out of a long-term care policy? I mean, where is that discussion? Because it seems to me that may make a huge difference in how affordable, available this is. Can you give us an idea of what the payment scheme looks like at this point?

MR. DISHMAN: Sure. One of the things I should say is that for a lot of the technologies, and this is a real concern for the future of HIPAA, actually, but a lot of the technologies that we're talking about are going to be sold to direct to consumer. In fact, they're coming on the market this year. Honeywell, GE, a little company called Living Independently, are already starting to sell these kinds of systems, the crude versions. Do they detect Alzheimer's? No. But do they let you know Mom got home okay or is not sleeping well? Yes. So some of it's going to be direct to consumer and it's going to bypass the whole Medicare discussion.

GOVERNOR SEBELIUS: But Medicare doesn't pay for long-term care anyway.

MR. DISHMAN: Right, right.

GOVERNOR SEBELIUS: If I have a personal long-term care policy is this apparatus, you know, machinery, technology, going to be available to me in my policy coverage, or has that discussion even begun?

MR. DISHMAN: Some of the discussion's happening within our CAST initiative, and some of the long-term care insurance folks are coming to the table. And one of the things that we've seen a lot of hope around is Senator Craig's Senate Bill 2077, which is the long-term care partnership. And one of our questions was, well, can we get a technology angle on that bill that says, you know, maybe these technologies aren't ready for prime time, but part of that partnership needs to be the installation of these kinds of systems if they prove out to do that kind of thing. It's not well thought through at this point, to be honest.

GOVERNOR SEBELIUS: Because it strikes me that's another thing that we could work on as governor. I mean, I think affordability may be well tied in many cases to insurance coverage. So if you have a policy and we've already anticipated the technology availability and that begins to be written into policy, you know, we bring the companies to the table early on, that may mean that the next generation of devices really is much more affordable to a lot of folks and can be installed much easier.

MR. DISHMAN: I think it means strange bedfellows and doing partnerships that we haven't thought about before. I think you're exactly right.

GOVERNOR KEMPTHORNE: Very good. Governor Barbour?

GOVERNOR BARBOUR: Eric, you brought up lawsuit abuse, you brought up the liability problem. Our state just passed a big tort reform bill I'm not sure would have helped the people who are involved here. Does this have to be a

national, a federal solution in order to get the technology

companies willing to take the risk that they can do this without threat of litigation?

MR. DISHMAN: You know, I'm -- this is one of these things where, you know, I'm like, I'm this little social scientist who seems to have had this success catastrophe, and a lot of people ask me about this. I'm not a liability expert. All I can say to you is I've heard it from university researchers at all levels and companies at all levels in almost every state. The one that gets brought up, the number one application that we want to apply these technologies to is medication safety and compliance in the home, and it's the number one that all these companies and researchers avoid like the plague because they feel like they're going to get sued if they even go do a trial on it.

I don't know what the answer is, and I'm not a liability expert on it. We're just trying to flag it and say, you know, at all levels of government -- it may well be that companies can protect themselves just fine with current law and they just need to be educated about it. It may well be -- and this is something I've been working with our CEO on exploring, is can you do some sort of liability safe harbor at the research phase of these. We will deal with the product phase later, but at least to accelerate the research can we do some sort of safe harbor around it? And I don't know what the answer is, but we'll stay tuned.

GOVERNOR KEMPTHORNE: Very good. Well, again,

would you join me in thanking these two outstanding panelists.

I would add, Eric, that I'm very encouraged by the synergy which you've identified of Intel stepping forward, but then others stepping forward. You now have 300 corporations working together. I looked at that list of universities, and -- Georgia Tech, I visited that, I visited their home. You probably have seen that. MIT, and see what they're doing there with the kiosk. The same kiosk that you see right now in a grocery store, but yet they have the suggested technology that you could perform a variety of functions, including realtime with the telephone receiver so that you could call someone at the other end, but this would monitor a variety of tests.

I can see partnering, where a grocery store or a drugstore would want to have the kiosk so that the customer does their weekly check-in right there, and of course, once you're in that facility you're probably going to buy something. And so the providers, the insurance companies, the medical companies, working with that grocery store, that drugstore, so that after six months of going in, and you achieve the desired weight, or you achieve the desired whatever test result, you get a $25 gift certificate somewhere, because we all respond positively to incentives.

So the variety of things.

The other thing Eric mentioned was, I think it's Senate Bill 2077, which Senator Craig is sponsoring, but let me add that his cosponsor is Evan Bayh of Indiana, so it's a bipartisan bill, and it's something that I would encourage

that our health committee take a look at. It's something that I would suggest that the National Governors Association may want to consider somehow endorsing. It's bipartisan, and I think it gives us one more tool to sustain the synergy that's taking place.

With that, let me call upon Governor Huckabee of Arkansas and ask our friend here to just give us a glimpse of what they're doing in Arkansas with regard to long-term care.

GOVERNOR HUCKABEE: Thank you very much, Mr. Chairman. All of you have at your place a little packet of material that we've provided for you. A couple of months ago we launched an initiative called Healthy Arkansas. I know you're tempted to look at that and say, I'll pack it and look at it later. Let me advise you to sometime during the meeting take a look. In one of the packets we have carefully and strategically placed a $100 bill that you will be able to use while you're here in Seattle. And if you believe that, you'll believe anything else I tell you, too.

But now that I have your attention, one of the things we've clearly discovered, as all of our states have, is that as a population we are digging graves with knives and forks, and obesity is of epidemic problem in our states. It's creating costs we can't sustain.

The smoking epidemic, even though some rates are declining, still creates extraordinary problems of hypertension, early cancer deaths. A smoker's productivity is one month per year less than that of a nonsmoker. It's literally one of those cases where the nonsmokers in all of

our workplaces are having to subsidize in work and money their smoking colleagues.

People are also sedentary. If you particularly look at it from the standpoint of children, we instituted something by legislation which now tests the body mass index of every one of the 450,000 school children in our state for body mass index, and confidentially and discretely mail those results to parents so parents can know whether their children are of normal body weight, whether they are overweight, are obese, and give them some hint that they need to be very concerned. Because we are seeing now type II diabetes begin to surface, no longer in the adult population with people in their thirties and forties and fifties, but with children as young as seven and eight years old.

What it means is the children who are diabetic by their teens are the ones who are going to have lasers shot in their eyes when they're 20, they're going to have heart attacks in their early thirties, they'll be blind and on full dialysis by the time they're in their forties. And as public policy makers, we're going to have to figure out a way to pay for it.

The Healthy Arkansas initiative is really to do two things. One is to specifically address the issues of smoking, obesity, and inactivity, and the second thing is to begin to research and develop and implement ways to create incentives for healthy behavior as opposed to continue the current healthcare model in America, which is to find additional money to pay for poor health.

We've got to change the whole paradigm from the idea of treating snake bites to instead killing snakes. So the packet of materials that we've provided is a launch pad for us, and what we would ask of you is share with us the best practices that your state is discovering and finding, whether at the state level or within the private sector.

We've just taken the initiative, for example, to begin in our Medicaid program to begin the coverage for all Medicaid recipients for smoking cessation tools. We've realized that we have a huge, greater than general population smoking demographic among the Medicaid population than we do the general population. We've asked these people to quit smoking, but we've not given them the tools. So now we're going to say, if you're on Medicaid and we're paying your healthcare costs, we'll now pay for the patches and we'll pay for the smoking counseling programs to help you kick the habit, because it is in our best interest as a state financially to get you off tobacco and to help you in that addiction that's killing you.

Just a reminder that three things can have a tremendous difference. If a typical American would be active at least three times a week, 30 minutes per session, in active exercise, would not smoke, and maintain a normal body mass index, that person will live an additional 13 years. That's a dramatic extension of the quantity of life, but it more importantly is a dramatic change in the quality of life.

Personally I've been through a pilgrimage over the last year that many of you have noticed. I wouldn't have made this speech a year ago, but it was out of medical necessity.

I spent 48 years doing everything wrong, 48 years of living every bad habit possible, and being able to excuse it on being Southern, which means I ate everything that was fried and fried everything that I ate. At our state fair, for example, last year we actually on the midway had fried Twinkies. I am not making this up. So if a Twinkie is not unhealthy enough for you and bad enough, we dipped them in batter and fried the darn things and sold them for a tremendous price.

I could also argue that, you know, growing up in a poor family, a lot of people don't understand if you've never been there, the very things that poor families eat stretch not only the budget, but the waistline. And we've got to begin figuring out as public policymakers ways to make healthier food choices a reality and reachable for the population. It's one thing to say, you've got to eat healthy, you need to eat more fresh fruits and vegetables, and you need to eat leaner meats, but many of the people in our states who need it the most can't afford it under the current system.

So there's a whole array of issues out there, and I'm not one who wants the government to become the grease police, telling people what they can or can't eat. I don't want us to become where we are going to move this whole discussion from one of good health to one of rights, which is the temptation if we try to make it a government mandate, here's what you can and can't do. But we can, by example and by best practices and creating incentives, I think, help to change that paradigm. That's what I would ask of all of

you, is to join with us in giving us the best practices that you're seeing both in the public and private sector in your states.

And if you do find that $100 bill it's probably mine.

Would you just bring it back to me? Thank you.

GOVERNOR KEMPTHORNE: Governor Huckabee, let me commend you for your forward thinking actions there in Arkansas. I think I should commend you also for the role model you provided for those good folks in Arkansas. You ran the risk of becoming another pretty face.

GOVERNOR HUCKABEE: No problem there.

GOVERNOR KEMPTHORNE: Governor Warner, one question for Governor Huckabee.

GOVERNOR WARNER: Governor Huckabee, I also want to add my compliments on what is obviously a very exciting initiative and something I want to take back to Virginia and try to give you whatever practices and perhaps steal a lot of your ideas. But you've talked about incentives. How far down the line -- have you even got to the point of thinking about financial incentives for your Medicaid population for proactive, good behavior?

GOVERNOR HUCKABEE: We have, Governor Warner. Let me give you a couple of examples. Already in our office, and beginning to extend into state government, we realize that by law we have to give people smoking breaks. We're now giving our employees walking breaks or exercise breaks, because it makes sense that if we want them to be healthy we should encourage people to take those activities. And if they are active, it is to our advantage as an employer for

them to be that way. So rather than say, If you smoke we let you do it on company time, if you walk you have to take your lunch hour. So our concept is to provide equal or better than incentives for healthy behavior than subsidizing unhealthy behavior.

We're also developing offering state employees next year discounts on their medical insurance premiums if they'll follow these three things: Not smoke, be active, with at least three days a week of physical exercise, and maintain a normal body weight. So there will be a financial advantage.

The next stage we're looking at is to begin creating incentives so that if you don't use up your sick leave because instead you are healthy, we give you some time off. Rather than say, you either have to lie or be sick, we're going to say, if you'll be healthy, here are the things that will help you be healthy, and if you'll do that, you know what, we're going to give you some extra time off. Your other employees are sitting home nursing, you know, all kinds of physical ailments as a result of their unhealthy behavior. You, on the other hand, get an extended weekend.

So those are the things we're already doing, and that's where we're trying to take this, is looking for the incentives. We think it's more about the carrot than it is the stick.

GOVERNOR KEMPTHORNE: Very good. Our next order

of business is a special one, and it's presenting the National Governors Association awards for distinguished service to state government and to the arts. This award program, which was established in 1976 by the NGA Executive Committee is a way for governors to bring national recognition to their state's most valuable civil servants and private citizens. These awards focus attention on the commitment of state administrators and the important contributions private citizens make to state government and to the arts.

In a myriad of different ways each of these distinguished honorees has made selfless and invaluable contributions to state government and to public service. On behalf of my fellow governors I'm honored to commend these extraordinary individuals for their commitment to improving their communities, their states and, indeed, their country.

In addition, I want to thank all of the governors who submitted nomination for this year's award program. All of the nominees were outstanding. Thanks also to Judy Danielson of Idaho who chaired the selection committee, as well as the other members of the committee. I'd also like to personally thank the first lady of Idaho, Patricia Kempthorne, for chairing the arts review panel, as well as the other members of the panel for their efforts.

Awards will be presented in the following categories: State public official, private citizen, and art. As I announce each winner, I would ask that you would come forward along with your governor, and I'll ask each governor to step to the podium and make remarks honoring their award

winner. Following that, before the award winner goes back to his or her seat, there will be a photographer right here, and then we'll have a photograph taken.

We'll begin with the state public official category. First is Joseph F. Harkins, acting director of the Kansas Water Office. Governor Sebelius, I know you have some great things to say about this great public official.

GOVERNOR SEBELIUS: I'm only supposed to speak for a minute or two, and that hardly is time to tell you about Joe Harkins, but let me try to give you a few highlights. This is an award for distinguished service to state government, and that's the epitome of Joe Harkins, who began his state government work five governors ago. I'm the sixth governor to take advantage of his expertise and mentorship.

His highlights are leading the health agency in the early '70s, creating our first health planning capacity throughout the state of Kansas, then moving over to Natural Resources as head of first the Water Office, organizing and regenerating an office that deals with our most critical natural resource issue, but also then to Health and Environment, where he both was a planning director and was secretary of Health and Environment.

He went back to academia and began to train public officials both as health managers, as certified public managers and governors, workers just like me who went through a master's in public administration. And I had the good sense to talk him into coming back into state government in 2003, where he again took over our Water Office and natural resources capacity, and Joe now serves as

a key advisor on natural resources to the governor's office.

So I'm delighted to present an award winner in the distinguished service to state government category, Joe Harkins.

GOVERNOR KEMPTHORNE: Joe, congratulations, and thank you, Governor Sebelius.

Our next winner in the state public official category is Samuel W. Speck, director of the Ohio Department of Natural Resources. I would call upon Governor Taft for his comments.

GOVERNOR TAFT: Thank you very much, Mr. Chairman. It's an honor for me to recognize someone who is a friend, a colleague, and a member of my cabinet, and, in fact, someone who stepped down as president of Muskingum College in Ohio to serve in our administration. As director of Ohio's Department of Natural Resources for the past five and a half years, Sam Speck has contributed in many ways to the quality of life in Ohio and throughout the Great Lakes region.

Tomorrow morning Governor Jim Doyle and I, on behalf of all Great Lakes governors and premiers, will announce historic draft agreements that, when finalized, will enable the states and provinces of the Great Lakes Basin to manage and protect the tremendous water resources that lie at our doorstep. Sam Speck has chaired the working group that has been hammering out those agreements, and the fact that representatives from eight states and two Canadian provinces were able to negotiate the very difficult concepts contained in those drafts through three long years of spirited discussion is a tribute to Sam's extraordinary talents as a

conciliator and consensus builder.

It's the same kind of leadership Sam provided in the Ohio legislature when he authored legislation to enforce effective strip mine regulation and undertook to reform our public utilities laws. It was also evident several years ago, when I asked him to lead our successful campaign for passage of the $400 million Clean Ohio Conservation Bond issue.

Sam manages Ohio's award-winning state park system and also our hunting and fishing programs with vision and political skill. We often have a chance to go fishing together, and by the way, in Ohio the fishing's great,

walleye, steelhead, you name it, but Sam's always savvy enough to see that the governor catches the biggest fish.

So I'm really proud to recognize someone who has provided remarkable leadership and service for Ohio and all of the Great Lakes states. He truly is deserving of the NGA's Distinguished Service Award. Congratulations Sam Speck.

GOVERNOR KEMPTHORNE: Sam, congratulations to you.

Our next state official winner is John M. Bennett, secretary of finance for the Commonwealth of Virginia. At this time I'll turn to Governor Warner.

GOVERNOR WARNER: Thank you, Mr. Chairman. It is a great honor for me to recognize before all of you the service of John Bennett. John Bennett has had a distinguished career in public service for over a quarter of a century. He started as a public school teacher and moved into the legislative branch, where he rose to the position

of the executive director of the Senate Finance Committee. He then made the ultimate sacrifice of actually moving from the legislative side to the executive side, when he was kind enough to take on the role as the secretary of finance in our administration.

