

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Management's Discussion and Analysis

As management of the County of El Paso (the County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 through 10 of this report.

Financial Highlights. Combined County assets from governmental and business type activities exceeded liabilities at the close of fiscal year 2004 by \$127,912,062, which represents total net assets. Of this amount, \$115,525,742 or 90.3 percent relates to governmental-type activities while \$12,386,320 or 9.7 percent represented business-type activities. Total net assets are comprised of restricted and unrestricted assets and investment in capital assets net of related debt. Restricted assets represent funds subject to constraints that are imposed externally by creditors, debt covenants, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets totaled \$57,766,376 or 45.16 percent of total net assets of which the primary government and business type activities totaled \$56,870,512 or 44.46 percent and \$895,864 or .7 percent respectively. Unrestricted net assets on the other hand may be used to meet the county's ongoing obligations to citizens and creditors and totaled \$24,678,507 or 19.29 percent of total net assets. An additional component of net assets include capital assets, which represents the carrying value of capital assets reduced by any related outstanding debt. This component, invested in capital assets net of related debt totaled \$45,467,179 or 35.55 percent of total net assets.

Fiscal year 2004 operations of the County resulted in total net assets increasing by \$1,992,466 or 1.58 percent. This was mainly attributable to a net increase of \$2,329,676 or 2.06 percent in the governmental-type net assets and a decline in business-type net assets totaling \$337,210 or 2.65 percent. Explanation of these changes is depicted hereafter in this management discussion and analysis.

Overview of the Financial Statements

Discussion and analysis here is intended to serve as an introduction to El Paso County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the County that are primarily supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges similar to business-type activities. The governmental activities of the County include general government, administration of justice, public safety, health and welfare, community services, resource development, culture and recreation and public works. The business-type activities of the County include the East Montana Water Project.

The government-wide financial statements include not only the County itself (known as the primary government), but also the R. E. Thomason Hospital District (The District), a discretely presented component unit. The District is included in this CAFR because the El Paso County Commissioners Court, the County's governing body, has the legal duty to exercise financial accountability over it by appointing its board members, approving its budget and setting its tax rate. Nonetheless, the District is a completely separate and dissimilar organization that is governed by the *Texas Constitution, Article 9, § 4* and the *Health and Safety Code, Chapter 281*, a different set of constitutional and statutory laws. In addition, the District has a separate constitutional ad valorem property tax rate limitation, a separate operating budget, separate accounting records, the independent power of eminent domain, the individual right of ownership of real and personal property and the authority to select a depository for its funds. The assets of the District are in no way available to the County and neither are the County's assets available in any way to the District. Since the legal authorities and operational objectives of the District and the County are irrefutably different, separate disclosures are presented in the County's financial statements and in the notes to the financial statements. All accounting and budgeting records of the District are maintained by the District, audited by an independent accounting firm and reported on in much greater detail in their various interim and annual financial reports. Copies of any of the District's financial reports can be obtained directly from the District. The government-wide financial statements can be found on exhibits 1 and 2 or this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. El Paso County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, it is our hope that readers will better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund

statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains multiple individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects 2001 and 2002, which are the only major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its general fund, special revenue and debt service funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3-5 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for its East Montana Water Facility. The internal service fund is an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for its employee health benefits, workers compensation, and supplemental dental and optical benefits funds. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the East Montana Water Facility. The internal service fund is also presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on Exhibits 6-8 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on Exhibit 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45-78 of this report.

Other information. The combining statements regarding non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 93-251 of this report.

Government-Wide Financial Analysis

As previously noted, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$127,912,062 at the close of the most recent fiscal year. By far the largest component of the County's net assets represents restricted assets totaling \$57,766,376 or 45.16 percent, of which the majority relates to capital project funds totaling \$41,345,601 or 71.57 percent of restricted net assets. Included within total net assets is the investment in capital assets (e.g., land, buildings, machinery, and equipment) totaling \$45,467,179 or 35.55 percent, which is reduced by any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's restricted net assets represents resources that are subject to external restrictions on how they may be used. The last component of the County's net assets represents unrestricted net assets totaling \$24,678,507 or 19.29 percent of total net assets, which may be used to meet the county's ongoing obligations to citizens and creditors. Furthermore, as of September 30, 2004, the County is able to report positive balances in all three categories of

