

The background of the entire page is a deep blue with a complex, organic texture. It features numerous fine, diagonal streaks and larger, irregular, bubble-like or cell-like structures, giving it a microscopic or fluid-like appearance. The colors range from a dark, almost black blue to a lighter, more vibrant blue.

2002-2003

ANNUAL REPORT

National Association of Counties

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Message from President Mayfield

Many accomplishments mark interesting, fulfilling year

Dear Fellow County Official,

My year as President of the National Association of Counties has been extremely interesting and totally fulfilling. It is one that I will remember for the rest of my life. Thank you for the opportunity to serve as your President. What has made the year very special are the accomplishments and progress that we have made on many programs.

We have had legislative successes, increased membership to NACo's highest level, provided technical assistance to counties through grants and special programs, and offered numerous ways for counties to save both time and money. The legislative victories on providing funding for homeland security, election reform and for the Payment In Lieu of Taxes program are remarkable.

I am most proud of what we have achieved on the two Presidential Initiatives that I chose to pursue. One focused on encouraging counties to develop programs to divert the non-violent mentally ill from county jails. The second initiative addresses the issue of early childhood development and school readiness that utilizes an at-home visitation component.

With both initiatives, we learned a great deal about county programs by gathering information we can share with other county officials. For each initiative, we produced best practices guides that will give county officials ideas, suggestions and contact information so they can start their own programs and find cost effective ways to solve the problems they face.

The Counties Care for Kids initiative gave us the opportunity to recognize the top county early childhood development programs in the country. During National County Government Week in a ceremony on Capitol Hill in April, we presented awards to eight counties and one county official for their efforts to help children to grow and learn.

One of the goals of the initiative is to spur county officials into action and support them in developing or strengthening their early childhood education programs. I appointed a task force to guide the initiative, and we have produced a toolkit, brochures and other information to help counties.

In addition, we developed a mini-grant program to provide five grants of approximately \$5,000 each to assist in the development of early childhood development programs in communities that qualify. It would provide a means to start, and counties that win the grants would have to secure other community and financial support. NACo would also match each recipient with another county that has experience implementing a successful program. Getting more counties to develop these programs is critical to the future of our children.

For the jail diversion initiative, we visited three different areas of the country to learn about specific programs. The site visits were to Los Angeles County, California; Hamilton, Butler and Clermont Counties, Ohio; and Miami-Dade County, Florida.

From my experience as a prosecutor in Dallas County, Texas, I know that getting the non-violent mentally ill out of jails and housed in other facilities where they can receive proper medical treatment and care is better for the entire community. These site visits provided further proof that jail diversion programs do work.

There is no question that they are needed. According to the U.S. Department of Justice, of the 10 million admissions to jails each year, approximately 16 percent of the inmate population is mentally ill.

Too often, the mentally ill tend to follow a revolving door, from detention to the streets and

“I know that getting the non-violent mentally ill out of jails and housed in other facilities where they can receive proper medical treatment and care is better for the entire community.”

then back again. The longer non-violent people with mental health problems are incarcerated, the more their condition will deteriorate—and then they may very well become a public safety risk.

My goal with this initiative was to encourage counties to develop jail diversion programs. The interesting thing that we learned is that the programs from all three areas are slightly different. Each county developed a program that best meets its need.

I am very pleased that legislation was recently introduced in Congress to assist counties and other local governments in starting jail diversion programs. The proposed legislation, the Mentally Ill Offender Treatment and Crime Reduction Act of 2003, creates planning and implementation grants for communities to offer treatment and

other services such as housing, education, or job placement to mentally ill offenders. Programs receiving grant funds must be operated collaboratively by both a criminal justice agency and a mental health agency.

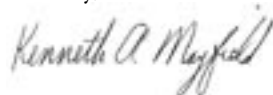
Grants may be used by communities for a variety of purposes, including establishing mental health courts or other diversion programs, creating or expanding community-based treatment programs, or providing in-jail treatment and transitional services. The bill includes new language advanced by NACo to dedicate up to five percent of the planning funds for intergovernmental collaboration among municipal, county and state governments.

In addition, grant funds may be used to enhance training for criminal justice system personnel and mental health system personnel who must know how to respond appropriately to this population.

I hope you will explore the possibility of starting a jail diversion program in your county. Jail diversion programs can save money, provide better treatment for the mentally ill, and improve public safety and the safety of your jail.

I plan to pursue both of these programs beyond my year as President, and look forward to working with you on them. Thank you again for letting me serve as President.

Sincerely,



Kenneth A. Mayfield

President

Commissioner, Dallas County, Texas



Message from Executive Director Larry E. Naake **NACo helps counties facing difficult budget problems**

Dear NACo Member,

The past 12 months have been a challenging time for county governments in America. The struggling economy, budget cuts at the federal and state levels, and revenue shortfalls have made it difficult for many counties. At the same time, counties are coping with the new demands for homeland security as citizen desires for other services continue to rise.

NACo also has faced some challenges. Revenue is down in a number of areas. We ended 2002 with the highest number of members ever—2,075, only to begin 2003 with the realization that many counties, because of budget problems, could not renew their memberships. There were limited legislative successes in 2002, but 2003 presented some interesting possibilities.

I have been truly impressed with the way that county governments have been persevering through this difficult period. In much the same way that counties are dealing with these problems, NACo is persevering, too. To offset some budget problems, we found cost savings and made reductions in some areas to ensure a positive financial picture. However, we have maintained our high level of services to counties, and in some areas increased them. Because of that, our membership numbers may be down slightly, but not by a drastic amount.

What is truly significant are the legislative successes we have achieved: funding for homeland security, funding for election reform, health care and additional increased funding for the Payment In Lieu of Taxes program. These are excellent ac-



"I have been truly impressed with the way that county governments have been persevering through this difficult period."

complishments and should provide some relief to counties and their citizens who are facing severe budget problems.

We have had other accomplishments during the past 12 months. To improve our communication with members we have re-designed our two

major communication tools: *County News* and the NACo Web Site. The new look of *County News* will not change our goal of providing essential information about what is happening in our nation's capital and in counties around the country. In fact, we will enhance that as well. In addition to looking great, the new Web site is loaded with information, better organized, and easier to use. I hope you take advantage of the information we provide on the Web site because it can save your county time and money.

