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Dear Fellow County Official,

Serving as President of NACo for the past 12 months has been a remarkable experience. It has been a great learning experience for me and both exhilarating and exhausting.

I have met with members of the Bush Administration, Congress, the media and the private sector. I am confident that those with whom I have met now have a better understanding about county government and county issues. My travels have taken me to many state association meetings to discuss issues and concerns with friends and colleagues. Those meetings also gave me the opportunity to make many new friends, whom I will cherish.

NACo has accomplished a great deal during the past year through legislation, grants and special programs to assist counties. The association’s finances are sound, although, like many counties, we face a constant struggle to produce the revenue we need.

One area of personal pride is the achievements that we have reached on my Presidential Initiative to Rebuild Rural America. The goal of the initiative is to improve access to economic development for the nation’s more than 2,000 rural and non-metropolitan counties.

We have clearly begun the process to improve that access through our partnership with the International Council of Shopping Centers, through the economic development forum and the Rural-Urban Dialogue that were held at the 2004 Legislative Conference, and through a special rural-urban program at the Western Interstate Region Conference in May. These were important first steps. The effort to assist rural counties will continue into the future and provide a great benefit to help rural counties improve their economies.

In this Annual Report you will find more information about the rural initiative, as well details about accomplishments, innovation programs and plans for the future. I hope that you find it interesting and useful.

I have had a great year, and I will miss the whirlwind of activity that surrounds the presidency. Thank you for letting me serve as NACo President.

Karen M. Miller
President
Dear NACo Member,

The past 12 months have been a combination of significant accomplishments and difficult budget decisions. Just like many counties, our revenue has been down. Our membership numbers are down as well.

But while we have had to find savings to meet our budget goals, we have not reduced our service to counties. In fact, we have enhanced our services and found new ways and new information to help you and other county officials to work through the difficult budget decisions you face.

This report outlines the association’s accomplishments, innovative programs and projects for the future. Through this report you can see how NACo works toward its goal of helping counties become more efficient and effective and provide better services to the citizens of our great country.

If you have questions about NACo or suggestions about how we can improve our service to counties, please do not hesitate to contact me.

Larry E. Naake
Executive Director
During 2003-2004, President Karen Miller led an initiative to rebuild rural America. This presidential initiative was aimed at improving access to economic development and sustainability in America’s more than 2,000 rural and non-metropolitan counties.

Under President Miller’s leadership, a joint Partnership for Economic Opportunity was launched by NACo and the International Council of Shopping Centers (ICSC) in November 2003. The partnership provides small and mid-sized counties with education and assistance needed to prepare them to attract and retain business. To implement the partnership, NACo and ICSC formed a Rural Markets Task Force. The task force was co-chaired by Second Vice-President Colleen Landkamer and brought together county officials, retailers, and developers to discuss business development strategies.

The first publication from the partnership, “Getting Started: Business Development for Small and Mid-sized Counties, Part One,” was released during an Economic Opportunity Breakfast Forum at the 2004 Legislative Conference. Also advising counties on economic development strategies at the forum were representatives from the National Rural Electric Cooperative Association and the Center for Rural Entrepreneurship. Miller promoted these efforts in several states, and as a result several state associations requested assistance and are conducting similar events at their conferences.
President Miller’s goal is to have this partnership and dialogue between these groups continue in the future.

During her leadership at NACo, Karen Miller has been a consistent voice for strengthening rural America through partnerships. As President-Elect, Miller brought together representatives from six state and local government organizations, including the National League of Cities, the National Conference of State Legislatures and the Council of State Governments. In August 2003, she broadened this effort by co-convening a Multi-Sector Rural Leadership Dialogue. This meeting brought together representatives from over 25 groups to discuss the future of rural America and ways to collaborate.