El Paso County, Texas Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003
Current and other assets	\$ 128,206,496	\$ 131,153,587	\$ 1,215,161	\$ 1,165,633	\$ 129,421,657	\$ 132,319,220
Capital assets	165,582,270	161,682,031	12,499,909	12,888,728	178,082,179	174,570,759
Total assets	293,788,766	292,835,618	13,715,070	14,054,361	307,503,836	306,889,979
Long-term liabilities outstanding	152,225,848	158,028,565	1,167,000	1,183,000	153,392,848	159,211,565
Other liabilities	26,037,176	21,610,987	161,750	147,831	26,198,926	21,758,818
Total liabilities	178,263,024	179,639,552	1,328,750	1,330,831	179,591,774	180,970,383
Net assets:						
Invested in capital assets, net of related debt	33,976,723	20,521,773	11,490,456	11,698,321	45,467,179	32,220,094
Restricted	56,870,512	64,586,987	895,864	1,025,209	57,766,376	65,612,196
Unrestricted	24,678,507	28,087,306	-	-	24,678,507	28,087,306
Total net assets	\$ 115,525,742	\$ 113,196,066	\$ 12,386,320	\$ 12,723,530	\$ 127,912,062	\$ 125,919,596

net assets for the governmental and business-type activities. Investments in capital assets net of related debt from governmental and business-type activities grew by \$13,247,085 or 41.11 percent. There was a decrease of \$7,845,820 in restricted net assets reported of which approximately \$7,716,475 and \$129,345 resulting from the County's governmental and business-type activities, respectively. Unrestricted net assets also declined solely in the governmental activities by \$3,408,799 or 12.14 percent.

On a global perspective, the County of El Paso total net assets from governmental and business-type activities increased by \$1,992,466. This increase was the culmination of a multitude of changes at the fund level statements, but more so, at the entity-wide level financial statements. Discussion here will be focused on selective information to give the reader a basic understanding by evaluating changes in the statement of net assets and the associated changes in revenues and expenses. Detailed analysis and explanation will be focused on significant changes, which occurred throughout the various levels within these financial statements.

The overall increase in net assets of the County can be better understood when evaluating the changes to net assets, total assets minus total liabilities. Total assets totaled \$307,503,836 and increased \$613,857 or .20 percent. Further analysis reflects that the majority of all assets relate to governmental activities totaling \$293,788,766 or 95.54 percent. Overall, capital assets (net of related depreciation) totaled 178,082,179 and increased by \$3,511,420 and represents land, buildings, improvements, equipment, furniture, vehicles, roads, bridges and culverts. Within these capital assets, increases were offset by decreases to capital assets as items reached their useful lives or became damaged or obsolete. A significant impact to overall capital assets represented an increase of \$5,577,035 within construction in progress, which represents projects that will be capitalized upon completion.

To give the reader greater insight in understanding these financial statements, it is important to explain that governmental entities such as El Paso County purchase equipment which is deemed to have a useful life of greater than one year. As such, for entity-wide reporting purposes under GASB 34, these expenditures made at the fund level must be reversed from expenditures at the entity-wide level financial statements and reflected as capital assets net of depreciation. Due to this, you may observe fund level expenditure amounts in excess of what is reported at the entity-wide level or visa versa. The most significant impact in total assets represents changes that occurred within cash, cash equivalents and investments, which declined by \$10,006,811. The significance of this can be further evaluated by shifting attention away from assets and liabilities and focusing on the changes to the components of total net assets, which is discussed immediately following discussion on total liabilities. One other change includes an increase in the area of receivables (net of allowance for uncollectible accounts) totaling \$7,117,382 or 30.98 percent attributed mainly to an increase in entity-wide accruals of revenue such as property taxes and fines outstanding.

Overall, total entity-wide liabilities were \$179,591,774 and declined by \$1,378,609 or .76 percent. Further analysis reflects that the majority of all liabilities relate to governmental activities totaling \$178,263,024 or 99.26 percent. When compared to fiscal year 2003, liabilities declined in the areas of claims payable by \$323,132 or 5.87 percent, but mainly due to long-term bonds payable declining by \$9,571,328 or 6.73 percent, which represented principal and discount amortization on bonded indebtedness since the last payment date. Offsetting increases included vouchers payable of \$1,217,478 or 24.55 percent, payroll liabilities of \$1,798,845 or 39.33 percent, due to other governments of \$1,511,578 or 141.36 percent, and reporting of increased liability for compensated absences of \$4,037,065 or 26.10 percent. For additional information regarding compensated balances, please see note 1-K.