Many of you know over the two and a half years I've served as governor, financial issues have been paramount in Virginia. John helped us navigate through the largest budget shortfall in Virginia history, a $6 billion shortfall, putting in place the policies and procedures and how we made those budget reductions. At the same time he then worked very closely in putting together a whole series of structural changes so that we could achieve long-term savings out of the economic downturn and some of the fiscal policies of the past.

And then finally, many of you know this past year we in Virginia took on the most extensive tax reform effort, I believe, of any state in recent history. We were successful in that, and John Bennett was the chief architect, my chief strategist, ally and counselor through that whole process. Many of you over the last couple of months have individually said, "Warner, how in the heck did you get that tax reform package through?" Well, this is the guy that helped make that tax reform a reality.

I spent 20 years in the private sector and only two and a half years in the public sector, in the private sector working with very, very large companies oftentimes. I've never worked with an individual that is more qualified as a CFO and somebody that I would take in the public sector,

private sector over anyone else, and it is a great honor for me to present this award to a super, super friend and a great secretary of finance, John Bennett.

GOVERNOR KEMPTHORNE: John, congratulations. And Mark, thank you for a heck of a presentation. Stay with me.

All right. Now we'll recognize the award winners in the private citizen category. First, from Guam, is Michael D. Cruz, M.D. Unfortunately, Governor Camacho is unable to be with us at this annual meeting, but wanted me to say a few words about this outstanding patriot.

For Dr. Michael Cruz, helping others is a way of life. He's a colonel in the Guam Army National Guard, where he has served since 1994. Dr. Cruz recently spent four months in one of Baghdad's busiest combat hospitals, putting his surgical skills to use by treating hundreds of badly wounded soldiers. I'm also going to note that he went there voluntarily. Dr. Cruz also headed a rapid action medical response team activated to respond to emergencies in war-torn Baghdad. I will also note, many of those missions which he led were outside the so-called Green Zone. It was not safe.

In addition, he coordinated Iraq's first international medical conference, bringing together more than 30 international speakers to expose Iraqi medical professionals to outside ideas, new technology, best practices. Over 500 Iraqi physicians were in attendance.

Back home Dr. Cruz has been a surgeon at Guam Memorial Hospital for 20 years, and serves as president and cofounder of the Guam Ayuda foundation, a nonprofit organization that

serves medical missions and brings much needed medical supplies to residents on Micronesia's outer islands. Governor Camacho says that, quote, "Dr. Cruz has been inspired to give his time to ensure freedom, democracy, an opportunity for his three children, and serve as a role model for the patriotic Americans who call Guam home," unquote.

I will also add that last night in my conversations with Dr. Cruz, he said that he had a discomfort in accepting this award, a discomfort because of all of those who he served with in Iraq, for all those he treated, but has realized that by accepting it, really in the spirit of accepting it for his comrades as well, he is honored to be here to receive this award from the National Governors Association.

Next from Michigan is Fred P. Keller, chairman and CEO of Cascade Engineering. I'll call upon Governor Granholm for her comments.

GOVERNOR GRANHOLM: Thank you very much. It is a great privilege to be able to confer this award on Fred Keller as the CEO of Cascade Engineering, which is a Grand Rapids, Michigan company that employs about 1,200 workers in about ten locations in Michigan.

Now, the citizen patriotism that Dr. Cruz exemplified is also exemplified in different ways back here at home, and

when a corporate citizen takes on a challenge of serving the least among us, that to me is great example of citizen

patriotism as well. His company has created an exceptional model for helping people help themselves. He is committed to a welfare-to-career strategy. His company, in fact, since this program started in 1997, they have served more than 600 employees, helping them to become totally self-sufficient. His efforts have lifted scores of families out of the downward cycle of poverty, while giving them the skills to be able to be effective in the workforce. In fact, this welfare-to-career model partners with the state, where they pick up some of the costs, supplementing the services, providing education, parental support, adoption assistance, health education. In fact, he's got every single one of his employees reading a book called Framework for Understanding Poverty, on the theory that it's not just those who the company's helping on the outside, the families that are struggling, but also the employees, as well, that are benefitting from this strategy.

Cascade Engineering has been honored both nationally and internationally, receiving awards as the manufacturer of the year in a number of realms, and then two weeks ago it was designated, Cascade Engineering was, by the Society of Human Resource Managers, as the eighth best place to work in America among medium-sized firms. No doubt that designation

came from the nobility of the company itself and its willingness to give back to its community.

So on behalf of the National Governors Association, Fred, it is a great privilege to be able to award you with this.

GOVERNOR KEMPTHORNE: Fred, congratulations.

Governor Granholm, thank you.

Now we'll recognize the winners in the arts categories. The winner in the artistic production category is the Children's Theatre Company of Minneapolis, Minnesota. The Children's Theatre Company in Minneapolis is the largest professional theater company for young people and families in North America, serving 350,000 people each year through its Main Stage Productions, education programs, and Upper Midwest tour.

A state treasure and national model since its inception in 1965, the Children's Theatre Company received the 2003 Tony Award for outstanding regional theater, becoming the first theater for young people to receive this honor in the nearly three-decade history of the award. Under the guidance of Artistic Director Peter Brosius and Managing Director Teresa Eyring, who is with us today, nationally renowned artists create exceptional work for audiences in the Twin Cities, greater Minnesota, and the nation.

Its theater arts training program provides expert instruction in acting, voice and movement, while also teaching life skills like teamwork and discipline and self-confidence. Its Neighborhood Bridges program teaches critical literacy to elementary school students in the area's most challenged neighborhoods by utilizing intensive weekly storytelling.

Although Governor Pawlenty could not be here to deliver this award, he feels strongly that the company is a true Minnesota treasure that has made generations of Minnesotans very, very proud.

Again, accepting the award on behalf of the Children's Theatre Company is Teresa Eyring, managing director.

Our final winner in the category of the arts is Judy Flores, who is the executive director of the Gef Pa'go Chamorro Cultural Village. Again, Governor Camacho has asked me to say a few words about this outstanding individual. A few words including "Geth Pa'go Chamorro." Not bad.

For nearly five decades Judy Flores, artist, author, and professor, has led a movement to revive traditional arts and crafts that reflect her island's rich native heritage. Ms. Flores, who has called Guam home since 1957, specializes in batik painting, detailing local scenes of everyday island life. She's championed the arts through a nonprofit organization she's started that supports young people in developing their own talents and art marketing skills.

In 1991 she set out to bring a cultural village, replete with traditional huts and a performance stage, to Southern Guam. Her dream was realized less than a year later, when the Geth Pa'go Chamorro Cultural Village opened in Inarajan. The village gives local craftspeople a venue to display their skills, while letting visitors explore native crafts, dances and music in a historic setting.

Governor Camacho asked me to add, and I quote, "Ms. Flores' dedication to the arts has inspired many young artists to pursue their dreams, and she actively works to provide opportunities for both aspiring artists and our elder craftspeople to showcase their talents. She's been instrumental in the revival of traditional crafts, and her

work will ensure that our rich cultural heritage is not lost for future generations." Congratulations.

As she said, "In the Pacific way, we always bring a gift," and so this is beautiful. I'll just pull it out very quickly. A beautiful Christmas ornament. Is this done by hand? It's beautiful. Thank you so much.

All right. Unfortunately, one of our award winners could not be with us today, so I'd like to recognize him at this time, and that is Thomas Swain. He was a longtime public servant in Minnesota, whose career stretches back six decades, and whose contributions to higher education and healthcare are very, very notable.

Mr. Swain is, at age 82, currently the director of the Elder Learning Institute, Twin Cities Rise, and Friends of the St. Paul Public Library, and remains active on numerous boards, nonprofit and civic organizations, the Minnesota Citizens Forum on Healthcare Costs, and the University of Minnesota.

Governor Tim Pawlenty, who will present Mr. Swain with his award at a ceremony at the state capitol in Minneapolis said, quote, "Tom Swain's life is an example of the difference once person can make. He's devoted his adult life to Minnesota, and our state is better for it," unquote.

So if you'd join me in a round of applause for Mr. Swain.

Our congratulations to all of the award recipients today. You are an inspiration to all of us, and we thank you for that, and you continue to enrich the lives of the respective states in our nation. God bless you all.

At this year's meeting we're also recognizing four companies that have been corporate fellows for 15 years. Like their counterparts in the public sector, American corporations are agents for change. As captains of industry they're partners with the public sector in developing innovative ideas and creative solutions and bold programs to meet the challenges of and capitalize on opportunities

facing the states and territories. More often than not it's been these valuable partnerships between public leaders and private industry that have resulted in effective responses to public policy issues.

Founded in 1988, the NGA Corporate Fellows program promotes the exchange of information between the private sector and governors, and stimulates discussion among the corporate fellows on emerging trends and factors that affect both business and government. Working through NGA's nonprofit arm, the NGA Center for Best Practices, the program generates a spirit of partnership through meaningful dialogue between leaders of the public and private sectors. Participation in the corporate fellows program is a commitment to improving cooperation and understanding between government and industry, and to develop bipartisan, collaborative responses and solutions to issues affecting our nation.

I'd like the representatives from each company to come forward when I announce your name. The first is Blue Cross/Blue Shield, and accepting on behalf of this wonderful organization is Ms. Joan Gardner, executive director for state services. These are beautiful awards, but they're

fragile. Blue Shield/Blue Cross's actually was shattered in shipment, so that's why we had a substitute award. Thanks for going right with the flow. You're a professional there.

All right. IBM. Accepting on behalf of IBM is Ms. Syd Dorsey, marketing manager for state and local government.

Johnson & Johnson, accepting on behalf, Mr. Bill Strike, regional director.

And Unilever United States, accepting on behalf is Mr. Tom Langen, director of government relations.

I'm very proud to announce also that during this past year the National Governors Association reached a high water mark with corporate fellows. We now have more corporate fellows than ever in the history since this program began, so again, we thank all of our corporate partners.

Now I'd like to return to some of the procedures governing how we'll conduct business during this meeting. Part of the rules require that any governor who wants to submit a new policy or resolution for adoption at this meeting will need a three-fourths vote to suspend the rules. Please submit any proposal to David Quam, director of federal relations for NGA, by 5:00 p.m. today.

I'd like now to announce the appointment of the following governors to the nominating committee for the 2004-2005 NGA Executive Committee. The following governors: Governor Brad Henry of Oklahoma, Governor Michael Rounds of South Dakota, Governor Phil Bredeson of Tennessee, Governor Olene Walker of Utah, Governor Janet Napolitano of Arizona, and I would ask Governor Henry to chair this.

We'll now convene a meeting of the National Governors Association Executive Committee. All governors are invited and welcome to remain with us, but only members of the executive committee will be voting.

May I have a motion and a second to approve the minutes of the May 12, 2004 Executive Committee meeting?

(Whereupon a motion was made, seconded and carried.)

GOVERNOR KEMPTHORNE: We'll now move for approval of the executive policy proposals. Let me mention that the amendments to Policy EC-9, Executive Committee 9, Federal Tax Policy, were already approved by the Executive Committee on June 22nd as interim policy to express the governor's support for the deductibility of state sales tax from federal income taxes. The amended policy will be placed before the full association for vote on Monday, tomorrow afternoon, but we do not need to vote on it in the Executive Committee.

So let's move on to the proposed amendments to Policy EC-2, Medicaid Flexibility, and EC-3, Medicaid Drug Rebate Program. The Medicaid Flexibility policy is updated to delete outdated language, while the language calling for Medicaid Flexibility, as outlined in NGA's Medicaid Reform Principles policy, is retained with minor updates. In addition, the policy on the Medicaid Drug Rebate Program is

amended to reflect more current figures that highlight prescription drug spending. If I may, I would seek a motion

and second.

(Whereupon a motion was made, seconded and carried.)

GOVERNOR KEMPTHORNE: The Executive Committee also needs to address two administrative policies that are proposed for revision. The first item is the Guidelines For Executive Branch Organizations, which have been updated and clarified as noted. In addition, NGA's Operational Guidelines have been modified and are also before you. May I have a second and a motion.

(Whereupon a motion was made, seconded and carried.)

GOVERNOR KEMPTHORNE: I'd now like to call on Governor Warner to give a year-to-date financial update.

GOVERNOR WARNER: Thank you, Mr. Chairman. As of May 31, 2004, financial statements show operating fund surpluses for both the NGA and The Center For Best Practices, although total operating fund revenue was under budget at 87 percent, operating expenses are further under budget at 84 percent.

Expenses are lower than expected due to staffing vacancies and lower sub-grant reimbursement requests. Endowment funds have experienced positive investment returns for the fiscal year as the stock market has rebounded.

The center's temporary restricted contributions have increased substantially due to the strong support from the foundation community. NGA and the center are expected to enter the June 30 fiscal year in good financial standing. That's my full report.

GOVERNOR KEMPTHORNE: All right. Governor Warner, thank you very much. That would conclude then the business of the executive committee.

I would mention to all governors that we will now be moving to our luncheon, where we'll be meeting with Under Secretary of Defense, Dr. Chu, and we'll also be meeting with General Eberhart.

Tomorrow morning the plenary session continues the long-term care discussion. It's in a different venue. It is right next door, and it's a town hall meeting with 200 citizens from the Seattle area. We have five different cameras. This is going to be televised for public broadcast throughout the United States.

Then in the afternoon session we'll be joined by former Speaker of the House Newt Gingrich, former White House Chief of Staff Leon Panetta, the president of Starbucks Company, and the vice president from Ford Motor Company for, again, a good discussion with regard to long-term care.

I think this has been a very productive morning, and I appreciate all of your active participation at this conference. With that, we'll stand at recess. Thank you.

National Governors Association

2004 Annual Meeting

Plenary Session

Monday, July 19, 2004

Seattle, Washington

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GOVERNOR KEMPTHORNE: Governors and ladies and gentlemen, if I may invite all of you to please take your respective places.

I know that as governors you appreciate history. I'll give you a footnote here. This gavel which you have just heard was inaugurated February of this year, February 22nd, which happened to be George Washington's birthday. It is made of wood that is from one of the limbs of a tree that was actually planted by President George Washington at Mt. Vernon, so it now becomes part of the great continuing legacy of the National Governors Association.

I want to welcome you to the closing plenary session of the 2004 annual meeting. This afternoon we will focus on a consumer-driven healthcare system in the digital age. In addition, we'll recognize several of our outgoing colleagues, consider our proposed policy positions, and elect a new chairman, so I'm going to get right to the business at hand.

The nation continues to look for ways to reform the current healthcare system, to both improve the quality of the care as well as rein in skyrocketing costs in the industry and in its application. The most recent trend has been to try to give consumers more decision-making authority and use electronic healthcare records to provide information to all doctors, which would reduce costs as well as errors.

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Electronic healthcare records can also be linked to the billing process, to generate more cost savings.

While Medicaid faces some unique cost issues, many of

the problems inherent in our healthcare system also contribute to the 11 percent per annual growth rate of Medicaid.

At this time I'd like to welcome our distinguished guests. Each of them will present their remarks on this topic and then we'll open it up for questions and answers and just a good discussion by the governors of America with this outstanding panel.

Newt Gingrich served 20 years in the United States House of Representatives, four years of which he was the Speaker of the House of Representatives. During his tenure as Speaker, Congress passed sweeping welfare reform regulation, funding to strengthen our defense capabilities, the first balanced budget in a generation, and the first tax cuts in 16 years. Time magazine in 1995 named him the Man of the Year.

Since retiring from Congress, Newt has worked extensively on healthcare and health issues, advocating a transformation of the entire system. He recently founded the Center for Health Transformation, a unique collaboration of public and private entities dedicated to accelerating the adoption of transformational solutions, policies, and

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technologies to a 21st century health and healthcare system.

Speaker Gingrich participated in our national television program in December, which helped launch the chairman's initiative on long-term care. It was interesting to note that one of our other guests in that forum was

former U.S. Senator Carol Moseley Braun. It was interesting, I say, because of the areas where these two individuals agreed on new policy.

