



NATIONAL ASSOCIATION OF COUNTIES



ANNUAL REPORT

2001-2002



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An honor to serve county officials of America...

Dear Fellow County Official,

It has been an honor to serve as President of the National Association of Counties for the past year. This unique privilege has allowed me to meet and work with thousands of county officials across the country. I am truly awed by the amazing work done by county officials to help our country grow and prosper.

I began my year as President with certain goals and expectations. As with all Americans, those changed on September 11. The terrorist attacks were horrifying acts of evil that caused us to reconsider normally simple actions of daily life and question the future.

But our country's response to those tragic attacks was phenomenal, and the way county First Responders rose to new challenges makes everyone at NACo proud. Our First Responders are still on the front lines, patrolling and protecting our nation, they remain vigilant and commit acts of bravery and heroism every day, often without anyone noticing.

It was fitting at our Legislative Conference in March that NACo honored the First Responders who acted that first day and the days that followed. The video, "Never Forget," allowed First Responders to tell their stories and what they experienced so we could better understand what they faced. The rousing response by our members that day clearly showed how much we appreciate what they do.

I am proud, too, of the county officials who served on the NACo Homeland Security Task Force, which I created to help counties deal with future attacks and assist the federal government in combating terrorism. The task force provided a blueprint to prevent terrorism in the future and for making counties and our country more secure.

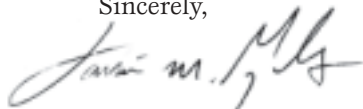
What is amazing is the resiliency of the American people. As tragic as the events of September 11 were, we were able to move on, and NACo is no exception. There were a number of accomplishments that NACo achieved on behalf of counties during the past year.

In addition to getting funding for homeland security, there were legislative successes on brownfields, workforce development funding, Payment In Lieu of Taxes and election reform. Membership numbers are up—and cancellations are down. It appears that NACo will end the year with more than 2,050 members for the first time.

NACo continues to help counties become more efficient. The cooperative purchasing program enables counties to save millions of dollars on office supplies, computers, furniture and much more. A new program providing satellite connections and Web site developments will improve communication between counties and the people they serve.

It has been a remarkable year—one that I will always remember. Thank you for giving me this unique opportunity to serve you.

Sincerely,



Javier Gonzales
President

NACo continues to provide excellent services to members...



Dear NACo Member,

The past year has not been an easy one because of September 11 and the sputtering economy, which has shown signs of wanting to take off but never gets a sufficient spark to ignite it.

But the American people are great at coping and rebounding from adversity. And NACo, with thousands of county officials making up its membership who are good examples of those coping Americans, is much the same. We will not be deterred. We will just work a bit harder.

The fiscal situation facing NACo is similar to the one many counties are confronting. The response is the same, too. We made necessary adjustments in 2001 to end the fiscal year with a positive outlook and balanced budget. But reduced revenue projections for 2002 caused the Board of Directors to continue to be cautious.

Despite a second year of reduced resources, our association continues to provide excellent services to our members. We scored legislative successes on homeland security, brownfields, workforce development funding, Payment In Lieu of Taxes and election reform. Our retirement and financial services programs provide methods for counties and their employees to save money and plan for the future. Our conferences and grant programs offer information and assistance to improve the delivery of services to counties.

Proof is in the numbers that counties are pleased with our work. Membership numbers are up, and cancellations are down. In early June, there were 2,041 members, and there were fewer cancellations than last year. NACo's retention rate of 97.5 percent ranks among the highest for all types of associations.

This Annual Report outlines our accomplishments over the past 12 months (July 2001 – June 2002). It provides information on the goals that were identified in the Strategic Plan.

Let me close by letting you know that in early August, NACo will enter a new era—life without Dottie Byars. Dottie, who has worked for NACo for 36 years, is retiring.

Dottie served in a variety of capacities: Aide to the Executive Director, Membership, Director of Conferences & Meetings and Liaison to the Executive Committee and State Association Directors. When she joined NACo, it was a rising power. She stayed on through lean financial times and was able to see the association again move into the black and regain its form as a force in Washington.

Dottie exemplifies the typical NACo employee: dedicated to helping counties and to the association. And she also knows how to enjoy life. We will miss her and her trademark laugh throughout the halls that let you know you were missing a good story.

We wish her well in her retirement. We will move on providing excellent services to the hardest working government officials in America in the tradition that Dottie and others have established.

Sincerely,

Larry E. Naake
Executive Director

Top 10 Accomplishments for 2001 – 2002

- Homeland Security—Ensuring a county role in the federal decision-making process and securing funding for programs.
- Election Reform—Getting reform measures and funding approved.
- Brownfields—Legislation adopted will help counties with redevelopment efforts.
- Membership—Member numbers continue to rise, 2,041 in June; retention rate high at 97.5 percent.
- Survey on County Health Preparedness illustrates the need for funding for Public Health System.
- Five Star Restoration Program awarded 14 grants in 2002 to assist counties with community projects designed to restore streambanks and wetlands. NACo will continue to work with the 10 Five Star grantees that received funding in 2001.
- Advance Leadership Training gains in popularity with number of participants and revenue doubling in one year.
- Media coverage of county issues and NACo increased 36 percent.
- Deferred Compensation grows with number of counties involved—more than 3,000—and number of participants—400,000.
- FSC's U.S. Communities Government Purchasing Alliance continues to save counties money—more than \$250 million since 1998.

Presidential Initiative: Homeland Security

In the wake of the terrorist attacks of September 11 and in light of the critical role counties play on the front lines of disaster prevention, preparedness and response, President Javier Gonzales appointed a 45-member Homeland Security Task Force to guide NACo's response to the attacks and future anti-terrorism activities.

The task force brought together a wide range of county policy leaders to explore the county roles and responsibilities in the fight against terrorism, and to work with the White House Office of Homeland Security, the Congress and other federal officials to better secure our communities.

With a mandate from President Gonzales to produce speedy and substantive results, the Homeland Security Task Force met three times:

■ October 26, 2001 in Washington, D.C., which included participation by

Homeland Security Director Tom Ridge, Transportation Secretary Norman Mineta, Deputy Attorney General Larry Thompson, and FEMA Deputy Director Michael Brown;

■ November 28, 2001 in Santa Fe County, N.M., where the role of technology in homeland security was examined with the participation and support of NACo's premier technology corporate members; and

■ March 1, 2002 in Washington, D.C., which included a dialogue with staff from the Office of Homeland Security and culminated with the adoption of seven policy resolutions addressing key issues.