This increase in the County's net assets of \$1,992,466 or 1.58 percent represents the degree to which revenue growth has outpaced the growth in expenses. Overall revenue increased by \$13,752,631 or 7.05 percent of which the lion's share of 59.0 percent of the total revenue increase, represented taxes (mainly property and sales taxes), which rose by \$8,114,569. Of this increase, \$6,356,357 related to property taxes, an increase of 7.74 percent and \$1,758,212 representing mainly sales and use taxes and other miscellaneous taxes, an increase of 6.22 percent. Other impacts included operating grants and contributions, which increased overall by \$80,014 or .30 percent while capital grants and contributions declined by \$330,709 or 111.26 percent. Charges for services grew by \$800,098 or 1.58 percent, mainly attributable to the housing of federal and city prisoners by the County Sheriff. Other revenues depicted an increased of \$5,088,659 or 75.28 percent mainly attributable to an increase in miscellaneous

revenues of \$1,717,049 or 36.01 percent, an increase in gain on sale of capital assets of \$3,663,356 or 4,146.51 percent and a decrease in investment interest earnings totaling \$291,746 or 15.33 percent. The gain on the sale of capital assets is related to the sale of one parcel of land that made up the Landmark property and sale of land associated with the Rodeo property.

On the other hand, expenses fell by a net of \$333,829 or .17 percent. Expense changes included increases in public works of \$5,444,948 or 568.53 percent for the colonia road paving projects, health and welfare of \$1,125,944 or 10.53 percent for children's health and air quality projects, and culture and recreation of \$515,699 or 6.74 percent. These increases netted with declines in general government totaling \$3,989,478 or 10.32 percent, public safety totaling \$2,097,216 or 2.25 percent, administration of justice totaling \$678,312 or 1.85 percent, interest on long-term debt totaling \$520,362 or 7.52 percent, resource development totaling \$430,245 or 35.56 percent and community services totaling \$140,928 or 20.27 percent. Further explanation of all the above changes is discussed hereafter in this section.

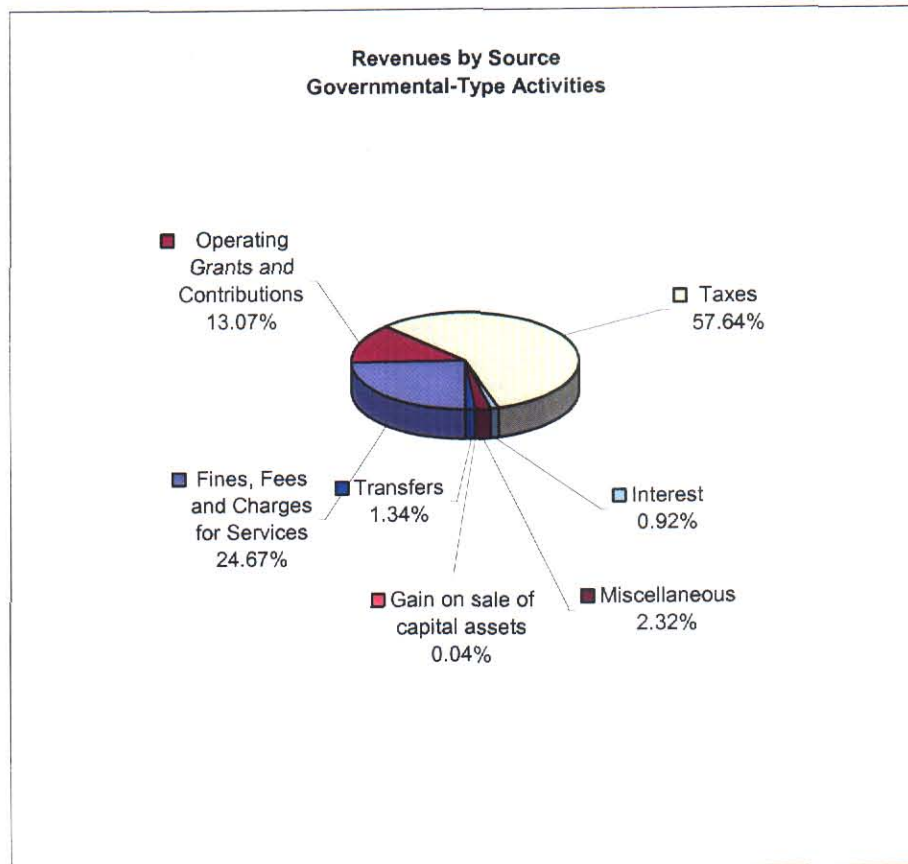
From here forward in the discussion of entity-wide changes, please note that the increases and decreases in entity-wide expenses in the various functions of county government are a result of a combination of financial impacts both at the fund level and more materially at the entity-wide level. Financial impacts relating to the recording of capital assets, depreciation expenses and retirement of assets when taken as a whole, along with the other entity-wide adjustments such as the recognition of compensated absences, allocation of profit on the internal service funds back to departments and the conversion of capital outlays to reflect at the entity-wide level as expenses by function.

