

SOUTHERN GOVERNORS' ASSOCIATION

2008 ANNUAL MEETING

THE GREENBRIER

WHITE SULPHUR SPRINGS, WEST VIRGINIA

GOVERNORS IN ACTION: INNOVATIONS AND TRENDS

SUNDAY, AUGUST 10TH, 2008

Transcripts recorded by:
Catherine A. Altizer
Court Reporter and Notary Public

GOVERNOR MANCHIN: First of all, let me say thank you for being here this afternoon. We're going to do something a little bit different. For next the two and a half hours, Governors will be bringing up topics they have concerns about the great interests of our states in the Southern region. We have a lot we want to talk about. We have some of our founders that are going to be participating because they have a tremendous amount of involvement and investment in the South. We're going to hear from them. We will be talking about the importance of increasing our public/private partnerships, how we work together, and how important it is for both sides. And about the opportunities that we are going to have that are unique to the South that all of us don't realize just how important people are to our economies on a point basis and all the people that will be affected by this. I encourage each of the Governors, and we will have Governor Kaine coming in. He is in a meeting right now and Governor Beshear is finishing up an event. He'll be here. I encourage all of you guys, with the time that you have, and ask you to get a special meeting, and to discuss the benefits and the challenges that we may have. So it's going to be interesting. It's something obviously different. I think it's going to be quite productive and we are anxious to get that going. With us to help coordinate this afternoon's function, and the activities, and the dialogue, will be David Conrod. David will be our facilitator who specializes in communications and finding the intersection of public and private interest. So David, without further ado, we let you now lead us in discussion.

MR. CONROD: Thank you, Governor Manchin. A quick note to those of you who have brought in your Blackberrys and cell phones, could you put it on vibrate so that we won't have to hear them when they go off. Thank you very much. I never give up a chance to read my own prose. Let me begin very quickly with some notes.

Welcome to the Governors in Action, Innovation and Trends Session. A special session to talk about what you want with an emphasis on innovative ways to be focused on practical policy challenges included through leverage of private and public sector partnerships. We have with us today founder level members from Novo Nordisk to focus on diabetes care, prevention, and intervention, Northrop Grumman and EADS North America. So we kick off the session with a look at health and the growth and transitions of the regions manufacturing base including development of an aerospace corridor in the South.

Other topics today may include infrastructure development, energy, health care delivery, electronic medical records, and applications of technology to a wide variety of policy challenges and the implications of all these things and education in the workforce; a chance to pick up where we left off yesterday. A quick note about me, since 1995, as an associate I have focused on the dynamics of partnership though government, non-profit and privates sectors.

We are particularly interested in communications and the process of developing and sustaining new business. We have been working with the SGA in the development of communications tools and strategy in support of SGA's mission and the Governors' agendas. So that's what has brought us out today.

A quick few rules, basically, there aren't a whole lot of rules, as you can see from the setup we have here today. This is your time so my job is to get the dialogue going and connect the threads, if needed. But if you are as chatty as you were yesterday, I think we will do just fine. Please feel free to raise other issues of importance as the session proceeds. And again, I emphasize that this is really an interactive opportunity to ask questions back and forth between Governors and the private sector folks and so that's really what we are going to go for because it was clearly a meet the mat opportunity yesterday but we

just didn't have time. So today we'll have a little fun. Finally the time line is flexible. If we are talking about something of particular interest, we'll just keep going. So if it's a good topic, I won't break it up.

All right. So on with the show. If there are any other questions -- with no further ado we will begin with health. Today we have Michael Mawby, Chief Government Affairs Office for Novo Nordisk who is a world leader in developing and treatment and putting intervention and prevention into diabetes. I have asked Mike to comment a little bit about his topic, about the work of the company, in particular what is going on with diabetes, who it's affecting, and what's going on currently with public policy makers. So with that, Mike.

MR. MAWBY: Thanks, David. Novo Nordisk is an international company. We have offices in 79 countries around the globe. We do business with 149 countries. In the US, our headquarters are in Princeton. We have a manufacturing facility in North Carolina and one that we are about to open in Seattle, Washington. We've got about 4,000 employees here in the US. Our primary business is diabetes. And the company's history is such that the founder of the company happened to be visiting the US in the early 20s when Banting and Best were discovering insulin up in Canada. And August Krogh's wife had type II diabetes. And they were so excited at this discovery that they completely changed their vacation plans and went up to Canada to talk to Banting and Best and got the rights to make insulin over in Europe and to be the European distributors. From that point forward, we have been just a diabetes company. About 80 percent of our business is diabetes. We are a little unique. We watch a lot of the mergers that are happening in our industry these days. We are owned by a foundation in Denmark. It's a half a dozen Danish scientists, none of whom has interest in the company, all of whom's charge is to keep the company in Denmark.

So it gives off a little bit of an opportunity to not quite be so focused on the quarterly numbers. Although, obviously, we are in the business of making money but it gives us a chance to have a perspective that we call our triple bottom line. Which means at the end of any given year or quarter, we are reporting not just on our financial returns, but also on our social responsibility activities as well as our environmental activities. And for me, as the head of the Washington Office, it lets me spend at least, if not more time on public policy issues relating to patient care, treatment, and delivery, than it does on what would be considered traditional business activities. So from my perspective, having come to this company after ten years as the American Vice President of the Diabetes Association, it just couldn't have been a better place to land to be able to pursue a lot of that same agenda. The down side of all that is, that as much as we talk about diabetes, we still are swimming upstream in terms of awareness and the like. I hope we'll talk more about solutions and problems but I think it's worth just putting out a few basic numbers with respect to diabetes. The CDC just came forward less than a month ago with new numbers stating that 24 million Americans have diabetes.

When I started with the ADA in 1994, that number was 12. So in the last 15 or so years, it's doubled.

Obesity rates have grown since 1980 by 250 percent. And of course, it's a major driver in diabetes. The CDC also estimates that one out of every three kids born in the year 2000 will develop diabetes if we don't do something to change the trends. And one out of two minority kids born that year will develop diabetes if nothing is done to change the trends.

So it's a huge national problem, obviously. It also spills over into state issues, quite readily in the context of the Medicaid programs that so many of you have to fund. The Bergman Institute did a study

showing that better primary care for people with diabetes could save the Medicaid programs nationally as much as nearly \$400,000,000 a year.

The people who range in age 45 to 64 are three times more likely to be in a nursing home because of diabetes than not. And above 65, it's about 50 percent greater likelihood of being there because of diabetes. So it does affect not just our national policies but is certainly is something that you all will have to deal with at the state level.

I am particularly honored to be here this morning because so many of you are actually leading initiatives in your states. I am sorry that Governor Bredesen couldn't be here. He is my current number one hero. He is doing some amazing things in the State of Tennessee, including investing dollars that I know are very hard to come by to address this problem there. But we've also worked in Mississippi in a private/public way. We are very heavily involved in Georgia. Governor Perdue has got a Healthy Georgia initiative. We worked with former Speaker Gingrich and his Center for Health Transformation to give it a diabetes focus.

There is a lot that is going on and needs to go on in the US Virgin Islands where we have just participated in a healthy lifestyles fair. I don't want to steal the Governor's thunder, but 16 percent of the population of the USVI has diabetes and 75 percent are not just overweight, but obese over there. It is a huge, huge, problem. And I think the numbers for all of you -- you could find numbers like that in each of your respective states. And we, as a company, are committed to looking for every possible way to just educate and participate in the drive of programmatic initiatives that could help move this on, and I am looking forward to this dialogue.

MR. CONROD: Thank you, Mike. Just a little bit from your prose. In the next 20 minutes, 60 Americans will be diagnosed with diabetes. Nine Americans will die as a result of diabetes. Three Americans will have their legs amputated due to complications of diabetes. Two Americans will experience kidney failure due to diabetes. And one American will go blind due to diabetes just within the next 20 minutes. Thanks for those remarks, Mike. What I would like to do if we can -- welcome to Governor Kaine who came in as if by stealth, -- what I would like to do is just go across and ask the Governors, real quickly, if you have initiatives for diabetes, and talk about if you have other healthy initiatives that you would like to talk about.

That would be wonderful. And of course, if you have any questions or information that you would like to get from Mike while he is here, feel free to do so. So Governor Blunt.

GOVERNOR BLUNT: Sure, I'd be glad to. This subject is a tremendous problem for all of us in the country. You gave some national numbers and unfortunately, the South states, including Missouri, tend to be worse than the national average on the issues of obesity and diabetes. One of the things that I think is great is a positive in all of this here is that it is definitely a disease that prevention makes a lot of sense and gives a good return on investment.

In our state, we are making massive changes in our Medicaid program. In Missouri, our Medicaid budget is about 29 percent of the total budget. It's a very large percentage compared to any other states. We began to make changes, really when I first took office, because it was so expensive. As we got into it, we found that not only was it very expensive, but it wasn't very good health care. There wasn't the sort of access to preventive medicine or primary care physicians that we needed. So, for example, we would pay for somebody's amputation if they had diabetes, but we didn't really pay for any of the

treatment that might have prevented the amputation. We are working to change that. We've created something called Missouri HealthNet, which focuses around prevention and primary care. The goal is, for the first time in our state, to ensure that people who are in our state's Medicaid program have access to primary care physicians and everybody will have an assigned health care home. It really focuses around those preventive steps that can be taken with a disease like diabetes or any other illness and not only will that lead to a higher quality of life for the participants, but there is some value to taxpayers.

Because treatments that would prevent an amputation are far less expensive than the surgery that is necessary for an amputation. So I think this is a disease that we are all going to be working together on. You mentioned the Center for Health care Transformation. We are very involved and interested in what we are hearing in Missouri so we certainly appreciate the support that you all have provided to the federal leadership.

MR. CONROD: Thank you. Governor deJongh.

GOVERNOR deJONGH: Thank you. As you mentioned, the whole notion of one of the challenges that I have is that most individuals look at the Virgin Islands just in terms of tourism. I think once you begin to peel away, you begin to realize that a lot of the problems that are experienced in the states, particularly with the members here, are ones that we also experience. It's a mind concept that we have to get folks over. And also one of the distinctions that we have to deal with is that we are a territory. And because we are a territory, there is a tremendous amount of federal programs that we don't have access to primarily because the legislation will say state or city. So, one of our challenges is that educational process. But that doesn't abdicate the fact that, as you said, we have problems with diabetes and that we have with respect to obesity. With K-12, there are over 22,000 school age children. And being able to address that and educate them. Our health care system has to function not in one jurisdiction but on three islands that are completely separated by water. So we have to triple in terms of what we are doing all together, which again adds to the cost structure.

Of all of the movements that we are now making is to begin to look at Medicaid. To begin to look at Medicare in terms that we understand that problem. Now the idea is what do we in terms of the solution and how to begin to address that. And that means for us that we have to start looking at those programs that for many years we have not had access to and begin to spend the federal dollars a lot different than what we have been doing and begin to get our providers in. Because we have both the hospitals, which are semiautonomous entities, and we also have clinics. Being able to educate our population towards prevention is probably one of the biggest challenges that we have right now. And there's a program that we are starting both with the high schools and with parents in terms of what do you have to do in terms of prevention, how do you look at your primary care taker, what services can we provide, and recognizing the limitation of federal funds and what can we do to our general fund to be able to do that.

In terms of the issues, the 16 percent and the 75 percent that you speak of, is a tremendous statistic that we are trying to now begin to address.

MR. CONROD: Thank you, Governor deJongh. Governor Manchin.