Newt, I want to welcome you to the annual National Governors Association meeting. Thank you, first of all, for the personal friendship which you and I enjoy, but thank you for your continued leadership on key issues that have the well-being and the best interests of the people that we serve. So with that, ladies and gentlemen, would you join me in welcoming the former Speaker of the House, Newt Gingrich.

MR. GINGRICH: Thank you very much, very much. I'm honored to be here. It's a delight to have a chance to share with governors some thoughts we've been developing and some people we've been working with.

Let me also just say that the process of creating a 21st century intelligent health system is one that will have to occur, I think, in parallel in the private sector with local governments, with state governments, and with the federal government. No one level of American society is

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going to have the solution, but in fact all the different levels can work in a parallel direction. And I want to talk about just three or four large ideas.

First, all of you have a small paper on a consumer-driven healthcare system in the digital age, which we developed for this. The book we developed was called Saving Lives and Saving Money, because we believed if you saved lives, people would tolerate your saving money, but

that health is a moral issue, and they won't tolerate it in reverse. That is, if you explain to them you've saved money, but you've risked their life or their daughter's life or their mother's life, they will find it morally outrageous.

That may seem like a small thing, but I think it's very important, to center the effort to transform the health system on the individual. And I want to say a couple of fairly bold things about that, because the Institute of Medicine has done a lot of really good work, and as a branch of the National Academy of Sciences, it has a tremendous reputation.

But they report to us that somewhere between 44,000 and 98,000 people a year die in hospitals from medical error, and we know it, and we shrug it off, and we move on. And I just want to suggest to you that if you look at the aviation industry -- and I used to serve as the ranking member of the

aviation subcommittee -- we wouldn't tolerate an airline's explaining to us, well, you know, between 44,000 and 98,000 people died, somewhere -- a range of about 50,000, but we don't actually have a clue, nor do we investigate it, nor do we pay attention to it.

And so I want to start with a premise for you to take back to your states and a premise that we should talk about openly as a country. And the President and Secretary Thompson are hosting a conference on this on Wednesday, and that is, in the age of information technology, the first

ground rule is very simple. Paper kills. Paper prescriptions kill because they are inaccurate, they do not allow you to check the prescription against an expert system to find out whether or not the individual, in fact, is already taking something or has an allergy or has a contraindication.

They kill because they may in fact not be readable. 40 percent of all prescriptions require a call-back. Several states have adopted rules requiring doctors to print legibly. That is exactly wrong, I say with all due respect. What you want to do is migrate to electronic prescribing. And by the way, the American people know this. In one recent poll, when asked if we should mandate electronic prescribing in order to eliminate medication error, 90 percent of the country said yes, 78 percent strongly,

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including 80 percent of the doctors.

So you start with that idea, paper kills. Paper records kill. I was talking about this last week with a gentleman who had come in from Louisiana to Washington, his father had a heart attack, ended up at Johns Hopkins and they couldn't find his doctor. His doctor was in Louisiana, in a small town, on a weekend. The office was closed, and they couldn't track him down for 24 hours.

By contrast, we have the technology today to create an on-line, Web-based system that would be secure, HIPAA compliant, totally secure, for about $10 a person, and to sustain it annually for about $3, and I don't want to preempt one of our later speakers, but I think that's about

one latté a year. And so the idea that we can't afford one latté a year to sustain an individual health record on the Web is just absurd. It's an absence of organization and will.

Lastly, I approach this from an information and safety standpoint before talking about consumers because I think that's the context that really matters. I'm not at all interested in consumer-driven health, to use one of the current phrases, if all that means is a clever device for dumping costs on individuals. That will get us to national healthcare out of sheer exhaustion.

I am very interested in incentivising the individual if

we surround them with information so they can actually take better care of themselves, have greater knowledge of themselves, and be more engaged in their own self-management. We have an epidemic of diabetes, which is almost -- which is very significantly avoidable, not totally, but very significant. It's a function of diet and education, and that requires better public policies and it requires tools to enable people to manage themselves. The two biggest managements being nutrition and exercise.

Now, we know that. We say it in speeches, but then we don't implement it. We also know that if you're engaged personally and you have knowledge, people will change their behavior.

I would simply cite for the governors one or two quick things, and that is, as you go through the paper we've given

you, there is a list of eight companies that have absolutely saved money in the last year. Now, this is not -- they didn't go up lower than the trend, which is the HR department term. You know, we're below trend, so we're fine. We'll go broke five years later than our competitor. They actually came down. They had an absolute decline in costs.

And in every one of these eight companies, the way they did it is, they involved the individual, they gave them real information, and they focused on preventive care, wellness,

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early detection. And those steps changed the entire world of health for the people who were participating. You had better health outcomes, and as a result, you had lower costs. It's not magic. It's hard work, it's different, it requires rethinking a lot of things.

Let me say finally, as I look around, there are a number of states beginning to move in this direction. I know, for example, that the state of South Carolina, Governor Sanford has just announced a health savings program that is going to be, I think, a very significant step in the right direction.

I know that Kentucky, Governor Fletcher is working on a program that will increase participation and increase choice for parents of children who are involved in the CHIP program. I know that there are a number of other states where people are doing the right things, moving in the right direction. This is very hard work, but it's very, very important work.

I want to thank Governor Kempthorne for allowing me to come and be here. I look forward to discussing it in more detail.

I'll just say one thing in closing. For all of you who have to go back and have to do real things, all of your bureaucracies will explain why you should be careful, you should be cautious, you should move slowly. All of your

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interest groups will explain why they can't do it this year, but they'd be glad to talk about doing it in three years or four years.

When we balanced the federal budget at a time people thought we couldn't, we brought in all sorts of CEOs from great companies like Ford, and we'd have ten or fifteen at a time come in for dinner, and we would talk through, what did you do to really change and how did you do it?

They had three rules: One, set very tough goals and very short deadlines; two, delegate like crazy; three, kick out all the experts because all of their explanations will be negative. And that's what we did. And working with Leon, and what was occasionally a little bit difficult, a little bit more exciting than we wanted, we eventually managed to balance the federal budget for the first time, four consecutive years for the first time since the 1920s.

If you're going to transform health, and the interest groups aren't upset, and your bureaucracy isn't upset, the odds are fairly good you're not doing it. If, on the other hand, they're coming in and saying, oh, my gosh, you can't

go this fast, oh, my gosh, this is too big a change, there's a pretty big chance you're moving at about the right speed. And if you get up every morning remembering, every day we don't go electronic, people die unnecessarily, every day we don't move towards an incentive-led system of information,

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people are sicker than they need to be and it costs more than it needs to be, and put that level of urgency so the burden of proof should be on those who don't want to change, not on those who do. And I look forward to questions.

GOVERNOR KEMPTHORNE: Newt, thank you very much. I'm going to call upon Governor Warner to give the formal introduction of our next guest speaker. Before I do, I just want to make this note, that the next speaker, during his tenure as the Chief of Staff in a Democrat White House, as a member of the United States Senate, on the Republican side of the aisle, anytime that I called this gentleman's office, I had a call back within that hour or at least that evening. That's the sort of respect I think that he established for all members, regardless of your party affiliation, and I think it's something that I will always appreciate and respect with this gentleman.

With that, I'm going to call on Governor Warner to introduce him to us.

GOVERNOR WARNER: Thank you, Mr. Chairman. Although I don't actually think that either one of our first two speakers this afternoon needed a formal introduction, but I am honored to introduce our next speaker, Leon Panetta. His service to our nation spans four decades,

beginning as a first lieutenant in the Army from 1964 to '66, followed with his tenure as a congressman from

California. Subsequent to that, his appointment as director of OMB, and then his duties as chief of staff of President Clinton.

His current role continues his focus on public policy issues, particularly focusing on issues as we all grapple with the fundamental changes we're experiencing in a knowledge-based 21st century economy. That current role is as co-director of the Panetta Institute For Public Policy based at Cal State Monterey Bay.

While serving in Congress, Mr. Panetta was a longtime member of the House Budget Committee, and as I indicated, served as its chairman from 1989 to 1993. He was the author of a number of pieces of legislation on education, health, agriculture, and defense, and has been mentioned by Congressman Gingrich, as director of OMB, he was instrumental in developing the 1993 budget package, which did lead to balanced budgets four years in a row. As White House Chief of Staff, he worked, as Governor Kempthorne indicated, on a bipartisan basis.

Currently he co-directs with his wife Sylvia the Panetta Institute, which serves as a nonpartisan study center for advancement of public policy, with a focus on issues that affect us in the 21st century.

Leon, on behalf of the nation as governors, we look forward to your presentation, and welcome back. Thank you.

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MR. PANETTA: Thank you very much, Governor Kempthorne, a pleasure to be here with you, and, Governor Warner, thank you for the introduction.

I also want to acknowledge my good friend, Speaker Gingrich, who we worked very closely together. Even though we had a lot of differences on views, I think we always enjoyed a good relationship, both in the Congress and after the Congress as well, so it's a pleasure to be able to be here with you as well.

I'm honored, first of all, to have the opportunity to be back here with the Governors Association. I've been involved with your association as a member of Congress, as chairman of the budget committee, as director of OMB, and certainly as chief of staff. And I have to say that Ray Scheppach, who is someone who is probably the dean of staff members in Washington, is somebody that I worked with at CBO, before he came to the Governors Association, so I've had a long relationship with him as well.

I also want to take a moment to commend your leadership. As governors, you have faced some very difficult budget issues over these last few years, and you've had to make some very tough decisions on spending and on revenues.

And unlike, obviously, the federal government, which has no balanced budget requirement, you have had to come

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forward with balanced budgets. You've had to exercise fiscal discipline, and I think, as a result of your leadership, the fact is that many of your states are moving forward in the right direction. And I commend you for that.

As you can see, I primarily bring kind of a budget background to this discussion. I've been involved with healthcare. Senator Dole and I coauthored legislation that extended Medicare coverage to hospice care. I'm also -- was very involved in healthcare issues, both as chairman of the budget committee and director of OMB as well, and certainly as chief of staff.

I currently serve on the board of Blue Shield, so I get a view of healthcare issues from the insurance perspective, and I also serve on my Community Hospital board in Monterey, which gives me the ability to see it from the hospital perspective as it tries to deal with patient problems.

I have long said that we govern our democracy either through crisis or leadership. I was completing the book on Hamilton, which I would recommend to you, it's a great book, it's very similar to the John Adams book, but there's a quote by Hamilton in that book that says essentially, wise leaders should not pander to popular whims, but should, quote, march at the head of affairs, unquote. And he made the point that events ought not to control actions, but actions ought to control events.

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Today, unfortunately, I think we largely govern more by

crisis than by leadership. You know the obvious examples, energy, we need to have skyrocketing energy prices and brownouts in order to deal with energy issues. The budget is another example of that, where if you don't have the threat of a shutdown or some kind of crisis, you can't cut a deal and get all the appropriations bills approved.

Social Security, Medicare, foreign policy now relies on events. And healthcare obviously is one of those issues. I think healthcare clearly is an issue in crisis. No one knows that better than all of you. You have witnessed and financed and managed the budgetary policy and political consequences of double-digit healthcare cost growth in the vicinity of 11 percent, beyond 11 percent in some instances, and we're continuing to look at something between 10 to 11 percent growth in Medicaid and healthcare costs over these next few years. Private premium growth alone has been four times higher than wage growth, four times higher.

You know we spend about 15 percent of our income on healthcare, and yet, as you know, we rank 28th on infant mortality and 9th on life expectancy, and we are below Japan and Canada in some 16 other key health indicators. And more importantly, as you know, the census bureau just determined that we have something close to 44 million uninsured in this country, a problem that is growing, they estimate it at

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almost 2 million people per year.

Newt mentioned the 98,000 who die from medical errors, and clearly U.S. states have to face not only workers who sometimes are in economic distress and having a difficult

time getting healthcare coverage, but you're seeing rising healthcare costs and the continuing shift to the states of both Medicare and Medicaid dual eligible costs. You're having to pick up the costs of prescription drugs, and you're picking up the costs of long-term care, and that is impacting seriously on all of the states.

So the result is that you can't predictably manage and fund medical programs. I don't think there's any question but, whether you're Republican or Democrat, there is a bipartisan consensus that the healthcare system in this country's in crisis. Bill Frisk at the National Press Club said the status quo on healthcare delivery in this country's unacceptable, and it needs to be radically transformed.

So it's clear, it seems to me, that rather than doing healthcare on a hit-and-miss basis, that it requires some kind of comprehensive system reform. You've got to deal with the problems of the uninsured, cost controls, uneven quality, the problem of lagging technology.

It does require a partnership. There is no way that you can do this on just one side of the ledger. The partnership has to be by government, by business, by

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insurance companies, by the medical establishment, and by patients and consumers. And it will be expensive. We ought not to kid ourselves. Any reform in healthcare is going to be expensive for government and for consumers. But without those reforms, we will see pension systems, we'll see corporate balance sheets, we'll see workers' wages, and we

will see federal and state budgets headed for disaster.

The conflict, as you know, is that while there is broad consensus on the diagnosis of the problem in healthcare, there is little consensus on the cure. I think it's obvious to you that we've seen very different approaches being submitted to try to deal with healthcare, both by the President and by Senator Kerry.

The press obviously relies on consumers to try to combine high deductible insurance plans with tax-free health savings accounts in an effort to hopefully, through the use of the individual, provide more choice and more control over healthcare.

Senator Kerry, on the other hand, obviously relies more on government taking greater action. I think his proposal is 75 percent of the cost of catastrophic healthcare ought to be picked up by the government, with the hope that companies will return those savings in reduced premiums to workers. His approach does cover 27 million Americans, but again, the question is one of cost.

So both approaches have their criticisms. The real problem, it seems to me, is that if one party believes that it has the only solution to what is a very complex problem, the result will likely be a continuing crisis in this area. Horace Greeley said that for every complex problem, there is actually a very simple and wrong solution.

And I think the reality that we all have to face is, there's no silver bullet here to solve the problems related to healthcare. We've got to take a comprehensive approach,

and we've got to take, very frankly, the best elements from both parties and try to form a consensus. Unfortunately, a consensus between the parties is very difficult to do, particularly in Washington these days.

In the very least, let me urge that there at least be a consensus with regards to the goals involved with healthcare reform, and let me mention what I think are the important principles here. One is affordability. You've got to make healthcare affordable to all purchasers, both insured and uninsured.

Secondly, accessibility. You've got to be able to provide coverage so that there is no cost shifting and so you promote better care for everyone, not just for some.

Third, accountability. Healthcare is virtually unaccountable right now in terms of medical outcomes and overall quality and value. We need to have greater

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accountability in healthcare, and that's something that we don't have today.

Fourth, reliability. You cannot improve one segment of the healthcare system while having another become less reliable. You have to provide quality care for all Americans.

And lastly, and it's one that I insert, it has to be fiscally responsible. Any reform, it seems to me, has to be either paid for by government or that cost -- probably both. It has to be paid for by government, but in addition, the cost has to be assumed by consumers and employers as well.

There is no free lunch here. There just simply is no free lunch.

The problem is, if we borrow to basically try to cover elements of reform, then make no mistake about it, it ultimately will come back to undermine any reforms that are put in place.

Let me just apply those principles, if I can, to the idea of how do we try to improve healthcare using some of the technology and new thoughts that are out there. There is no question, and I think Newt has said this, and I agree with him, that you have to have a strong effort to modernize our healthcare delivery system, and you've got to do it through information technology, you've got to do it through disease management, to try to improve the value and the

efficiency and the productivity of healthcare.

You've got to reduce paperwork, improve healthcare delivery, empower consumers to make more informed medical decisions. You've got to be able to constrain costs and assure privacy protections as well. All very tough to do, but needed. You need electronic claims, you need E-prescribing, and you need electronic medical records so that we can approve the care that people receive, regardless of where they're at.

And likewise, you need to have a very innovative disease and behavioral management program put in place so that you enhance care and reduce costs. And the best example of that is obviously the diabetic. It makes a lot more sense to try to deal with disease management for that

diabetic rather than waiting for that individual to have to crash into the emergency care center in a hospital. And you have to decide benefits that ensure that consumers have a greater sense of the cost of healthcare through better information and structural cost sharing.