The two Presidential Initiatives have been a huge success both in getting the word out about early childhood development and programs to divert the non-violent mentally ill from jails and in gathering information about successful programs that can be shared with other county officials.

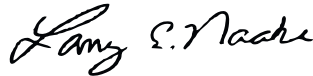
Our conferences, while down slightly in the number of delegates, continue to provide county officials with excellent opportunities to learn about issues and new programs, hear presentations by interesting speakers and share informa-

tion with colleagues from around the country.

Sharing information is the key of our research and grant programs that enable counties to save time and money with the information they receive. Our Enterprise Services, through U.S. Communities and Nationwide Retirement Solutions, offer additional ways to provide special programs for employees and for counties to save money, especially the cooperative purchasing program—counties have literally saved counties millions of dollars since it began.

NACo is an organization of county officials working together to improve the lives of all Americans. Clearly, our efforts over the past 12 months have shown that no challenges will deter us from reaching that goal.

Sincerely,

A handwritten signature in black ink, reading "Larry E. Naake". The signature is written in a cursive, flowing style.

Larry E. Naake
Executive Director

Top 10 accomplishments for 2002 – 2003

- ☐ **Significant funding secured for homeland security, election reform, health care and Payments In Lieu of Taxes**
- ☐ **NACo ends Fiscal Year 2002 with \$1.9 million surplus**
- ☐ **Membership reaches 2,075, an all-time high**
- ☐ **NACo Web site, *County News* redesigned and improved**
- ☐ **Counties Care for Kids Awards recognize outstanding county programs and top county leader**
- ☐ **Cooperative purchasing program provides savings of \$150 million to local governments in 2002**
- ☐ **Research handled 7,000 requests for information helping counties save time and money**
- ☐ **Jail diversion initiative identifies ways to save money and provide better treatment for the mentally ill**
- ☐ **Conference costs reduced, adding \$609,000 to NACo's bottom line**
- ☐ **New technology system for association management implemented on-time and within budget**

Presidential Initiatives

Diverting the mentally ill from county jails

As a former prosecutor, NACo President Ken Mayfield knows about the serious consequences that can result from placing the non-violent mentally ill in county jails. The increasing number of mentally ill being housed in the nation's jails is a major problem for counties all over the country—an estimated 16 percent of the 10 million people jailed each year in the United States are mentally ill.

As a way of dealing with this problem, President Mayfield pursued this initiative to raise awareness with counties that there are more appropriate and cost effective ways to treat people with mental illness. Diversion programs will:

- **improve care for the mentally ill,**
- **reduce costs for counties, and**
- **improve safety within the jails.**

The goal of the initiative was to show that solutions exist and that counties can take the lead in being part of those solutions. By encouraging the collaboration of their mental health and criminal justice systems, county officials can initiate a program to divert individuals with mental illness from jail on a countywide basis.

Among the effective strategies for diverting mentally ill offenders are: training law enforcement professionals to recognize signs of mental illness and to divert individuals at the scene of a disturbance directly to a health facility or provider; establishing a mental health court program designed to train judges, lawyers, and others in the justice system to recognize mental illness and to establish special rules and programs for mentally ill offenders; and providing case management services and long term supervised housing



Health Steering Committee Chair William Kennedy (seated-r) and Justice and Public Safety Steering Committee Chair Tony Bennett (seated-c) discuss strategies to divert the mentally ill from jail with police in Butler County, Ohio.

programs for mentally ill offenders upon reentry into the community.

As part of the initiative, a delegation led by President Mayfield and comprised of county officials and NACo staff made three visits to different parts of the country to learn about successful jail diversion programs. Included in the delegation were Bill Kennedy, NACo's Health Steering Committee Chair and a Yellowstone County (Montana) Commissioner, and Tony Bennett, Justice and Public Safety Steering Committee Chair and a Ramsey County (Minnesota) Commissioner.

Visits were made to five counties: Los Angeles County, California; Butler, Clermont and Hamilton Counties, Ohio; and Miami-Dade County, Florida.

During the visits, the county officials met with the local elected officials and senior managers and toured facilities to learn of each counties' unique methods for diverting mentally ill offenders to treatment providers. A meeting with members of the local newspaper's editorial board occurred at each visit to raise awareness on the importance of these programs to the community.

After each visit, articles describing the county programs were published in *County News*.

An article on the initiative and the visit to Los Angeles County is scheduled to be published in the July/August 2003 edition of the magazine for the California State Association of Counties, *California County*.

The study of county programs revealed some key strategies common to each of the county programs:

- Each researched different jail diversion program models from around the country and tailored those models to meet the economic and geographical needs of their county.
- Each developed and nurtured strong part-

nerships among the courts, law enforcement, and the mental health treatment system.

- Each collected data, measured the results and found better ways for treating the non-violent than placing them in county jails.

NACo will produce a report that gives background information to county officials on the issue and its impact on counties and describes the practices and experiences of the counties visited. This report will serve as a resource to assist county leaders in developing a jail diversion initiative in their counties. The report will be distributed at NACo's 2003 Annual Conference.

Under the leadership of President Mayfield, and with the counties support, NACo hopes to build upon these visits and work with the federal government to support programs to improve services to persons with mental illness. Beyond his NACo presidency, Mayfield is committed to continue raising awareness that such programs will ultimately lead to improved public safety, savings in critical county dollars, reduced police injuries, and lives saved.

Early childhood development and school readiness

The Presidential Initiative on Early Childhood Development and School Readiness was developed to raise awareness and establish programs at the county level that will nurture and support the healthy development of young children.

Children who are well cared for during their early years are better prepared for school, get higher grades, are more likely to become productive adults, and are less likely to engage in juvenile or adult criminal activity. The approach is prevention, as opposed to crisis intervention. The target population for this initiative is at-risk families, focusing on children from pre-natal to kindergarten.