Early products of the task force were a 20-point *Policy Plan to Secure the People of America's Counties* and a set of recommendations for programs, services and resources



The NACo Homeland Security Task Force met for the first time on October 26, 2001. Monroe County (Pa.) Commissioner James E. Cadue discusses homeland security policy.

on homeland security for NACo to provide to member counties. The Board of Directors approved these documents on November 30, 2001.

The policy plan addresses the key responsibilities counties have in the areas of emergency planning, law enforcement, public health and infrastructure security, and outlines how the federal government can best assist counties and strengthen the partnership with county first responders in securing the homeland. It outlines four legislative priorities of NACo for 2002:

- Authorization of a local anti-terrorism block grant to fund comprehensive emergency planning and preparedness;

- Assistance to counties to improve public health infrastructure and bioterrorism preparedness;

- Assistance to improve the security of county-owned infrastructures, such as buildings, airports, transit systems and water supplies; and

- Passage of legislation to improve communications interoperability and release public safety spectrum.

Although the task force's work is complete, NACo continues to provide a strong voice in the development of methods for improving our homeland security.

- In October 2001, NACo released a *Survey of Emergency Preparedness of the Nation's Counties*, which found that 95 percent of counties have emergency response plans.

- In November 2001, NACo sponsored a *Homeland Security Technology Demonstration*, bringing county officials together with major technology companies to learn how technology can be utilized to achieve enhanced security.

- President Gonzales testified before two Senate committees on the county role in homeland security.

- NACo officers and staff met with the Office of Homeland Security to urge the formation of a state and local advisory committee to assist Governor Tom Ridge, director of the office.

- President Gonzales described the county role in homeland security as the featured speaker of the National Press Club's Newsmakers Lunch Series in January, and as part of his speech, released a *Survey of County Public Health Needs and Preparedness*.

- President Gonzales participated in a roundtable discussion with President George W. Bush and a dozen other local officials in April on the local role in homeland security.

- NACo officials applauded the elevation of Homeland Security Director to Cabinet-level status.

Homeland security will remain a top priority of NACo that will focus in two areas: assisting counties in dealing with security issues and working in partnership with the federal government to reduce the threat of terrorism.

Presidential Initiative: Gateway Communities to Federal Lands

The Gateway Communities to Federal Lands Initiative was developed by President Gonzales to explore the challenges that gateway communities face, and to seek solutions in coordination and consultation with federal agencies and Congress.

Counties that border federal lands face unique problems. The economic, cultural and social fabrics of communities in these counties are profoundly affected by actions taken by federal land managers and the large number of visitors and new residents that flock to these areas.

Conversely, development in these gateway communities can also benefit or adversely affect the management and protection of the federal lands.

As a result of the inter-dependent relationship between gateway communities and the public lands, it is crucial that the communities and federal land manage-

ment agencies work together to ensure that the good achieved at the national level is not at the expense of the community. Planning and a renewed sense of partnership are needed to ensure this balance.

Many of the federal land management agencies are moving toward a more collaborative approach to community/federal land management. The Bureau of Land Management, the Park Service and other federal agencies have separate initiatives currently underway to foster collaborative community-based planning. However, to be successful, there is a need to bring these initiatives together nationally and locally. There must be a two-way dialogue between federal agencies and counties to creatively address the challenges of gateway communities and federal public lands.

As part of the initiative, NACo held two regional forums—one in Pima County, Arizona and one in Yellowstone County, Montana—to highlight best practices of collaborative community-based planning in gateway communities and the tools and strategies that lead to their success; to discuss the challenges and opportunities that still exist to strengthen the federal/county partnership in this area; and, to develop a series of recommendations to foster collaborative community-based planning in gateway counties.

The findings of the regional forums suggest that administrative and legislative actions may be necessary. The federal land management agencies have committed to pursuing a joint plan of action with NACo to continue and expand the dialogue among county leaders and federal land managers, which began as a part of this initiative.



The 2.4 million acres of the Shoshone National Forest (pictured) run through several Wyoming counties making counties like Park gateway communities not only to the Forest, but also Yellowstone National Park.

NACo's Strategic Plan: Progress and Accomplishments

I. Advocacy

To maintain NACo's position as the most powerful voice for counties in Washington, D.C.

The legislative agenda for the 2001-2002 year was substantially altered by the events of September 11, but the association was resolute, achieving remarkable success with new priorities as well as with existing ones.

Homeland security became the top priority after the terrorist attacks, and working in tandem with NACo's Homeland Security Task Force, a new set of issues arose, and priorities set, for the remainder of the 2001-2002 term. First response, public health, all hazards planning, and the money to pay for county needs associated with these issues became the focus for the legislative staff.

A "Homeland Security Block Grant" proposal was written and given to the White House Office of Homeland Security Director Tom Ridge in late October. This framework was virtually identical to the President's "First Responders Initiative" announced months later.

Emergency funds were sought for the public health system for bioterror response, as well as long-term solutions to improve the county public health system. Staff assisted the Office of Homeland Security on the public terror alert system, and worked to assure there were sufficient planning funds for local government in the 2002 Supplemental Appropriations bill.

As a function of continuing advocacy efforts, NACo has representatives on the Department of Justice's National Task Force on Interoperability, which is focusing on the communications interoperability needs of public safety first responders during events such as those of September 11. Staff also



Cathy Pearsall-Stipek, president, National Association of County Recorders, Election Officials and Clerks, speaks at a press conference, Dec. 5, in support of the "Help America Vote Act of 2001." NACo President Javier Gonzales (right) and Executive Director Larry Naake (far right) also participated.

serve on the Immigration and Naturalization Services' National Task Force on Entry and Exit procedures and practices following the terrorist attacks in September.

While homeland security became the focus, NACo did not abandon the other legislative efforts underway. Election reform made substantial progress and in early June was poised for final congressional action and presidential signature. The supplemental appropriations bill for 2002 contains funding for the reforms once the bill is signed into law. NACo has been an active participant in the national coalition that developed the legislation.