Using digital age technology and information systems can make healthcare overall much more accountable. A caution I would say is this: When we talk about consumer-driven healthcare. If consumer-driven healthcare means that we modernize the delivery system to use technology and care coordination tools to empower physicians and consumers to

deliver and receive better care, then that should apply to every part of the system.

If consumer-directed healthcare means that we focus on tax-preferred medical or health savings accounts at the expense of group coverage, at the expense of older and sicker individuals, then the end result of that will make healthcare not only more expensive, but more unpredictable for everyone else.

Let me in the end conclude with this: The greatest threat to the ability to reform healthcare, I believe is not so much the partisan differences in Washington or the clash between individual and group coverage, or, for that matter, a clash between whether you do it by government or whether you do it by market forces. I think the greatest threat right now is the current fiscal situation in Washington, because the reality is, when you're running $500 billion

deficits, and when you're going to add anywhere from $4 to $5 trillion dollars to the national debt, almost 44 percent of GDP, it is impossible to talk about meaningful reforms.

The problem I see right now is that there is very little semblance of discipline with regards to this problem, on either side of the aisle in Washington. The Congress is unwilling to pass even a budget this year, and the President hasn't vetoed one spending bill in the Congress.

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And so the result of that is that we continue then to operate by borrowing at the federal level. And make no mistake about it, that right now is your biggest problem because it clearly is going to result in additional cuts in programs. Medicaid already is projected for a $17 billion cut over the next ten years. You're going to see more unfunded mandates. You've seen it with regards to No Child Left Behind, but you're going to see it, as well, with regards to Medicare costs, CHIP costs.

There will be efforts to try to either cap or block grant Medicaid, which would undermine the entitlement, importance of providing that care to the needy. And in the end, any kind of tax approach is going to be passed on to the states and you're going to have to basically see lower revenues as a result of implementing those kinds of approaches.

Healthcare reform is about resources. A lesson of the '80s and the '90s is that if the federal government is running large deficits, then ultimately it will not have the

resources to do whatever you want to do, to provide tax credits, to provide savings accounts, to provide care for the uninsured, or to provide the necessary reforms on Medicaid or Medicare. And in addition to that, it will more likely result in further cuts on programs like Medicaid and Medicare because when you have to ultimately find some ways

to achieve savings, those are the programs you go to. That's what we did in the '80s and the '90s, and that will happen again.

So in the end, I would urge you, as governors, if there's one thing you want to do to really impact on the issue of healthcare, please, I urge you to do whatever you can to urge that greater discipline, fiscal discipline, be applied in Washington. At a minimum, caps on discretionary spending and some kind of pay-go requirement to pay for programs. That is absolutely essential.

With discipline, I think you have the resources to engage in a debate on healthcare reform, but without discipline, I think it not only undermines our economic recovery, it undermines any chance for healthcare reform. Thank you.

GOVERNOR KEMPTHORNE: Leon, thank you very much.

Next we'll hear from two outstanding business leaders about employee healthcare benefits, as well as about the high cost of healthcare to both their current employees and retirees, and the difficulty that creates in competing in the world marketplace, and what it means to consumers. I'm

going to call upon Governor Granholm to introduce Allan Gilmour.

GOVERNOR GRANHOLM: Thank you very much, Governor Kempthorne. And now to bring us the perspective of the real

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world from one of the world's greatest companies, Ford Motor Company, is Allan Gilmour. He is currently the vice chair of Ford Motor Company, and those responsibilities include oversight of Ford's finance, investor relations, general auditor's office, human resources, corporate affairs operations, and financial services sector of the company, basically the whole ball of wax.

In fact, Mr. Gilmour had retired recently and was called back into service by Bill Ford, Jr., for his clear insight and expertise. He has been with Ford Motor Company since 1960, and I am proud to say that he also has a degree from two of the finest institutions in the country: Harvard University and the University of Michigan.

He is a gentleman, he is a brilliant businessman, and he is a fixer, and he is here to tell us the perspective of not just Ford Motor Company, not just the automotive industry, but for manufacturers across this country. Welcome, Allan Gilmour.

MR. GILMOUR: Thank you, Governor Granholm, for that very, very generous introduction. I suppose, as an expert, the best definition is someone who is away from home, and since I'm a long way from home, I can be an expert as long as no one checks to see whether I am or not. I'm pleased to be with a panel like this. I'm a little humbled

to be in this group, obviously.

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It's already been explained by the two speakers before me that the cost of healthcare in this country, the rising cost of healthcare, is unsustainable. It's a challenge for all of us, big businesses, small businesses, nonprofits, healthcare organizations, insurers, and of course, governments at all levels.

I think we don't often think of it this way because so many believe that healthcare costs are only a problem for big businesses, companies that provide benefits to thousands of employees, retirees, and their families. But that's only part of the story.

We have a problem, but we're certainly not alone. We share common ground on this issue with organizations of all kinds, with anybody who provides healthcare benefits to employees, and think as well of all the individuals who are concerned and worried, who are paying higher premiums or have higher deductibles and co-pays or have inadequate insurance, or no insurance at all, or fear of losing their jobs.

And as governors, I know that you have three major concerns, three general concerns about healthcare: First, rising cost of government-funded care, especially Medicaid; second, the fact that you are employers of a large number of employees, what coverage will you offer them, and who's going to pay for it; and finally, as elected officials,

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you're accountable to your constituents, the insured and the uninsured. They're worried about healthcare costs, as I just mentioned, and what these costs will mean to their pocketbooks, and too often what these costs will mean to their health.

When I was chairman of Henry Ford Health System in Detroit, I attended a dinner where the retired head of the Mayo Clinic spoke. He described the expectations of today's patients quite accurately. Everyone wants the best care, and they want someone else to pay for it. So we're all in this together. All of us are weighted down by a healthcare system that is government-based, employer-based, insurance company-based, and charity-based. At the very least, we have a disjointed and inefficient healthcare system, and if left unfixed, it will hurt our economy and it will limit good healthcare for everybody.

As you know, healthcare costs as a percentage of GDB are already higher in the U.S. than in any other western countries, and yet, according to the World Health Organization, our quality of care on average, I'm leaving out the terrific care that many people get, but I'm including -- also leaving out the edge, the very bad care that many give -- on average, we're 37th in the world. Our life expectancy is lower than in some countries that spend less.

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How is it possible, with the bills we pay, we do not have better medical care? If we're paying so much, why aren't we healthier and why don't we live longer? How do behavioral issues, such as the rising rates of obesity-related diseases contribute to our lower life expectancy and our higher costs?

We need no less than a systemic solution to this problem, one that focuses on the very types of tools we use to build any good organization: quality, effectiveness, measurability, and consistency. And we need to focus not only on controlling costs, but also on improving value.

National healthcare expenditures were an estimated $1.67 trillion last year, and have grown at an average rate of 7 percent over the last five years. And as you know, that's well more than double the rate of inflation, and this has already proven too big a problem for some companies.

The percentage of large firms that provide health insurance to retirees, to retirees, has dropped by 28 percentage points over the last 15 years. The manufacturing sector, particularly the domestic automotive industry, which offers some of the best employee benefits in the country, has been hit hard.

This is a serious issue for companies like ours because we provide coverage not only to a large group of employees and dependents, but also to several generations of retirees,

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as well we should, we believe. We're a global company, and while our home base may be the Motor City, our healthcare

coverage extends from coast to coast, to plant employees, to sales and marketing, to Ford credit, to every aspect of our business and offices nationwide.

We pay for healthcare in retirement states like Florida and Arizona, which attract so many retirees from our plants and offices in other parts of the country. Today, providing healthcare benefits for all these people adds about $1,000 to the sticker price of each Ford car or truck built in the United States, and about a third of that is related to prescription drug costs.

Our total bill last year for healthcare in the U.S. was $3.2 billion, and we had 560,000 salaried, hourly, and retired employees and their dependents. To put these costs in another perspective, we spend more on healthcare each year than we spend on steel.

As these healthcare costs escalate, and we pay for them, we must divert funding from new products and other business investments, and that, frankly, threatens the long-term health of our business.

And I know that other domestic auto companies face the same challenges. These challenges put us at a disadvantage in the marketplace. They have already created a competitive gap that, if left unchecked, will drive investment decisions

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away from the U.S. Our foreign competitors don't share these problems. No, that's not because they're smarter. It's because with newly opened plants here in the U.S., they have younger employees and far fewer retirees, and in their home countries the systems for paying for healthcare are

different. And I believe we better take a close look at what they're doing and learn from it.

What we need is a national focus on the problem. No, I'm not talking about a national healthcare system. I'm talking about getting control of our costs and improving value while moving our healthcare system into the 21st century. I'm talking about a national challenge with broad-based solutions.

We have to remember, however, that costs are only part of the picture. We can only control the cost of healthcare to a certain extent. We need also to focus on the other side of the equation, the consumption or utilization of healthcare, the demand side of the supply and demand equation. It's important to encourage wellness, fitness, and disease prevention so people stay healthier longer.

Everyone who receives benefits should take personal responsibility for his or her health. That's what your colleague, Arkansas Governor Mike Huckabee, has done. Not only has he changed his own life through exercise and diet, he's now asking his employees and constituents to do the

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same. All of us congratulate him and hope many others will follow his lead on this subject.

We have to help Americans become better healthcare consumers. And you know, our current system doesn't help much. We have, first of all, insufficient incentives to manage or control our care. All too often we can consume the care we want, when we want it, and even whether or not

it is medically necessary.

On the other side of the coin, there is little emphasis on prevention. Why do most healthcare plans pay when people get sick, but do not pay to keep them well? And information. If the individual consumer is key to managing his or her care, how will the individual make good decisions? They -- we -- need good and comparative and timely information.

It is clear that the solutions need to come from all of us, new- and old-line businesses, drug companies, healthcare providers, governments, individuals. We need good, coordinated thinking. We're taking steps at Ford. We're developing ideas and concepts we hope to bring to this discussion. We're working with hospitals and insurers on benefit design and administration so we can offer our employees better quality at a lower cost.

We're pushing E-prescribing. Electronic medical records are the standard in at least one of our major

hospitals. We're auditing everything we can find to audit. On a policy level, we're working with groups like the HR Policy Association and others to find solutions for the uninsured problem. But in many ways, we're all just nibbling. Only by taking bigger bites can we hope to resolve this problem.

This makes me think of the memoirs of Dean Acheson who served as Secretary of State in the Truman administration. He wrote that in his next job he would have three boxes on his desk: in, out, and too hard. Healthcare I think really

belongs in "too hard," but at this point we can't afford to file it away for later. We need to put it in the in-box and do the hard work necessary to fix it.

As governors, you're right in the middle of this. We, as employers, need your leadership, perhaps including the establishment of a broad-based coalition to find a solution for the long term, not a quick fix for the present. Significant reform is necessary, and we won't get there unless we work together to figure out what to do and then do it.

Thank you.

GOVERNOR KEMPTHORNE: Mr. Gilmour, thank you very much. Let me now call upon our host governor, Governor Locke, to introduce Orin Smith.

GOVERNOR LOCKE: Thank you, Governor Kempthorne.

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It's really my pleasure to introduce our next speaker, Orin Smith, who is the president, chief executive of a little-known coffee company, retail coffee company, called Starbucks, born and raised, and started here in Seattle, Washington.

Orin started at Starbucks when it was just a small little company with only a couple of dozen stores here in the Pacific Northwest, but under his leadership it's grown to more than 7500 retail locations throughout the world. He became president in 1994, and in June of 2000 became president and chief executive officer.

Prior to joining Starbucks, Orin spent 14 years with

Touche Ross, which is now called Deloitte & Touche in the management consulting division. He was later executive vice president and chief financial officer of several transportation companies, but of note, he started off in government. He was the budget director for two different governors and was really instrumental in my transition team.

Starbucks believes in offering the highest quality coffee, but while conducting its business in a way that produces social, environmental, and economic benefits for the communities in which it does business, including those countries and communities where the coffee is grown.

Orin serves on the board of directors of Conservation International, which is a global nonprofit organization that

works to protect plant and animal diversity in the earth's biodiversity hot spots. And Starbucks formed a partnership with Conservation International in 1998 to preserve areas of high biodiversity and to provide economic opportunities for small-scale farmers in places like Mexico, and now they're expanding that to other coffee growing regions of the world.

Orin also cares deeply about higher education. He's on the advisory board of the University of Washington School of Business, the University of Washington Medicine Board of Directors. And they have an incredible policy toward their employees, especially in the area of healthcare. And it's my pleasure to introduce a great friend and a great, great businessperson, Orin Smith.

MR. SMITH: Thank you, Governor Locke. Let me begin with a special thanks to Governor Kempthorne and

Governor Warner for giving us the opportunity to be here today.

Recently I read a survey of chief executive officers which indicated that they believed the single most important problem facing them in the coming year was healthcare. I didn't participate in that survey, but I emphatically agree. All of us have many business issues, but I can think of none that are more important than healthcare. This particular issue has considerable significance to me personally, and it has a great importance to my company and to my people.

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For a long time, as a matter of fact, virtually from the beginning, Starbucks made a commitment to its people that we would provide a comprehensive healthcare program that was affordable and accessible to all of our people, including, very uniquely at the time, part-time people.

So today we are providing a subsidy to all of our people who have been with us for 90 days and work at least 20 hours a week, all of whom have that opportunity. A subsidy that is 75 percent of the cost of care for the employee, and 60 percent for the employee's dependents.

We believe this is one of the most important things we have ever done for our people, and we also believe that it has been highly beneficial to our business. Let me deal with this latter issue just for a moment. It is very clear to us that our health benefits program helps us recruit and retain the very best people. By surveys we've done of our employees, we know that it is the third most important

reason our employees join Starbucks. We also know that it helps us retain them. It is a key factor in enabling us to have a turnover rate that is half the industry average. These are really important dollar and cents bottom line issues for us.

But perhaps the most important contribution that we have with our health benefits program is that we are committed to provide a great work environment for our

people, and that healthcare program is one of the most important components of that entire complex of activities. It helps us create loyalty and commitment to the company, and enables us to inspire our people to become the best they can be, and to make Starbucks the best it can be.

And the inspiration we're able to give them to create the passion and the commitment and the loyalty to the company translates to the kind of service they provide the consumer, and that's what produces our customer loyalty and what truly distinguishes us from our competitors, and we believe has made us so successful in the marketplace.

So we are totally committed to providing health benefits to our employees. Now, having said that, I have become increasingly concerned about our ability to sustain the level of benefits and the level of subsidy to our people. We will not abandon that program, but last year our costs increased by 14 percent, the fourth year in which they have increased with double digits. We expect it will be even higher next year.

Under those kinds of pressures, even for a company that

is as committed and has an appreciation for the values of this program as we do, it's becoming increasingly difficult for us to provide the same quality of program that we've committed to in the past.

I have to acknowledge that all businesses are in this

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situation, and for some, it is far more acute than it is for us. We are a rapidly growing company, we're a profitable company, and we have a very young and healthy workforce that has an average age of 26. And all of those things make this far more affordable for us than it would be for a lot of other companies.

Having said that, we have also been highly committed to this program, and we had it in place long before this company was at all profitable. Because the program is so important to our business, we have decided that we must become proactively involved in trying to find solutions to this problem.

I think we know what all of the problems are, or most of the problems, and you've heard many of them today. Some of it starts with our lifestyle. Clearly we inflict on ourselves much of the healthcare damage and costs that we have to incur. We know there's billions and billions of dollars of waste in the system. We know the system is very fragmented, uncoordinated, tremendously bureaucratic.

We know that there are high error rates that cause the deaths of thousands and thousands of people every single year, and there are far more who are affected, who we have

to treat with greater intensity because of the errors that we have in our system.