In support of this Presidential Initiative, NACo also conducted surveys and released several new reports. These include the “Rural Grant Funding Report” (July 2003); “Micropolitan America: A Brand New Geography,” with the Metropolitan Institute at Virginia Tech (March 2004); and “Assessing Your County’s Readiness for Economic Development - A Guide for Rural Governments” (March 2004). Work also began with Ohio State University on a rural economic development survey.
Top 10 Accomplishments

■ NACo’s Push for Aggressive Forest Management Pays Off

The Healthy Forests Restoration Act (HFRA), which was signed into law late last year by President George W. Bush, will help prevent destructive wild fires. NACo has urged aggressive forest management for many years to improve conditions in the nation’s forests, but recent devastating wildland fire seasons gave new urgency to the argument and led to a national consensus that something had to be done. NACo worked with a coalition of concerned organizations, including the National Association of State Foresters and the International Association of Fire Chiefs, to shepherd the bill through Congress.

HFRA gives the USDA Forest Service and the U.S. Department of the Interior needed tools to treat up to 20 million acres of land most at risk of catastrophic fire, insect infestation and disease under expedited processes. County officials, in particular, have a leadership role under the provisions of HFRA to approve Community Wildfire Protection Plans, which clear the way for the streamlined procedures to be used.

■ U.S. Communities’ Savings Reach $55 Million in 2003

U.S. Communities, NACo’s cooperative purchasing program, continues to grow and provide significant cost savings to counties and other local governments. In 2003, the program saved local governments $55 million on total sales of $359 million. Since the program began in 1996, local governments have saved more than $350 million. Presently 11 contracts are offered on the program, including office and school supplies, office furniture, classroom furniture, tools, electrical, data and communications, technology, carpet and flooring, playground and recreational equipment, janitorial supplies and procurement cards. Any county may take advantage of the program.

■ Rural – Urban Partnership Initiated

As part of her Presidential Initiative, Karen Miller promoted common ground and collaboration between rural and urban county officials. Believing that both groups – and
NACo – are stronger when they work together, Miller chaired a “Rural-Urban Dialogue” in March 2004, a first official meeting between the leadership of the Rural Action Caucus (RAC) and Large Urban County Caucus (LUCC). Participants learned about the power of rural and urban members of Congress and how it affects NACo’s legislative agenda, and they explored a joint strategy on TEA-21 reauthorization.

At the 2004 WIR Conference, she led a general session program designed to promote understanding between urban and rural jurisdictions in the West. And, at the 2004 Annual Conference, the members of RAC and LUCC will hold a joint luncheon focusing on rural/urban political demography and the 2004 election for U.S. President. President Miller’s goal is to have the partnership and dialogue between these groups continue in the future.

**NACo Receives $100,000 Homeland Security Grant**

In March 2004, NACo won a $100,000 anti-terrorism grant from the Department of Homeland Security (DHS) to provide education, training and technical assistance to prepare counties for a terrorism event involving weapons of mass destruction. With the funds, NACo will publish a county best practices series, produce a toolkit for county officials, offer workshops, promote local public-private partnerships for terrorism preparedness, and connect county officials with intensive DHS-sponsored training for local officials.

**County Leadership Institute Initiated**

The inaugural County Leadership Institute was held June 2-5, 2004, in New York City, focusing on the critical issues facing counties that require leadership that extends beyond individual counties. This new program, to be offered annually, is a joint effort of NACo and New York University. This year’s 25 participants were recently elected county officials and veteran NACo members who served as a program advisory group; future program attendees will be selected by NACo in cooperation with the state associations of counties.
Annual Conference Exhibit Booths Sold Out
Exhibit sales for the 2004 Annual Conference and Exposition in Maricopa County, Arizona, sold out in record time, creating a waiting list of companies wanting to showcase their products and services to county officials. As a result, revenues from exhibit sales will exceed budget projections.

“Members Only” Section of Web Site Created
Seeking to provide counties with more value for their membership, NACo created a “Members Only” section on NACo’s Web site, www.naco.org. Included in that section is a Grants Clearinghouse, which contains the latest federal grant opportunities for which counties are eligible to apply and will provide additional information, references, and links about applying for grants. Through the section, members also will have access to all NACo publications, as well as helpful information on media relations and lobbying. In the future the section will enable members to communicate and discuss issues with other county officials, staff and members of Congress.