GOVERNOR MANCHIN: Thank you. It's an extremely important topic because if you don't have a healthy populace, you aren't going to have a healthy economy and everything else is going to suffer. So when I first got elected, we made healthy lifestyles, just changing people's attitudes and in a lot states there are challenges much like a lot of states in the South and with poverty and obesity comes diabetes.

We are seeing an alarming amount of youngsters with obesity and Type II diabetes. So we start early in the school systems. This year we received a waiver with our CHIPS program. The waiver will be using our CHIPS dollars now to screen every kid in kindergarten coming into the system. We want to be able to follow K through 5 and 8. We want to stay with that child all the way through. We think that we can change the attitudes of the parents and grandparents and responsible adults for these children. We couldn't get to the homes, and we can't get all the people in need the right services, but we knew where the children were. So we took a basic approach to diabetes in schools. So we are taking all of our munitions, if you will, into the school systems starting with kindergarten.

We have something, West Virginia Rx, which is our central filler. And we have been working with you all helping on this and we appreciate it very much. West Virginia Rx delivers free or subsidized, if you will, low cost medical prescriptions anywhere in the state of West Virginia. We are doing that. That has been very successful for us. It's brand new. Everybody is watching it very closely. Health care is something that I have said, if we don't change in America how we provide health care and if we don't put as much incentives on the front end to prevent serious illnesses as we do on the back end taking care of them, then we are never going to go forward with what we have. I have often said this, and I think in the general discussion, if you are anywhere in the world and you get sick, you had better come to America because we have the technology to fix you. It's expensive, but we will fix you.

Now will we help you prevent that, no, because I think there is more money on the back end than there is on the front end. That's just a fact of life. Until we decide that we will be paying for the prevention, its screenings, the testing that goes on, until we make sure that we have a real billing process that we understand, until we make sure that the consumers are able to act as consumers in health care and not just end users, it will never change. There is no reason to because today, I still don't know -- I had a knee operation, a replacement. I didn't shop that much for it. I really don't know what it cost. I really don't know what I paid for it. I just kept paying the bills they kept sending.

That type of -- I mean, we don't do anything like that in America and we expect to get a handle on health care costs. It's not going to happen. We've got to redesign the whole of Medicaid. And we're getting some pushback because it's not comfortable what we are doing. We are making the Medicaid recipient sign a year contract with us. These are the healthy ones because of their financial status has gone down into the roles of poverty and Medicaid.

With that we want to make them responsible citizens and we are giving them rewards with eye care, dental care, if they meet their doctors needs, if they do their checkups, if they go to weight watchers, if they do all of the things that we would do ourselves to help them, not over utilizing the emergency rooms. And with that, we are seeing a great response from the people, but it's on a volunteer basis. Of all of these things, we have to intervene. It's not only -- it's like a Fram oil filter. Pay me now or pay me later. And we have been paying an exorbitant price later because we haven't paid the necessary money up front. We are changing everything.

MR. CONROD: Thank you, Governor Manchin. Governor Riley.

GOVERNOR RILEY: Mike, I was having a relatively good day until you came today.

MR. MAWBY: It's my job.

GOVERNOR RILEY: You do it well. Eleven years ago, I heard Newt Gingrich give a speech. He said, "28 to 29 percent of all Medicaid and Medicare costs are somewhat related to diabetes." That was eleven years ago. It's not like we haven't understood this. Then you tell us today that we are basically twice as bad today as we were eleven years ago. I guess after a few comments I would like to understand from you what is it that we are not doing today, and it's not like we haven't been told this. In Alabama today, there are a couple of programs that we started. And basically we went back to the K-12 system and said we don't need to engrain into these kids any bad habits. We took the soda pop out. We limited what they could have in the vending machines. We are starting there. But when you look at what we are trying to do, and evidently we are losing this fight. I remember Mike Huckabee when he was running for President and he said in one his speeches, he said, "Go home and get the birthday pictures from when you were a kid and look at all the kids around the table." And he said, "If you look at them, they will look like they were refugees from a concentration camp compared to the kids today." My wife and I actually did that and it was amazing to me. To look at my grandchildren today when they are five, six, seven years old, and you compare them to kids back in our generation, it is a vast difference. Education, evidently, does not work.

We are not making the type of progress that I would have assumed that we would have at least made some inroads with this. But if you look at the children that are coming home, I don't know if we're going to have to get to the point where we have a national program in order to be able to address the systemic problems that are causing this. Because whether it's nutritional waivers, access to health care, we have a kid check program that we started now where every child when they start back to school goes through a testing program. We test them for everything that we possibly can on that day. Eye checks, blood tests, whatever, if we can find it and find it rapidly, and even at that point, I am not too sure that we are not too late with that many new children coming into schools with diabetes. What are we doing on a local level, state level, national level? I think at some point it is going to take someone like you. Someone like your organization to go out and tell us, if you do this, this is the result. I am not too sure we have done that over the last ten or fifteen years. If it's twice as bad today as it was when I first heard that statistic, that is a frightening scenario that everything that we are doing is not working. I would like to know from you, what's wrong today.

MR. MAWBY: There are certainly alternatives and I think probably the biggest barrier that we have faced over the last number of years is that we can't quite put the will together to spend the money and you can't do anything for nothing. Now a question has probably been, what do you spend the money on? What's effective? What's really crucial? And I'm heartened by the fact that recently, a number of studies have come out, and one by the Partnership for Chronic Disease that Dr. Mark McClellan has been a big part of. Another is Trust for America's Health, which joined with the Robert Wood Johnson Foundation. The CDC -- what the CDC says is if we could get people to stop smoking, exercise more and eat healthy, we could reduce type II diabetes by 80 percent, heart disease and stroke by 80 percent, and cancer by 40 percent. Now those are great numbers. The question for us is how do you do that? But it's going to take programs. The Trust for America's Health has analyzed a number of community-based programs that they are willing to put their name behind as ones that will work and ones that will give a return in investment in a year or two.

Now they are suggesting that you ought to be spending ten dollars per person per year in your state and that's probably more that most states can do initially. But it seems to me that there might be some pilots, some projects that -- it occurred to me in the context of this meeting that something a little bit more formal with some of these organizations that have been studying this with your state health departments,

with some ability through your state health departments, to come back to you and tell you the bad news. Governor, this is it what might take and that negotiation that you have to have in terms of what you are going to be able to spend in some short-term period. You might be able to begin to show enough return in enough piloted areas to give you the impetus to do it even more widely.

GOVERNOR RILEY: Let me ask a question. Are there any states that are doing a great job that have shown a remarkable improvement?

MR. MAWBY: Well, I wish Governor Bredesen were here. The CDC has named Tennessee as the best state in the country with respect to all of the sort of tests that go into making sure that people with diabetes are healthy. The Governor has committed and the legislature has appropriated over 30 million dollars to initiate a diabetes specific program over the next several years in that state.

GOVERNOR RILEY: And it really does perform?

MR. MAWBY: Well, --

GOVERNOR RILEY: Is it just educational?

MR. MAWBY: No, they are working their way through that. A lot of it is going to medical centers. A lot of it is going to schools. So it's you know, some constrictions are, let's make lunchrooms a place where kids understand that mac and cheese isn't a vegetable. Let's try to turn this thing around in terms of what children are growing up to eat. You mentioned Governor Huckabee. It was quite controversial but that program that sent kids home with a notice about BMI had some people upset initially. But the findings that they are uncovering are some parents might be mad but they open up that closed envelope and look at it and go to the doctor and saying can this possibly be true and it starts a dialogue that we just never would have had otherwise.

GOVERNOR RILEY: We have always known in the South that we are overweight. Thank God, Mississippi's there; I think Alabama is only outweighed by Mississippi residents. We will fry anything. We fry chicken. We fry pickles. We would fry watermelon if we could figure out how to do it. I just wonder is there something, again, that basically takes that South and our patterns of eating -- do we have a markedly higher weight and diabetes in the South than you would in other places?

MR. MAWBY: I would like to -- I mean, you are in the stroke belt, right, but I think you know you are in the stroke and diabetes belt. Yes, that is what I call the South. So there is no question that it's the function, certainly of food. The other things that are no different from what every other state in the country faces, you know, kids tied to the television, to the games, not outside, neighborhoods not safe, fresh fruits and vegetables costing more to the people who need it most. Speaker Gingrich has talked for years about the food stamp cards that can be programmed to give you an extra 15 or 20 percent if you buy healthy foods relative to the other stuff you buy. That sort of thing, it seems like, could very easily be done today with the technology we have.

GOVERNOR KAINE: If I could just pick that up. I think that last point is one of the things that I wanted to talk about, which is purchasing power and the bully pulpit. First just a word about the problem. I wrestle in Virginia with this disharmony of economic indicators going up pretty high, education indicators up pretty high. We are getting used to be nearing the top of a lot of lists. But the health indicators are still middle of the pack or lower. Infant mortality, obesity, diabetes, we are solidly

in the 30s in most of those things, smoking. And you kind of ask why is that and you want to be real aggressive with why is that disharmony.

It is common throughout the South. The Southern states are the ones that we are kind of lumped with, so we see those challenges. We're really trying to use our purchasing power. So we not only have a Medicaid budget that is a huge percent of our state budget but we also buy health insurance for all of our state employees. We also provide health care for everybody in prisons and jails.

By the time you add up the number of people that Virginia covers in health care in some way, it is a huge percentage of our state's population. And we are paying a lot for it. We have a lot of purchasing power. So first start with what you can control on your own. And we are really trying to figure out ways to switch the focus from health care to health. We have a health care debate in this county every presidential election, every election, but we don't have a health debate. And trying to pick up on what Joe said, we have a system that is very good at treating illness or treating chronic conditions, but a very poor system at promoting health.

And so we are putting meaning to our state employee packages et cetera and things that really push health promotion. I got a call one day. I was in the middle of a policy meeting in my office, and a call came in. I thought I should pick it up and it was a nurse calling me. I am on a cholesterol medication. She didn't know I was the Governor. She started asking all these questions about cholesterol and giving me advice. Do you want to be part of an employee management program to help you? And I was like, okay. Everyone just sit here for a minute, I am going to listen and see what my normal state employee gets with this state package. And I went through 15 minutes with her on the phone. I understood it so much better than anything my doctor had ever told me. My doctor would give me, you know, the 35-second version and I never knew what the cholesterol numbers meant. I didn't know the difference between HDL, and LDL and what the totals meant. But this nurse really walked me through it, helped me understand it, helped me understand what to do. At the end of the call, she said, "Okay, I've got to know what your job is." I said, "Well, I am the Governor." She said, "Oh, you're kidding." And I said, "No, I'm not. I am the Governor." But we are really trying to push those things with our purchasing power. Second is on the bully pulpit side. If we are going to try to change the debate from health care to health, Governors have a great ability to do that.

Things like what Mike Huckabee has done. And I think all of us have in some way. I do commercials for the state parks. You know, I do MS bicycle rides. I look crummy in spandex, but hey, I'm in politics, I gave up my dignity a long time ago. Why worry about that? But you know, if you see the Governor out there and he is sweating trying to run a 10K or ride a bike ride or something, you don't underestimate the effect that that can have on others in terms of pushing exercise and healthy living. We need to use those bully pulpit opportunities when we can.