We know that we provide unnecessary procedures to far

too many people. We know that the industry has very poor use of technology, and we know, too, that the system has the wrong incentives to produce the kinds of results that is improving quality of care and reducing costs, in short, better value. And without a change in those incentives, it is likely we're not going to find a complete solution to this problem.

I think that, or at least I wished that this was the only set of problems, but we also must realize this uninsured issue is a tremendous problem that must be dealt with as well. It is unconscionable that there are 44 million Americans who are uninsured in a country as wealthy as this one is. It's unconscionable because we know that healthcare is effective in prolonging life and ensuring quality of life, and there are 44 million Americans that are without those advantages.

Beyond that, the numbers of uninsured also have an adverse effect on all of our other social entities and systems. Uninsured individuals are not without some care. It's incomplete, and it's very costly when it's delivered, but at least, to our credit, when they are in crisis, we very often provide them with service.

And uncompensated care doesn't mean unpaid care. Business pays for it, government pays for it, individuals pay for it. We pay for it one way or another. And this is

an issue that in our particular case we believe added 2 to 4 percent to last year's inflation rate. So it is an issue we have to deal with as well.

I think that we also know the kind of system we want. I think we uncovered most of those points, that we want one that is accessible, affordable, reliable, accountable, transparent, and fiscally responsible. I think we also know that this problem is extraordinarily complex. Its resolution or solution will have to be found with the efforts of all of us who are involved in the system, governments, individuals, to private sector. All of us have to work not only on our own problems internally of cost control and utilization, but we have to combine our efforts to address this problem.

I don't have answers for this, but I do believe that some of the principles that we need to think about, as we search for a solution, is, first of all, that everyone is entitled to a basic level of healthcare. Secondly, that we need to ensure that individuals have more decision-making authority and discretion in this entire system, and we have to take on the task of educating them to be knowledgeable consumers.

And I would agree with Speaker Gingrich that, as well, we have to ensure that the people who we are giving more discretion have the wherewithal to actually execute the

decisions that they make.

I think that it is important that business continue to be a part of the healthcare solution, and that every business that has the capability has a moral responsibility to provide health insurance to their people. And I would say that, lastly, that government at all levels must take a leadership role on this issue, not only because government is the greatest purchaser of healthcare and accordingly has that leverage, but the kinds of things we do also need government's rule-making capacity to make these changes.

So leaving you without any clear-cut solutions, I want to thank you for the opportunity to be here, and I look forward to working with you in the future in dealing with this problem. Thank you very much.

GOVERNOR KEMPTHORNE: Mr. Smith, thank you very much, and my compliments to you on a great product and I say that, acknowledging that Moxie Java is an Idaho homegrown company with great coffee as well.

Ladies and gentlemen, I'd like to now open this up. I'd like to have a discussion take place, and as governors may have comments or questions, if it's a question that's directed to one of our guests, I'm going to invite the guests, if they'd like to also respond to what was just stated by the previous speaker, they may do so.

I'm going to begin this segment by acknowledging that

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Allan Gilmour stated that he felt we needed, quote, a

systemic change to the healthcare program. Leon Panetta, in addition to his comments, urged governors to help create the climate for fiscal restraint, and so I'm going to ask how those are related.

And the question is, does transformation lead to balanced budgets, or do balanced budgets lead to transformation? And so I'm going to give that to Newt Gingrich.

MR. GINGRICH: Well, let me say, I think -- and I reflect back, for example, on the period that the auto industry went through in the '70s and early '80s. The question was, are we going to be able to get to enough of a profit to survive and reinvest, or are we going to be able to change fast enough and reinvest enough to get to a profit and survive. And I think sometimes you're caught up in a period where you don't have any choice.

I would argue first that it is impossible to balance the federal budget without transforming the health system. You cannot have, as Mr. Smith was commenting and as Mr. Gilmour commented, 10, 15, 20 percent increases every year of your largest single general cost and think you're going to balance anything. And the states, of course, are now starting to eat up their education budgets and their highway budgets and every other budget. So if you are not

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actively trying to transform the health system, you don't understand the challenge.

For governors, I would say, you actually have four

parallel roles. The first is, think of our whole community. I mean, we were discussing earlier a healthy Michigan, because it's so obvious, if you chat with somebody from Ford, that you think about. Michigan I'm very deeply involved now in a healthy Georgia. We've talked with Governor Wise about a healthy West Virginia. I know that Governor Huckabee has been working on a healthy Arkansas.

And I say that because if you think of the whole community, then you have two other direct state jobs. Think of yourself as the largest employer because usually you are. Usually you have a larger total payroll than any private sector company in your state, and therefore if you're the smartest purchaser as an employer, and if you work with other large employers to be smart purchasers, you'll accelerate the transformation of the system.

Third, as this provider of Medicaid -- Medicaid is a mess almost everywhere, and Medicaid needs to be rethought from the outside in, not from the bureaucracy out. And what you want to do is -- and as Governor Barbour was just telling me, he said this year they will be launching a physical for every single person on Medicaid as a benchmark to try to identify prediabetic and diabetic to get ahead of

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the curve, which is exactly the right general direction.

Lastly, as a group, you have to come to Washington with the next president, whether it's President Bush's second term or Senator Kerry's first term, with the Congress, no matter who the leaders are, you have to come and say, given our experience, these are the six changes we need. If we're

going to be able to manage Medicaid, if we're going to be effective purchasers, if we're going to have the right pattern. No company can get up and say, the people of my state have the right to know cost and quality before they go to a doctor, before they go to a hospital.

Any governor can get up and say that, and the morning governors assert that every doctor and every hospital should report publicly on cost and quality, and the morning they say to their citizens, of course you deserve the right to know, just as you would before you bought a car, just as you would before you bought a cup of coffee, you'll see a dramatic change in the health system overnight.

So I'm for transformation to get to the balanced budget, but I couldn't agree more with Leon, the federal government better have a plan to get to a balanced budget, because this is okay as an aberration. We won't sustain these deficits for a decade.

GOVERNOR KEMPTHORNE: All right. Governor Sanford.

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GOVERNOR SANFORD: A quick question for Speaker Gingrich, I guess two related questions. One is, my wife and I last night had dinner with a friend, Greg Maffei, who had been former CFO at Microsoft, and he was talking about transformation in the technology world, and while it was transforming itself, you had this expansion capacity of quality and yet actual decline in pricing. And that is at such odds with what you see in the healthcare world.

I'd be curious to get your thoughts on why the disconnect and the degree to which you think it's attributable to there not being a marketplace, if you will, and the lack of a primary care system. Second is, on your list of six transformational change, one of them you wrote down was litigation reform. I'd be curious to get your thoughts to degree and how you get there politically.

MR. GINGRICH: Thank you for those easy questions. Well, I think there are two things going on. Let me provide them for a second. It is the nature of a science- and technology-based entrepreneurial free market to produce more choices of higher quality at lower cost. I want to repeat that, because for 350 years this has absolutely been a fact anywhere you have the world of law, and people have some sense of comfort that they won't lose their money.

It is the nature of a science- and technology-based entrepreneurial free market that you will have more choices

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of higher quality at lower cost. Two of the places you don't get that are health and education, and in both cases government intervenes to block the market.

It is a very, very major problem because the result is not what we would have hoped 120 years ago, that somehow the public sector in a pristine way gives us better. The result is, we don't have competition, we don't have entrepreneurship, we don't have change.

Two points with that. The first is, this is precisely what Adam Smith warned about in the Wealth of Nations when he said, all gatherings of producers are conspiracies

against the consumer. But all of you know in your state legislatures, you try to do something big to change health, every narrow-minded, selfish special interest group that's currently providing health is going to show up and lobby in the name of not changing. And you know that's true.

Second, I was a ranking member of the Aviation Subcommittee, I represented the Atlanta airport. I first ran -- I'm old enough, I ran for Congress when we had regulated airlines, and it was a very soft, curby, wonderful world, where everybody was in collusion against the consumer, and they all loved it. The unions loved it, the management loved it, it was terrific.

And one day under Jimmy Carter -- it was actually a Teddy Kennedy-led initiative, we deregulated the airlines

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industry, and it was a mess, and every producer hated it. And I saw Eastern Airlines go broke because they couldn't change, I saw Delta go through agony, I saw Southern become Republic, become Northwest. But guess what? I saw Southwest grow up and Jet Blue grow up and Air Trans grow up. From 1978 to 2003, in constant dollars, the price per passenger mile dropped from 23 cents to 12.

Now, if that happened to drugs, which it would if we had a drug market -- if we had a Travelocity for drugs, the price of drugs in this country would be lower than Canada because we're a bigger market. And all that requires is for ten or twelve states to get together, put together a Web-based pricing system, and overnight people will change

their behavior. But you don't get that today, and that's the point Governor Sanford was saying.

On litigation reform, it's very simple. Personal injury lawyers are making an immense amount of money in what was at one time a reasonable service and is now an industry that systematically plots how to go out and find new targets. And as long as we tolerate that, prices are going to go up, litigation is going to go up.

The Chinese today -- and I say this in a state which has produced Microsoft, which has produced Boeing, which is a great high-tech state -- the Chinese today graduate six times as many engineers as we do, and a lot fewer lawyers.

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This is a jobs issue in the United States, it is a healthcare issue, as Governor Wise well knows, in the United States. And one morning we ought to collide head-on with the personal injury lawyers, not to abolish them -- equity law is a very important part of America -- but to set reasonable bounds and reasonable standards, or we are literally not going to be able to compete in the world market.

GOVERNOR KEMPTHORNE: Governor Locke?

GOVERNOR LOCKE: I was very pleased to hear the comments talking about personal responsibility, and I guess I'd ask either Ford Motor Company and Orin Smith, how do we try to develop healthcare plans, especially in the private sector, because a lot of the governments offer policies that kind of follow the private sector policies, where we actually have more incentives for intelligent use by the

consumers?

And here's an example: When Emily was born -- and she's now seven years old -- but when Emily was born she had a condition of baby reflux. So the doctor prescribed a baby Pepcid, and it was a powder that they had to mix up at the pharmacy and into a solution, and, you know, we gave it to her several times a day, and it was actually kind of a sweet-tasting formula. You always want to know exactly what your kids are taking.

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But with the healthcare system we have, most companies on a prescription, you pay $10 co-payment. You never go around asking what the actual cost of the drug is, which ultimately affects the price of insurance, how much we're paying.

Some friends of mine who have -- had gone through bouts of cancer, you know, they get their drugs, a co-payment. They never really ask about the cost of the drug, whether there's an equivalent drug that's cheaper or a generic that would work.

And here's the example: Later on when our son was born, Dylan, he also had baby reflux, but they -- doctor prescribed baby Zantac. Now, that's a little bit more bitter-tasting solution, but it was -- turns out that baby Pepcid was several hundred dollars a bottle, had to be refilled a couple of times -- or every three or four months. Zantac, baby Zantac, was at a fraction of the cost.

Now, if all of us, as consumers, had to pay a fraction

of the cost -- and you could build up different mechanisms, incentives, and after a certain threshold, you have -- you know, the insurance company would pay more of it. But if we had to somehow pay a portion of it, when the doctors prescribed these drugs, we'd go around saying, well, how much does it cost? Is there a cheaper equivalent? Is there a generic?

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But the way some of the systems are arranged right now, there's no incentive, no need for the consumer to even ask these questions because it's all taken care of by insurance and it's almost viewed as an entitlement as opposed to a partnership.

Any thoughts on what laws might have to be changed at the federal level or the mood of corporate industries in terms of -- or corporations in terms of trying to change the lack of incentives and lack of true consumer involvement with respect to this issue of personal responsibility?

MR. SMITH: I don't think there's any simple answer to that, but I do think there are some things that can be done. First of all, we believe that we do need to give our people more responsibility, and along with that means that they are going to have to have a bigger piece of the front-end cost of the benefit program, so that they effectively have more skin in the game early on in the coverage that they receive.

I think we have also learned that when you educate your people about the cost of healthcare and the implications it has for continued coverage at the benefit levels that they

have enjoyed in the past, that you have a very responsive audience. Certainly that has been the case in our company, where they become engaged and want to help find solutions to the problems, and they do change their behavior patterns.

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I believe that when you have that kind of environment, with people who are motivated to help resolve the problem, that you could make considerable advances if you provide them with the education to become knowledgeable consumers of healthcare. And that means trying to identify what costs are, what alternative sources of the service is, what are best practices, a lot of information that none of us have ever seen, but is very important for us to begin to generate. Because armed with that information, I think our people will help us make major inroads into the cost of our benefit programs.

MR. GILMOUR: Could I just add, first of all, I agree with everything that Orin Smith said. It's a question of incentives. In most of our plants -- and as you know, they're large plants with a lot of employees -- we put in fitness centers. I think I would testify personally that fitness is better in concept than in practice, and that's regrettably proven to be true in our plants as well. The utilization of these facilities is not high.

And so we are going to have to have financial incentives, and we're going to have to have a heck of a lot better information, whether it's on the efficacy of various pharmaceuticals, whether it's on taking care of one's self,

fitness, or things like that.

This is an enterprise, as far as I'm concerned, that is

very short on objective information, and so our employees, we as individual consumers, are hard-pressed to be able to compare treatments to understand what works, what doesn't work, to deal with professionals that speak to us in language we can understand. So there's a big amount to do in that arena.

GOVERNOR KEMPTHORNE: If I may, I'm going to just pursue for just a moment with Mr. Smith and Mr. Gilmour. Orin, you can tell us what percent of that cup of Starbucks is caused by the healthcare that you provide.

MR. SMITH: Our cost of healthcare is -- first of all, the cost of our healthcare is way higher than the cost of steel, and it is, however, equal to now the cost of coffee in our business, and in the very near future will exceed it.

GOVERNOR KEMPTHORNE: So as I say, you could identify what percentage -- you could sell a cheaper cup of coffee to your consumers if you didn't have to provide this 75 percent subsidy to your employees. Allan, you could also tell us what percent of that automobile is attributed to your healthcare costs.

And so my question is this: Orin, you said one way or another we're all going to pay. If we don't provide the healthcare coverage, and those that are uninsured we then cover one way or another, perhaps through our county

indigent care, or higher premiums because no one's turned away, so when you consider your current retiree base, but you have new employees coming in, how can you make that change and say to the new employees, we can no longer provide to you what the current or former workforce has? Can you do that? Can you make that cultural change?

MR. GILMOUR: We're in the process of doing so, Governor. For our salaried people who have joined us in the last I think it's year or so, we do not provide the full retiree coverage that we provided in the past. Yes, we provide the same active employee coverage because, as Orin Smith pointed out, and I agree with it fully, it is one of the ways to attract good people that you want to join your company. It is not just plain old face value, although that does help a lot, but it is a package of benefits and other points of compensation, including a good career, obviously, that attract people.

But we have changed our retiree coverage for new salaried people from a defined benefit plan to a defined contribution plan, and that will save quite a lot of money, and particularly the way the accounting does, it saves a very large amount of money.

But let me just go back, and this isn't exactly what you asked, but I just want to add to the question. About 5 percent of our revenue goes to healthcare. We'll announce

tomorrow our second quarter earnings, and they will show that we received about $20,000 a unit in the U.S. in the second quarter, and so at $1,000 for healthcare, there's 5 percent.

You say, well, that's not a very big percentage, but it's a heck of a lot bigger percentage than the profit margin, and it's a bigger percentage, as I say, than about anything else that we buy, including steel. And the fact that we are doing that is not something we're necessarily sorry about in terms of healthcare, but it is a diversion from other things.

I'd like to make the point, to continue for just a second, that one of the concerns about healthcare spending is that it will slow the rate of growth of the economy, that we in the private sector will not be able to invest in other things, whether it's productivity, whether it's automation, whether it's new products, whatever it may be.

Now, maybe in the economy, if we take out some of the healthcare waste, we'll be able to grow fast enough that we can afford a big healthcare bill, and that's one way of taking care of the balanced budget issue. But until we're in that position, we are holding down, in my mind, the growth of our economy.

GOVERNOR KEMPTHORNE: Very good. What I'm going to do is two more questions: Governor Warner, Governor

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Wise. That will conclude the question session, and then I'm going to ask Leon Panetta and Newt Gingrich to each give a

closing comment of one minute each.