To support this initiative, NACo has secured a grant from the Annie E. Casey Foundation. The initiative has three main goals:

- To educate county elected official and county administrators regarding the importance of early childhood development and school readiness, and the critical role counties play in providing and supporting early childhood programs and services in their communities;
- To provide information and technical assistance to counties, and to showcase model county programs that successfully address the issues facing low-income children and their families;



■ To spur county officials into action, and support them in developing and/or strengthening their efforts to provide a broad continuum of support services to assist low-income children and their families.

A number of activities were carried out to achieve these goals. The highlight of the initiative was the presentation of the Counties Care for Kids Awards and the awarding of grants to help counties start early childhood development programs.

The Counties Care for Kids Awards recognized eight outstanding county early childhood development programs and an individual county official, who has shown extraordinary leadership in the delivery of early childhood services. The winning programs and the work of the county official offer excellent examples for other counties around the country to emulate. The awards were presented in a special ceremony on Capitol Hill in April during National County Government Week.

Under the grant program, NACo will award up to five one-year grants, of approximately \$5,000 each, to assist in the development of early

childhood development programs in these communities. Successful applicants would be required to demonstrate community and other additional financial support, as well as the support of county elected officials, and would be required to submit plans and reports to NACo describing their activities and their evaluation of the success of their activities.

In addition to financial support, NACo will match each recipient county with a peer county with experience implementing a successful program. NACo staff will ensure that a relationship between the respective county elected officials and county staff is created, and cover expenses associated with one site visit to the “mentor” county.

In addition to these activities, there were many other actions that were part of the initiative. Here is a summary:

■ A special Task Force on Early Childhood Development, comprised of county officials from across the country and chaired by President Ken Mayfield, was appointed. The purpose of the task force was to heighten awareness among county officials about the importance of this topic, engage in dialogue regarding policy and programmatic

challenges faced by counties, and provide overall guidance to the implementation of the initiative. The task force met twice at NACo conferences and will have a third meeting at the Annual Conference in July in Milwaukee County.

■ Two brochures were developed for county officials to announce and publicize the Presidential Initiative. Both outline the importance of early childhood development and school readiness and outline how NACo can support county led efforts to meet the needs of children and families.

In addition, an electronic monthly update has been distributed to county officials and administrators to provide additional resources and to highlight counties who are implementing exceptional early childhood services.

NACo also published articles in the following publications to promote the Presidential Initiative: Zero To Three's State Early Childhood Policy Leadership Forum Newsletter and the Child Welfare League of America's Children's Voices. Several sessions and a special panel to highlight the importance of early childhood development and school readiness were featured at the Workforce Development and Human Services Conference (November 14-17, 2002, in San Francisco):

"First Years Last Forever: Prevention Where it Counts the Most," featuring speakers from Mesa County Early Childhood Partnership.

"Behavior Health Consultants for Child Care," featuring speakers representing San Francisco, Santa Rosa, Alameda and Sonoma Counties.

Early Intervention Strategies for Child Protection," featuring speakers from Olmsted County.



"Early Childhood Development – State Models and the Critical Role of Counties," featuring speakers from North Carolina Partnership for Children, California Children and Families Association and The Annie E. Casey Foundation.

■ NACo has developed an "Early Childhood Toolkit for County Leaders." The toolkit contains two new NACo publications, including a paper highlighting the importance of early childhood and family strengthening programs. NACo has partnered with Zero To Three and the National League of Cities to co-author this paper. In addition, information has been collected on model programs and practices that will be included in a technical assistance paper

NACo's Strategic Plan

Each year the NACo Board of Directors adopts a strategic plan that outlines five specific focus areas for the association and goals for each area. This Annual Report shows how NACo is achieving and in some areas surpassing its goals.



Advocacy

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



Membership

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



Communications

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



Products, Resources & Services

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



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

NACo's Strategic Plan: Progress and Accomplishments

I Advocacy

Successes achieved on key legislative priorities

NACo was successful in securing funding for counties for a number of programs that will help ease difficult budget problems that counties face. Among the successes were some of the key legislative priorities for 2002 – 2003: funding for homeland security, election reform and health care. Increased funding was also approved for the Payment In Lieu of Taxes program.

NACo maintains an extremely high profile on Capitol Hill and staff continue to work on other priorities for 2003: remote sales tax collection, re-authorization of TEA-21 and additional funding for uncompensated health care and public health. Here is a summary of the legislative successes over the past 12 months:

Election Reform: A total of \$1.5 billion was appropriated to implement the Help America Vote Act (HAVA). This amount is approximately 69 percent of the FY03 2003 authorization of \$2.16 billion. The \$1.5 billion includes the full authorization of \$650 million under the law to improve election administration (\$325 million) and to replace punch card and lever voting machines (\$325 million).

These funds are administered by the General Services Administration. A total of \$830 million is provided for meeting Title III's requirements and standards including the purchase of new voting equipment. These funds will not be distributed until the new Election Administration Commission is in place and states have completed a state plan. The remaining funds are for establishing the commission and providing start up funding for improving access for disabled voters.



President Ken Mayfield greets Homeland Security Director Tom Ridge at the Legislative Conference.

Homeland Security Funding: In the aftermath of September 11, NACo began to take major steps to assist counties in protecting their communities. In light of the critical role counties play on the front lines of disaster prevention, preparedness and response, the NACo Homeland Security Task Force was created to govern the association's anti-terrorism activities and a staff person was assigned to coordinate these needs.

In addition, NACo has successfully advocated for billions of dollars in federal assistance for counties nationwide for their future and ongoing homeland security related activities. In fact, in the current year alone, the federal government will award state and local governments approximately \$6 billion for future and ongoing homeland security related activities.

There are a number of major federal programs that will assist counties in protecting America's citizens, and NACo was instrumental in the creation of the Department of Homeland Security's (DHS) Office of State and Local Coordination. The department's Office of Domestic Preparedness has

provided state and local governments with approximately \$3.8 billion in financial assistance for the current year. Most of this funding was provided for the purchase of specialized equipment to enhance the capability of state and local government's efforts to prevent and respond to incidents of terrorism involving the use of chemical, biological, radiological, nuclear or explosive weapons.