NACo Approves Prescription Drug Discount Card Program
The NACo Board of Directors approved in May the creation of a Prescription Drug Discount Card program for member counties. An evaluation committee of county officials had worked for eight months studying discount programs and reviewing proposals for a NACo program. The committee recommended that CaremarkPCS be chosen as the vendor for the program and the Board concurred.

The program is a one-year pilot with 30 counties participating. It gives participating counties total freedom in the use of the discount cards. The cards are free to participants and can be given to seniors, county employees or any resident. The cards provide from 13 to 35 percent off of full retail prescription drug purchases and participants could save up to 50 percent on mail order purchases. If the pilot is successful, NACo will expand the program to all members in 2005.

NACo’s Deferred Compensation Program Ranks #1
NACo’s deferred compensation program, administered by Nationwide Retirement Solutions (NRS), placed first among its competitors, according to a study released last fall. The study, conducted by an independent firm, reviewed the fixed annuity option offered by NRS and its eight largest competitors and concluded that the NRS program provided the best return to county employees. NRS has maintained its number-one ranking for 15 consecutive years.

The independent study is only one feature of NACo’s 457 deferred compensation program that distinguishes it from others. NACo’s program is the only national deferred compensation program with an advisory committee consisting of program participants who provide program oversight. The NACo program is the largest deferred compensation program in the country for county employees. Deferred compensation is a voluntary retirement savings program that allows county employees to save regularly, on a pre-tax basis, for their futures.

New Training on Rural Transportation Planning Offered
NACo trained approximately 100 rural county officials this year to more effectively participate in the statewide transportation planning process mandated by TEA-21. The project began in September 2003 and complements NACo’s legislative objectives on TEA-21. It is a partnership with the National Association of Development Organizations and is funded by the U.S. Department of Transportation.
Goals for the Future

■ Presidential Initiative on Affordable Housing
Under this presidential initiative, President-Elect Angelo Kyle will focus on assuring accessibility to quality housing and home ownership opportunities, particularly for America’s first responders – police, sheriffs deputies, firefighters, emergency medical technicians, as well as teachers. NACo is capitalizing on existing partnerships with the National Association of Home Builders and National Association of REALTORS®, and implementing new ones with the Fannie Mae Foundation, Freddie Mac, and BIELINSKI Builders, to strengthen the initiative. A survey assessing housing affordability for county employees is already underway.

■ Presidential Initiative on Reducing Health Disparities
President-Elect Angelo Kyle also will lead a Presidential Initiative in 2004-2005 to educate county officials and the public about disparities in health care across America. Successful county strategies that reduce disparities, increase access to care, and save counties money, will be showcased. County partnerships with community health centers, as well as health prevention strategies, will be highlighted.

■ Presidential Initiative to Create Web Portal to Share Applications
Under this Presidential Initiative of President-Elect Angelo Kyle, NACo has partnered with Microsoft and Hewlett Packard to establish a Web portal for NACo member counties to share best practices, request for proposals, solutions, architectures, and application source code. This web portal will reside at NACo, and counties representing the NACo Information Technology Committee will serve as lead counties to demonstrate and get this project off the ground. Member counties will maintain their own intellectual property on this portal, and access will be restricted to NACo member counties. This knowledge base portal will serve as a community/collaborative environment facilitating the sharing, rework and enhancement of government solutions.

■ NACo Supports Funding TEA-21 Reauthorization at $318 Billion
The reauthorization of TEA-21 has been a top priority for NACo for the past several years. The NACo leadership, the Transportation Steering Committee, the Rural Action Caucus and the Large Urban County Caucus have all participated in lobbying efforts aimed at getting NACo’s policy issues adopted in the legislation.

The U.S. Senate and House of Representatives leadership acknowledge that until a final overall funding level is agreed upon, little substantive progress will be made in the Conference Committee on the reauthorization of TEA-21. At $318 billion and $284 billion respectively, the Senate and House are far apart on a final number. With the White
House saying that it will veto a bill over $256 billion, the gap and the political problems loom large.

NACo supports the $318 billion level due to the outstanding needs for highway and transit improvements that will ease urban congestion and improve safety on rural roads. NACo will continue to work with Congress, the Administration and local government groups interested in transportation issues to secure passage of the legislation.