County of El Paso, Texas Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003
Revenues:						
Program revenues:						
Charges for services	\$ 50,733,362	\$ 49,967,643	\$ 730,374	\$ 695,995	\$ 51,463,736	\$ 50,663,638
Operating grants and contributions	26,879,949	26,799,935			26,879,949	26,799,935
Capital grants and contributions	-	-	(33,463)	297,246	(33,463)	297,246
General revenues:						
Property taxes	88,512,228	82,155,871			88,512,228	82,155,871
Other taxes	30,045,098	28,286,886			30,045,098	28,286,886
Other	11,833,442	6,746,135	15,285	13,933	11,848,727	6,760,068
Total revenues	208,004,079	193,956,470	712,196	1,007,174	208,716,275	194,963,644
Expenses:						
General government	34,677,434	38,666,912			34,677,434	38,666,912
Administration of justice	36,013,307	36,691,619			36,013,307	36,691,619
Public safety	91,094,808	93,192,024			91,094,808	93,192,024
Health and welfare	11,816,570	10,690,626			11,816,570	10,690,626
Community services	554,213	695,141			554,213	695,141
Resource development	779,761	1,210,006			779,761	1,210,006
Culture and recreation	8,169,256	7,653,557			8,169,256	7,653,557
Public works	6,402,679	957,731			6,402,679	957,731
Interest on long-term debt	6,395,014	6,915,376			6,395,014	6,915,376
East Montana water project			1,049,406	613,285	1,049,406	613,285
Total expenses	195,903,042	196,672,992	1,049,406	613,285	196,952,448	197,286,277
Increase (decrease) in net assets before transfers	12,101,037	(2,716,522)	(337,210)	393,889	11,763,827	(2,322,633)
Transfers	63,732	(2,759,575)			63,732	(2,759,575)
Increase in net assets	12,164,769	(5,476,097)	(337,210)	393,889	11,827,559	(5,082,208)
Net assets October 1 (restated)	103,360,973	118,672,163	12,723,530	12,329,641	116,084,503	131,001,804
Net assets September 30	\$ 115,525,742	\$ 113,196,066	\$ 12,386,320	\$ 12,723,530	\$ 127,912,062	\$ 125,919,596

Governmental activities

Governmental activities during fiscal year 2004 resulted in an increase in net assets of \$2,329,676, or 2.06% thereby accounting for 100 percent of the total increase of \$1,992,466 in net assets. Comparative fiscal year 2003 and 2004 data relating to these changes is reflected above.

Property taxes increased by \$6,356,357 or 7.74 percent during the year. This increase is attributable to an increase in the tax rate from \$0.396610 to \$0.410817 and growth in the property tax base and increases in the property assessed values totaling \$490,654,714 or 2.61 percent.