This funding will also be used to provide technical assistance, develop statewide and local plans, and conduct exercises for state and local first responders. In addition, the department has awarded \$750 million in competitive grants to fire departments, \$800 million for selected "high threat areas," and \$165 million for state and local emergency managers. NACo provided DHS with the regional approach perspective to problem solving, which is the adopted strategy currently being used.

The Department of Health and Human Services will also provide state and local public systems with \$2.3 billion in assistance this year. These funds will be used to prepare our nation's state and local public health systems and hospitals for future emergencies, and to accelerate research into new treatments and diagnostic tools to cope with possible bioterrorism incidents.

Payment In Lieu of Taxes (PILT): PILT counties received \$210 million in FY02, which was a 5 percent increase over the previous year and will receive another \$10 million increase for FY03 in September. The appropriations account has risen from \$105 million in 1995 to \$220 million in 2003, a 53.3 percent increase. NACo was also successful in convincing the Administration to increase its budget request for PILT over the past two years.

Medicaid FMAP Relief: As part of the 2003 tax package, NACo successfully lobbied for fiscal relief under the Medicaid program. A total of \$10 billion was enacted into law for a temporary increase to

states in the federal matching percentage for Medicaid. These funds will ease the fiscal pressures on those counties that share the burden of financing Medicaid. A provision included in the law prevents states that receive funding, from requiring their counties to shoulder a larger percentage. States with falling matching rates will be held harmless under this legislation and a 2.95 percent increase in the federal match will be applied across the board. Although direct assistance was not provided to local governments, states will receive an additional \$10 billion for general fiscal relief, which counties could participate in as they work with state officials.



In January, NACo released a survey on bioterrorism showing the public health departments had made improvements, but still needed federal help.

Research, Media Relations assist with advocacy effort

The advocacy effort was supported by a number of departments and divisions, including Research and Media Relations. The Research Division aided NACo's advocacy goals by completing several surveys that provided supportive information and data. These surveys included two uncompensated health care surveys; an affordable housing survey; a bioterrorism—survey, done in conjunction with the National Association of County/City Health Officers; and the Counties in Crisis survey done in cooperation with the University of Georgia.

NACo's legislative priorities also received media coverage throughout the year, thereby helping shape the Legislative Affairs Department's message to Congress. In a news conference, NACo blasted Congress for not funding homeland security and got coverage in *The New York Times*. Highlights include articles on interoperability in *Newsday*, the *Houston Chronicle* and *Washington Technology*. County budget problems and uncompensated healthcare garnered significant attention with a spot on ABC News, and articles in *The New York Times*, *The Los Angeles Times*, *Minneapolis Star-Tribune*, *Dallas Morning News*, AP, and *National Journal*, among others.

Membership

Membership reaches all-time high, but faces tough year

NACo is a “membership-driven” organization. Building membership is critical to the success of the association. For five straight years, NACo has experienced significant growth in membership and in 2002, this trend continued. NACo had 86 new members and only 48 members did not renew in 2002. The association ended 2002 with 2,075 members, which is the highest ever. The retention rate stayed steady at 97.5 percent, which continues to rank NACo in the top echelon of associations.

Unfortunately, 2003 is turning out to be a challenging year. As counties face their worst budget crisis since World War II, membership has been affected. In June of 2003, NACo had 2,007 members. While 35 new members joined NACo in the first six months of 2003, there were 103 counties that canceled their memberships.

This trend of a high number of cancellations is only the second “one-year” drop in membership in the last 10 years, but does not look to be an

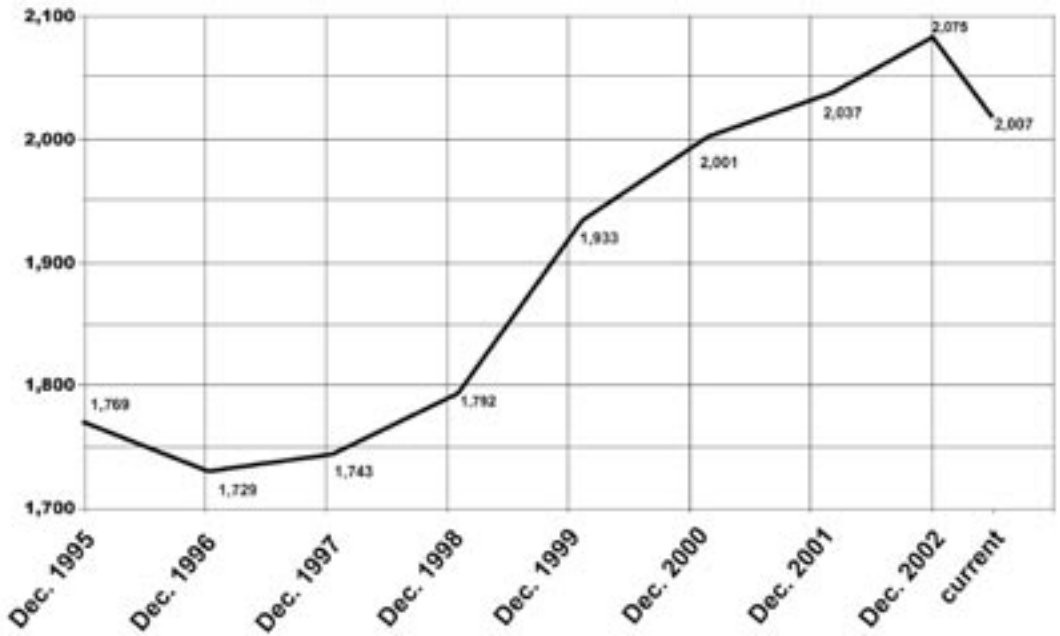
overly dramatic one. While many associations are facing difficulties this year, NACo's membership totals at the end of 2003 should be well above the 2,000-member mark. Most members canceling their memberships indicated that their budgets are in a crisis, but that they had no dissatisfaction with NACo.

NACo has been proactive in addressing the membership needs and financial burdens in many ways. A new dues structure based on the 2000 Census, which would have meant more significant increases to many members' yearly dues, was delayed from 2004 to 2005 by a vote of the NACo Board of Directors in March. This was an effort to ease the burden on counties during these tough times and keep members actively involved in the association.