North Denver's 70-acre Northside wastewater treatment plant (top) along the South Platte River was polluted by multiple contaminants. An extensive partnership led by the City and County of Denver redeveloped the abandoned sewage plant into a new 13-acre park, a wetland, a storm water retention pond, and a National Guard Armory — a good example of brownfields redevelopment.

A mild victory was scored for the Payments In Lieu of Taxes (PILT) program when the U.S. Senate Energy and Natural Resources Committee voted in favor of S. 454, a bill to authorize the full funding of the program as a direct and mandatory appropriation. While this bill is still far from passage, this was an important first step in meeting NACo's long-term goals for PILT. An additional \$10 million was secured for the program for FY2002.

Other legislative successes included:

- Passage of a new brownfields bill that was signed in to law by President Bush in

January. NACo's support for the legislation proved to be a key catalyst for action on Capitol Hill.

- Restoration of workforce development funds to historic levels, avoiding significant cuts proposed by the President.

- Inclusion in the 2002 Farm Bill millions of dollars for rural development in America's counties. This was achieved through NACo's aggressive lobbying and work with the Congressional Rural Caucus.

- Extension of the moratorium on Internet access taxes, which was scheduled to expire in October. NACo and other state and city groups were successful in limiting the extension to two years and to continue grandfathering existing Internet access taxes being collected in 11 states.

To protect county authorities over cable modem service, NACo joined a number of other local groups to file suit in the 9th Circuit Court of Appeals to overturn a Declaratory Ruling of the Federal Communications Commission, which removes cable modem service revenues from "gross revenues" for the purpose of franchise fee payment to local governments.

The action was necessary because the estimated loss to counties and cities in calendar year 2002 is more than \$300 million. NACo is also pursuing administrative action on an FCC Notice of Proposed Rulemaking which would have the net effect of stripping much of the authority of local governments over rights-of-way containing cable that provides cable modem service.

NACo also has been very active supporting many counties' efforts to address the disproportionate share hospitals issue (DSH). The association has been urging Congress to protect Medicaid funding, and has initiated a task force on uncompensated care provided by public hospitals to immigrants and other non-insured populations.

In the area of transportation, the legislative staff has begun work on the reauthorization of TEA-21, and developed, with a special subgroup of the NACo Transportation Steering Committee, a set of principles to be used during the consideration of the reauthorization.

NACo was successful in lobbying for inclusion of rural counties in highway and road planning. The transportation appropriations bill for FY2002 bill included \$20 million for the Small Communities Air Service Development Program NACo has been promoting. This program would provide funding to communities to attract new air service where the existing air service is infrequent and passengers face high fares. Also of interest to smaller counties, there is \$13 million extra provided for Essential Air Service, bringing this program up to a level of \$63 million.

II. Membership

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

Membership Development and Retention

NACo is a membership organization. Building membership is critical to the success of the association. In the past five years, NACo has experience continued growth in membership. The past 12 months are no exception.

In June of 2002, NACo had 2,041 members. Forty-eight counties did not renew their memberships in 2002, which is down from 63 last year. NACo's retention rate of 97.5 percent is among the top for associations.

This retention rate and the growth are excellent considering the terrorist attacks



NACo President Javier Gonzalez (right) shakes hands with U.S. Senate Appropriations Committee Chairman Robert Byrd (D-W. Va.) after testifying on local homeland security issues April 10. Behind Byrd is Committee Member Daniel Inouye (D-Hawaii).

in September, reduction of funds from state sources and the troubled economy. The goal of 2,050 members by the end of 2002 looks to be well within reach.

NACo has been able to achieve growth in membership through a multifaceted marketing plan, which includes direct mail, visits to state association meetings and promoting special and “member-only” programs. A major focus of the marketing effort emphasizes that NACo can save counties money through specific programs and services.

To better understand the needs of county officials and to get information about NACo programs in their hands, NACo conducted a large-scale mailing of the “NACo is Here to Help You” business reply card to member and nonmember county officials in February.

Officials requested more information by checking boxes on the card and returning it to NACo. More than 350 officials responded to the mailing. The mailings

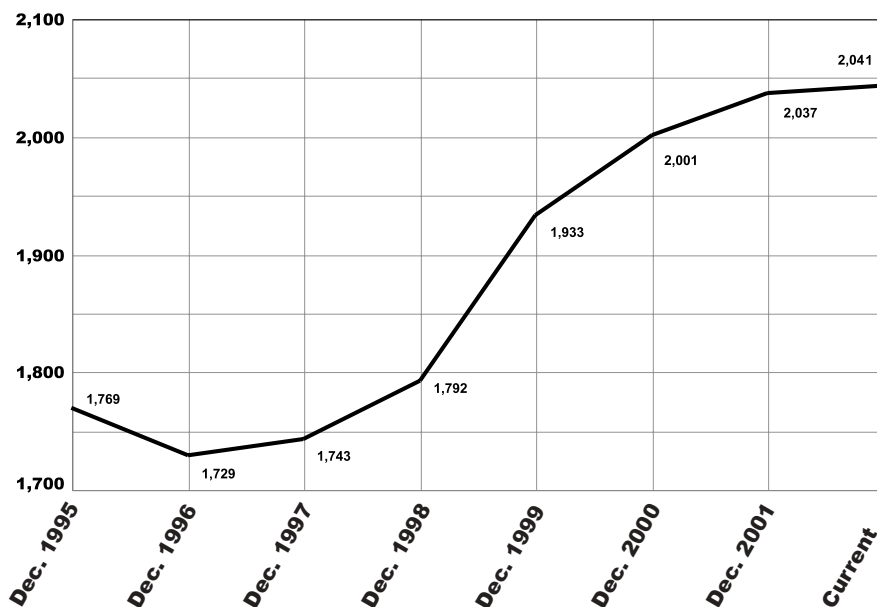
resulted in numerous leads for NACo programs and reinforced NACo as a “necessary service provider.”

Another project which produced an excellent response was the NACo/ESRI GIS grant program. NACo received 667 inquiries during the duration of the program and awarded 130 introductory grants and 126 intermediate grants for GIS software, training data and publications. The 256 grant total means that more than 12 percent of the total membership of NACo received a grant.