MR. MAWBY: And I wouldn't want to undervalue the role of the bully pulpit. I would say this, having been mostly in Washington for a few years, I think that Secretary Thompson was probably the best Secretary of Health and Human Services for using the bully pulpit around obesity and diabetes. However, that being said, it did not bring a lot of resources into this debate. And the problems have continued to grow despite his four, or five, or six years of just pounding the pavement much the same way that Governor Huckabee did. And so as important as it is for you to talk about it, it's also important for you to sit down and figure out, and I know this is the hardest part of it all, where are some dollars and what should they be spent on. One of the things that Governor Bredesen has also done is that the legislature passed and signed a bill setting up a diabetes advisor within the state. And it's a real action

that we have been promoting on a federal level. Just because, sure you have the CDC at the middle level where diabetes is dealt with, it's really the middle level. And even at NIH, the directors of those agencies have too many fish to fry. The Secretary of HHS has too many fish to fry, as good as Secretary Thompson was. From our perspective, we need to find somebody that can come in at whatever level the highest level, that you will make it happen at, whose job it is to think about how we align state agencies, how we bring in the private sector to work with us and how we just don't let this issue go away. And again, I just haven't seen another way of keeping attention to the issue. Because everybody here has recognized for five minutes that this is a big deal and you all have 100 things like that and when you leave here you will be torn in another direction.

GOVERNOR deJONGH: Let me ask you this. The value of the bully pulpit is clearly there, even though I will say that I have never been asked to do a tourism commercial in the Virgin Islands. I assume that's because I do not look very good in spandex. But I wonder, with all the external forces, particularly that young people are influenced by in their eating habits even though I think our young ones today are much more sensitive to what they put in their bodies, isn't really the overarching issue outside if you take away from diabetes and obesity, a change in the compensation system and how we begin to look at the providers and insurance policies? Because we'll do the same thing, we fund the -- 100 percent or some variation of that for territory employees and their dependents. We also look at those within our corrections systems. So we cover a significant portion, at the same time a portion of our population, almost close to 23 percent, that are uninsured that we are beginning to address even to look at that statistic.

But isn't it change in terms of the motivation, of whether it be the policies and the premiums, and also to the providers, may be one of the ways that we begin to look at changing the whole part of the program towards prevention regardless of the diseases?

MR. MAWBY: Yes. There is no question the system is incentivized from a historical -- you know, it's made up for procedures, surgeries, and all the things that deal with these problems on the back end, as Governor Blunt mentioned, and very little incentive to deal with it on the front end. And that clearly has been part of the issue.

GOVERNOR RILEY: In Alabama, we started charging a surcharge if you smoke in our insurance program. Is there any other state that you know of that has started a surcharge on weight? We actually had that discussion last year, and we could not find a person who would go out and tell a lady she was obese.

MR. MAWBY: It's a tough conversation. Doctors don't want to have those conversations either.

GOVERNOR RILEY: Is there anyone doing it?

GOVERNOR KAINE: I do know, Governor. I have seen states and this is something we are wrestling with in our new bid for the insurance as we re-up the insurance for state employees. And I've heard private employers in states do something where you get a discount on your insurance if you go into like an employee health management clinic where you get like a health screening and you are followed. If you do those things, you get discounts. So it's not necessarily you are ten bucks higher or lower if you're not eating right. But if you are expressing a willingness, and then participate in a plan, you then get a benefit, a discount. And I think some private folks that are doing that find that it works.

MR. MAWBY: Yes.

GOVERNOR BLUNT: This looks to me -- to be a skeptic, I think everybody has a responsibility to make sure their state programs like Medicaid and in Missouri, Missouri HealthNet, are focused on prevention and wellness, and the obvious responsibility of what's in the school lunchroom. Obviously, it's a government responsibility and that's really an area where government may hope to provide some healthy choices. You said ten dollars per person. If we spent 57 million dollars in Missouri on diabetes in general -- it is so caught up in personal responsibility, I just don't think that would make a difference. I guess, I'm a skeptic to the idea that spending 57 million dollars on diabetes in general is going to get people to make the right decisions about a disease that is so behavioral and driven by behavioral choices.

MR. MAWBY: I think that's fair and I don't think that I advocate running right out and spending ten dollars per person in each of your states. But I do think the problem is that it keeps getting worse. And it may not be spending ten dollars per person but the notion of education. In Medicare for example, a few years ago we succeeded in getting coverage for medical nutrition therapy, basically diet counseling for people with diabetes. At the same time that the Medicare program is screening people and if the person is screened and comes up with pre-diabetes, which is a clear track towards diabetes, they get no benefit for nutrition counseling. So they get this test twice a year. After that we sort of watch them progress to diabetes where you're not so -- I understand, and it is a very personal decision, very personal. Doctors will tell you that it is the hardest, one of the hardest diseases to manage.

Just because you see a doctor two or three times a year and the rest of the year, you, the person who is heavy or obese or has diabetes is responsible for all of that. But I do think that if we intend to address it at all and I said that somebody gets diabetes every 20 seconds today, the trends are that by 2025 they will be getting it every seven to nine seconds. So we can choose to ignore that at our peril and we need to find ways that work that fit. You know, from my perspective it isn't a conservative or liberal issue. It's a practical issue and we have to be practical thinkers if we are going

MR. CONROD: Thank you, Governors. Thank you, Mike. Let's turn our attention to our next private sector speaker. The issue this time around is going to be manufacturing. In particular, the burgeoning manufacturing in the South, regionally speaking and in particular today, we want to focus on the aerospace industry. With us today we have Paul Meyer, Vice President of Northrop Grumman's tanker program and Ralph Crosby, President and CEO of EADS North America. I'd like to begin, if I can, with you Paul and ask you to talk about your company, your initiatives in the South right now, and your views burgeoning aerospace industry and what that means to the South.

MR. MEYER: Thank you, David. Governor Manchin, on behalf of my colleague and I, I want to thank you for the opportunity here to be a part of this tremendous setting here at the Greenbrier. Governor Kaine, Governor Riley and Governor deJongh, and Mike for allowing us to be part of this forum. I think we do have a message. And a message that aligns very well with your gramatic for common ground which is what we would like to get your prospective on today. Because we have an opportunity, some of it even goes back to Mike's point because we are talking about some significant aerospace manufacturing jobs that changed Southern demographics. They changed the opportunity to the people in your region. It's also known of our well-established corporate sponsorship of health issues, for our workforce to be part of some of these solutions that you have been talking about. But the opportunity that we are here to talk about today is the KC-45 Tanker. The air force has made their selection on what is essentially a gas station in the sky that our military depends on to either support national or

international disasters or conflict abroad. At risk without it, we would not be much of an international capability as our leadership position in the world. So we are here today.

We have brought an opportunity that may or may not appear for the next decade or two for the South to bring forth an opportunity that could bring up to 48,000 new jobs nationwide and up to 20,000 within the Southeast. That is a tremendous opportunity to get well-paid, enduring, significant opportunity for the Southeast. The KC-45 Tanker, for its inception, was for 147 aircraft that will start immediately, as soon as the government can get the contract reworded. We won once. It appears that it will be awarded again at the end of 2009. A tremendous opportunity as we have spread our self all along the eastern seaboard down through into Texas, up into the State of Missouri, through Tennessee and back to the east. And again, we look at up to 15,000 direct jobs associated with this opportunity in the Southeast alone. What we are asking for are some ideas on your behalf. Is there an opportunity for us to unite? Because since the '90s, our aerospace market has collapsed, it has moved to its hubs to its centers, mostly to the west and the Southwest.

Very few opportunities have emerged as new programs of this magnitude for an order of over 100 aircraft over the next ten years will be a dominant opportunity economically, as well as technically, for the region. We are drawing in engineers. It will draw in manufacturing capabilities. It will draw in suppliers at a significant level and by nature will continue to grow. Ralph will talk a little bit more about that second chapter. Because, indeed, we are the catalyst. The KC-45 is the catalyst to a much broader opportunity. So what I would like to do is now let Ralph expound on that second chapter because, indeed, this is a tremendous opportunity. It's worth 35 million dollars on its initial award and that was over about a 15-year period. Think about that much potential coming through this particular region. Ralph.

MR. CROSBY: Thanks, Paul. I think you described well the specific catalytic of opportunity. I would like to speak a bit more generally first and then get specific. The general part of it is sort of the characteristics of aerospace and the opportunity that it brings to the region. As Paul has said, there is an opportunity to coalesce. There is an opportunity to look at the features that are associated with aerospace manufacturing and understand those which I think gives both impetus and importance to what might be called the Southeastern aerospace corridor. Paul mentioned a number of characteristics of aerospace. Highly capitalized, persistent, multilevel local supply chain, long cycle, and all those things add up to mean and let me put the other factor that I know is of much interest to you all as it is to us, really well paying jobs. Probably Governor, in your state on the average -- Governor Riley -- 30 percent of all the above median income is the average aerospace employees take-home.

So there is kind of a generic interest here, I think, that all adds up. Because once you get started, it's not a consumer product. This is something that, again, goes with those characteristics. It endures. The industrial activity that follows endures. So the one that we are talking about, I speak from a perspective of a large diverse aerospace manufacturing company whose ownership includes airbus and includes AeroCopter. We have significant experience in both making commitments here in the United States and meeting them. I will just say that, Haley is not here, -- Haley, in Columbus, Mississippi, has demonstrated exactly what I've said. We built a helicopter facility there and went from zero to 300 employees in three years, also a whole concentric array of suppliers that goes around that in an area where there was previously nothing. In this larger application, the manufacture of very large commercial aircraft, which is what Paul is referring to, from our perspective brings all of that and tendering all of that and that to me seems interesting. Now, the truth of the matter is, in this world, there

are only two places right now where that activity takes place. One happens to be it Toulouse, France. The other happens to be in Seattle, Washington. The opportunity -- the catalytic opportunity that Paul was talking about is an opportunity to bring that manufacturing capability to the South and the Southeast with the concentric inevitable when you can't find exactly who is going to go where in supporting industrial activity. You just know it's got to be there. And that's, of course, been the history.

If you take that general to the specific, as Paul said, "You need a catalytic event." You don't just decide tomorrow that you are going to build 36 to 42 large twin-aisle commercial aircraft in a new place. The tanker opportunity has caused us as a corporation to focus though on - okay, if you make that investment, what else ought you be doing? So while we are talking about it in terms of the specific opportunity Paul mentioned, a maximum of 12 to 15 aircraft produced a year in modernized, altered,-- again, producing about 15,000 in the Southern corridor. But what we've decided, as a commercial aircraft manufacturer, is that we will produce commercial freighter aircraft at the same place. So instead of, okay, we're going to build an airplane here for one month, we're going to build 36 to 42 aircraft a year in hope that two thirds of those will be commercial.

That sort of statement is very high leverage with the region that we are talking about, because those 36 to 42 aircraft will create a capability that has all the characteristics that I have said. It will endure, it will create high paying jobs, and it will become a unifying aspect. I believe in the Southern aerospace corridor and we are committed to doing that. We have looked very closely at the existing supply base and I'll tell you the choices are pretty square on that. The choice is that these 20,000 jobs come to the Southeast or they go to the northwest. And that's the issue that we put on the table here and we have great support. But this is a catalytic event and the northwest is fighting the Southeast for this. And quite frankly, we believe by adding to the military side of this, which is a governmental decision, a commercial decision that we have made could triple the throughput that will come through this Southern activity. And the immediate beneficiaries, because of where we have chosen, starting out of course with Alabama, and Mississippi being adjacent to Florida, there is a tremendous beneficiary. In West Virginia, Governor Manchin has shown his appreciation to us because we will take the highest technology that we have, the refueling apparatus, and build it in Bridgeport, West Virginia and bring a very deserving investment of 350 jobs to this important state. That example has the opportunity to be extended across the Southeast. And I will tell you if you look at Seattle today, if you look at Toulouse today, you will see a concentric building of an infrastructure that goes on and on geographically. While we may have a global infrastructure, I'll tell you, like so many impracticalities of communication and transportation matter. So we view this not as a point opportunity but a unique one to change the face globally of large commercial aircraft in the aerospace industry. And of course, we both solicit all of your opinions on that. You are all, in one way or another, directly beneficiaries of this, some more than others. I will tell you the future is bright if we can get this going. Thank you.