GOVERNOR WARNER: I've got two questions that would -- I'll try to make them briefly, and maybe the answer could be at a subsequent time.

I concur with Gary and what he said about we need that better information system, and I was not surprised, but disappointed by, Mr. Gilmour, what you said, information ties into the incentives of how we incentivise both smarter consumer choices, but also better behavior.

As much as we all know about the value of preventive health, it really seems to me very hard to find living, viable examples of very successful preventive health programs that have radically changed a workforce behavior. You cited the lack of utilization of your healthcare facility. I've seen that other times. And it makes it even more difficult if you're living not with a longer term horizon of a corporate CEO, but it's why things like what Mike Huckabee in Arkansas is doing is so exciting, but also somewhat politically courageous because the benefit of the healthy Arkansas program or the healthy West Virginia program or the healthy Georgia program aren't going to be seen on his watch, they're going to be seen many watches down the road. And how do we even push the edge more on the

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incentive package for healthy behaviors would be one question.

Second would be, there would be one piece that I would disagree with Speaker Gingrich on. When he made -- when you

made the comment about the 350 years, science- and technology-based system, everything becomes cheaper and more efficient. On virtually everything else I would agree with, but on terms of the healthcare system, I think there is one important distinction, in that in the healthcare system, what we are doing is, we are taking the lifespan of the human being and extending it dramatically. And in extending it dramatically, we are changing our system, which we raised it this morning in the long-term care system, from a system that treats people over a period of time to an acute care health system which disproportionately spends a lot of money on that last 30 days to six months of a person's life. And if that person's at 90 and they've got 16 different illnesses as to God forbid they died before 65, we are spending an enormous amount of money on that, and part of that is driven by technology.

I'm not sure how we grapple with that, other than asking really hard questions about rationing that nobody in the public policy realm wants to ask or try to answer.

MR. GINGRICH: Let me dive in. There are three things. First, Governor Locke, you put your finger on, I

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think, the key, which is, incentives have to be tied to information to be effective. That is, you have to have a very simple, easy way to know, here are the five things my child could get, here's their relative effectiveness.

This is all a Web-based solution. If it is not a Web-based -- it would be like trying to reinvent the teller from 10:00 until 2:00 at a normal bank and replace all the

ATMs on the planet with tellers. Think of the ATM as the model of the future for healthcare. You can go anywhere in the world, put in your card and get cash. You want to be able to go to the Web and know, these are the five things the doctor said I should look at, these are the relative prices, and have an incentive then to respond to the inflation. But it's the two combined, and the companies cannot do this.

Governors and the Congress and the President have to require the information be available or it just won't be available. Doctors won't tell you, hospitals won't tell you, drug companies won't tell you, insurance companies won't tell you. I talk to big companies all the time who cannot get the data out of their insurance company, or they can't get the data out of the hospital. So I think it's important to establish a right to know.

Second, Governor Warner, there are very successful preventive health programs that combine incentive and

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information. Mercy Health of St. Louis had 76 percent of the workers in a blue-collar factory sign up two years ago for a health reimbursement accounts system, where if you were diabetic and you were compliant, they waived your co-pays on the grounds that just in emergency room avoidance alone, they more than paid for themselves. They have 94 percent compliance. Every person has an individual health record on-line. It's a system that works.

The eight we listed in the paper that we handed out are

examples: Logan Aluminum in Kentucky, 1,100 workers down, 18 percent in costs. Equitrac in Florida's a slight bit of an anomaly, a small company, down 45 percent in costs. I talked to a health system in Dallas, Texas, 30 percent employees are now participating in an information rich incentive program. They saved $9 million last year from better behavior. I mean, these are real numbers, and we'd love to talk to you about them in more detail.

Lastly, with all due respect, and you've been far more successful in the private sector than I have, so I hesitate to describe the private sector to you. Laser surgery and cosmetic surgery are in the marketplace. Guess what happened to their costs? Both of them rose at less than the cost of living.

In constant dollars, laser surgery and cosmetic surgery have been declining in costs for ten years. Governor

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Vilsack knows a friend of mine, Greg Ganski, who didn't quite get a senate seat, and is back practicing reconstructive surgery. He said to me in Des Moines, Iowa, today, it is normal for a person to call three surgeons to get a price before they pick. And if you were to say to them, I don't think I'll tell you, they would hang up cheerfully and make the third call to somebody else and scratch your name off the list.

Now, in those two places, you see in the market the direct behavior of normal consumer activity. Laser surgery, which has crashed in cost, while by the way getting better technically over and over again, and cosmetic surgery.

One last example. I agree with you about the last 30 days of life, although I think it's exaggerated as a systems problem. But again, Evercare, a United Health product that takes care of senior citizens over 80 years of age, one-third with Alzheimer's, really pays attention to them, gets to know their family. 6 percent of the seniors who are on Evercare have signed a living will. It makes the end of their life have dramatically more dignity, and it is substantially less expensive, but voluntarily in a manner they want, not because some bureaucrat rationed it.

And there are things like that, that we can do, that I think good -- my personal guess is, we could lower the cost of health between 20 and 40 percent from the current system

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and have better outcomes at longer lives with that much lower cost.

GOVERNOR KEMPTHORNE: Leon?

MR. PANETTA: Well, I just -- I think we all have to remind ourselves that when it comes to healthcare, it isn't really like dealing with deregulation in airlines in the sense that everybody has to travel someplace and everybody can get a seat and go from one place to the other.

The problem in the healthcare arena, and I mean, having served on a board on health insurance, make no mistake about it, health insurance operation basically wants to go after employees in the Orin Smith operation, which are their 26-year-olds, and they're basically people that don't need a lot of healthcare. That's called the cream of the crop.

So clearly insurance companies are going to go after people that are healthier and people that don't need a lot of care and that are young. If our system is basically aimed at that, that's easy. I mean, you can deal with that. You can do high deductibles, you can do home savings accounts, you can teach them how to do all kinds of things off the Web.

But the problem is that the healthcare system is also made up of a lot of elderly people that don't have that capacity, a lot of sick people who, very frankly, are involved in the uninsured area, and individuals that largely

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wait until they go into catastrophic healthcare, and that's where the costs usually drive healthcare.

So the problem is, how do you deal with that large amount of individuals that aren't going to kind of work their way through the system in a rational basis that allows you to have information incentives and be able to learn things off the Web? That's the fundamental problem, and that's when you have to deal with Medicaid, that's when you have to deal with Medicare, and that's when you have to deal with the problem of the uninsured.

That is the large problem that, unless we confront, you can do all of these other nice things, and I think they ought to be done, but unless you deal with that part of the problem, you're going to continue to have problems in healthcare.

GOVERNOR KEMPTHORNE: Okay. Governor Wise?

GOVERNOR WISE: Thank you very much, Mr. Chairman.

Mr. Speaker, you're absolutely right in your observation, about trying to change the system and all of a sudden you see a lot of folks. I found out the quickest way to increase tourism in the state of West Virginia is to introduce a major piece of healthcare legislation and the hotels fill up instantly.

Mr. Smith, I wanted to report to you that I made the pilgrimage today, I've come all the way from West Virginia

to make the pilgrimage to the first Starbucks ever, and I want to thank you, the young person behind the counter was very helpful and you've answered my first question, which is whether she has health insurance, and she does.

To both of you I ask a question, and let me express my gratitude because both of you have said that you accept the responsibility as major employers for providing health insurance, and particularly to you, Mr. Gilmour, at a time in my state and many others when we're seeing large manufacturers either out of desperation, bankruptcy, or some just choosing to in the airline industry, the steel industry and others, drop their retirees into the pension benefit guarantee corporation, and of course then the 55-year-old that Leon, I think, is talking about -- I'm maybe a little sensitive on that subject, but the 55-year-old that Leon and I represent, they have the hardest time being able to find health insurance, of course.

My question is this, and it's a pretty wide open one, I guess, but our healthcare system basically -- our

employer-provided healthcare system basically developed turn of the century has kind of come along by fits and starts. The government has provided incentives for it in terms of tax deductions and whatnot, but more businesses are less and less able to offer health insurance for whatever reasons. Is this still the viable system? Should we still be looking

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at employer-supplied health insurance as our basic healthcare system, or should we be looking to see whether we can work with employers to somehow shift it?

MR. GILMOUR: Well, I mentioned that we've got an employer-based system, but we've also got a government-based system, we've got a charity-based system, and we've got an insurance company-based system, and I realize, whoever pays the premiums, a lot of those individuals are smaller businesses or whatever.

I'm skeptical that we'll be able to continue in the long run with this complexity of systems, that we will have to have some approach -- I certainly don't know what it is -- that is more universal.

Obviously we see in many other countries, these are government-based systems, and many of us say, huh, we're not so sure that they work terribly well either. Because you can find in many of the European countries the rate of increase in healthcare costs is as high as it is here. So in many senses we've got a problem all around the world on this.

We've also ended up in this country in a system that rewards the new. The best thing for an old line company to

do is what you described in West Virginia, close up, move somewhere else, and start over. And then we leave the older people with greater liabilities, if you will, or their

employee with greater liabilities, and they pay those liabilities until they run out of money and then they go wherever they have to go, as you say, pension guarantee board or wherever.

And I believe that that is a flawed system, that we cannot just throw over the old businesses and move down to X state, wherever that is, and start over again. Ford Motor Company, at least, is too big to do that, even when I thought it was an interesting idea.

So what we're going to have to do, I think, and I certainly don't have a specific on this, is come closer to a universal system. Certainly picking up the uninsured in some way, and then figuring out how we can have a system that is affordable, but more universal. That is a very general statement, but that's as far as I am in thinking through and many other people thinking through what should the new system be.

MR. SMITH: When I look at the performance of health systems in other countries, where government plays a much greater role, it's dismaying to recognize that the quality of care is really no greater than it is in America, and the cost is virtually as high and sometimes higher in some of those countries. So I think it's pretty clear the way we finance this system hasn't really anything to do with

its efficiency and effectiveness.

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And one of the things that worries me is, if we bury the problems in government, will we ever have enough interest in this issue to really do the hard things that are necessary to transform this system?

Having said that, I think that Allan's right. There are certainly some places that are going to expand or where we need to expand governmental involvement in the financing. But I think at least for the foreseeable future there is an important role for businesses to play in financing healthcare for their people, and I think also that it would be unrealistic to think, given the magnitude of the problem we have, in trying to transform healthcare, that we could also undertake to shift all of the costs from the private sector to government. I don't think that's likely to happen pragmatically.

GOVERNOR KEMPTHORNE: All right. I want to thank all of you, and I want to call upon Leon and Newt, just your final thought. I would ask that it be about a 60-second sound bite, but what's the one final thought you'd like to leave with us? Leon?

MR. PANETTA: Well, first of all, thank you for this opportunity. I had really two great regrets in the time that I was in public service. One is that on healthcare reform that the administration submitted that they weren't willing to compromise with the Congress to get

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something passed, because I think, as a result of that, it's made everybody that much more tenuous about dealing with healthcare reform.

Secondly, having a large surplus, that that was the opportunity when we had a large surplus to make the kind of reforms in both Medicaid and Medicare, as well as Social Security, frankly, that really would have ensured greater long-term security for the country.

As I said, I think you have to deal with this issue by leadership or crisis, but I'm afraid right now we're probably going to have to have a bigger crisis before somebody does something about this.

GOVERNOR KEMPTHORNE: Leon, thank you very much. Newt?

MR. GINGRICH: I'm going to, frankly, for a minute, sound wildly optimistic. This is an amazing country. This is a country where 100 years ago, if we'd been sitting in this room in Seattle, the idea that Boeing would be a worldwide company would be inconceivable because it wasn't founded for another 15 years -- 14 years -- no, 15 years, 1919. Microsoft was not even a glimmer because computers were still at that point some 45 years away from being even semi practical. IBM initially rejected the first government contract to build one. And the concept that there would be a worldwide company that made its living out

of selling coffee on a retail basis and was establishing a worldwide brand would have been just nuts. I mean, people would have said, are you crazy?

So I want to just leave you with this optimistic vision. This is a room of people who have cell phones, many of whom have Blackberries, some of whom have cell phones that take digital pictures you can send on your cell phone while you're in the middle of a meeting. You go on-line to look at every airline reservation on the planet, to schedule your flight, decide by price, convenience, etc., which one you want. Many times you can pick your own seat. You show up at the airport having either printed out the ticket yourself, or you get an E-ticket at the airport. I mean, just go down the list.

It is inconceivable to me that 15 years from now health will be as far out of sequence with the rest of the society as it is right now, and I am therefore a very optimistic person, that we will have better health at lower cost, and we'll have virtually universal coverage within a decade.

GOVERNOR KEMPTHORNE: All right. Well, ladies and gentlemen, I think it's very appropriate that we end this discussion on an optimistic note. Let me thank Newt Gingrich, Leon Panetta, Allan Gilmour, and Orin Smith.

We'll now move to a part of our program that is always rather bittersweet, saying farewell to our colleagues who

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will depart after the fall elections. As I call each governor's name, will you please join me here at the podium.

I'd like to first ask Governor Judy Martz of Montana to

come forward. As we're assembled here, another group of Americans is but one month away from their gathering, and that's our U.S. Olympic Team for the Summer Olympic games in Athens, Greece. Most of you know that our friend Judy Martz, governor of Montana, represented this country as an Olympic speed skater at the 1964 Winter Olympics.

Governor Martz certainly took the drive and desire that characterizes Olympians, and over a long career of public service in Montana, used that dedication to propel her to be the first woman governor in Montana's history. At the outset of her administration, Governor Martz worked to create the Office of Economic Opportunity within the governor's office, and with this new resource, she's been able to promote job creation, reduce regulatory burdens on business, and stabilize state finances with an exemplary performance of fiscal management and tax reform.

Additionally, with her administration's programs on education, safe and healthy communities, and delivering responsible and accountable government, it's been a busy four years, and it's been just as busy in year four as it was in year one.

First, her recent summit on healthcare, followed by a

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summit on the ever-growing problem of curbing methamphetamine abuse, and then the approaching completion of your strategic economic plan, all of these are very visible signs of a governor governing to the last day.

Judy, we know that you will still be involved with

public policy in Montana, even as you and Harry enjoy the return to private life, and I know that you'll especially enjoy your first grandchild, Remy Claire, born last December 31st.

Governor, you've been an example to all of us who will eventually face our final year in office on how to go out with energy and with style. Judy, congratulations to you.

Next we will recognize another trendsetter, and that is Governor Olene Walker, governor of Utah. We salute you for your service today, not only as the governor of Utah, but for your long and successful career as a public servant. In the time since you succeeded Governor Leavitt, we've come to know you and to admire the grace, the skill, and the savviness which you have taken to some very difficult challenges in succeeding a sitting governor.

On November 5th, 2003, Lieutenant Governor Walker became the first woman governor in the history of Utah, first in the House of Representatives, and then as lieutenant governor, Olene Walker was the leader on a host of state issues. In 1985 she sponsored legislation that

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created Utah's rainy day fund, a significant piece of the Utah fiscal signature that led to the pronouncement by one of the major news analyses that Utah had among all the states one of the best managed in the financial downturn of the early 2000s.

As lieutenant governor, she spearheaded many of the administration's top priorities, including leading the task force that established Utah's children health insurance

program.

Governor Walker's been recognized as a leader among her peers on a national level. In addition to chairing the Lieutenant Governors Association, she was the first lieutenant governor to serve as the president of the National Association of Secretaries of State, and we too have seen that quality of leadership that garners the respect of your peers through your work on our NGA committee on education, early childhood, and the workforce.

Governor, many of us knew you for 11 years as lieutenant governor, and we've truly enjoyed having you as our colleague as governor of Utah over the past year. For all you've done for Utah, and the many roles of leadership, we salute you and wish you and Myron the very best in your future.