A follow up to this program is being discussed with ESRI, which might involve local GIS software/training partnerships. Membership is now working on ideas for new, substantial exclusive member benefits.

NACo’s success with membership is due, in part, to the great support it gets from state associations of counties. NACo officers and staff participated in more than 35 state association meetings in 2001, and will participate in as many this year. At

NACo County Members





these meetings, officers and staff provide legislative updates and information on programs and services, such as NACo's deferred compensation program and the Financial Services Center's cooperative purchasing program.

To help new members understand all the programs offered by the association, a member guide was completed in January. The notebook is mailed to all new member counties and encourages county officials to take advantage of the services available.

The counties themselves are members of NACo, and dues are based on population. With the release of the 2000 Census, the association needed to look at population changes and how they could affect dues.

A committee appointed by President Javier Gonzales has been reviewing the dues structure and implementation of a system that reflects changes in Census population numbers. The NACo Board of Directors is expected to vote at its meeting in July at the Annual Conference on any changes in the dues structure.

Member Programs and Services

Critical to any membership effort are the programs offered by the association.

NACo offers technical assistance and information to its members through its research effort, conferences and meetings, and grants.

Research Division

The Research Division supported NACo's efforts in homeland security by conducting two surveys: one on county emergency preparedness, and the other on public health readiness. The results of the first survey were published in "Counties Secure America: Emergency Preparedness" along with best practices from counties around the nation. The publication was prepared for President Gonzales's October Homeland Security Task Force meeting.

The second publication in the "Counties Secure America" series, "County Health Preparedness," was made public during President Gonzales's speech at the National Press Club, in which he urged increased federal funding for county health departments. Three other publications were prepared for the series, including "Best Practices: Emergency Preparedness," "Emergency Notification" and "Understanding Bioterrorism, Chemical Warfare and Beyond."

A new marketing strategy was developed this year in an effort to attract more counties to NACo's awards programs. New advertising was developed and mailings were made to a broader audience. Applications doubled for both the Disability Award and the Diversity Award programs. The number of applicants for the Achievement Awards Program increased for the first time in four years; the additional 210 applications included many first time applicants.

Requests for information by phone and e-mail handled by the Research Division continued to increase. Nearly 7,500 inquiries were received providing an opportunity for additional outreach and education about the role of counties in everyday life.

Publications during the year included "The Right Way to Run a Meeting," an issue brief on regulating adult businesses, and revisions of "County Government Structure – A State by State Analysis" and "County Government Overview."

Community Services Division

The Community Services Division continues to carry out grant-supported educational and technical assistance programs, offering a valuable membership service to counties at a relatively low cost to NACo. Current projects are in the areas of land-use planning, environmental and energy management, workforce development, affordable housing and health and human services.

During the year, the division underwent significant change due to staff departures, a restructuring of responsibilities among current staff, and the addition of several new staff, including a new division director.

The status of grant programs is as follows:

■ Two programs begun in 2001, Access to Health Care via the Department of Health and Human Services and Healthy Families via the Freddie Mac Foundation, are con-

tinuing for a second year, with new staff.

■ The major Department of Labor grant that has supported NACo employment and workforce programs for many years has been continued through early 2003.

■ The HOME/affordable housing project supported by the Department of Housing and Urban Development was continued and has new staff.

■ The Western Community Stewardship Forum continues to assist counties with land-use planning and growth issues through additional funding secured in 2001. An expansion of the program to other regions of the country is being pursued.

■ Several grants from the Environmental Protection Agency continue to provide assistance in the areas of watershed protection, non-point source pollution, septic system management, environmental purchasing, and indoor air quality.

■ The county energy management project is expected to continue, pending grant renewal by the Department of Energy.

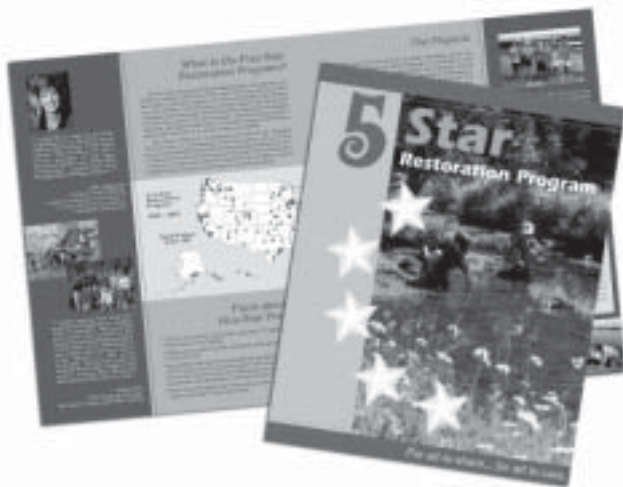
Grants for four new programs are currently being sought:

■ A multi-year project on early childhood development and family strengthening, to encompass a Presidential Initiative, through a grant from The Annie E. Casey Foundation;

■ A project to provide assistance to counties on homeland security issues, in cooperation with the National League of Cities and International City/County Management Association, via support from the Public Entity Risk Institute (PERI);

■ A GIS and "geo-spatial one-stop" project to provide information an assistance to counties via grants the Department of Interior and NASA; and

■ A multi-year grant from the W.K. Kellogg Foundation to support the Rural



County Governance Center and other activities to assist rural counties.

NACo's Five Star Challenge Grant Program

In June 2002, NACo awarded 14 Five Star Grants totaling \$139,260 to support community-based wetlands and stream-side restoration projects. The Five Star Challenge Grant Program is a partnership between NACo, the National Fish and Wildlife Foundation, the Wildlife Habitat Council, and made possible with support from the U.S. Environmental Protection Agency, and the National Oceanic and Atmospheric Administration.

The partnership provides a small amount of seed money that leverages a larger amount of funds and services already in place and coordinated by the grantee. The grant program is designed to award and aid community-led initiatives that focus on wetland and watershed restoration. Project sites can be public land, such as parks, streams, and school campuses, or private land, such as corporate facilities. All Five Star Projects feature diverse partnerships to complete a one-year restoration effort that includes educational and community stewardship activities.