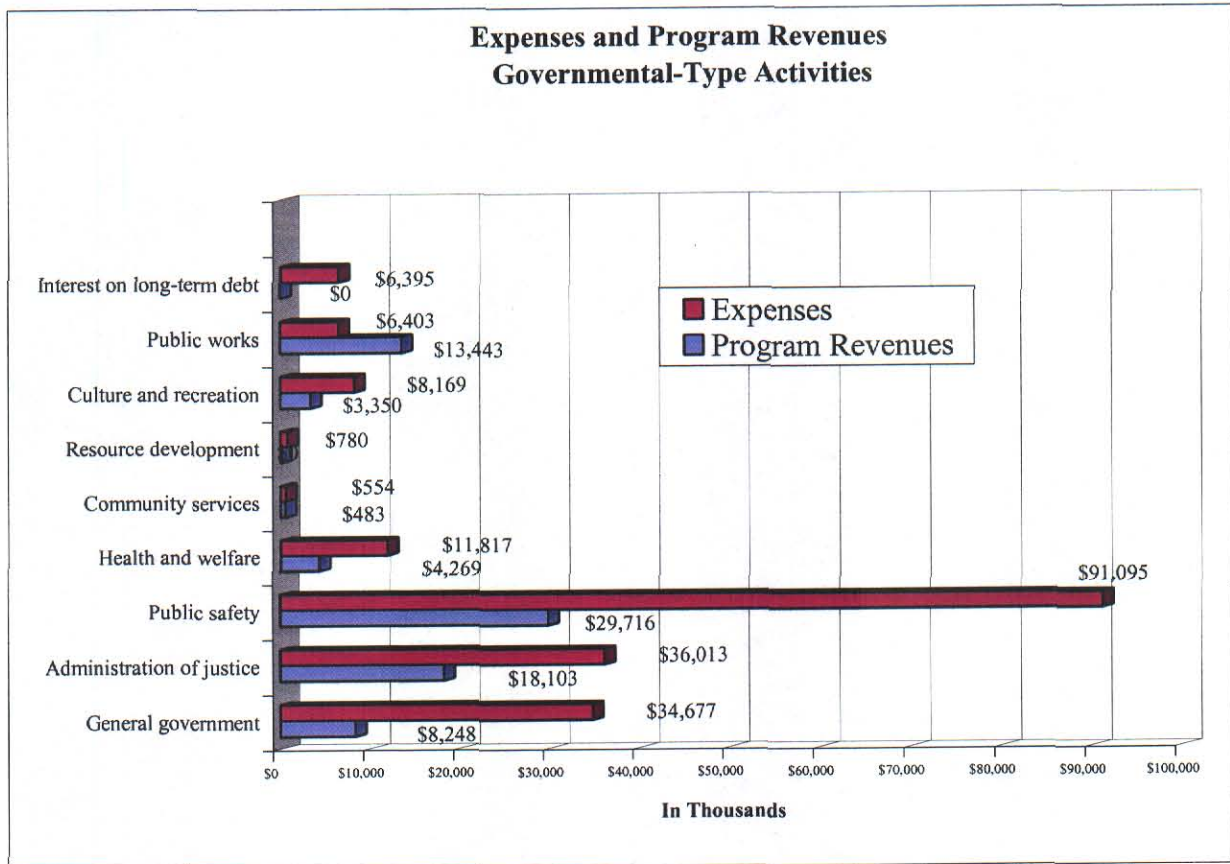


Fines, fees and charge for services grew by \$765,719 or 1.53 percent and represent 5.45 percent of the total change in revenue.

Operating grants and contributions for governmental activities increased by only \$80,014 or .30 percent. Further evaluation of this change depicts growth in public works totaling \$3,793,331 or 253.19 percent, health and welfare totaling \$1,932,879 or 86.53 percent and public safety totaling \$159,714 or 1.99 percent. Growth in public works is attributable to receipt of funds for the colonia road paving project. Health and welfare increased due to grant funding for children’s health and air quality. These increases netted with declines such as \$5,118,578 or 38.97 percent in administration of justice, \$505,095 or 68.01 percent in general government, \$136,265 or 21.96 percent in culture and recreation and community services, which declined by \$45,972, or 8.69 percent. The most significant decline relates to the fact that the county received substantially less federal reimbursement for the Southwest Border Prosecutors Initiative, which covers the cost of arresting, detaining, housing and prosecuting cases that are federally initiated and handled by the County, a decline from \$7.2 in fiscal year 2003 to \$3.1 million in fiscal year 2004.

Other taxes grew by \$1,758,212 or 6.22 percent due mainly to increases in both sales and hotel/motel taxes. Other revenues increased by \$5,087,307 or 75.41 percent. The increase was experienced in the governmental activities and relates mainly to one-time transfer of funds from the road and bridge fund to the general fund of \$5 million.