NACo's success with membership is due to a cooperative effort and the great support from officers, members and the state associations of counties. NACo officers and staff participated in 38 state association meetings in 2002, and will participate in many more this year. The goal is to cover every state with active members by the end of 2003 and continue to emphasize the efforts NACo is making in order to help counties through these difficult economic times. State associations are also providing NACo roster updates that have increased NACo's database accuracy to its best ever. The accuracy has led to less wasted mailings and better reliance on NACo's in-house database.

NACo continues to emphasize the multifaceted marketing plan that has been so successful over the past five years. The plan includes direct marketing through e-mail, fax and mail, visits to state association meetings, and developing and promoting special and “members only” programs. In 2003, NACo membership is working on a follow up to the successful NACo/ESRI GIS grant program and also put out a request for proposal for a prescription drug discount card.

NACo County Members



Internally, NACo has teamed with different departments in order to get the message out about how “Counties Save with NACo.” An example of this teamwork is a mailing of Source Water Information Kits for Local Government Officials that was mailed out free of charge to the 700 smallest counties in the U.S.

Membership retention and recruitment is enhanced by the use of many follow up mechanisms including a new member guide, a “NACo is Here to Help You” pre-paid business reply card that is included in all mailings and dues invoicing and calls to new members at three month intervals. The successful membership formula of the past five years continues to be implemented and enhanced and should continue to provide NACo membership growth as the nation’s economy improves.

Help provided through grants

The Community Services Division continues to carry out grant-supported education and technical assistance to county officials, offering a valuable membership service to counties at a relatively low cost to NACo. Following a reorganization of the division during the first half of 2002, the division’s 10 full-time employees deliver a broad range of services to county officials on a wide variety of issues important to counties. These activities are guided and evaluated by the Member Programs and Services Committee. Current programs include:

- The Access to Health Care project, conducted under a grant from the U.S. Department of Health and Human Services – Bureau of Primary Health Care, has provided direct assistance to more than 60 counties.



■ President Mayfield's Initiative on Early Childhood Development has been supported by a new grant from The Annie E. Casey Foundation.

■ The Healthy Families America project, via a grant from the Freddie Mac Foundation, is in its third year of helping counties establish and maintain home visitation programs to improve the well being of young children.

■ NACo's affordable housing project helps counties maximize the federal HOME and CHDO programs. The project is a partnership with the National Affordable Housing Training Institute and is supported by the U.S. Department of Housing and Urban Development.

■ Two major Department of Labor grants that have supported NACo's workforce development projects for over 20 years are expiring in 2003 and will not be renewed. NACo is evaluating these programs and may pursue alternative funding.

■ The Western Community Stewardship Forum, supported by a number of private foun-

ation grants, continues to assist rural counties with land-use planning and growth issues.

An expansion of this program to counties in the south began in early 2003.

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

■ The county energy management project, which supports an Energy Efficiency Network of county officials, continues under an agreement with the U.S. Department of Energy.

■ A small project to educate county officials about the uses of Intelligent Transportation Systems is in its first year under an agreement with the U.S. Department of Transportation.

■ Work has begun under Networks for Rural Policy Development, a new three-year project supported by a grant from the W.K. Kellogg

Foundation. The project will enable NACo to enhance activities to assist rural county officials and leverage incoming President Miller's initiative on rural America.

Two highlights from the year:

■ NACo expanded education and assistance for county officials on land-use and water management by teaming up with state associations to deliver training in several states. Training on topics such as drinking water, storm water, septic systems, and farmland protection was provided in Maryland, New York, Ohio, Georgia and Minnesota. Through these sessions, NACo was able to offer education and assistance to dozens of county officials who cannot travel to NACo conferences or otherwise had not previously benefited from NACo's technical assistance programs. Additional sessions are being planned in more states for the coming year.

■ NACo initiated the Counties Care for Kids Awards program to recognize outstanding county programs and an individual county leader working in early childhood development and school readiness. The awards program, supported by grants from The Annie E. Casey Foundation and the Freddie Mac Foundation, honored eight programs and one county commissioner at a Capitol Hill ceremony in April. The program was one component of President Mayfield's Initiative on Early Childhood Development and School Readiness and helped raise awareness among county officials, national policy-makers and the public about the importance of child development and the key role counties play in nurturing young children.

Several new grant-funded projects are being developed and are anticipated to begin in the coming year. These include training and assistance to county officials on wildfire suppression and response, geospatial information technology, rural transportation planning, and homeland security.

Research provides valuable information

In addition to producing a Best Practices on Early Childhood Programs publication in support of the presidential initiative on early childhood development, three other topical issue briefs were prepared by the Research Division that address the needs of smaller counties.

These include a GASB 34 Guide for Small Counties, How to Find a Federal Grant and Writing an RFP. An issue brief on Municipal Bankruptcy outlined the various state laws and requirements.

Research again conducted the annual wage and salary survey and the operations survey. The reports from these surveys were published and are used by NACo members, the media, congressional staff, state associations and other NACo staff.

The successful marketing strategy for the Achievement Awards program used in 2002 was continued in 2003. Contrary to expectations of a significant decrease in the number of applications because of tight county budgets, there was only a 7.5 percent decline in the number of applications for this year. Many first time applicants from last year submitted applications once again.

The division continues its outreach to members and others as it responds to information requests both by phone and by e-mail. This year NACo received more e-mails than phone calls for the first time. More than 7,000 inquiries were received and responded to. Inquiries provide NACo with an opportunity for additional outreach and education about the role of counties in everyday life.

Joint Center fosters partnerships

When President Mayfield took office, he established a goal of building stronger relations with groups that county officials work with on a day-

to-day basis. To support this effort, he initiated a series of leadership summits between the NACo Executive Committee and key stakeholders in community development issues.

The Joint Center for Sustainable Communities and the Legislative Affairs Department staff worked with the staff of the National Association of Home Builders (NAHB) to put together the first of these summits, where shared organizational priorities were discussed, including housing and home ownership, TEA-21 reauthorization, and growth and development.