The Five Star Program has experienced tremendous growth and support since 1997 when NACo funded one demonstration project in Erie County, New York. In 1998, NACo's Wetlands Protection Project funded five additional "pilot" county Five Star Pilot Projects. Each project received a \$10,000 grant that was matched by four partner groups in cash or in-kind support. Realizing the immeasurable benefits of programs of this type, EPA, in 1999, provided NACo with a three year grant (\$175,000 per year) to implement the Five Star Program in collaboration with other national partners. Collectively, the national program partners have awarded over 240 grants.

At the 2001 NACo Annual Conference, EPA Administrator Christie Todd Whitman lent her personal congratulations to the Five Star grantees and touted the program as an example of "New Environmentalism." The program consistently has about 200 applicants each year from every state and territory in the United States. NACo has awarded a total of \$535,762 in grants and has helped 58 communities across the country protect and restore their wetlands and watersheds.

Conferences Division

NACo's conferences continue to be a popular and valuable member service, although costs of producing the conferences continue to outpace revenues. The 2001 Annual Conference, held for the first time in the northeast—in Philadelphia City and County—was well attended, and delegates gave positive evaluations of the event.

The fall Workforce Development and Human Services Conference experienced a decline in attendance, coming as it did in the months immediately following the September 11 terrorist attacks. Because of county budget uncertainty and travel concerns, attendance projections for 2002 conferences were reduced. Even so, the 2002 Legislative and WIR Conferences were successful from a programmatic and budget standpoint. Outstanding support from officials in Yellowstone County proved to be the key to the success of the WIR Conference.

Training Programs

The Advanced Leadership Training (ALT) Program, implemented two years ago, continues to grow in popularity, with increased attendance at ALT programs at both the Annual and Legislative Conferences. At



Vice President Dick Cheney and wife, Lynne Cheney, greet a packed ballroom of NACo delegates at the Annual Conference on July 16, 2001.



Sen. Max Baucus (D-Mont.) discusses the reauthorization of TEA-21 while Yellowstone County, Mont. Commissioner Bill Kennedy looks on at the WIR conference in May.

the Annual Conference in 2001, there were four half-day workshops with 154 participants that brought in \$11,275. At the Legislative Conference in 2002, one full-day workshop and three half-day workshops were offered. Those sessions drew 229 participants and raised \$21,180 in revenue.

For the 2002 Annual Conference in Orleans Parish, more than 300 participants are registered for one full-day and four half-day workshops.

Affiliate Services

NACo is continuing to improve and strengthen its relationships with its 22 affiliate organizations. Currently underway is a review of the services NACo provides to affiliates, and the structure and policies that affect those relationships.

This effort began following the hiring of a full-time Affiliate Services Coordinator in early 2002. The coordinator has been working one-on-one with each affiliate staff liaison and affiliate member of the NACo Board, and is investigating the way in which NACo's sister organizations serve their affiliates. Better coordination and

provision of quality services is the goal; policy recommendations are expected to be made at the 2002 fall meeting of the NACo Board of Directors.

Joint Center for Sustainable Communities

In 2001-2002, the Joint Center for Sustainable Communities carried on its mission of providing technical assistance support and best practice information to members. In support of the homeland security efforts of NACo and its Joint Center partner, the U.S. Conference of Mayors, the center released a new publication to assist counties and cities in coming together to develop strategies to mitigate the effects of disasters. This followed other major publications on brownfields redevelopment and smart growth.

With the support of private sector partners, the National Association of REALTORS, Conectiv and the International Council of Shopping Centers, the center promoted and honored outstanding city-county collaborations to improve the lives of citizens through the 2001 Joint Center Sustainable Community Awards program.



A complete review of the 2003 Federal budget appeared in County News on February 11.

The center also is looking to forge new partnerships, working with Fannie Mae, the National Association of Home Builders, and Harvard University's Joint Center for Housing Studies on an initiative designed to increase the supply of and easy access to quality housing, and with the Aspen Institute to develop a national initiative to spur innovations in smart growth.



Local governments took on the Federal Communications Commission as a result of a decision in March.

III. Communications

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

NACo communicates with its members, the Administration and Congress, other levels of government and the public to achieve its goals. The association uses three primary vehicles for communicating: *County News*, the NACo Web site and the media. The past 12 months has shown success in all three areas and efforts to enhance the communication tools are underway.

NACo also has special public affairs projects that are raising public awareness



about counties and encouraging citizens to become involved with their government.

County News

County News, the association's tabloid newspaper published every two weeks, is sent to 27,000 county officials. It is truly NACo's voice and provides valuable information to county officials.

To keep the paper fresh and interesting for readers, *County News* staff embarked upon a major redesign of the paper this year. The redesign — only the second undertaken in 10 years — should significantly change the look and feel of the paper. It was undertaken as part of a broader NACo effort to update and streamline the association's information delivery systems.

The redesign process has involved a core group of NACo staff, who reviewed the current design and recommended changes. *County News* staff already prepared several model issues, which will become the basis for the new look. The launch of the redesign is expected later in 2002.

The redesign of the hard copy version of the paper was preceded this year by a redesign of *County News Online* at www.countynews.org. *County News Online* was the first local government association

newspaper to be published on the Internet. It debuted in February 1996.

Meanwhile, the desktop delivery of *County News* expanded significantly over the past year — from 170 county officials in 2001 to more than 500 in 2002. The e-mail service, which is available free to county members, allows delivery of the newspaper to a subscriber's computer desktop in one of three versions — headline news summaries, a direct link to the online version or as a printable version.

County News also played a lead role in reporting on and passing along vital information for counties on the aftermath of September 11. Reports closely tracked the proceedings of NACo's Homeland Security Task Force and the support offered to local governments to combat terrorism. Special efforts were made to keep NACo members informed about how their roles as first responders were being promoted.

NACo Web site

Significant work has been undertaken over this year to reconfigure and redesign NACo's Web site at www.naco.org. The site, which contains more than 32,000 pages of information, continues to be a major source of information for NACo members,

as well as the public-at-large interested in county government.

Once completed, the new design will help users find and access the information they need in a much easier and intuitive way. The site will look different and function faster.

In the meantime, Web site staff have been updating material on the site and have instituted several design changes as interim steps toward the final redesign.