MR. CONROD: Thank you, Ralph. Starting with Governor Kaine this time, do you have any questions or any thoughts on this in terms of --

GOVERNOR KAINE: Yes, just briefly. The particular issue is one that I think all of the Governors here believe strongly in. Having aviation and aerospace expertise in the Southeast is a powerful thing. So we have worked together and we have been in support of it. I think on this particular project though, it's an even higher priority that we all share, too. We want the military to make the right decision for our men and women in the service. That's the real issue. We don't want them to make the wrong decision to benefit the Southeast, but we think if they make the right decision, it will benefit the Southeast. That's

the top priority. Again, we've worked well on this one and I want to continue to. Maybe I'll take it a little more general still.

We're talking about manufacturing ability in this cluster in the Southeast or any other significant manufacturer. There is a lot of talk about the death of manufacturing and manufacturing jobs leaving. We're seeing, all of us, so real advancement in manufacturing opportunities are really coming about. Governor Riley has said a couple of things this morning in a prior conversation that I thought were really powerful. Two trends are happening right now. One is dollarization, which is a term that I heard for the first time about a month ago. The weakness of the dollar against the euro, and some other currencies, that have made capitol investment in the United States incredibly powerful for foreign capitol looking to plant a flag in North America and serve a North American market. If they have euros and they want to invest in capacity, they can get a big bang for the buck here. So there is a lot of dollars, international dollars, chasing manufacturing deals right now. And that stands to all of our benefit. I know we've seen that. I wondered why in Virginia, so many of our development deals were with foreign parent companies. You know, why is that the case? Well, that's where there is a lot of money chasing investments right now. That's real important.

The second thing is the new transportation cost realities are changing the kind of manufacturing and distribution model to some degree. And we have to adjust to the transportation costs that are problematic in certain ways but there are some other aspects where we should seize the opportunity. The notion that you build something one place in the world and you ship it all over the world, with shipping costs going way up, maybe what you do is you build it in more places nearer where the end-users are and not have to ship the parts, not have to ship the end products. And we are seeing that also in Virginia. I think if we had the human capital systems that we'd need to produce the kinds of workers and engineers, technicians that you would need. For all of us, that was the topic yesterday that Jim led us through, workforce development. We got into the capitol systems. It's a very powerful time for us in the Southeast now because of where the dollar is because of transportation realities, but we have to be able to take advantage of it. You know, aviation and aerospace is a great long-term industry because it is so tied in with both military might and success but also commercial and economic competitiveness that, of course, you would not want the center of that in the United States to be over on the other side of the coast. So we want to do all we can to make sure the Southeast is a strong player as well.

MR. CONROD: Thank you, Governor Kaine. Governor Riley. Questions or comments?

GOVERNOR RILEY: I know this is going to come as a shock to everyone, but I am somewhat biased on this. What Tim said a moment ago must be paramount. The first thing that we have to recognize is that we have young men and women today flying tankers that their grandfathers flew. We've already postponed this seven years. And if we don't pick the best plane, this time we may postpone it for another five or six years. We are talking about planes that are twice as old as the young people that are flying them. If we ever get back to the point in the United States today when we say we are going to have defense contracts based on what particular area of the country it benefits the most, then I think we are going down the wrong track.

When we get back to the point where we say that Congress should have the ability to determine where jobs are more important, the Pacific Northwest or in the South... I think what these gentlemen said a moment ago is absolutely true. This is not a question of if it will happen, it's when it happens. The difference between building one point three tankers per month or building five wide-bodied planes per month, almost forces a new dynamic that has never existed in the South before. And that dynamic is

this, if you can build a plane in the Southeast today and you can, you have the option whether you are in Europe or whether you are on the west coast. Come and build that new plant, that supplier plant in proximity to the assembly plant. If you are in Europe, you can come here and build it for 40 cents on the dollar. More and more European companies now simply have no options. We have to make this investment. So the investment is going to be made. The only thing that we have to determine is where it's going to be made. The United States Air Force has said this is the best plane. It has more mission capability, it carries more fuel, it carries more cargo. It is the best plane. This is the one we want. The only, and underline only, the only downside is that we will be employing Southerners rather than people from the specific northwest. Now there has been some talk of, well, is this good for national security. Let me ask you. Today the gentleman said a moment ago, you have only two places in the world that builds these big wide-bodied planes: Seattle and France. Given the option to start a whole new sector, economic sector, in the United States where we can not only have competition for the next ten, fifteen, twenty, thirty, forty years, but also have twice the capacity to build planes than we have never had before. How in the world could that be a detriment? That's probably the most positive thing that we have had. Plus, it's going to make sure going forward that we always have competition on all of the planes that will be coming down the pike over the next generation. I preface everything I say with this; you have to always pick the best plane, but once you do that, the very idea that we are going to allow politics to determine where that plane is going to be built, even to the point that we will say that we are going to put that American fighting man or woman in an inferior plane, defies logic. This is not partisan. This is not a Republican/Democrat debate. This is about an area geographic debate.

One of my best friends is as passionate on the other side, Norm Dicks. We've got Republicans and Democrats. This is about whether or not we are saying that the people in the South cannot build a plane this sophisticated. Yet in Alabama today, we build and develop rockets. We build the rocket that put the first man on the moon. Sure we can. It's not about that. This is about protecting jobs for a geographic area of the United States. That is indefensible.

I hope we as Southern Governors can come together and say, this is an opportunity not unlike what we did with the automobile sector. Ten years ago, eleven years ago, we did not produce an automobile in the State of Alabama. This year we will produce over 800,000. Today we have more international companies coming to Alabama than we have ever had in history, basically because we have proved that you can build a Mercedes and have the highest quality Mercedes in the world and it comes from Alabama. A lot of people think that we can build other things. Every one of us has had the opportunity over the last few years to watch and see what happened. We have moved from a textile economy to a high tech economy and aerospace and aviation is next. We can do the same thing we have done with automobiles in these specific circles that are going to be developed. And they will be in Virginia because you can't afford it today. With fuel prices as expensive as they are, you can't afford to ship these products to the assembly line from the northwest, from Mexico, California, or from Europe. You are going to have to have folks within a few hundred miles.

I think this really is one of the greatest opportunities the South has had in at least the last 20 or 30 years with the exception of automobiles. I think we can look back 10, 15, 20 years from now if we get this, and this is just the first. This means we will continue to have the ability to compete for public platforms for Internet development and what they will mean today. They won't even exist other than on computers. This is something that I think is as great an opportunity as we have seen in a long time in the South. I think this is exactly why this organization exists, Republican Governors, to say that we -- Southern Governors', we are going to stand up for what's best for our area, Democrat or Republican.

This is a debate we need to win for a lot of reasons. One is because, without a doubt, this is the best plane and it offers the best components for our military. I hope we never -- if congress does -- if congress does this, it will be the first time in the history of this country that this has ever happened. As Southern Governors, we need to demand that you pick the best plane, and you build it, wherever. Because the jobs are going to be the same wherever we can do it, lowest cost, where it's more efficient, and where we can get all of those assets over to our fighting men and women.

MR. CONROD: Thank you, Governor Riley. Governor Manchin.

GOVERNOR MANCHIN: You've already said it, haven't you? You've done a good job. Let me just say this, and then I'm going to ask Ralph a question. You know, that's a compelling argument we all find stirring. Tim and all of us understand that there are jobs involved and to hear on the other side I guess, it's fair to say that we understand while you all are for it, because you have the gate in your state and we're all looking for these quality high-tech jobs.

Bob articulated basically starting a whole new economy in the United States of America, especially a noted economy that's going to have a lot of legs to it for many years in developing these high-tech structures in the South, which has not always had these opportunities.

With all that being said, you're competing against a company that's called Boeing, which is not some fly by night company. Most of the people in the world fly on their aircrafts. All of that being said, you need to say, and I think you already did, it's already been tested by professionals. Not just us up here saying you have a superior product. Who made the evaluation and decided that your product was superior over the Boeing Company and at that point in time it was awarded, based on its merits and then it was stopped because of politics and now it's going to be reevaluated because of politics and you are hoping to get back based on merit?

MR. CROSBY: Let me give part of the answer and then I will give Paul part of the answer. The good news is that we are not the only people in the world who need aerial refueling tankers. The good news, and the answer to your question, is before the United States began its' competitive process, four other nations had had their competitive process in which that particular Boeing aircraft, the 767, competed against a derivative of the A330 aircraft which is the foundation of our bid here in the United States. Oddly enough, of those four nations, all four of them you would believe would be most closely aligned with US products and US manufacturing. They were the United Kingdom, Australia, Saudi Arabia, the United Arab Emirates, and each one of those unambiguously -- the product which is very, very, similar to the one that is being offered to the United States today, was selected and selected unambiguously.

Now as to the process that we have gone through here in the United States, I think I'll let Paul -- Paul is the man who both has the knowledge -- and frankly, I want to make it clear while I speak with some authority on this because I have been involved for a long time, the prime contractor, as it must be for this aircraft, is the leading systems integration house in not just the United States, but in the world and that's Northrop Grumman. And the fact that I have taken those wins and then had those four wins translated into a set of capabilities that were then subsequently integrated by Northrop Grumman, I think, is an important piece to this. Paul, maybe --

GOVERNOR MANCHIN: If I could just interrupt you there. Based on what you are saying and in a sense we make it, we know the product that you are planning and producing is a superior product. You

are basing that on four other countries that have evaluated and they have selected it, but didn't the United States offer an evaluation process?

MR. CROSBY: Yes, and I was going to let Paul speak about that as the prime.

GOVERNOR MANCHIN: Oh, I'm sorry.

MR. CROSBY: He's going to talk about the competition for the United States that's been going on now for about a year and a half.

MR. MEYER: This started four years ago when we came together with this partnership. At the time, our higher ups faced some skepticism that EADS in North America would truly be able to pull this off when you think of our competition. But in January of 2007, we received an RB. Both teams had equal opportunity to bid and present their best option, their best cost, their lowest risk, and it was the attributes decided by war the United States Air Force vetted by the Department of Defense. February 29th of this year, we were announced the winner. We won four out of five categories. Now there were some process errors. So indeed, there is going to be a re-compete.

But I think what we did bring to the table, -- let's not forget Northrop Grumman. We build most of the satellites that defend this nation, we build half of the submarines, all of the aircraft carriers, and we do a lot of defense-integrated technology throughout the United States today that defends us from cyber attacks from other enemies of the state. So when we brought this powerhouse, Northrop Grumman, and we brought this powerhouse EADS together, we found a partnership. We also found a partnership that has history, when Northrop Grumman used to build the majority of the commercial fuselages for Boeing until eight years ago when we sold that business. So we know that business. We know the integration aspects, we know the customer. And there is a significant portion of what goes beyond what has been sold to the United Kingdom, Australia, Saudi Arabia, and the UAE, a year into making this platform to make a US Military system. So we won that once.

Again, there were some issues with how the Air Force prosecuted the process. So when you look at Boeing, you should look at Northrop, because Boeing has international partners as well as America. We look at this as merely another example, much like our own business, as a broader perspective of globalization. And again, what is demanded by the American public? The best product at the best price. I think that's what we offered. That's what the customer, the first time around, decided they wanted.