I'd now like to recognize Governor Bob Wise. Governor Wise came to office in 2000 after representing West Virginia

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in the United States House of Representatives for 18 years. He's been a strong leader for his state in these past four years of challenging revenue fluctuations, legislative special sessions, and a seemingly endless series of floods.

Governor, I'm not sure if it was a record number of floods or it just seemed like it, but we came to expect seeing you on national TV giving calm and effective leadership to West Virginians in that type of emergency and crisis.

Upon taking office, Governor Wise immediately moved to

support West Virginia students attending West Virginia colleges by funding the PROMISE Scholarship Program that has helped over 6,000 West Virginia students attend West Virginia colleges and universities. Truly a grand legacy.

Governor Wise also strengthened West Virginia's economic development by creating the largest stimulus package on record in the Mountain State, utilizing tax credits and bonds to drive economic expansion. When a medical malpractice insurance crisis threatened the availability of medical care in West Virginia, he worked tirelessly to promote and broker a legislative solution that kept quality doctors and quality medical care available to his citizens.

Bob, we also thank you as a reliable contributor to the NGA initiatives, especially in your leadership role of chair

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and vice chair of the NGA Natural Resources Committee. We'll thank you in advance for serving as the host of NGA's 2004 seminar for new governors this November at the Greenbriar.

As you, Sandy, Robert, and Alexandra move from public to private life, you take with you all of our best wishes for the future, and our thanks for all that you've done as a colleague. We wish you the best.

Our final honoree is our host governor of this outstanding annual event, Governor Gary Locke. Gary, if you'd come forward. I want to not only thank Gary for his superb job in gathering all that we have enjoyed for the past three days, the immeasurable amount of time that's gone

into this during this past year to prepare for the governors to attend with our families, but also recognize his achievements for the past seven and a half years as Washington's governor.

Governor Locke had an early and successful start in public service, serving in the state legislature, and then as the chief executive here in King County before being elected to the governorship at age 36, the first Chinese-American governor in our nation's history.

With all of those accomplishments at an early age, one would expect a vigorous eight years under Governor Locke, and you would be right. I can talk for the full time

allotted for these remarks on any one of Governor Locke's five centerpieces of education, jobs, families, environment, and efficient government, but let me select two of those.

The first is education, and the accomplishments are as follows: Tutoring our approximately 70,000 students in the Washington Reading Corps since 1978 by recruiting more than 9,000 adult volunteers annually; establishing the certificate of academic achievement for high school graduation; assuring students meet rigorous standards in reading, writing, and mathematics; creating the governor's academic achievement and accountability A-plus commission to ensure schools and students continue improving; pairing higher professional standards for teachers with increased financial support; and leading the effort to provide over $1 billion in new funds to support prekindergarten learning,

lower class sizes, and boost individualized learning for K through 12 students, and more access to and quality in higher education. This constitutes a record that personifies leadership in advancing education.

The second is excellence in government. Governor Locke, by your accomplishments in reorganizing services in the executive branch, you've carved out a national reputation for excellence and efficiency, streamlining state government, utilizing technology to improve citizen services, and being a leader in protecting the privacy of

your citizens. These and many other accomplishments in state government efficiency led to Washington receiving top ranking in the last government performance project ratings in 2001.

Governor, as you and Mona return to private life along with Emily and Dylan, and preparing for the arrival of your third child this fall, you bring with you eight years of not only these achievements, but the friendship of all the governors past and present with whom you have served. Thank you for a great record.

We'll now begin the adoption of proposed policy positions alphabetically by committee. Policies were originally sent to the governors on July 2nd. The packet in front of you reflects those policies, with any amendments made by the executive committee and standing committees at this meeting. They require a two-thirds vote of those present and voting.

To expedite matters, I'll ask each committee chair to

move the adoption of the committee policies en bloc.

Governor Henry, Economic Development and Commerce Committee, may I call upon you.

GOVERNOR HENRY: Thank you, Mr. Chairman. The Economic Development and Commerce Committee met yesterday afternoon and had a lively and engaging discussion on how states could meet the challenges of globalization and how

states can better and more constructively react to this trend that is here to stay.

In addition, the committee adopted amendments to six existing policies, policies recommended to the NGA membership for amendment include EDC-3 on marine transportation, EDC-8 on state priorities in communications, EDC-9 on air transportation, EDC-12 on economic recovery from disasters, EDC-15 on the rural economy, and EDC-17 on employment security system policy, which is a joint policy with the committee on education, early childhood, and workforce.

Mr. Chairman, these policy recommendations were adopted by the committee by unanimous voice vote. On behalf of the committee, I move the adoption of all of our policy recommendations en bloc. Thank you, Mr. Chairman.

GOVERNOR KEMPTHORNE: Thank you very much. Is there a second? It is seconded. Is there discussion? Seeing none, those in favor, please say aye. Opposed, nay? The ayes have it. So carried.

(Whereupon a motion was made,

seconded, and carried.)

GOVERNOR KEMPTHORNE: Governor Vilsack, the Education, Early Childhood, and Workforce Committee.

GOVERNOR VILSACK: Thank you, Mr. Chair. The Education, Early Childhood, and Workforce Committee met

Sunday and heard from several national leaders in education on ways to improve our nation's high schools. Our panelists included Mike Cohen with Achieve; David Gordon, the superintendent of the Sacramento County Office of Education in California; Bruce Friend, chief administrative officer of the Florida Virtual School; and Stan Jones, the commissioner of higher education in Indiana.

We had an engaging and thoughtful discussion, and following that, the committee adopted seven policies, all without changes. We recommend to the NGA membership for adoption two new policies: ECW-3, An Active, Knowledgeable Citizenry; and ECW-14, Public Charter Schools; and amendments to four existing policies: ECW-2, Education Reform; ECW-4, Head Start: Strengthening Collaboration; ECW-5, Great Expectations: The Importance of Rigorous Education Standards and K-12/postsecondary Alignment; ECW-11, Employment Security System Policy; and a reaffirmation of one existing policy, ECW-10, a Joint NGA/CCSSO Individuals With Disabilities Education Act Policy.

These amendments and policies were -- and reaffirmations were adopted on a unanimous voice vote. On behalf of the committee, Mr. Chair, I move for adoption of

our policy recommendations.

GOVERNOR KEMPTHORNE: Thank you. Is there a

second? There's a second. Is there discussion? Seeing none, those in favor, please say aye? Those nay? The ayes have it, so carried.

(Whereupon a motion was made, seconded, and carried.)

GOVERNOR KEMPTHORNE: With that, let me call on Governor Granholm, vice chair of Health and Human Services.

GOVERNOR GRANHOLM: Thank you, Mr. Chairman. We had a robust discussion yesterday also relative to some of the topics we were just discussing a moment ago. It is safe to say that we had some terrific speakers, and the issue of 43 million uninsured Americans will continue to remain on the Health and Human Services policy agenda, including the issues that we discussed about today, personal responsibility, technology, transparency, universality, and I think we can probably look forward to a recommendation about a new act, No Patient Left Behind, perhaps.

So with that, we discussed and approved four existing policies, some amendments to them, as well as the adoption of a new policy supporting military families and military personnel. And with that, I'd like to move for their approval.

GOVERNOR KEMPTHORNE: Thank you very much. Is there a second? There is a second. Is there discussion? Governor Rendell?

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GOVERNOR RENDELL: Yes. I know the hour is late, and I, in part, apologize for taking up the time of the conference to bring this to your attention, but yesterday I went out to meet with a group called ADAPT, who was demonstrating on the streets outside the hotel, and who threatened that they were going to be arrested, let themselves be arrested. And I talked to them, one, because I didn't want to see people with disabilities arrested, for our conference, but two, because I do support, in part, the position that they have been advocating here.

And I want to start by saying that like many of you, I have had run-ins with ADAPT. When I was mayor of the city of Philadelphia, I appealed a federal court decision which was nonsensical about requiring curb cuts when we were fixing potholes. And as a result, everywhere I went, including the U.S. conference of mayors in Washington, ADAPT picketed and demonstrated against me. And I know many of you have had run-ins and they've taken controversial positions.

But they are seeking our support, pushing for recognition of the need to do more to allow people with disabilities to stay in their homes and not have to move to nursing homes. In Pennsylvania we were the first state to fund some attendant care programs, largely due to the advocacy efforts of ADAPT.

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Earlier this year CMS approved an amendment to existing home and community-based papers to include nursing facility transition as a waiver of service. Other states have taken similar steps to provide better and more efficient home-based service for people living with disabilities.

In fact, right outside this ballroom we have given a booth to Deloitte, and Deloitte has been pushing and touting the services they provide to Pennsylvania, Washington, Oregon, and Wisconsin, who, in turn, provide these services to people living with disabilities to allow them to stay in their homes.

I think the presence of this booth is indicative that we are in fact trying to address this issue. I know many of you have seen the resolution that ADAPT would like to see passed by this body. I am not speaking today to urge passage or consideration of that resolution. However, if you read the resolution itself, there are four basic premises that I think most all of us would agree.

I'm not going to read them, but they talk about the fact that the first priority should be providing support services in the most integrated setting, that no person should be held in a nursing home or institution because of a lack of community options.

And as all of you know, the Supreme Court in the Olmstead decision and President Bush in his New Freedom

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Initiative have recognized these principles. So I think

these are principles we can all agree.

The resolution also asks us to ask the Congress to support two pieces of federal legislation. One is the Mi CASA bill, and that's a bill that has bipartisan support from Tom Harkin and Hillary Clinton on the Democratic set and Arlen Specter and Thad Cochran of Mississippi on the Republican side.

Mi CASA gives community-based dependent services and support equal standing in the Medicaid program with nursing homes. It's not an unfunded mandate, and in fact, it could significantly reduce the costs that we, as states, and the federal government are paying for this care. Seven states have already adopted Mi-CASA-type legislation.

The second bill under resolution is the Money Follows the Person Act. This bipartisan bill is sponsored again by Senator Harkin, but by Republican Senator Gordon Smith of Oregon, and it would ensure that Medicaid clients now in nursing homes could move to community settings and continue to receive services through Medicaid.

In Pennsylvania we took advantage of the CMS waiver, and we now have a policy in place that will allow nursing home residents to keep an allowance of almost $600 per month for up to six months to pay for their transition back to the community. Four other states -- Maryland, Colorado, Texas,

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and Kansas -- have adopted Money Follows the Person.

So I hope that we will take a long look at this policy, and as I said, I'm not asking for a vote on the resolution, I'm not introducing it as a resolution, but I hope that NGA

staff can look at this and prepare something for our consideration in our winter meeting in Washington. I think the policy is a good one, I think it can be a cost-effective way to keep people in the community, citizens who are valuable to us and we care about.

So regardless of our differences that we've had with ADAPT and some of their methods, I think we should look beyond that, look at the substantive nature of what they're proposing, and give it serious consideration in Washington.

GOVERNOR KEMPTHORNE: Governor Rendell, thank you very much.

Any further discussion? If not, we have the motion before us. Those in favor, please say aye. Opposed, nay? Ayes have it. So carried.

(Whereupon a motion was made, seconded, and carried.)

GOVERNOR KEMPTHORNE: Governor Wise, the vice chair of our Natural Resources Committee.

GOVERNOR WISE: On behalf of our chairman, Governor Owens of Colorado, and myself as chairman, the Natural Resources Committee met yesterday, heard a group of

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interesting and informative presentations on the state of the environment, including two experts from Washington, D.C., think tanks, the Kato Institute and Resources for the Future.

The committee adopted amendments to three existing policies. The policies recommended to the NGA membership

for amendment include NR-3, Water Resource Management Policy; NR-11, Global Climate Change Policy; NR-22, Improved Cooperative Management of Invasive Species Policy.

On behalf of the committee, I move for the adoption of our policy recommendations.

GOVERNOR KEMPTHORNE: Is there a second? It's moved and seconded. Discussion? Hearing none, those in favor, please say aye. Opposed, nay? The ayes have it.

(Whereupon a motion was made, seconded, and carried.)

GOVERNOR KEMPTHORNE: With that, may I have a motion and a second for the executive committee policies?

GOVERNOR WARNER: So move.

GOVERNOR RENDELL: Second.

GOVERNOR KEMPTHORNE: Thank you very much. Discussion? Those in favor, please say aye. Opposed, nay? The ayes have it. So carried.

(Whereupon a motion was made, seconded, and carried.)

GOVERNOR KEMPTHORNE: Governor Locke, again, thank you. You and Washington did an outstanding job. It is greatly appreciated, and you proudly and properly showcased a great state. I'm going to call upon Governor Vilsack, who is going to issue an invitation to us for the year 2005, to come see his beautiful state.

GOVERNOR VILSACK: Mr. Chairman, thank you very much. And I won't take more of our time, but Christie and I are looking very much forward on July 15th to welcoming the

nation's governors to the state of Iowa. In the history of National Governors Association, the state of Iowa has never had the honor or privilege of hosting this august body and we are looking forward to it.

I will tell you, I'm a little bit concerned about this after Mike Huckabee's presentation, we are out there giving you folks ice cream and popcorn, but there is very good, nutritious food in Iowa, and we're anxious to showcase it, and I think during the course of these three days, I hope that you'll learn more about my state. It is a state that prides itself on being a food capital, a state that is now taking corn and beans and literally producing everything of a building block of our economy. It is a state that prides itself on producing renewable fuel, using corn and beans for vitamins and new medicines, which potentially could reduce substantially our healthcare costs.

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We plan on providing you just a taste of our state fair. USA Today recently indicated our state fair, which is celebrating its 150th anniversary, is the second best tourism opportunity in the country this year, and I think you'll get a sense of that. Gary and Mona have certainly set the bar very high for us, but we expect to make sure that we live up to Washington's standards.

And again, Mr. Chair, thank you for the opportunity. We look forward very much to showcasing our state and its fields of opportunity.

GOVERNOR KEMPTHORNE: Governor Vilsack, we look

forward to joining you and Christie in Iowa. It will be a great experience for us.

In just a few moments I'm going to call on Governor Henry for the nominating committee report. I'd like to make just a few concluding remarks, and I'm going to begin by just asking my wife, Patricia, if she would just join me for just one moment. So often our spouses are in the background, but I think it's appropriate to, on certain occasions, invite them to join us in the spotlight. And I wanted to just give you, Patricia, a personal gift, from me to you, and thank you for all that you've done to help me.

Much has happened during the last year that I've been chairman of the National Governors Association. I asked you to establish a fourth standing committee, which you

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approved, and I appreciate that. It's a standing committee on education, so that we can affirm that that is indeed a priority of governors.

We've seen that our role with homeland security is integral to our responsibilities to provide for the well-being of our citizens. You've seen that we've had a variety of meetings on homeland security, conference calls, meetings with Secretary Ridge, including today, a meeting with Secretary Ridge where we went through a scenario on different potential things that you hope and pray will never happen. But by discussing them, we're better prepared if they ever did.

Last February I convened this organization at one of our sessions for the first time ever, not as governors, but

as commanders in chief of our respective states. We see the ramp-up, the utilization of the Guard. With regard to the war on terrorism and their role in supporting the military, the regular military in Iraq, our role is very much there. We met with General Blum, the chief of the National Guard. This meeting we met with General Eberhart, the commander of northern command, again, the partnership in communication that we have established with the military and with us and with our Guard, and also the fact that we have met with, on a variety of occasions, including at this meeting with Undersecretary David Chu, discussing the well-being of the

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families of our Guard soldiers and the children, and also an inventory of what all of us are doing in our respective state for the members of our National Guard, so that we will have the best for our Guard members. And in looking at that list, if we find that someone else has another idea that we'd like to provide, we can now make that part of our legislative agenda for next year.

I led the first delegation, a bipartisan delegation, of five other governors to Iraq. The first order there was, of course, to see the troops, the conditions under which they're working. You cannot see these outstanding men and women without coming back inspired. I took my satellite telephone with me, in the different chow halls when I'd sit down and break bread with them, I would just pass that phone around and let them call home. It wasn't unusual for them to pass the phone to me and say, Would you say hello to my

mother? And you'd say, I just want to tell you your son or your daughter, they look great, they're proud of what they're doing, and then to have the conversation really kind of go quiet at the other end because words no longer can be conveyed.