The Web site also played a significant role in the aftermath of September 11. A new and much visited special section on counties and homeland security was added, as well as new sections on NACo's Expand Democracy in America Campaign to help counties get more poll workers and NACo's Internet University.

Media Relations

NACo's media relations effort is designed to raise the visibility of county governments, county issues and NACo. This effort has produced outstanding results in a number of areas. From July 2000 to June 2001, there were 830 articles that covered NACo-related county issues. In the last 12 months, there were 1,150 articles, an increase of 36 percent.

Homeland Security

Segments NACo's first Homeland Security Task Force meeting, held in October 2001, were carried live on MSNBC, Fox and CNN. The policy recommendations that came out of the meeting were reported in newspapers across the country, including *The Washington Post*, *St. Petersburg Times*, *Pittsburgh Post-Gazette*, *The Baltimore Sun*, and *The Denver Post*.

NACo's corporate members gained media attention at the second Homeland Security Task Force meeting. Gannett News Service, National Public Radio and the National Journal Tech Daily spotlighted the



Visit NACo's Web site at www.naco.org.

new technologies presented at the meeting in Santa Fe County, New Mexico.

NACo's Public Health preparedness survey, bolstered by President Gonzales' National Press Club News Makers address in January, appeared in many media outlets, including the *Houston Chronicle*, *The Washington Post*, *The Washington Times*, *The Los Angeles Times*, the *San Jose Mercury News*, and the *New York Daily News*.

Members of NACo's Homeland Security Task Force have appeared on C-Span's Washington Journal, been interviewed on CNN Radio, local radio stations and met with reporters or editorial boards for *Governing* magazine, *American City and County* magazine, *The Washington Post*, *The Washington Times*, and *The Billings Gazette*.

Conferences and Awards

NACo's 2001 Annual Conference drew a great deal of national media attention. All of the major networks covered Vice President Dick Cheney's speech, given by his wife, Lynn, because of the Vice President's laryngitis. Two workshops at the 2002 Legislative Conference were carried live on C-Span. CNN, NBC and Fox all covered parts of the general session.

In addition, NACo's numerous award programs garnered more than 110 media hits,

including mentions in *The Washington Times*, *Chicago Tribune*, *The Atlanta Journal and Constitution*, *The Oregonian*, the *Dayton Daily News*, and *The Miami Herald*.

Legislative Priorities

NACo's election reform recommendations were covered by the Associated Press, Scripts Howard News Service, States News Service, *Kansas City Star*, National Civic Review, Bloomberg News Technology TV and others.

NACo has recently partnered with other local government groups to fight an FCC ruling on cable modem service. The issue received a great deal of media attention and NACo Executive Director Larry E. Naake was quoted in almost all of the

communications trade publications. Naake also conducted an informational session with a prominent editorial writer for *The Washington Post*.

Counties Serve America

Counties Serve America is NACo's long-term project to build public confidence in government by raising the visibility of county governments and encouraging citizens to become involved with their counties. The project is carried out in partnership with Nationwide Retirement Solutions.

There are three parts to the project: the Acts of Caring Awards, Counties Care for Kids and the distribution of Public Service Announcements (PSAs).



NACo presented a video honoring the first responders of September 11 at the Legislative Conference in March. Six of the first responders in the video (l to r) James M. Anderson, technical rescue team, Arlington County (Va.) Fire Department; Captain Rebecca Hackney, 1st district commander, Arlington County (Va.) Police Department; George C. Drees, specialist, Baltimore County (Md.) Fire Department PA-TF1; Aileen Apote, RN, NP, Mt. Sinai Hospital, New York, N.Y.; Rick King, assistant fire chief, Shanksville (Pa.) Volunteer Fire Department; and Richard B. Lorh, director, Somerset County (Pa.) Emergency Management Agency, were present at the luncheon. They received a special plaque recognizing their work as well as an extended standing ovation.



Hendry County, Fla. was presented the 2002 Legacy Award for Excellence and Innovation at the Acts of Caring Awards in April.

2002 Acts of Caring Awards

Twenty-six Acts of Caring Awards were presented at a ceremony on Capitol Hill in April recognizing our nation's outstanding county volunteer programs. This is the third year the awards have been presented. This year's award winners exemplify the valuable service volunteers perform for our country.

An "act of caring" is a community service provided by a county-sponsored volunteer program that enhances or preserves the quality of life. Awards are presented based on three population categories to ensure that large and small communities, and urban and rural areas all receive the recognition they deserve.

Members of Congress who attended the ceremony were Sens. Sam Browback (R-Kan.) and Bill Nelson (D-Fla.), and Reps. Mike Bilirakis (R-Fla.), Eric Cantor (R-Va.), Mark Foley (R-Fla.), Wayne Gilchrest (R-Md.), Paul E. Gillmor (R-

Ohio), Alcee L. Hastings (D-Fla.), Dennis Moore (D-Kan.), Connie Morella (R-Md.), Tom Sawyer (D-Ohio), and Tom Udall (D-N.M.).

PSA Campaign

NACo has produced 16 television and nine radio PSAs to raise public awareness about the services provided by county governments. The PSAs were developed with the idea that most people do not know what services their county do.

Over the past 12 months, more than 200 PSAs have been distributed. Since the campaign began, more than 1,300 PSAs have been distributed to county officials and television and radio stations. PSAs produced last year focused on improving the election system and mentoring. One encourages Americans to volunteer to work at the polls and the other asks people to become mentors to young people.

Counties Care for Kids

NACo has partnered with *America's Promise: The Alliance for Youth* on the Counties Care for Kids project. Through this project NACo encourages counties to ensure that young people in their communities have caring relationships, structured activities, health services, marketable skills and opportunities for community service.

There are two ways NACo members can become involved in the *Counties Care for Kids* program. They can register their community as a "County Partner" with NACo by listing new or continuing programs that support youth in their community. Or they can opt to be more involved and become a "County of Promise," a county that commits to fulfilling all Five Promises for and with children and youth where they live.

NACo is working with America's Promise to establish reasonable goals and streamline the process to enable more counties to become involved.