**Remote Sales Tax Collection Moves Closer to Reality**

One of NACo’s top lobbying priorities came a step closer to reality last fall as Senators Michael Enzi (R-Wyo.) and Byron Dorgan (D-N.D.), and Representatives Ernest Istook (R-Okla.) and William Delahunt (D-Mass.), introduced the Streamlined Sales and Use Tax Act. The legislation would permit states to require out-of-state retailers to collect state and local sales taxes, provided that state law conforms to the multistate Streamlined Sales and Use Tax Agreement.

The agreement requires simplifications in the administration and collection of sales taxes, including state-level registration and collection of taxes and a limit on local tax rates. It is estimated that states, counties and municipalities will lose an annual $45 billion in uncollected sales tax revenues by FY 2006. NACo is working with states and the private sector to finalize the text of the bill and the Senate Finance Committee is expected to take action this year.

**Four – Year Internet Tax Moratorium Sought**

Last fall, it seemed certain that county governments would lose several billions of dollars in revenues from existing telecommunications taxes. Language prohibiting taxes on telecommunications used to connect to the Internet was included in H.R. 49, a permanent extension of an existing moratorium on Internet access taxes, which passed the House of Representatives without dissent. Counties scored a victory, however, when Senators Lamar Alexander (R-Tenn.) and Tom Carper (D-Del.) forced the moratorium to lapse and insisted on negotiations to amend the legislation prior to it passing the Senate.

In April, a compromise was reached on a four-year ban on Internet access taxes that covers broadband access as well as dial-up, but explicitly exempts telephone calls placed over the Internet. The Senate legislation (S. 150) grandfathered existing taxes on Internet access for four years, grandfathered taxes on broadband access for two years, exempts taxes based on income, capital stock, net worth or property value, and requires Internet providers to separately account for charges for Internet access from taxable products and services that are sold as part of a bundled transaction. Negotiations are stalled at the moment, but to obtain final passage, final legislation will have to be much more similar to S. 150 than to H.R. 49.

**Implement New NACo-ESRI GIS Grant Program**

To further enhance the benefits of membership, NACo has developed a new GIS grant program in partnership with ESRI. GIS or Geographic Information Systems are a tremendous help by allowing counties to plot county data...
archives geographically. The software facilitates efficient decision making in many areas such as homeland security, tax assessment, watershed planning, sustainable development and a multitude of other uses.

Through the program, GIS workshops will be held at state association meetings in Arkansas, Iowa, Missouri and Nebraska in 2004. Any county official can attend those workshops, but only NACo members will receive GIS software, additional online training, data and publications through the grant.

This new program was successfully tested at the Wisconsin Counties Association meeting in the fall of 2003. Sixty-eight county officials attending a two-part workshop. It is a follow-up to a very successful GIS grant program done in partnership with ESRI.

■ County Leadership Handbook to be Updated
The County Leadership Handbook, first published in 2000, will be updated in the fall of 2004, in time for distribution to newly-elected county officials. This popular handbook has five sections devoted to leadership perspectives; communications know-how; administrative savvy; information technology; and budget and finance basics. NACo and state associations will be able to distribute the handbook free of charge electronically and through CDs and hard copies.

■ New Telephone System to be Installed
At its meeting in December, the NACo Board of Directors approved funding for a new telephone system to replace NACo’s existing system which is more than 17 years old. The old system is failing, and the manufacturer no longer makes parts for it.

Having a dependable telephone system is critical to NACo. The scope of this project was to purchase and install a new system using the existing wiring and network infrastructure.

The new phone system must be capable of supporting future NACo needs, such conference calling and unified messaging, which combines voice mail, fax, and e-mail messages through a single user interface, as well as Internet Protocol Telephony capability, which can provide telephone capability for remote users.