We also met with provisional members of the government of Iraq and our counterparts, the governors. And we told them that when you think of the United States of America, we're the states. It's a federal system. States are

beginning to merge from the worst financial situation that they've encountered since World War II, but the national economy is rebounding. And I think it's fair to say that in each of your states, you could stand up and give different examples of the good signs that are happening in your states, therefore the encouragement to our citizens.

As chairman, I'm especially proud of the number of my fellow governors who have become reengaged with the National Governors Association. I will tell you, without exception, every one of you whom I call and asked to call and take on a particular responsibility, every one of you said yes. Also I'm pleased to announce the fact that the number of corporate fellows who have partnered with NGA is the highest we've ever had, and it had been going the other direction.

I'm proud of the initiative that I've launched this year on long-term care and your support of it. The town hall meeting that we had this morning with some 200 residents of the state of Washington, and to hear from you firsthand about your own experiences, but what you know and

have felt from your constituents. And the fact that we now have top 20 action items that we can take, so that next January, when we deliver our state of the state messages, by including elements of long-term care, we have, in fact, begun a national movement that, just as the last plenary session, with those outstanding speakers have said, we need

to look at changes.

We can do so, and we can become more efficient and we can utilize technology, and we can utilize incentives. We kicked off the initiative in December with the national public broadcast which showed throughout the United States, and I want to thank the governors who participated in the broadcast.

We've seen some changes in the membership of NGA, but the commitment to the organization is not wavering. If anything, I believe that our commitment to the NGA is stronger today than it's ever been. I want to say, too, that I've traveled to a number of your states, and I've visited a variety of innovative areas. Newt, your Georgia Tech, what they're doing with long-term care is so impressive. And I could go around the table and point out other examples. But I want to thank you for welcoming me to your state, but also commend you for what's happening in your state as we prepare for the baby boomers, and as we work diligently to make sure that this is going to be an effective opportunity for dealing with long-term care.

Dale, I want to thank you for organizing the meeting

that we had this morning that will be broadcast. We're going to learn from -- continue to learn from each other. And I also want to say that I want to thank my partner, the vice chairman of the National Governors Association, Mark

Warner. I could not have had a more effective partner, who became a wonderful friend, and I look forward to his leadership as he continues with this organization. Mark, I want to thank you and your staff for the partnering that we've done this year. I think it's benefitted all of us.

I want to thank the people of Idaho also for supporting me in allowing me to have this national position, because it did require some time away from home, but they were supportive, they understand. They see the benefits of that.

And then finally I'd like to just note that there is sacrifice in public service, but I think those that really make the sacrifice are our spouses and our children because so often, when you think about those opportunities that we have, the very interesting people that we get to meet with, the places we get to see, and perhaps our spouses are not with us, the kids are not there. So I want to thank Patricia and Heather and Jeff, who mean the world to me. I don't know that my kids yet realize that I really do this for them. They wonder, where's Dad on different occasions. But I think someday they'll realize that through our collective efforts, and the time that we devote to this, it really is on behalf of our kids for a better tomorrow.

With that, I'd like to call upon Governor Henry for the report of the nominating committee.

GOVERNOR HENRY: Thank you, Mr. President. I

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certainly would like to convey and express my congratulations to you on an outstanding year of leadership. Your leadership has been tremendous and very sincere on behalf of all of the governors, and you've become, as a newer governor myself, a mentor of mine, so I thank you for that.

GOVERNOR KEMPTHORNE: Thank you.

GOVERNOR HENRY: Now, Mr. Chairman, I have to say after days and days of laborious and considered research, great discussion and debate and a bit of consternation, the nominating committee unanimously recommends the following appointments to the NGA Executive Committee for 2004-2005. Governor Dirk Kempthorne, Idaho; Governor Tom Vilsack, Iowa; Governor Mitt Romney, Massachusetts; Governor Mike Johanns, Nebraska; Governor Ed Rendell, Pennsylvania; Governor Mike Rounds, South Dakota; Governor Jim Doyle, Wisconsin.

And further, the nominating committee recommends Governor Mike Huckabee of Arkansas as vice chairman, and Governor Mark Warner of Virginia as chairman. This concludes the report of the nominating committee, Mr. Chairman.

GOVERNOR KEMPTHORNE: Thank you very much. Governor Henry, thank you first for those very personal and kind comments you made at the beginning of your report. That means a great deal to me. Thank you also for your

report, and would you now place that in the form of a motion?

GOVERNOR HENRY: Yes. Mr. --

GOVERNOR KEMPTHORNE: All right. I have a motion. Is there a second? I have a second. Any discussion? Hearing none, you have before you the recommendations of the nominating committee. All in favor, please say aye. Opposed, nay? The ayes have it. So carried.

(Whereupon a motion was made, seconded, and carried.)

GOVERNOR KEMPTHORNE: With that, ladies and gentlemen, I now stand ready to put the reins of leadership of this very outstanding organization into the extremely capable hands of the governor of Virginia, Mark Warner. Mr. Chairman?

GOVERNOR WARNER: Thank you. Thank you very much. Thank you, Dirk. Let me make a couple of quick comments. First of all, I hope the record will reflect that that was a unanimous vote, and even though Mike Huckabee and I only maybe got ten votes amongst the whole group here, it will read as a unanimous vote, so I do look forward to chairing this organization. I want to make a couple of quick comments. I know the hour is late.

First, I want to add my voice to Dirk and Patricia's in terms of thanking Gary and Mona and all of the folks here in

Washington for a job well done. As a matter of fact, Lisa and the girls are still so much enjoying the city, they were supposed to be here for this transition, and they're still out spending money in your city, so that is some good news, I guess.

I also want to echo for our departing governors, Governor Locke, Governor Walker, Governor Martz, Governor Wise, it's been an honor to serve with all of you. I know, again, echoing Governor Kempthorne's earlier comments, we wish you all well, and you have served your states well, and you have served this organization well.

Now, there are a number of comments about Dirk Kempthorne that I will still make, I will abbreviate them, but let me simply say that it has been an honor to work with you, to get to know you and Patricia. He has brought a renewed sense of vigor to this organization, he has helped rebuild after, let's be candid, a few challenging years, that sense of bipartisanship in this organization that allows the NGA to speak on behalf of all of our 50 governors and five territorial governors.

Now, I think the activities of not only your chairman's initiative, but I think -- and I want to come back and speak to that for a moment, but particularly the leadership you've taken in terms of bringing us together as commanders in chief and the fact that we have continued to focus on

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homeland security, issues that only a short three or four years ago we wouldn't even have realized would have been on

our radar screen, you have elevated that very, very critical role to an essential part of this organization and something that I look forward to continuing.

You got the ball rolling as well on this question of long-term care. It affects not only healthcare, but it affects the changing lifestyles of this aging boom, this aging tidal wave that we all have to grapple with. And let me again assure you that the work that you started this year will be continued under my chairmanship, as well as by the NGA staff, and I think the most direct benefit of that will be the fact that come January, I'll make a sizeable wager that you'll see hosts of governors taking some of those top 20 reasons and starting to implement them as policy directions in their respective states.

So I have two presentations. Dirk's been such a great governor, such a great chairman of this organization, he's not going to get one gift, he's going to get two gifts from me. One, first, is this. As I'm sure most of you would not be surprised, our immediate past chairman is a great student of American history and particularly a student of American presidents. He has also the very good taste, that my understanding, at least, is his favorite president, or one of his favorite presidents is a great Virginian, our first

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president, George Washington. And when he served our nation in the United States Senate, he and Patricia and the kids actually lived right near Mt. Vernon.

So our first presentation to my friend Dirk Kempthorne is this commemorative gavel that actually was hewn from a

tree planted by George Washington, and if you don't believe that, I will give you a guaranteed Virginia gubernatorial certificate guaranteeing this came from a George Washington planted tree. So on behalf of all of your colleagues, I want to make this presentation.

Now, Patricia, this is not a bust of Dirk, let me just make that clear. Continuing in that theme, and this is the real photo op here, so it's gotten so late in the day we've lost the photographer, too, or -- oh, there we are. Also on a personal note, I wanted to make a personal presentation to Dirk for his partnership, for his willingness to -- as he indicated, work as partners throughout this whole year. Each and every issue, whenever there's been thorny issues, we've worked through them together. He truly is a dear friend and someone that I look forward to continuing to serve within the bounds of my term as governor.

And from Lisa and I and our family to you, Dirk and Patricia and your family, continuing this theme of your support for and admiration for great presidents, and recognizing that you have a collection of presidential

busts, but you are missing one of the key ones, and on that note, let me present a George Washington presidential head bust.

GOVERNOR KEMPTHORNE: If I may, I'd like to respond to Governor Warner. Thank you so much, Mark. That's a real treasure, and the fact that it was given to me by the incumbent governor of Virginia, a fellow Virginian,

is quite special.

And I have in my office the same height statues of Thomas Jefferson, who was a great believer in federalism, state's rights; and Abraham Lincoln, a great believer in keeping the union together. Very appropriate to now have the first president join that family in my office.

I'm going to give something to Governor Warner, and I want to also acknowledge and thank Ray Scheppach and the other outstanding members of the National Governors Association staff, and the Center For Best Practices and all that has taken place there.

Mark, I know that you are an avid bicyclist, that it's the one area that you get exercise. I know that you follow the Tour de France. So I brought for you this bicycling jersey, and I'll tell you, some thought went into this because at the end of each day in the Tour de France, the leader is given a yellow jersey, and so I now stand here and give to our leader the yellow jersey, Mark Warner.

GOVERNOR WARNER: That's wonderful. I appreciate that. Although I must acknowledge, I don't think Lance Armstrong's got anything to worry about, but this new fit and trim Mike Huckabee and I are going to be hitting the roads all across America.

Let me move finally to our -- to my chairman's initiative, but before I do that, I do want to make one other mention. Just as, Dirk, you and I have been partners, I look forward to a very close working relationship and partnership with my good friend Mike Huckabee. Mike and

I -- as a matter of fact, I'll tell this story quickly. I was elected, as many of you know, in November of 2001, only two elections that year, so I didn't get a full new governor's summit or a new governor's meeting. As a matter of fact, all I got was a trip to D.C. and two hours with Mike Huckabee as my whole initiation as a governor.

But it was a very, very valuable two hours. He shared with me a lot of what being a governor was all about, and I have watched him, followed him, and look forward to working with him jointly as chair and vice chair of the National Governors Association over the coming year.

And I want to continue the same kind of energy that Dirk brought to this position. I think the role of the National Governors Association is absolutely critical. I would like us to get back to -- which Dirk has started us on

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the road to this year, back to where the NGA was perhaps in the early '90s, when it really was the laboratory that pushed forward welfare reform and a whole series of other meaningful policy initiatives, then was taken up by United States Congress.

I think that the sense that we have in this organization of working together, I think, Mike, you were making some of those comments earlier today at the town hall meeting, how we need to work on a more bipartisan basis. We can truly be an example to our friends in the United States Congress of how to appropriately have our partisan roles, put that aside at times to do the people's business. And I

think this organization particularly, as Speaker Gingrich said, next year we're going to be dealing with a new administration. Whether it's a second Bush administration or Kerry administration, we're going to have a window of time with the new administration in Washington to play I think an even increasingly important role.

Part of that role I hope will be the focus of my chairman's initiative. I've spent most of my time, when it's not been dealing with fiscal issues in the last two and a half years as governor, working on education issues, and one particular area of concern for me has been the fact that the American high school really hasn't gone through a radical re-examination in over 100 years, at least from

Virginia's standpoint. The last time there was any kind of major statewide focus on Virginia was a conference in 1901.

The American high school, with all of the other things going on in terms of changing in education, high school education really hasn't changed that dramatically. My chairman's initiative, and you should have gotten each of these, is redesigning the American high school, and it's with a particular focus on the senior year of high school.

I start with the premise the senior year of high school is perhaps the most wasted year in a kid's education. I know at least it was for me. Once you get accepted to college, you tend to check out. If you're not going on to college, it's a year that you endure. It increasingly is an important year for many students of terror if you have new high stakes testing and the question of whether you're going

to be able to pass and get through.

I would like us to look at redesigning the American high school with that focus on the senior year, and really look in particular at three different areas. One, how we make sure that one, as we not retreat from our higher standards, that we have in place appropriate remediation tools for those students who need the extra help, so that we don't confront the fact that unfortunately too many of our states have in the recent past where they get close to the finish line and then they blink, because they don't have in

place the remediation programs, and suddenly they can't deal with the constraints of a large percentage of students not graduating. That's not fair to the kids, that's not fair to the employers, it's not fair to set those expectations and then retreat from them.

Secondly, I want us to look at those students who are going into the workplace directly. We've started something in Virginia where we are offering, in effect, a contractual relationship which says, you work with us and we'll guarantee you not only a high school diploma, but also an industry recognized certification, and if that requires a few extra courses beyond when you graduate from high school, we're going to make that investment from the state standpoint. It's not moving to K-13, but it is a K-12-and-a-half because the added value of a person certified going into the workforce, I can show you dollars and cents business model that will show that's an investment

well worth making.

And finally, for those students college bound, I'd like us to broaden and look at systemwide, statewide initiatives where we can offer a full semester's worth of college credit, to be earned in high school, particularly in the senior year of high school. That accomplishes a whole series of items. It gets that parent, at least in Virginia cost standards, about a $5,000 grant in terms of -- by

shortening the college career from eight semesters in a period to a seven-semester period.

It means that you're going to have to look at articulation agreements between high schools, community college, and four-year institutions. It suddenly makes that senior year of high school a more meaningful year. And by creating that linkage, we can start to break down what are the artificial barriers that exist between secondary education and post-secondary education in this country.

Now, Mike Huckabee, who is coming in as the immediate chair of education consortium for the states, will be working with me on this project. Bob Taft has offered as well. He's been very active in the Achieve effort as we try to raise high standards in the American diplomacy effort. John Baldacci is doing some very exciting things in terms of career and technical education in Maine.

I would invite all of you to be participants in this initiative. It's something that we can work on together, it's something that we can effect, I believe, fairly quickly, and in terms of cost structure, is something that

we can deal with even in challenging fiscal times. So I will invite your participation into this initiative.

There will be a series of town hall meetings. We're going to adopt some of your ten best in terms of suggestions. We actually hope to very actively use

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technology in terms of creating some state-by-state walks so that we can communicate with kids in the high school about their senior year experience.

So it is an initiative that I hope that I can bring in as many governors as are interested, because if we can make that senior year more meaningful, we create a better transition into whatever that student's future holds. So stay tuned for more information on that.

I believe with the -- let me turn to Ray. With that, we are just about finished, although I'm going to turn over to Gary Locke for one final comment. I do believe -- where is Ray? Are we going to still close and then come back for another short executive committee meeting? So those of you who signed up for the executive committee, your duty is not completely done. We have to close down this session, and we're going to come back so we can get one very, very short executive committee session done after this.

Before we close down this 96th meeting of the National Governors Association, I'd like to turn the floor back over to Governor Locke. Gary?

GOVERNOR LOCKE: Thank you very much, Governor Warner. And I want to just say, Mona and I have very much

enjoyed getting to know all the governors of America. We have always enjoyed these NGA sessions. It's really been our pleasure to have hosted this 2004 summer conference of

the National Governors Association, and we've got some additional events planned for you.

The last event is tonight, in just about an hour, at the Paul Allen Experience Music Project Museum, which is a history of rock museum, it's interactive, and Governor Huckabee says he wants to play, and he's already gone there a couple of times. And then dessert on the Space Needle.

But to all of you, thank you so much for visiting our great state and our city, and I just want to mention that it's been a success because of the efforts of hundreds of volunteers, and I just want to publicly acknowledge those volunteers who have put on a terrific, terrific conference, and Mona and I are so glad that you've been here, and our best to all of you.

GOVERNOR WARNER: Great job, Gary. And any other business to come before the 96th meeting of the National Governors Association? Hearing none, meeting's adjourned.