Expand Democracy in America

Expand Democracy in America is NACo's effort to help improve the nation's election system by establishing a coalition of organizations, corporations, schools, colleges and governments that will encourage Americans to work at the polls. A second part of the campaign, which will come later, will promote voter education in our country.

Not having enough poll workers was one of the weaknesses in the system that was identified following the November 2000 election. The campaign is a nonpartisan effort designed to encourage Americans to work at the polls by presenting this work as a patriotic duty and vital to the democratic process.

The campaign will be launched in early July with the goal of adding 100,000

poll workers every year. A PSA has been produced and is being distributed. More than 150 counties have signed a commitment to actively support the campaign.

IV. Products, Resources & Services

To develop and offer innovative products, resources and services that support county government.

NACo helps counties save time and money through programs like cooperative purchasing, deferred compensation, the e-government initiative and the NACo Internet University.

Deferred Compensation

The NACo Deferred Compensation Program, administered by Nationwide Retirement Services (NRS), offers county employees the opportunity to save for their retirement with pre-tax dollars. As a result of stock market volatility, the program generated less income for NACo in 2001 than in the previous year.

However, the program continues to grow in the number of counties (more than 3,000, including county special districts) that participate as well as in the number of employees (nearly 400,000) saving for retirement. Recent changes in tax and pension laws are likely to result in changes to the program. The ceiling on deferrals has increased significantly which will encourage employees to save more. Additionally, other changes allow for greater portability of individual assets – this could mean assets leaving the program or more assets being transferred in. The first quarter of 2002, the first quarter in which the laws were implemented, did not show significant trends in asset movement while increased deferrals were noted.

NACo continues to increase its marketing efforts and strengthen its relationships with state associations of counties that endorse the program. NACo staff works closely with NRS representatives as they work directly with counties and county employees. NACo also offered “Counties 101” to NRS representatives to help them better understand and respond to inquiries from county personnel.

Through its workshop “Grow Your Nest Egg,” NACo is helping its members to better plan for retirement.

The FSC supports the NACo deferred compensation program through both a match program and through the Post Employment Health Program offering. In late 2002, the FSC will re-introduce financial planning services, enhanced financial products and college savings plans to program participants. FSC partners with NRS to supply these services.

Financial Services Center

The NACo Financial Services Center

(FSC) continued over the past year to meet its long-term goals of providing value-added services to local governments while at the same time diversifying NACo’s revenue base.

The U.S. Communities Government Purchasing Alliance is the cornerstone program of the FSC. At the end of 2001, more than 8,000 public entities in 50 states were using the program. Local governments had saved more than \$250 million since the program began in 1998.

Contracts are now in place for office supplies, office furniture, computers, industrial supplies, electrical supplies and communications/data supplies. The program generated more than \$1.2 million in revenue to the FSC. In 2002, four new contracts will be offered: office machines (copiers), auto supplies, wireless equipment and services, and classroom furniture.

E-Government Initiative

The Totally Web Government program was instituted through a strategic partnership between the FSC, IBM and the National



NACo's Deferred Compensation Advisory Committee is briefed by the Nationwide Retirement Solution's (NRS) customer service division during a tour of NRS' headquarters in Columbus, Ohio in January.

League of Cities. Through this program high-speed satellite Internet access, the ability to create and maintain county Web sites, and applications to conduct county business via the Internet are available to all counties and cities in the country.

Initial applications include business license issuance and renewal, payment collections, permit tracking, real estate tax collection, tourist tax collection, citizen complaints and requests for service, and utility billing.

Corporate and Premier Members

NACo's Corporate Relations programs grew in size and service to the membership during the past 12 months. The Corporate and Premier Members benefited from greater communications from NACo as well as greater opportunities to interact with NACo county members.

As a result of NACo's homeland security activities, the Premier members were able to meet with NACo leadership and demonstrate how their companies could respond to counties' needs. In addition, NACo presented awards to its Corporate and Premier members who contributed resources in the wake of the events of September 11.

NACo also offered a set of workshops at the 2001 Annual Conference designed specifically for its business partners and corporate members. These workshops included Counties 101, Booth Camp (how to run a booth at a conference), and how to do business with counties.

NIU

NACo Internet University (NIU) was launched in the fall of 2001 in partnership with Transportation Virtual University, a subsidiary of the U. S. Department of Transportation. While subscription sales have been modest to date, the program offers a large but low-cost library of training

courses for member counties and their staffs. Marketing efforts for NIU are ongoing, and the program is on its way to achieving first-year sales goals.

V. 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.

Information Technology

During 2002, improvements to the technological infrastructure of NACo included:

- **Financial Management System** – Implemented the SAP enterprise resource planning system, which integrated the accounting, grants management and procurement functions.

- **Enhanced System Security** – Enhanced system security by implementing a dual layer firewall/proxy system, virus scanning all Internet traffic, and automatically updating virus pattern file updates to all servers and user workstations.

- **Increased System Availability** – Increased system availability by imple-



menting critical system redundancies (dual data paths to the Internet; dual power supplies for all servers; dual battery uninterruptible power supply systems; and dual path fiber channel storage) and implementing automatic fail over capability to all critical systems.

■ **Operational Efficiencies** – Implemented operational efficiencies by enhancing the automated backup and recovery system, implemented a virtual private network for remote access, and implemented a computer-based asset tracking system for PCs.

■ **Cost Reductions** – Reduced costs by bringing in-house the Web server, obtained conference PCs from corporate partners, and combining the voice/data contract with our telecommunications provider in order to reduce overall cost and adding redundant a Internet data connection.

During 2002, NACo will continue to update its computer software and will complete configuration of the financial system and install a new membership and database management system. The new NACo Web site is expected to be completed in 2002.

Human Resource Actions

As a result of manpower planning, NACo reviewed all frozen positions to determine need based on strategic objectives and program requirements. Several positions were eliminated or redefined during this process. Timelines were set for recruitment of personnel and an extensive recruitment effort began in late 2001 to fill vacancies.

Due to the surplus labor pool, NACo was able to fill positions within a short period of time without undue effort or expense. Also, since NACo's attrition rate was low, the recruitment effort focused mainly on filling vacancies frozen as a result of cost-cutting measures during the early part of the year.