What we need to do, as Governor Riley said, is not let this get politicized. And let the fairness of the system which has been in place for a long, long time with the Department of Defense, and let this be destructed by this geographic or demographic element here that wants to foreshadow and change the way we as Americans have freedom of choice, as well as freedom of speech, and opportunity by fairness in competition to uphold this next round.

GOVERNOR KAINE: If I could, I just want to cut in. Again, I am very supportive. I am a little worried that the presentation is too much battling over a determinate that is happening at the federal level. The audience is here to hear more generally about innovation. And you guys have innovation, quality, and a great story to tell. I think Bob said it, and you just said it. The main criteria should be the quality of the product for our fighting men and women and not letting congressional politics, regional politics, or anything else, get in the way of making the decision based on quality. But I hope to maybe end the discussion. Mr. Meyer, I would like to maybe have it be at the higher level and not really just

back and forth on procurement because that is what is going to happen on the federal level. And we are here, all of us have been weighing in on that, but I think for the audience, it's a broader discussion on innovation and I would like to get on that topic.

GOVERNOR RILEY: Tim makes a great point. If you look at the boom and you look at the facts of what this plane can do, it is innovative. It's the best in the world and I think everyone -- we just got back from the London Air Show. One of the things that really impressed me there is that whether you were a competitor for Boeing or a supplier or what, on whatever question, which one would be the best plane, not one time in a week in London, but if you look at the boom that will be built, I guess in West Virginia --

MR. MEYER: Bridgeport, West Virginia.

GOVERNOR RILEY: It's the most technologically advanced boom in the world. That's what I'm saying. This is a huge sector. This is a new type of plane, new type of refueling system, and it really is a generation ahead of our competition. We shouldn't be penalized in the South just because it's going to be built here.

GOVERNOR deJONGH: I think when you get to me, we can do nothing but generalize. Unfortunately, we have not gotten to the point where we have an aviation or aerospace industry. I can tell you that probably one of the most enjoyable parts of this job for me, and I will assume for a lot of the others, is every year at graduation when you stand up with the high school graduates, shake their hands and you ask them about their future and they are all excited. Which is something yesterday was about; the workforce.

Probably the most difficult part of this job is the number of funerals that I have to go to in a given year for our military men and women. One of which I have to go to next week. So for me, probably the most important is whatever is happening, be it at a level that is in the best interest of our military personnel and then let the human process go.

The Virgin Islands as a territory, our relationship with manufacturing is really dictated by the Organic Act that establishes our relationship with the United States. And manufacturing for us right now is really in the distillery business, the oil refinery business, and we are beginning to look at other areas in terms of what we can begin to attract, particularly given a limited land mass. The tax incentive programs are ones that we are marketing, particularly with the dollarization, looking at foreign corporations that are interested in investing in a US subsidiary that has the benefiting of them entering the US market at a tax competitive basis is what we see the opportunities for.

But more importantly, that is starting at ground zero, which then goes to the issue of jobs and making sure that we have the workforce that is necessary to really compete, whether it be within the United States or for us, it's really with our Caribbean neighbors to make sure that we are able to compete with them on an equalized footing. And that goes to the whole issue of career and technical training, just building up that capacity. But for us the manufacturing innovations associated with that really stems from our approach about legal things more than anything else.

GOVERNOR BLUNT: I just wanted to say maybe to begin the discussion on manufacturing, I know that manufacturing is alive and well in the United States. The United States still produces about 25 percent of the world's manufactured products. That was the case about 10 years ago, 20 years ago, 30

years ago. It's a number that has been very static. Obviously, technology will do that with fewer people and that creates some dislocation. But if we provide the right environment, the United States can be even better at manufacturing. That's when my state passed things like tort reform, worker's compensation reform, we've exempted utilities for manufacturers. In fact, there is a recent report where Missouri is actually ranked as the best state in the country for manufacturing. We also ranked fourth for international investing as we are seeing some off the effects dollarization with one of favorite manufactured products, beer, recently in my state. We also are having a really large aviation and defense industry, obviously, already there today, with an entrenched company whose name has already been mentioned. And it really does have a great impact on our economy; I can attest to that. I was visiting with some folks on the line where they make the C17. That's just one platform that has a billion dollar impact on Missouri's economy. And these are high-wage, high-skilled jobs that are exactly the sort of jobs we want Missourians to have.

In regard to the contract, I think we all want a process that is fair and has been well said by everybody, we want to ensure we select the best platform for our American fighting men and women and I am confident that Secretary Gates will lead a process that does that. I don't think he makes political decisions and I don't think he will as he selects this platform. But this is a very competitive global industry. It's an extremely competitive global industry. As we saw opportunity come through my state, sometimes we won and sometimes we've lost. But what we need to be doing as states to ensure that we get those assembly plants and those part manufacturers, what do we need to be doing in education and workforce development and economic development to ensure that we have those opportunities.

MR. CROSBY: Let me just offer a compliment to the people that are on the stage, because while it's not so well known, Bob Riley certainly knows this, for all the reasons that have been discussed, number one we are committed to bring investment, to bring the industrial requirements, to bring in sub-contracts, and again sub-contractors based on those states. And that's not a business stupid place, that's a business-enlightened statement because with the euro at 1.6 it only seems to make sense. Particularly, when all the things that we are talking about get sold and denominated in dollars. The compliment goes this way.

When we decided what we were going to do and what we were going to do was - we ran a competition in the United States and we had bids and offers from 32 states, 75 bids. I will tell you that the foundation for everything about the Southern aerospace corridor comes down to where were the places we wanted to go. Quite frankly, I won't mention the states but when it came down to our choice of Alabama for the Centroid, the competitors were only the Southeastern states and we are trying to unify. And there is a congruence of interest here. We want to be with you. You've got the workforce. You've got the forward leaning educational system. You've got the drive. That fits well, I believe with this proposition called the Southern aerospace corridor. We're not stupid. We're not going to try to do this someplace where you have an aged workforce, and aged industrial approach, and fly out of the states into places where innovation is really taking place. And to answer your question Governor Blunt, the answer is a welcoming environment which includes policy relevance, which includes a delightful environment for families to live and a set of educational systems and incentives - I'll mention the word incentives -- so that when we hire employees to fill these 20,000 jobs, we are going to create in the Southeast that they are going to be qualified. And a general resonance among the locales, and maybe I should say states, that understand that there is this opportunity to create a new infrastructure. And I will say again, this will not happen, the opportunity to coalesce - now I don't give up anything in terms of the capabilities of the airplane, and we've talked about that.

But what I will talk about is when we build the A330 freighter in the United States, it's only done for commercial reasons and the choices that are being made are being made by your alliance who want the best and most efficient plane. I'll tell you that that airplane today has a backlog of more than 425 orders. If you want to talk about the other guys in terms of the minority of the platform that is being offered, it's about a tenth. And so we want you all to be a part of a long-term, persistent, progressive, successful aerospace environment where we can take advantage of the things that you asked about Governor Blunt because I see that they are here. And man, Columbus, Mississippi, is a podunk town. We've got people clamoring to get there to build helicopters for the United States Army, which is what we are doing. We're going to build 325 US Army helicopters right there in that facility where there was no manufacturing activity three years ago.

GOVERNOR RILEY: This is literally the same debate that occurred in the South 25 or 30 years ago on automobiles. We have Hyundai, Toyota, Mercedes, and Honda in Alabama today. They are great corporate citizens. They are an international company, but they're making products in Alabama today that employs Alabamians, so as far as I am concerned, these are American workers.

MR. MEYER: I would like to add one more comment to this. The way this is voted, and again it's a very contentious competition, but again should this be politically decided, the ramifications and domino effect it may have after this dollarization. Because again, we in aerospace and many other industries you see are rank and file. The potential reaction could be devastating to us because in particular our aerospace industry, the US Government buys a product from us for 30 years. We are an entrenched organization in St. Louis. It's almost entirely dependant on international sales for those aircraft they build today. And should there be retribution because of a political attitude, I think we must advise our congressional leadership to balance the rhetoric because the retribution will hurt each and everyone of us as leaders, as well our people within the United States.

MR. CONROD: Thank you, Paul. Thank you Ralph and Paul. With our remaining time, according to my schedule we are supposed to bring this up to a more broad high-level discussion of innovations and trends. I thank Ralph and Paul for getting us started with aerospace. That was just fabulous. With that said, this is really a free for all opportunity where Governors can talk about whatever they want with respect to innovating new programs in which our states really believe are truly exceptional examples of leadership, thought leadership, invocation whenever it's practical for policy, whatever it might be. So I will start with Governor Blunt and ask if there is anything that you might want to tease to the surface as an example of excellence in your state?

GOVERNOR BLUNT: I'd be interested in hearing and seeing how the other Governors are using technology to streamline government. That said, we have tried to consolidate. It was right when I took office that we had information technology divisions in essentially every department in state government, which didn't make much sense. We were replicating lots of work, buying in multiple contexts the exact same software.

So with the information technology consolidation we've really increased our level of service and at the same time, we have realized tens of millions of dollars in savings on annual business for taxpayers. I also launched a new transparency. We've been able to create a site called mapyourtaxes.org. Basically, you go into that site and track any government spending. You can type in any government employee's name, for example, and see all of their reimbursements. After this conference at The Greenbrier, you will be able to see how much I was reimbursed for my expenses here. I think that is the sort of transparency that citizens want and that our technology allows us to provide. I am sure any of the other

Governors have some great examples of what they are doing with that technology. So I guess I might given my -- with that question.

MR. CONROD: Governor Kaine, you said occupational technology in your statement.

GOVERNOR Kaine: Sure. The one that just comes to mind that we use -- and I love the idea of click on and map your taxes and reimbursements. It's a great idea. So we will be stealing that one soon. The one that we really liked and I think if anybody has five minutes just do "Virginia Performs." Goggle that and check that. We have a performance management system that is technology driven that does basically three things.

First it sets out, essentially the grade card for the state. What are the indicators in terms of quality of life of Virginians that should tell us how successful we are and with each of those indicators you can see whether we are improving, maintaining, or worsening. If you punch the line indicator, you can see why we think it's important how Virginia compares with our neighboring states, how we compare with the national average and how we compare with the best state in the country, if it's infant mortality or third grade reading scores or traffic congestion, incarceration rates. We put that up there so that every state employee and editorial page and every citizen can always look at it and see how many of the areas we are going in the right direction and how many are in the wrong direction. You can then get that on a regional basis. So, for example, we know in Virginia just because things are okay on average, it doesn't mean that every region is doing well. You might want to drill down and find out how a county, or a city, a region, or congressional district is doing in the state compared with state averages.

And then the final thing we do on that site is we link it into every agency. I forced every agency to have more than three measures that really express the core of why you exist for the public and that can't be any process, they can't be how many meetings you have, or how hard you are trying, or how good your intentions are, they have got to be things that really matter in terms of measures of outcomes for citizens. What's the measure? Where are you now? Where are you going to be next year? And then the citizens can always track that and see how everybody is doing. We use that technology platform to make every decision. So my first year as Governor, I had a surplus. And I had to apply the surplus. You know, that helped me decide what were the high value investments and frankly, what were the low value investments. Now I am in round three of budget cuts as revenues have slowed. And we don't do across the board, so I did a 300 million dollar mandate in a 1.4 billion dollar round up and I'm about to start to do another one. That number hasn't, as of yet, been determined but it won't be small. So when we do the cuts we use that performance platform to decide where the cuts should take place.