Entity-wide expenses decreased by \$333,829 or .17 percent of which governmental activities contributed to a decrease of \$769,950 or .39 percent and comprised 100 percent of the overall entity-wide decrease. The most significant changes were evident in the areas of public works,



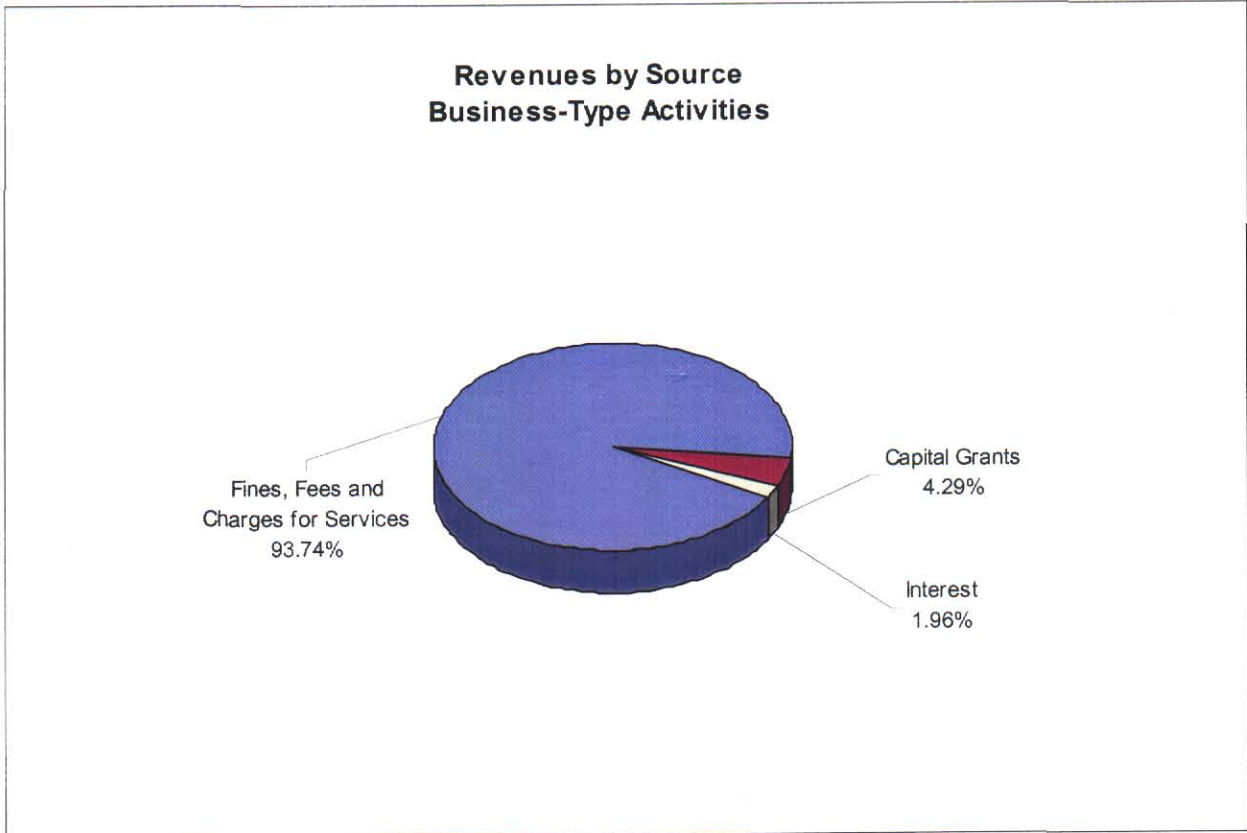
health and welfare and culture and recreation, which increased by \$5,444,948 or 568.53 percent, \$1,125,944 or 10.53 percent and \$515,699 or 6.74 percent, respectively. Other areas declined such as general government, public safety, administration of justice, interest on long-term debt, resource development and community services totaling \$3,989,478 or 10.32 percent, \$2,097,216 or 2.25 percent \$678,312 or 1.85, \$520,362 or 7.52 percent, \$430,245 or 35.56 and \$140,928 or 20.27 percent, respectively.

Changes mentioned previously within each of the functions above are the result of a combination of factors both at the fund level and more materially at the entity-wide level as explained in the discussion of the changes in the statement of net assets. More specific information can be found in the fund level discussion later in this section. Factors affecting expenses that are recognized in governmental activities and not presented in the individual government funds can be found on Exhibits 3.1 and 4.1 of the basic financial statements.