In order to compete and attract and retain enthusiastic, competent, and motivated staff, NACo redesigned its leave policies. Vacation and sick leaves were eliminated and replaced with a single leave policy. Employees provided input during the development of the policy and it was implemented in 2002.

NACo launched its new employee-training program, "Empowerment Zone," to an enthusiastic staff. NACo will continue to offer developmental programs for staff through this program.

2001 NACo Consolidated Operations Financial Performance

NACo consolidated financial operations ended the 2001 fiscal year with a surplus of \$655,00—well under the \$863,000 budgeted for the year. The association ended the year with a net asset balance of \$8,114,338.

As occurred with other associations, revenues from profit making enterprises as well as traditional association activities such as grants and conferences were under budget goals in 2001—the association did only slightly better than the previous year's performance.

Due to shortfalls in all major revenue areas, income came in more than \$2.5 million under budget projections. Variances were projected early in the year, and significant decisions were made to cut spending. In the end, NACo management and staff had trimmed \$2.3 million from the spending budget for 2001 allowing NACo to end the year with a surplus.

Highlights:

■ Significant savings were achieved by freezing staff hires in the middle of the year. This saved NACo more than \$800,000 in wages and benefits costs. Other major savings was found by decreasing consultant, marketing, and travel costs.

■ Royalties and conferences, though still a significant source of income for NACo, produced shortfalls of more than \$1 million in revenue from budgeted goals. Royalties were also significantly lower in 2001 than that received in 2000.

■ Because of equity market fluctuations, investment income was lower than last year and well below budget, but the association still had an overall positive return of \$300,000 from investment activities.

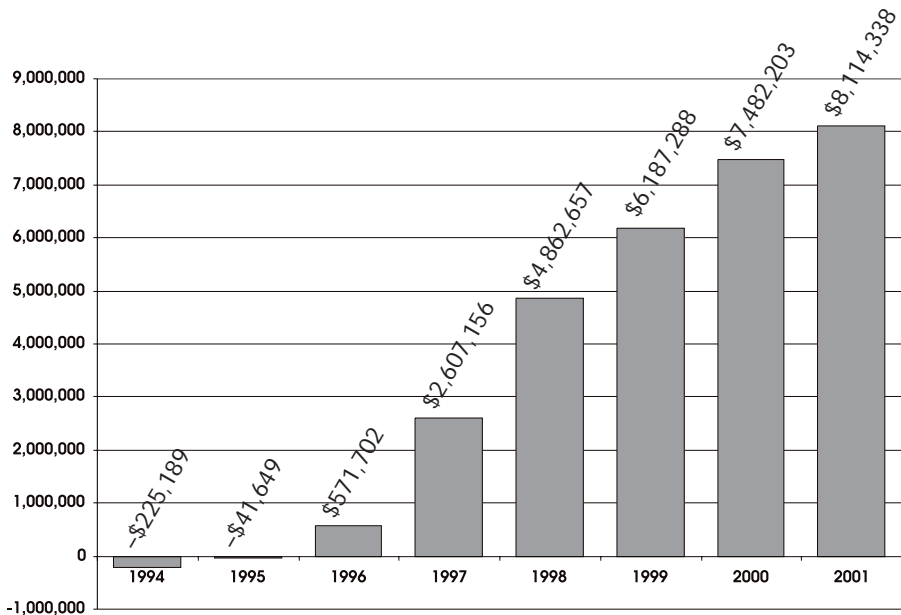
■ NACo Services Corporation, NACo's for-profit arm that provides the Deferred Compensation Program to counties nationwide, provided nearly \$800,000 for NACo membership programs and services.

■ To increase internal controls, collections, grants monitoring and bookkeeping efficiencies, NACo installed new financial management software in its offices. This project was authorized by the Board in March and cost NACo \$1.4 million in 2001. An additional \$400,000 was spent to upgrade servers and security and to provide other needed software and computer equipment.

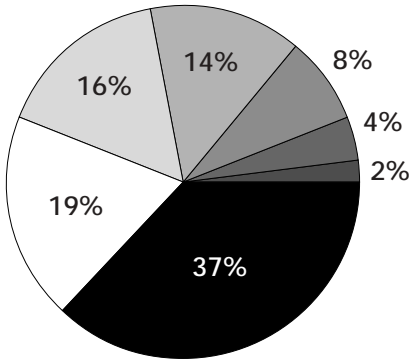
■ The year ended with reserves of 34 percent or \$6.6 million, short of our 36 percent target for the year. NACo building reserves are approximately \$3.9 million of this.

As a result of the 2001 financial performance, NACo was highly conservative in its budgeting for 2002.

Net Assets



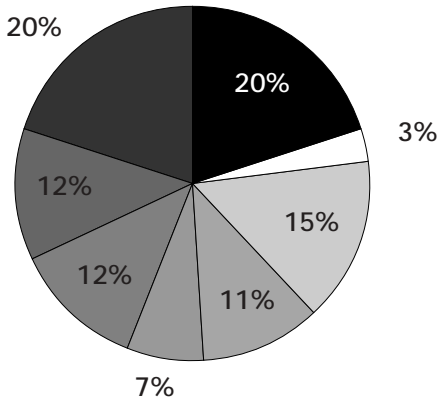
Sources of Revenue (by Program)



● NACoS: Royalties & Fees	\$7,241,522	37%
○ Membership Dues	\$3,711,446	19%
● Rental Operations	\$2,994,605	16%
● Conferences	\$2,765,083	14%
● Grants & Contracts	\$1,491,720	8%
● County Programs/Services	\$815,275	4%
● Investments	\$294,789	2%

Total Revenue	\$19,314,440
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Expenditures (by Program)



● NACo Services Corp (NACoS)	\$3,790,058	20%
○ Membership		
Development/Mkt	\$472,474	3%
● Rental Operations	\$2,758,201	15%
● Conferences	\$2,104,529	11%
● Grants & Contracts	\$1,224,958	7%
● County Programs & Services	\$2,288,775	12%
● Legislative	\$2,321,747	12%
● Mgt & Admin	\$3,698,244	20%

Total Expenses	\$18,658,986
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Net Assets,	
beginning of year	\$7,482,203
Surplus	\$655,454
Adjustment to net assets	-\$23,319

Net Assets (December 31, 2001)	\$8,114,338
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