Again, it gives up a prioritization of what is important and what is not important. And it is proven to be very, very, valuable for us in taking tough decisions that could be either politicized,-- you know you should cut something in an area where they didn't support you for Governor, or cut something because these legislators aren't supporting you, -- it's taken out of the politicized and it's also taken out of the rough, well, everybody is taking the same percentage across the board, and really made it performance based. So that would be something that we really, on a technology basis, that we've used. Because you can't assemble all that data and make it meaningful without really strong technology and that would be something that we have done that has just made some tough decisions a lot easier.

MR. CONROD: Thank you, Governor Kaine. Any other thoughts or questions on technology, innovations, and trends in the application of technology?

GOVERNOR RILEY: One of the things we are trying to do in Alabama and we've made a tremendous amount of progress in the last two or three years, is we are trying to have a single point of entry for an individual that needs government assistance. Someone went back and calculated that if a man lost his job or he had to go out and start over and needed help, he would have to go through eight different agencies, which makes no sense.

So working with Microsoft now, we are coming up with a single point of entry where you can access mental health, the departments of human relations, food stamps, work information, retraining information. Because I think, ultimately what we exist for, is to help someone get through this process. When you have eight or nine different agencies that a person has to go into, so many times they don't even know what is available.

We're trying to come up with a program now where a single mother with a couple of kids can come in - lost her job - we can work through every available option that may be available to her to keep her going and help her get back into the job market. But as much as anything, to just see if we can't take out a lot of the obstacles and impedances that most people have. The second thing and this is something that I hope that if you haven't done it, you should look at it. It was amazing to me when I came into office that we had 110, 120 million dollars worth of workforce development money coming from the federal government. We would have eight million dollars in the Department of Education. Twelve million in the Department of Investment Relations. We combined all of that and then combined it with the state match. And now we have a single point for workforce development job training. And it really has streamlined our process and our ability when a company does come in, to go live up to their expectations for job training. It has given us now, rather than nine different workforce training programs and job training programs, we have one and it allows us now to do job specific, company specific, and even product specific training that we couldn't do before.

GOVERNOR MANCHIN: Maybe some of the Governors have gone through or are going through, or already have a program in place that centralizes. We are centralizing now all of our computer systems into one. And with that, we get pushback, if you can imagine. They want to keep their own identity or ownership, especially the constitutional offices or the court, the judicial system. So we are fighting all of this because we want real-time. And for us to make the decisions, Tim that you've talked about, you've got to have real-time with every agency available. So when you want to do this or invest here -- I am anxious to hear. Was your system in place when you arrived or was it something that you all had built?

GOVERNOR KAINE: It was Governor's -- it was a real signature achievement of Governor Warner's that was in place structurally. But we are still having growing pains and challenges. Just like you said, in Virginia, it was the colleges that didn't want to be part of it.

GOVERNOR MANCHIN: That's part of it because education is stand-alone.

GOVERNOR KAINE: Right. They want to stand alone, but we now have most on the same platform. And so yeah, Governor Warner really gets credit for that, putting it in place. We've been about implementation. And Northrop Grumman is our great partners in this. Northrop Grumman and another company, CGIA Medicine, and they really have done a very good job with us. And as part of what they have done, they have opened kind of a broad part of what they've done, they've opened up a sizable facility in Russell County, right down on the border near Kentucky and West Virginia where they have a number of employees there. We migrated 700 state technology employees from the state payroll to the

Northrop Grumman payroll. And that changeover happened in July of 2006 and there was a lot of angst about that. But once the folks migrated over, suddenly they had a lot of opportunities within Northrop Grumman where some of them were topped out in state government. So now they are in Northrop Grumman, a world where they can do exactly what they are doing and do it for a long time or if there are other opportunities they have those, too.

GOVERNOR MANCHIN: And the reason I am saying, Tim and Matt, and I want you all to know, is that we are transforming. As we do that, it's something that we identified as high priority. It's a 60 million dollar transformation for us – which is a commitment. We made that commitment. I've made it, and put money aside to do it. And now it's just getting it done. Getting everyone on the same page that's wanting to do it. So we call on you all to use the successes that you've had to help us sell the project because I think we are coming to amounts that watershed yours was.

GOVERNOR deJONGH: One of the things we are doing is, in addition to looking at breaking up the separation of our departments with information technology. We had 23 departments and about 10 agencies that dealt with that. Is that at the same time changing our financial management system? So we are doing a dual process of changing our books to the general ledger, just the basics of government and what your reporting everyday and at the same time breaking up the silo. So it really does become somewhat of a challenge and implementing the performance measurements to make sure that we are, in fact, accountable to the west and to the Virgin Islands. And it really is causing people to look very differently at their jobs. It's causing them to look at their skill levels and at the same time how we spend public funds and how we can streamline the process to where instead of having three systems, I now have one that is able to streamline the process much more effectively.

So we are going through that pain on several levels, which is causing us to make some changes in terms of our personnel right now.

MR. CONROD: Governor deJongh, while you are in motion don't cool down. Yesterday, there was a lot of talk about the importance of a pretty strong dynamic between the public sector and private sector for partnerships, business partnerships. In your state, you have a tremendous partnership with Diageo for production of rum and that involved competing with the other rum producing islands in your region. I wanted to know if you could talk a little bit about that process, how you developed your proposition and the dynamics of that partnership and what it's going to mean for the USVI.

GOVERNOR deJONGH: I feel guilty. I just talked about health care a little while ago. One of the advantages that we have as a US territory is that rum manufacturing is one of the areas that the US Congress gave to the Virgin Islands. When we were purchased by Denmark back in 1917, there was a host of various Organic Acts that determined our relationship. And the last one, after several other changes, has allowed for rum production to be an area that what we can do is produce, ship it to the US market and we receive back the excise taxes associated with it. So it's an industry that has jobs but the revenue potential and promulgation is tremendous. And the value that for many years,-- since the late 40s we have depended on one rum manufacturer that has been through a number of ownership changes from a corporation to sole proprietorship, family owned, to a government entity that just sells one of the entities in the world. And our concern is at the same time, we are dealing with our Caribbean neighbors who are our friends on many other levels but they have the capacity, unused capacity, of almost a third which makes it much more competitive for them to also be a part of this business and their manufacturing is subsidized by UK Commonwealth.

So, we had to determine, one, how do we compete and at the same time because of the fact that as a territory, we don't have access to a lot of the federal dollars for Medicaid, and for hospital disproportionate payments. We needed a revenue stream that would tide us over for a period of time while we looked at other areas like manufacturing to grow development. So we approached and were approached by one of the largest rum manufacturers, Diageo, in terms of looking at a partnership where we could give them the incentives to locate within the Virgin Islands but utilize that partnership in a way that we leveraged excise taxes that are coming in four years later as a means in which to produce a manufacturing facility that can then start using within the next two years. So what we were able to do is enter into a very long-term relationship where the next 30 years, St. Croix, Virgin Islands, is their home for production and anything entering into the US market. What that does for us is that the period of time that we are looking at the weakness of the dollar or we are looking at stabilization for flack payments with respect to the federal government. In our case, reduced payments. The drop will impact our businesses, particularly in the tourism payments. So a lot of our receipts really come from the northeast shore of the United States. So if there is any impact there, we feel it in two months, two to three months. This relationship gives us a chance to put dollars back into the economy while we transition into some other industries all together.

So it's a relationship that is with the largest spirits manufacturer in the world. So that gives us a certain comfort level where we don't have to use the strength of our financing, our balance sheet financing, for what we accomplish with other people.

MR. CONROD: Thank you, Governor.

MR. MAWBY: Just use the mantra, everything in moderation.

MR. CONROD: Let's keep that theme going with the other Governors. Governor Blunt, you very often have seen the end result of these tremendous public/private partnerships. But if you'll offer here the inside scoop on the dynamics about getting past what you view is an exceptional partnership, what made it exceptional, and how it got put together and what the results are. So if you have any examples like this, something that you think was just tremendously well put together and it's generating good results, we'd like to hear about it.

GOVERNOR BLUNT: I think in general, particularly there is infrastructure and construction. States are going to move forward you best be looking for public/private partnerships. And in our state there is the student loan authority. There is a lot of history to it that really is quite remarkable. It's one of the largest in the country. And actually, I guess Virginia sold their student loans in the 80s, I believe. And we sort of looked at that market and began to sell part of our assets on the student loan boards and loans were made to non-Missourians and allowed us to bring on about 350 million dollars to invest in infrastructure and our campuses. So we're merging every campus in the state. There is a significant capitol improvement module under way because of this partnership between the state and what's called the Missouri Education Loan Authority. There are a lot of details, technical details, on how it all transpired. A lot of public discussion because it was such a massive transaction it obviously generated public concern that we tried to deal with. We certainly had the support of a lot of student organizations and higher education leadership. And I think those folks -- innovative financing was really required to progress the states future to move forward.

MR. CONROD: Governor Manchin, same question. Partnerships, anything exceptional, especially if there are some dynamics about how it came to pass in your state?

GOVERNOR MANCHIN: I look at it from the standpoint that I would say that every time a private company makes a decision, they are going to have a partner at the end of the day. It's going to be a partner you never negotiated with, you've never set down terms or finances, or any of that, and it's always government.

So everything that happens in my little state, we end up being the partner and in any other state you end up being the partner. So they want to make sure they pick a good partner. Somebody with the mindset of a marketable for my return. A pretty good example in my state is energy. And it's something Tim is taking starting tonight and he will take it in his reign as SCA Chair and it's something that we are all proud of. My economy is not geared for four and five dollar a gallon gas. It's just not. And our people can't withstand it and nor do the increase of growth for them to absorb it. That being said, I believe that energy is a crisis that we are facing right now and with a common denominator. So I have companies coming all the time because we are energy rich in natural resources: coal, natural gas, methane gas. We have a little bit of everything. We are net exporters of power. We keep most of the east coast warm if you will. They depend on it.

But with that being said, we don't mind the heavy lifting but we still think there is a responsibility to the environment. And we believe that we have to have a renewable portfolio. Realistically enough, until the fuel of the future comes along and Washington is still debating, we are going to be moving forward. We are going to be putting products on the market. We have just basically been working with Consolidated Coal Company. SCS has announced the first commercial coal liquefaction. What we are going to be doing is making methanol from coal and gasoline. The methanol will support it. The chemical industry is strong in West Virginia. The gasoline will go to the market to offset some of the cost to stabilize it.

I have never been more frustrated or felt more helpless as being Governor and then these high rising prices and there is nothing that we can do. All you can do is try to explain why there is a difference of ten cents across the street or it's varying twenty cents a week. It's awful. Until we stabilize gas and make sure that we use our coal for a base load. Make sure we bring our renewables up with research, but that research and technology for our university; I put 35 million dollars for research for energy into our land-grant school, WVU. With that they're partnering now with these companies in. Let me just tell you what I told them. I said, "If you're going to turn an investment in this process in our land-grant school, in our research institution, our research corporation, if I was you I would do it with a caveat. Rather than just giving a state meet or any other state money make sure when you put that money in, you bring your engineers or scientists to help pursue and push this. If not, it will slow down to a government pace. And it will not get the results that you are looking for."

So we are doing that and we are going to push the envelope much further than they are doing in Washington. We are going to find the ways to sequester the way to use CO2. Take all the heavy metals, we have to make another private fund for that. And that's all doable. And also, we've got to know what we are going to do about cleaning up the environment. That's all. We cannot do it by ourselves nor can the private sector move it to the degree and then do it, but together we can help happen in West Virginia.