As a result, NACo and NAHB have built upon their National Partnership Agreement to develop a joint initiative on minority home ownership, and have begun an effort to facilitate builder-county official partnerships at the local level.

Also last fall, NACo and the National Association of REALTORS® (NAR) opened a dialogue leading toward mutual support of each other's housing efforts. A spring, 2003 summit between NACo and NAR leaders was held, and NAHB and NAR are working together with county leaders to address community housing and development challenges.

NACo works to assist affiliates

After considerable discussion over the past two years, the Board of Directors last year approved the creation of the position of affiliate services coordinator for NACo. The coordinator is responsible for acting as an "ombudsman" between NACo and its 23 affiliates. Major accomplishments for the year included the adoption of new and revised policies for recognizing affiliates and for the services that NACo provides to them. The Affiliate Council meets regularly at NACo's major conferences, and the NACo staff has an increased awareness of the value and contributions that affiliates make to NACo.

Conferences help county officials

New staff in the Conferences and Meetings Division began the year in a "learning mode," but at the same time began implementing new ideas for reenergizing NACo's conferences. By paying careful attention to marketing and cost controls, staff was able to achieve the strategic plan goal of increasing conference revenue. Conferences netted \$344,000 more than what was budgeted, for a total contribution to NACo's bottom line of \$609,000. Attendance at the conferences, greater than what was expected, contributed to the financial success. The conferences also provided opportunities for member networking and educational benefits. New contracts with major conference outsource partners also achieved greater efficiency and cost-effectiveness in conference production.



Jim Farfaglia and Donna Hopkins from Oswego County, N.Y. accept the top award in the Acts of Caring Awards program from President Ken Mayfield and Duane Meek, president of Nationwide Retirement Solutions.

Top county volunteer programs honored

The 4th Annual Acts of Caring Awards were presented to the top county volunteer programs in the country at a ceremony on Capitol Hill in April during National County Government Week. Twenty-five awards were presented to 23 counties for their outstanding programs.

John Bridgeland, Assistant to President George W. Bush and Director of USA Freedom Corps, spoke at the ceremony.

Two members of Congress and five congressional staff were on hand to congratulate the winners.

The top award, the Legacy Award, was given to Oswego County, New York, for its program, Camp Rainbow of Hope—a camp for children aged 7 – 12 who have experienced the loss of a loved one.



III Communications

Web site, *County News* redesigned, improved

Communication is an important part of NACo's success as an association. To achieve its goals, NACo must communicate effectively with members, the Administration and Congress and the public. During the past 12 months, NACo has made great strides to improve communication and reach out to audiences that need to hear and understand the message from county governments.

Improvements to NACo's key communication vehicles were a major accomplishment in 2002 - 2003. Both the association's Web site www.naco.org and its newspaper *County News* made significant design changes, both of which involved extensive input from NACo leadership and staff.

The Web site redesign involved the most comprehensive change. It encompassed not only a new look, but also, and more importantly, a new site architecture. This new architecture was intended to underscore NACo's commitment to providing information services to its members, quickly, easily and more robustly.

Subsequently, the site's structure was dramatically redesigned so visitors were no more than two clicks of a mouse away from the information they sought. The site also featured a high-octane search engine, which would allow users to search the more than 20,000 files (at last count) stored on the site more quickly and with greater discretion.

The new site incorporates the latest in thinking about how people use the Web.

At the "backend," a new approach to managing the site's content eliminated the need to rely on one or two staff to add or update material. Instead, responsibility for managing the content is spread throughout the organization so the specialists in different topic areas can quickly and easily add new material.

Ease of use and quicker access to information also guided the redesign of *County News*. Special efforts were made to assess the paper's "readability" by convening a redesign focus group, with representatives from all NACo departments.

The group not only assessed what it liked and didn't like about the then *County News* design, but was also called upon to review approximately 12 different front page designs created by the *County News* graphic designer before the final selection was made by the *County News* publisher.



The new design featured a new “publication name flag” and an attractive Inside Box on the front page. The Inside Box offered the reader a quick preview of other important or interesting stories in the paper. To enhance readability throughout the paper and to bring the design into closer conformity with current newspaper design, headline and body text typefaces were changed, and standing feature graphics for items such as “The HR Doctor” and “Hats Off to” were updated.

The online version www.countynews.org, was also redesigned as part of the overall Web site design.

Excellent media coverage achieved

NACo’s media relations efforts continued to garner national and local media coverage about county governments, county issues and NACo in 2002-2003. NACo or county-related issues were referenced over 1,200 times, which is approximately the same coverage as the previous 12 months.

President Ken Mayfield’s Presidential Initiative on Diverting the Non-Violent Mentally Ill from Jail, received major coverage in several large markets when county officials visited those markets as

part of the initiative. *The Cincinnati Enquirer* ran an editorial and article on the initiative, while in Los Angeles, several local newspapers ran detailed articles and a major network covered NACo’s press conference on the issue. In addition, a meeting was held with two editorial writers from the *Los Angeles Times*. In Miami-Dade County, NACo representatives met with a *Miami Herald* editorial writer on the issue.

Highlighted by speeches from First Lady Laura Bush, Homeland Security Director Tom Ridge and Montgomery County Police Chief Charles Moose, coverage of NACo’s annual Legislative Conference was an undeniable success, as every major network, CNN, C-SPAN, *The Washington Post*, *The New York Times*, AP, and other major outlets covered the event.

The Acts of Caring and Counties Care for Kids Awards programs, which took place during National County Government Week (NCGW), gained attention in several publications including the *Cincinnati Enquirer*, *Orange County Register*, Gannett News Service, *Naples Daily News*, and others. As a result of NACo’s public awareness campaign, county governments all across the nation secured coverage of their NCGW activities in local newspapers.

IV Products, Resources & Services

Cooperative purchasing provides savings of \$150 million in 2002

Saving counties time and money is an essential part of NACo's activities, especially with the struggling economy and cuts in funding from the state and federal levels. NACo provides this help through programs such as cooperative purchasing, deferred compensation, leadership training and others.

The NACo Financial Services Center (FSC), a joint venture partnership between NACo and Davenport-Pitts Group, was established in 1994 to offer counties and their employees a broad mix of value-added financial products and services.