Key objectives were developed and used to generate a request for proposal, which was sent to six bidders in March. Bids were received and evaluated by a staff team. Siemens was selected as providing the most value. In addition, US LEC was selected to provide local, long distance, and data circuits in support of this new phone system. The new phone system will become operational by August 2004.
■ **ENERGY STAR® Courthouse Campaign Launched**

In March 2004, NACo launched a new program to encourage energy efficient practices in county buildings and nationally recognize county leaders that achieve success. The campaign is designed to demonstrate how energy efficiency can save counties money and improve the environment. The program is made possible by a grant from the U.S. Environmental Protection Agency.

■ **Partnership Established to Provide GIS Expertise**

Since January 2004, NACo has been providing a new service to members on Geographic Information Systems (GIS) through a unique partnership with the Institute for the Application of Geospatial Technology (IAGT). IAGT has placed a full-time, professional staff member at NACo who carries the county perspective on GIS to federal agencies and provides training and technical assistance to county officials. NACo pays only office expenses.

■ **Online County Wage and Salary Information Available**

NACo is creating an interactive wage and salary feature on the NACo Web site that will allow counties to select from among the various positions included in the survey and with a series of clicks find the minimum, maximum and median salary for that position in counties by population size and by geographic region. The site, which will be part of the “Members Only” section, will also provide information about the compensation of elected officials in a similar process.

■ **Health Care Initiative Helps Manage Liabilities**

Managing health care costs, which are increasing annually at about 14 percent, is one of the most challenging problems facing counties today. The NACo FSC, in partnership with Strategic Funding Solutions (SFS), offers a program that helps county governments better manage their health care liabilities. SFS has developed a proprietary strategy that quantifies health care, workers’ compensation, and other health care costs incurred by employers. Future health care costs are converted into a more manageable budget item that may yield significant savings through this program. The value proposition for
counties is predictable budgeting, converting a previously unknown, volatile amount of health care costs into a more manageable budget item, allowing benefit administrators to manager proactively these risks and expense, along with meeting recent GASB reporting requirements

■ Financial Planning and Retirement Services Program
To help protect and manage retirement assets, the Financial Planning and Retirement Program provides professional financial advice to assist county employees and their families prepare for their economic future. This voluntary program is endorsed and monitored by the NACo FSC and has been developed to help meet both short and long-term investment goals through competitive financial products and services that are reasonable in cost. Offered by local financial advisors from Waddell & Reed – a well-respected investment management firm – this program is designed to complement a county’s deferred compensation and retirement plans while addressing questions that help identify employee financial issues, concerns and goals. The NACo FSC seeks counties that are interested in this voluntary employee benefits program who want to retain valuable employees focused on their financial wellness.

■ Debt Collection Program Returns
After a two-year hiatus, the Debt Collection Program was re-launched in early 2004 with a new partner. The NACo FSC worked with Hamilton County, Ohio, on a public procurement process which selected MAXIMUS as the new provider for the program. The public bid offers counties and other local governments throughout the country the ability to piggyback on Hamilton County’s contract. Under the agreement, MAXIMUS offers contingency fee-based collection services for receivables such as child support, ambulance/EMS charges, court fines and fees, and parking and moving violations.

■ Human Resource Program to Help Rural Counties
The Human Resources Program, through NACo FCS, offers products and services designed to help small and rural counties avoid human resource related risk. Through a consortium of firms led by CPS, a joint powers authority dedicated to improving human resource services in the public sector, the program offers services such as pre-employment background checks, employment skills testing, employee handbooks and manuals, 24-hour employee hotline, public officials’ liability insurance, and internet based office ergonomics tools.

The FSC Advisory Committee has directed staff to work with ICMA on a potential strategic alliance to provide services jointly to NACo and ICMA membership. The FSC board of directors will review a draft agreement in July at the annual meeting.
NACo Ends FY03 with $668,000 Surplus

NACo consolidated financial operations ended the 2003 fiscal year on December 31 with a $668,000 surplus, but that surplus was $130,000 short of the budget goal. Early in 2003, it became apparent that revenues were in trouble. Cuts of 6 percent ($1.3 million) were made off the spending budget through hiring freezes and other measures, but still the association found itself short of its goal by the end of the year.