MR. CONROD: Thank you, Governor Manchin. Governor Riley, Southern Business and Development Magazine has named the State of Alabama for the fifth time in six years, state of the year. I was just wondering if you could talk a little bit about the innovations that made that happen.

GOVERNOR RILEY: When you talk about partnerships, there is no partnership that's more important to the state, in my mind, than the business community. And we do look at it as a partnership. I had a relatively normal life until when I was 52 years of age and ran for office. But I remember that in every business that I had, I almost got to the point where I viewed the state government and the federal government as an adversary. It doesn't have to be that way.

If Northrop Grumman comes to Alabama, I'm convinced of one thing, we look at it as a partnership not only because of the investment we will make initially with the incentive package, but it is a really simple philosophy; if you're productive, if you're profitable, if you're successful, you'll continue to grow, you'll continue to expand. It's something the state government, probably more than anyone else -- see if we can't communicate the problems. Make sure that we are moving obstacles to their success. Whether it is a company that has ten employees or ten thousand employees, the state can make a huge difference if you look at this as a partnership.

A lot of times there are just simple things that you can do that are critical to each one of these companies. But we have developed now an attitude in the State of Alabama that any business there, anything that we can do to help make them profitable, that is our first priority. And as a result, I think more and more people have begun to look at not only Alabama, but the South as true partners in these relationships. I think we do have different workers than they do in other parts of the United States. I think that's one of the reasons if you look at economies growth.

If you take 17 Southern states and you combine all of their economies it becomes the fifth largest economy in the world. So I think the South today is leading the nation in economic development. And what we need to do is understand that unless we continue to look at this economic partnership and continue to do things to make each one of these companies successful, -- if we get back into the mindset that a lot of other sectors in the United States have adapted or adopted in the last few years, if you get back into protecting through restricting our ability to trade with the rest of the world, than we really can do considerable harm to the economies that we have and the partnerships that we have. Thank you.

MR. CONROD: Thank you very much, Governor Riley. Governor Kaine, yesterday, and forgive me if I paraphrase on this, you said that even though it's half of the battle, human capital is more valuable and that's where you put your emphasis in Virginia. You also said that with that said, having that done and connecting that human capital to the global economy and the global market is the other half of the equation. That sounded like one of your unique approaches and I wondered if you would talk more about that.

GOVERNOR KAINE: I'd be glad to, David. I think politicians are very oversimplified. So forgive that but I do say my economic philosophy is human capital plus global connections. And that's just simple. What we see increasingly in Virginia -- the deals we do, really match those together. So, one that we have done recently, and it's kind of a pattern because there are now others that are matching us, was Rolls Royce had a competition, English parent, North American subsidiary. They had a competition among many states and counties to build the next generation civil aviation aircraft somewhere in the world and those chose a community about 25 miles south of Richmond.

We loved it because it was a global connection with this foreign parent and I echo what Bob said, we have to change the American political mindset. Not just in America, we see it in other countries too. They kind of shrink from the term globalism or you hear it and you duck under a table; what are we going to lose next? We've got to just say we are the most productive workforce in the world, we are

going to compete, and we are going to win. You've got to be aggressive global competitors. So that feature of the Rolls Royce deal we loved but it was the human capital side that sold it. It turned out that the taxes incentive package, the site locations and all that was fine. But what really helped us was that we put together a consortium of engineering programs at UVA and Virginia Tech and Virginia State, building an engineering academic facility right on the campus where the plant would be that will turn people, and most of them will go to work for Rolls Royce. The whole lot of them will get an aviation expertise and they will go to work with Northrop Grumman or they will go to work with Orbital, which we just landed a deal with Orbital to do rockets on the eastern shore at Wallops Island.

So the deals now are starting to be deals that really combine a global connection feature with the human capital investment feature. And again, I think the human capital that we talked about an awful lot yesterday and we're all fairly into this, that will be the only guarantor of success in this world are the advances in human capital.

But I do really want to stress the global connection. We are fortunate in Virginia. We've got the second most active port on the east coast of the United States in Hampton Roads. We've got an international airport with 400 non-stop flights a week to foreign cities.

And again, we are a state that began with venture capitalist chartered by King James who decided that they wanted to go find global economic opportunities; Jamestown Island. So it's 400 years of global trade is what Virginia's story is. But the political tendency now, in the United States, and when I was in Europe, when Bob and I were in Europe together, I was seeing it over there, too. To kind of shrink back and be nervous about this is something that we really have to fight. You know, we need to push globalism. We don't have to be suckers or you know. We have to fight for the protection of intellectual property and fair labor standards and environmental standards. But we are not going to be successful in a posture where we are kind of shrinking back from the rough and tough global competition.

You know, just to use the deal that we were talking about earlier on the aerospace side. I mean this is a great example of global partnership. The aviation industry is one of America's great exports. We are an exporter of aviation to the rest of the world. It's a core confidence and expertise that we have. The more we can do here the more we are going to be exporting to other nations. The dollar situation is helping businesses. I bet all of our states that never thought about being in the export businesses ever before, are exporting now because of the dollar situation and because it's just easier to find those opportunities.

So that's the basic framework that we use. Human capital plus global connections and if we can find either public sector investments or private sector opportunities that combine those two features, then we will push because we think that's where the puck is going, as Wayne Gretsky used to say.

MR. CONROD: Thank you for your comments.

MR. CROSBY: I would just like to make a comment that really picks up on what you said, Governor Kaine. All industries aren't created equal when it comes to innovation, incubation, technology, and engineering. One of the things that we think and I know Jim Gayia, he's a great friend, and I really respect his decision to move South of Richmond with this activity. It's what you get to do in critical mass in the business arena; you get automatically an inevitable, necessary, fundamental relationship with the educational institutions in the locale. When you get critical mass you bring, automatically, R&D dollars because if you are a government contractor, it comes. And it's an industry that recognizes, particularly where there is competition and if we don't innovate and invest, we don't survive. So we're

pleased to hold up our side of the bargain, because with what we think we bring -- let's just use both of them for an example. Whether or not we ever build the first tanker in Mobile, Alabama, Bob Riley in the state of Alabama is going to have 150 airbus engineers and the most modern engineering center that's been built in the Untied States in the last decade because that's what we brought along with us to bring innovation and our contribution to the community. Sure, that's a plug but we aren't all created equal as far as that's concerned.

GOVERNOR KAIN: It's important to underline so there is a 360 relationship we think of the university and the education system as helping business. But the businesses that come in then help the education system get better. They demand more. They push more. They make investments that wouldn't have been made. So if you can every economic development deal as a way to push your education system a little bit farther than they were, you really have this 360 degree with each side helping the other get better.

GOVERNOR RILEY: It is getting to be more and more that way. The president of Auburn University was in my office a few weeks ago. He was talking about how their business school landed their engineering school. They are going to require one year abroad working for the company. So the more that you have, the more companies that are going to locate in your home state, and the ability to co-own with people like Northrop Grumman, with Boeing, and with other people, is going to open up opportunities.

I don't think you will ever put the genie back in the bottle. This is a global economy today. We can either shrink from it, or we can embrace it with enthusiasm. Like Tim, I think we can compete with anyone, anywhere in the world. And that's what we have to do if we are going to maintain our leadership role in the world today.

GOVERNOR BLUNT: Just to validate what you said about the 360 relationship that Tim was talking about a little bit: education at colleges and universities and the corporate community. In Missouri, one of our -- it's been about three years ago -- Express Scripts is a large pharmacy benefits manager that works for many, many state employees and some of the states represented here. They were getting ready to move their global headquarters with this growth. And ended up, we convinced them to put their global headquarters right on the campus of the University of Missouri, St. Louis. The largest company in North America has headquarters right on our university campus. It is great a relationship.

Internships -- business professors are now doing work for the company. The edge for professional opportunities is obviously tremendous. So it's really beneficial. It's the sort of thing we are trying to replicate, really on a smaller scale quite frankly than this deal. We are trying to replicate it on campuses across our state.

MR. CONROD: Governor -- Oh, I'm sorry.

GOVERNOR deJONGH: One of the things that comes very easily with a public/private partnership is the advantage that I think we all see. I think there is another aspect to it sometimes, which is in an environment where energy costs are higher, our consumer and our residents are paying more. To be able to explain to them why you are giving incentives, why you are making investments in companies is what I think requires a tremendous amount of transparency that they have to get comfortable with. It also makes our job a lot easier. I know for us what we did was when we negotiated for a year, we were able, during that period of time to, one, show the businesses that we meet their certainty. I found very

clearly that what businesses want when they are going to partner with you is certainty. Because at some point there will be rough patches. When there is a level of certainty, particularly if you are dealing with the head, it sets the tone, it makes the relationship a lot easier. But when we were finished negotiating and we submitted -- we signed a contract. We went to the next level of ensuring that it was fully disclosed, we posted it in the website. We submitted it to the legislation, just so our community would feel comfortable with why that level of investment was required and why we had to do that to attract the income and attract the jobs that are extremely important.

And that has helped us a lot because on St. Croix we have the second largest amount of broadband capability within the United States. That goes to South America that goes towards, Spain, it goes to Central America. So beginning to have the partnerships also that will have companies come down and invest within those assets, again goes back to a level of certainty and transparency. It only starts, I believe, when you can convince your constituents that this is a worthwhile investment that the state or territory needs to do.

MR. CONROD: If I could go back to Governor Blunt, just for a moment. Yesterday, you mentioned that one of the things you are focusing more heavily on is STEM and specifically the disconnect between science, technology, environment, engineering and mathematics education in the private sector. Specifically, it's not matching up with the needs of the private sector as well as it could. You also mentioned that even beyond that there is an application today that you may believe there is more opportunity to make that better. I just wondered if you would comment on that.

GOVERNOR BLUNT: Like most things we see, we see in the STEM fields, I think, are the areas that are worsening. We're very strong on life sciences and biotechnology. We are not producing enough folks to meet all of those needs. Just to give you an example; Boeing, a company that has a large presence in Missouri, 40 percent of their engineers could literally retire tomorrow and they will tell you that. So I am not disclosing anything; they'll tell you openly. They are very concerned about that, obviously. So we have got to get more people into that pipeline of engineering and interests in science and technology and mathematics. On the teacher side of the equation, in the State of Missouri last year, -- and unfortunately this was repeated for some other fields -- we produced one high school physics teacher in the entire state of Missouri. There is no guarantee that that person is even teaching in the state of Missouri. But our system produced one high school physics teacher. I think when you look at other states, unfortunately, you won't find it much better. So that's an area where you really have to concentrate on and have some more concern about. I've also learned that, why us here probably understand because we talk about it, hold summits on it, and talk to business leaders and they'll tell you that it's a challenge and a problem. But our parents often don't get it. We get some -- leading up to a summit, the Kauffman Foundation which is based in Missouri was kind enough to do some studies and some polling for us. And disturbingly enough, most of our parents, in Missouri at least, think that our children are learning more than enough math and science today. They don't know that their kids really do need probably stepping it up by an entire year or two of additional math and science instruction in order to be competitive in the global economy.

So I think that's another area where we've got to use the bully pulpit to remind people that the reasons for the strength of the American economy are our own talent. That's a skill set that has a new concept to sharpen. We're trying to do that in our state. We have some very specific funding issues focused around science and technology in addition to just a basic education formula funding where we have grants for technology-based classrooms and the sorts of things that have been proved to work in terms of getting

kids interested in science and technology. After-school programs that require a partnership, a grant that the state will provide if you employ a partnership with a business sector partner that focuses on any kid interested in engineering again and other areas. We've got a number of those programs that are really a concerted effort. One that came out of that summit, is if you try and look at other countries and how they teach math and science, it is very stable, particularly in advanced nations -- Singapore -- that are our real competitors. It's very stable progression through everything you need to learn about math in the most basic points to advanced calculus. The United States has really a very scattered approach. We teach, re-teach, we sort of have a diagram that certainly is disturbing to look at.