The FSC helps manage the U.S. Communities Government Purchasing Alliance, which runs a cooperative purchasing program that saves counties and other local governments millions of dollars.

By pooling the potential purchasing power of counties throughout the nation and leveraging this enormous asset in the private sector, the FSC can negotiate new and enhanced financial products and services for counties and their employees that offer them better quality, improved benefits, and/or lower costs than they can get on their own.

In 2003, six new contracts were added to the cooperative purchasing program:

- School Classroom Furniture
- Janitorial Supplies
- Tools and Materials Handling
- Carpet and Flooring



Many products are sold through the cooperative purchasing program.

- Procurement Card Program
- Office Machines and Copiers

Two contracts were re-solicited and awarded:

- Technology equipment, peripherals and solutions
- Electrical and Data Communications

The program now has more than 7,500 public agencies using the contracts and sales have exceeded \$400 million per year. Estimated savings to local governments for 2002 were more than \$150 million.

Currently, the office supply contract through Office Depot and the furniture contract with four vendors account for more than 80 percent of the program sales. With the help of 39 sponsoring state associations of counties and 11 state leagues of cities, U.S. Communities is now the largest local government purchasing alliance in the country.

The FSC assists in the marketing of the County Reinsurance, Limited program, which provides reinsurance to county excess insurance programs throughout the United States. Presently, 10 states and 15 pools belong to CRL.

The FSC also provides retirement services with Nationwide Retirement Solutions, including Post Employment Health Plans and Match Programs for the Deferred Compensation program.

In July, the FSC will launch a new service to rural counties: human resource consulting and employee benefits services. This program was developed to assist small governments in the area of human resource management, training, and employee benefits.

The FSC debt collection program is being re-solicited through a joint effort between Hamilton County, Ohio, Fairfax County, Virginia and Arlington County, Virginia.

Deferred Compensation offers tax savings

The NACo Deferred Compensation Program, administered by Nationwide Retirement Solutions, 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 2002 than in the previous year.

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 have resulted in some changes to our program, including increased deferrals and catch up opportunities for participants over 50 years old.

NACo continues to increase its marketing efforts and strengthen its relationships with state associations of counties that endorse the program.

In the first quarter of 2003, the Illinois Counties Association gave its exclusive endorsement of the program – bringing the total to 42 state associations that work with NACo to help county employees save for their retirements

NACo continues to offer “Counties 101” to NRS representatives to help them better understand and respond to inquiries from county personnel.

In addition, NACo’s Deferred Compensation Advisory Committee continued its role of overseeing the program and working with NACo staff and NRS representatives to provide input and feedback from a county perspective. For the 14th year in a row, the annual independent competitiveness test of the program’s fixed option showed the Nationwide program to beat its 10 top competitors.

Corporate relations program expands

NACo’s Corporate Relations programs also grew in size and service to the membership. The Corporate and Premier Members all benefited from greater communications from NACo as well as greater opportunities to interact with NACo county members.

NACo also offered workshops at its 2002 Annual Conference designed specifically for its business partners and corporate members. These workshops included “Counties 101” and “So You Want to Do Business with Counties.”

NACo continued to refine its sponsorship program by developing specific benefits based on level of sponsorship. In 2002, NACo sponsors supported NACo’s traditional activities and events, like conferences and the Acts of Caring Awards, as well as several unanticipated programs related to NACo’s homeland security activities.

Leadership training program grows

NACo's Education Services provided a variety of training and education opportunities for county officials and the county workforce. Advanced Leadership Training (ALT) programs experienced significant growth in attendance and revenue during 2002. A total of 589 participants in pre-conference seminars produced gross revenue of \$53,000 and net of \$27,000 based on direct expenses.

NACo Internet University (NIU) enrolled hundreds of county employees in IT/computer courses and professional skills courses. Fees for courses for large groups (100-1,000+) were lowered in 2003 due to the success of NACo's partnership with the Federal Government's GoLearn online learning initiative. Nevertheless, NIU's outlook for the remainder of 2003 is unclear, since major county purchases and renewals have not met projections.

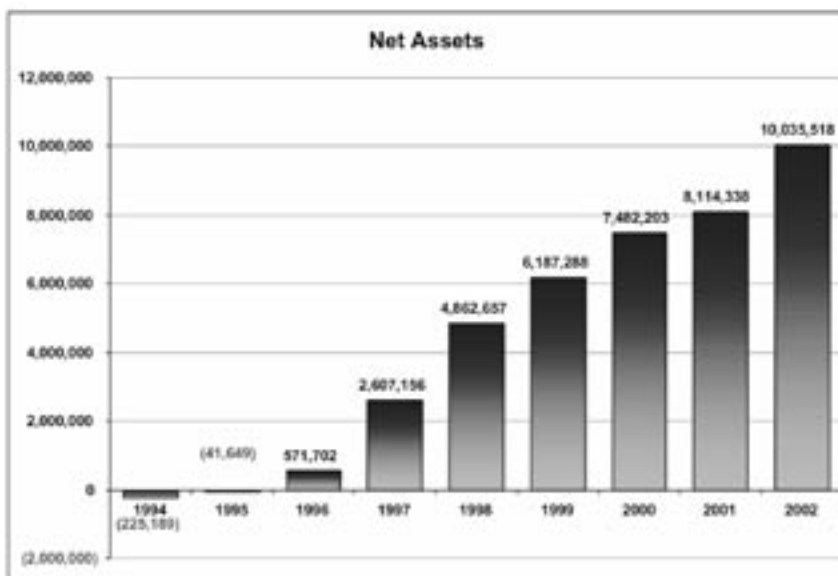
Educational workshops at NACo's four yearly conferences provided a variety of training opportunities for conference attendees.