Revenues were down by 1 percent from 2002 and 7 percent from budget. As with many associations last year, NACo experienced a decrease in conference attendance — 18 percent drop in revenue as counties struggled to find funds for basic operations. Royalties, advertising and contribution income also decreased over 2002. On the top side, investment income increased 44 percent over last year and budget and income from rental operations was also up.

Expenses rose by 6 percent in 2003 due to increased costs for marketing for-profit entities and from information technology needs. Management and administrative costs continued to increase and reached 24 percent of total spending in 2004. This is primarily due to increased spending for information technology upgrades and security.

The year ended with net assets and membership equity up 7.1 percent over last year. Reserves reached $9 million — 47 percent of total revenue. Of this amount, $5.1 million is restricted by the Board of Directors for the future purchase of real estate for NACo headquarters.
Membership Numbers Drop Below 2,000

As of June 1, NACo had 1,975 members. Seventeen new members have joined NACo this year for a total of $55,910 in dues. Ninety-three counties have cancelled membership this year with a total of $121,167 in dues. The total cancellations are at a 10-year high surpassing the 92 cancellations that occurred in 1996.

NACo is planning two major mailings to nonmembers, state association meeting visits and highlighting exclusive member benefits to bring the total membership above 2,000 before the end of 2004. The exclusive member benefits include a GIS grant program, the new “Members Only” section of the NACo Web site and the Prescription Drug Discount Card Program.

Justice Assistance Grant Program Improves through New Legislation

With major input from NACo, the House of Representatives has approved legislation (the Justice Assistance Grant Program) that consolidates the Byrne Grant Program with the Local Law Enforcement Block Grant Program and provides for a new systematic approach toward combating crime. The House bill makes substantial improvements in the process by which counties and cities resolve disparate funding allocations.
NACo Internet University Joins GOLEARN

NACo Internet University has joined forces with the Federal Government’s e-learning Web site (www.golearn.gov) to give the county workforce even more courses for lower prices. The separate NIU website no longer exists, but the same libraries of hundreds of courses in IT/computer skills and professional skills are still available on the GoLearn site.

Achievement Awards Program Continues to Draw Interest

Following on the footsteps of a successful new marketing strategy used in 2003, NACo again used major outreach for this year’s Achievement Awards programs. Ads were developed for the State Association magazines and articles appeared in County News. A section on the NACo Web site advertising “Award Season at NACo” was also created. Contrary to expectations of a major decrease in the number of applications because of the continuing tight county budgets across the nation, 680 applications were received, only a 5 percent decline in the number of applications for 2004. Many of the first timers from last year have submitted applications again this year.
**NRS Receives the NACo President’s Award**

In 2004, Nationwide Retirement Solutions (NRS) was presented with the NACo President’s Award for Corporate Excellence. This award recognizes corporations committed to outstanding service to counties. It is presented to companies that have demonstrated a deep corporate commitment to empower counties, county employees, and communities while advancing strategic business interests.

The 2004 Award was presented to Nationwide Retirement Solutions for its long-standing business partnership with NACo that enables county employees to save for their retirement. Since the beginning of the NACo/Nationwide partnership in 1980, more than 400,000 county employees have taken advantage of the NACo 457 Deferred Compensation Program, administered by Nationwide Retirement Solutions.

**Corporate Membership Program provides great investment**

NACo’s Corporate Membership program, consisting of 115 of America’s leading companies, remains the best investment a company can make in the county government market. Corporate members represent a broad scope of industries including communications, health care supplies, financial services and transportation.

NACo’s Premier Technology Member program includes 15 organizations that provide information technology services and products to counties. These members meet with the NACo leadership, participate on NACo’s Information Technology Committee, and make presentations at conference workshops.
NACo’s
Strategic Plan

1. Advocacy – To maintain NACo’s position as the most powerful voice for counties in Washington, D.C.

2. Membership – To retain and expand membership through timely programming and the delivery of quality services.

3. Communications – To communicate with priority audiences in a manner that supports a positive image for counties and NACo

4. Products, Resources & Services – To develop and offer innovative products, resources and services that support county government

5. Infrastructure & Administration – To assure that NACo remains a top-notch, stable and responsive organization with solid financial reserves, technical resources and a highly competent staff