We're trying to have a much more coherent approach. We have created something at the state level called the P-20 Council which brings together higher education leaders and P through 12 leaders, along with economic development officials to talk about what the skill sets that are needed today are, or what we think they'll be. Government doesn't do a very good job of predicting where the economy is going to go. We have a basic idea of what some of those skills will be. And in terms of a plan of action to ensure we are matching with those skills. And we hope that's replicated at the school district level. Because we found that elementary schools, K through 4, weren't talking to middle schools. Middle schools weren't talking to the high schools. So often a ninth grade teacher expected a student to know a lot more than an eighth grade teacher thought that they were supposed to teach. We are hoping that that can change across school districts as well.

MR. CONROD: Thank you, Governor Blunt. Governor Manchin, we will take our attention for the remaining time we have to summarizing how do all these ships and ports of thoughts and ideas and maybe make some recommendations. And I will use some of your words from yesterday, if I can, you said, "This is a tremendous opportunity this weekend. A chance to share best practices." You said, "Gosh, if we could just have one good policy idea that came out of the whole weekend, we really would be going somewhere." And so with that tone in mind, I wonder is there anything you are hearing today in terms of this overall discussion or threads or themes that seem to be things that we should continue in this format in the future.

GOVERNOR MANCHIN: Well, the format, I think, is excellent. For us as Governors to be able to sit and talk and also interact with our private partners, I was just afraid there, as we got off on education, we could talk for another three hours, three days, three months, because there is nothing with more frustration than education. Because, you know why? All of us here have very little to do with education. We have very little control over it because it stands alone. In my state, you know, I can appoint -- I appoint the members to the State Board of Education for long terms. They appoint their superintendent or superintendents are elected. It's a state constitutional office in most states.

So basically, Governors take a lot of flack on education but there is an awful lot -- a void that really doesn't have the right public policy control. So with that, I thought we could go on for a long period of time. I would say the things that my government can do, from my states point of view, I have picked up so many good points. I took some notes. I am sure my staff has, too. I hope so, anyway.

And I am sure that all the Governors here will tell you that just hearing the best practices that they have implemented, one or the other, I think we can -- as Tim says, we'll steal that from Matt. And you know, there are things that we have talked about here that we do to help each other. It's non-partisan. It Bob's doing something and we've seen it and it's worked for him. We're not going to try to reinvent the wheel. We're going to ask him to help us balance the wheel and make it run a little bit better. I think the car ran a little smoother. So with that I think it's been a great format. I know for the audience out there,

basically, we are dealing with real problems and the Governors have to make the decisions. We make decisions on a daily basis, an hourly basis, or minute by minute. And we are excited to do that everyday. And with that we want to fix things. It's inherent. If you didn't want to fix things and make it better, you shouldn't be sitting in these seats. I can guarantee that every Governor that I have met wants to make their state better and works hard at it everyday. Exchanging ideas makes that happen. I enjoyed the form. I hope that Tim, how do you feel about it, if you thought it was good? We'll go off with you.

GOVERNOR KAINE: Oh, yes Joe, very much. You've got some good ideas sitting around the table. One thing that just maybe that I would summarize on that really hasn't been brought up, we are having this whole discussion in the context of a very challenging national economy.

So it's very, very tough with energy costs, and that was referred to, health care issues, economic indicators and the credit market on Wall Street. The fed is wrestling with potential inflation. We are seeing inflation in the food sector. And then when you add to that international issues and the weakness of the dollar, we are in a very challenging situation nationally and it affects all of what we do. One of the things I like about the Southern Governors' and the profile of the South, is that I think we are kind of optimists.

You know as I deal with these Governors, I deal with optimistic Governors from all parts of the country, but we tend not to look at the tough times and have a hand dog attitude about it. Instead, I think we all probably have a feeling that challenging times give you more opportunity to make substantive changes. If dollars are just rolling in the door, it can be hard to change some entrenched patterns or agency practices that have been around, you know let's just keep on going.

But when times are tough and you start doing budget cutting rounds and recalling engaging in difficult discussions with people, you can find the political will in tough times to actually make substantive changes that then position you for much greater success when the economy starts to climb again. I always tell my cabinet, we make people happy when times are good and we earn our pay when times are tough. And these are earn our pay times that we are in right now but actually in kind of a paradoxical way. Higher energy costs, challenging economy creates more opportunity for more meaningful change rather than just kind, meager, minimal, improvements. I think the Governors that are up here were clear that our people want to use the tough times for opportunity for meaningful change and that's what we need to be doing at the state and what we need to be doing at the national level.

MR. CONROD: Governor Riley, any closing thoughts recommending innovations and opportunities?

GOVERNOR RILEY: To be honest with you, sometimes I wish we could do more of this because we don't have that opportunity as often as you might think that we do. But to sit here today and listen in on what's going on as far as performance budgeting and what each one of you are doing with private/ public partnerships, it truly is remarkable how similar all of our states are. I know there are differences and I know that we compete, but when you get right down to it -- Tom Ridge told me one time, he said, "You will never have a job that you will enjoy anymore than being Governor." And I think that all of us would agree.

Because you really can see it, if you run down a problem, go out, go bring together, and be able to correct that problem. That is a great opportunity for all of us. I think all of us take it seriously. It's not just as one Governor. None of us want to recreate the wheel, and no one wants to go back through the

process because none of us is going to be in office long enough to have to go through all of the learning processes. To be able to come to a function like this, especially, as Tim said a while ago, there is something unique about Southern Governors. I think we are more optimistic. I think we are more enthusiastic. I think we are from a part of this country that really does believe in the fundamentals that built this country and I think that's one of the reasons we have and will continue to progress the way we have.

MR. CONROD: Thank you. If you can deep fry a water balloon --

GOVERNOR RILEY: Watermelon not water balloon. We're not frying water balloons.

GOVERNOR BLUNT: I could have sworn that's what I heard.

MR. MAWBY: Speaking of deep frying. Can I make a point before you go to the last Governor?

MR. CONROD: Yes, sir.

MR. MAWBY: Just a couple of things. Especially, Governor Riley, I have been thinking about your question of just why haven't things improved, and are just getting so much worse. There is a saying in medicine to get at least a decade to get modern medical techniques from the bench, the research bench, to the bedside. It just takes that long for it to filter into the medical system for physicians to sort of adopt it as standard operating procedures. And there was, less than ten years ago, a major NIH funded study about a diabetes prevention program. It looked at people at risk for diabetes and spent time with them changing their diet and giving them a basic amount of exercise, not a lot, 30 minutes a day, five days a week, and it wasn't running, just walking. And that group was shown to be able to reduce the risk of progressing to diabetes by 58 percent. And so I think that there are things that can be done but we are still sort of behind that bench to bedside curve. And in the meantime, the other curve of obesity/diabetes is pretty steep.

So it feels like we are always behind. I think that there are, in fact, real world community based opportunities that exist to help turn this around. And a recent poll showed, just in the political context that, and this was just released a month ago by the Partnership to Fight Chronic Disease, four out of five Americans prefer health dollars to be spent on preventative measures as opposed to treating disease after the fact. And 81 percent believe that the US should prioritize our health care dollars to invest in preventive measures. So whether you are going to move -- you are not going to move wholesale dollars into prevention. But I think there is support among your constituents for doing something like that. and in the context of the health care debate at the highest level, the presidential level and congress where it always falls down around access and whether it's single pay or this or that thing. It may be the wrong question. The CDC has been recently quoted as saying the US cannot effectively address escalating health care costs without addressing the problems of chronic diseases. And so that's got to be part of the solution. And it's not just the debate we are stuck on between access or no access. It's chronic disease. We talk a lot about investment. It's an investment. It's going to take an investment in order to turn it around. I can't say how much or how pleased I am to have been invited to be part of this and be part of this talk with the Governors.

GOVERNOR RILEY: Mike, I've got to ask one question. Why is it that you looked at Tim when you said, "This has to be done at the highest presidential level?" Do you know something we don't know?

MR. MAWBY: Not yet.

MR. CONROD: We'll finish with Governors deJongh and Blunt. Before that we'll offer Paul and Mike a chance to wrap up and give us some brief closing thoughts. Something from the higher level, that would great.

MR. CROSBY: Again, I would like to say that we appreciate the opportunity here. We think we heard engagement that we appreciated and we wanted to hear. We heard the welcoming of the partnership, the opportunity, the optimism, and again we be a want to part of that and we look forward to that contribution as one in the future. Thank you.

MR. MEYER: I just appreciate the opportunity to participate with these enlightened gentlemen. This is the present and in many cases, the long-term future leadership of this nation. And what they bring to these forums is frankness, insight, and I think a whole bunch of honest appraisal. From my perspective, I hope that we have been a benefit of balance of what we identify as, -- well, I guess, I'd say the given fact that we have to offer in terms of potential vitality and contribution wherever we go and hopefully the recognition that there is a real balance that exists there. Leaving aside the specifics of the issue, we're proud of what our industry does and what we can do in the future in your states. So thank you very much.

MR. CONROD: Closing comments, Governor deJongh.

GOVERNOR deJONGH: I think the value of something like this is that it makes you realize that we are not out there on our own. I think that the discussion that we had yesterday and today really adds to that. As Governor Kaine said, I think many of our constituents look for us to be optimistic. I think they just live their daily lives and get up, they go home, and they go to work. They assume that everything else in between, we talk of whether it be the cost of fuel, whether it be energy costs, food prices. I know for us, for example, we are paying 41 cents per kilowatt-hour. That is a tremendous amount when you consider the disposable income of our territory. At the same time, the challenges of education we have to do there.

I am not as fortunate as some of my other colleagues. I am involved with the educational system. I appoint the Commissioner. I appoint the university board. I appoint the Workforce Investment Board. I appoint the Superintendents and sometime I even appoint the principals. So the whole spectrum falls right there and as I said, we have to deal with it on a daily basis. So the way that the session went for the last two days, I truly appreciate, because to talk about innovations, to talk about your economy, you begin to talk about public/private partnerships but only to get to the basic level. Just to talk about our workforce to make sure that we have the students, the population, the workforce that really can then buy in so that the jobs are there that we want in our economy. And the bully pulpit. I think that the fact that we have the bully pulpit whether it's for health care or whether it's for, in fact, promoting economic development partnerships and the relationships that we have for avenues and tools we cannot underestimate and its values to our constituents. I believe it gives them a tremendous comfort level with whatever policy we try to do. Thank you.

GOVERNOR BLUNT: Very quickly in close, I'd say it's been a good discussion. This really isn't something we get to do on a daily basis. These issues -- so very often in the Governor's office -- all of us are very focused on meeting problems and meeting challenges. It's good to have an opportunity to step back and have a broader discussion on a host of issues.

MR. CONROD: Well, for my part, I just want to say thank you to you all for being part of this semi-experimental, touchy, feely, living room setting. I hope it was productive. We were listening. This was a strategy here. We were listening and we will circle back with any thoughts and ideas you have to try to be more productive. With that I will turn it back to Governor Manchin.

GOVERNOR MANCHIN: David, let me say thank you on behalf of all of us. You have done a great job of facilitating this. I appreciate you. It's been a great discussion. I think you all have voiced and I feel the same. All will walk away with something you can use back home and work on to improve our states. But I want to thank you.

(END)