V Infrastructure & Administration

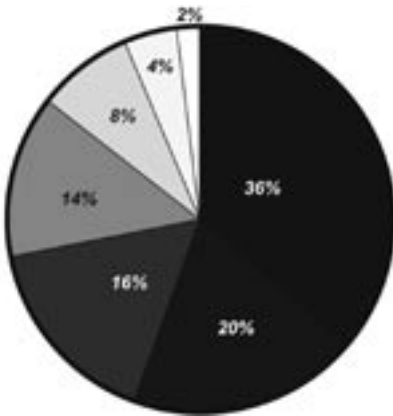
NACo ends FY02 with \$1.9 million surplus

NACo consolidated financial operations ended the 2002 fiscal year with a surplus of \$1.9 million, exceeding budget by nearly \$1.3 million and raising net assets to more than \$10 million. Worries about the economy and a possible drop in dues and other revenue encouraged the NACo Board of Directors to implement cost savings early in 2002. This provided NACo with plenty of time to save money by delaying the hiring of new employees and reducing travel, meeting, and marketing costs.

By the end of the year, revenues were short of budget by more than 4 percent—about \$770,000. This shortfall was supported by a decrease in spending of more than 11 percent from budget, saving NACo more than \$2.1 million during the year. In fact, savings in 2002 were so significant



Sources of Revenue

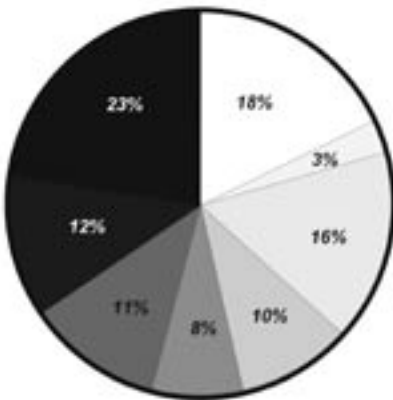


● NACoS: Royalties & Fees	\$7,050,043	36%
● Membership Dues	\$3,813,564	20%
● Rental Operations	\$3,189,797	16%
● Conferences	\$2,648,382	14%
● Grants & Contracts	\$1,615,012	8%
● County Programs/Services	\$827,626	4%
○ Investments	\$393,529	2%

Total Revenue	\$19,537,953
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Expenditures

(by Program)



○ NACo Services Corp (NACoS)	\$3,116,834	18%
● Membership Development/Mkt	\$521,676	3%
● Rental Operations	\$2,815,202	16%
● Conferences	\$1,752,293	10%
● Grants & Contracts	\$1,341,681	8%
● County Programs/Services	\$2,015,388	11%
● Legislative	\$2,098,479	12%
● Mgt & Admin	\$3,990,172	23%

Total Expenses	\$17,651,725
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Net Assets, beginning of year	\$8,114,338
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Surplus	\$1,886,228
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Adjustment to net assets	\$34,952
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Net Assets, December 31, 2002	\$10,035,518
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that expenses decreased 6 percent from the 2001 level. Revenues remained stable between 2001 and 2002.

Here are some highlights:

- Marketing, printing and meetings accounted for \$1.1 million in budgeted savings. Delays in hiring of new employees provided \$400,000 in wage and benefit savings while consultant fees were shaved \$259,000. Savings from travel was more than \$243,000.

- Net profits from for-profit operations NACo Services Corporation and the NACo Financial Services Corporation exceeded \$1.3 million in 2002. This was 71 percent higher than in 2001. Royalties from these programs provided an additional \$2.4 million in revenues.

- Market fluctuations continued to affect investment income in 2002 and NACo consolidated operations ended the year with an overall investment return of about 3 percent \$311,000. This was slightly higher than 2001.

- Net income from all conferences reached \$650,000 in 2002 and exceeded the budgeted goal by 150 percent. Net income for the year was the highest in three years and exceeded the 2001 results by 41 percent.

- The year ended with reserves of \$8.1 million—42 percent of total revenue. Of this amount, \$4.3 million has been restricted by the Board of Directors for the future purchase of real estate for a NACo headquarters.

Association becomes fully staffed in 2002

Vacancies frozen in 2001 due to uncertainties over the economy were fully staffed by the end of 2002. Staffing of vacancies was accomplished within budget and within a short period of time. Attrition continues to be low. Consequently, recruitment costs have been low.

NACo introduced an internal Web site called “ASKME.” The intranet Web site name was selected through a contest by employees. Information posted on the site includes NACo policies and procedures, budget and strategic plan information, special bulletins, general information on NACo activities, benefit information, links to various resource sites, and any information of interest to our employees. Since introduction of site, internal dissemination of paperwork has decreased. Employees find the site useful and a quick and easy resource for information.



NACo conducted its annual compensation and benefits analysis. The conclusion of the analysis was that NACo’s compensation and benefits are competitive with the local market and other associations. The association’s competitive position was a key factor in the success of recruitment efforts. In addition, the results showed that the NACo costs for medical and dental benefits are lower than the local average employer costs for those benefits.

Improvements to information technology yield better service to members

NACo pursued a number of improvements to its information technology system that will result in better service to members. Here is a summary of those improvements:

- Implemented the new Association Management System on-time and within budget. This system provides NACo employees with a user-friendly tool to manage committees, conferences, membership, and accounts receivable.

- Implemented the new NACo Web site on-time and within budget. The new redesigned Web site embraces all the functionality that is present on the old Web site, plus provides content management functionality which allows for all NACo staff to update material instead of having to depend upon one or two staff members to prepare the material for publishing on the Web. The software provides several layers of control, and a final review by the Web editor before information is posted on the site. The software also allows NACo employees to schedule the posting and deletion of material, which will be a big help in keeping material current.

- Modernized the NACo information technology infrastructure in order to effectively support the financial management system, association management system and Web redesign projects. High availability systems were implemented that have dramatically reduced system down time and have significantly improved the efficiency and effectiveness of the NACo IT infrastructure. NACo experienced four disk drive failures during 2002 that went unnoticed by our users due to our redundant storage systems. The legacy Novell Netware Directory Structure was replaced with Microsoft Active Directory, which effectively integrated all NACo IT peripheral infrastructure in one place and improved reliability.

- Implemented a robust technology infrastructure to combat computer viruses. By actively managing critical system updates and implementing firewalls, proxy servers, and workstation/server virus protection software, all viruses and hacker intrusions have literally been eliminated at NACo. This is an incredible accomplishment given that the association successfully intercepts roughly 500 virus intrusion attempts per day.