Business-type activities. Business-type activities decreased the County's net assets by \$337,210 or 2.65 percent and accounted for 100 percent of the total decline in the government's net assets. Comparative fiscal year 2003 and 2004 data relating to these changes is reflected on Exhibit 6.

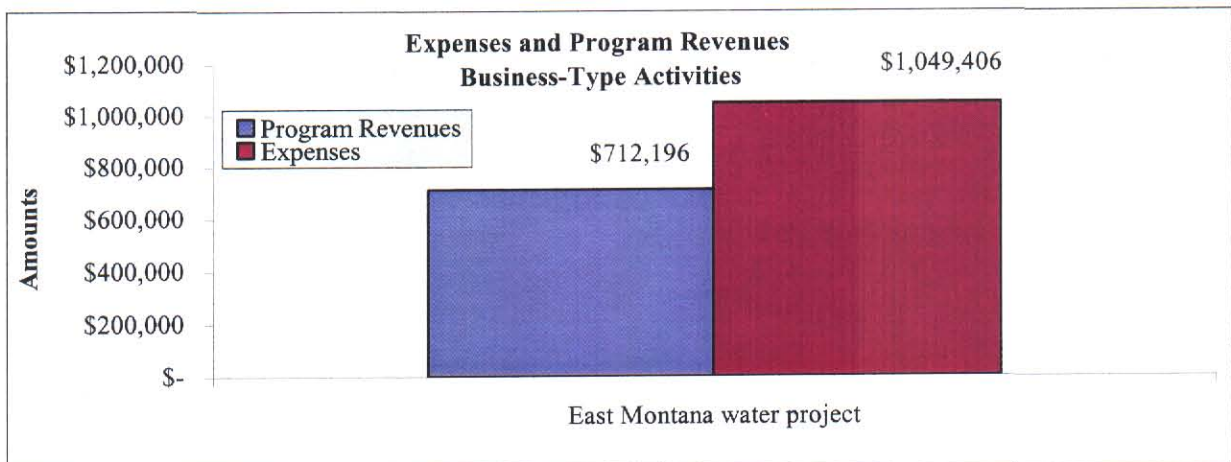
Charges for services here increased by \$34,379 or 4.94 percent due to an increase in program revenue received from the East Montana water system.

Capital grants and contributions declined by \$330,709 or 111.26 percent, which represents 100 percent of the overall revenue decline in this category. The decrease was a direct result of a reduction in capital expenses related to the East Montana Water Project. Most of the final phase



of construction was completed in fiscal year 2002 with only a small portion of the project remaining in fiscal year 2003.

Other revenues increased by \$1,352 or 9.70 percent mostly due to higher investment earnings on more funds available for investment in business-type activities.



Expense increases in this area totaled \$436,121 or 71.11 percent and were related to increased cost of water purchases and garbage services, which began in late FY2003, for the East Montana water project area.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the 2004 fiscal year, the County's governmental funds reported combined ending fund balances of \$91,473,259, a decrease of \$7,774,770 or 7.83 percent in comparison with the prior year. Unreserved fund balance constitutes \$47,062,665 or 51.45 percent of this total fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it has already been committed and therefore, unavailable for new spending. The majority of this reserved balance is attributable to capital project funds totaling \$41,046,121 or 44.87 percent for planned capital equipment and infrastructure. Included in the unreserved balance mentioned above is \$8,625,529 designated to balance the fiscal year 2005 general fund operating budget, and an additional amount designated for a variety of specific purposes in the special revenue funds totaling \$14,653,264.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$32,409,401 of which \$23,783,872 is unreserved and undesignated. Overall, the undesignated fund balance of the general fund increased by \$10,228,040 or 75.45 percent. Fund balance totaled \$33,855,369, and basically remained unchanged. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. As in the past, the Commissioners Court utilized undesignated reserves in balancing the fiscal year 2005 operating budget, which included an expenditure level exceeding the corresponding rate of revenue growth, although, significantly less than the prior fiscal year. Overall, the stable fund balance of the County's general fund was mainly attributable to utilization of road and bridge and park improvement funds as transfers totaling \$6.4 million in anticipation of revenue shortfalls. Additionally, the County requested and received federal funds approximating \$3.1 million as reimbursement for the Southwest Border Prosecutors Initiative, which covers the cost of arresting, detaining, housing and prosecuting cases that are federally initiated and handled by the County. As mentioned in the transmittal letter, for fiscal year 2005, the Court decreased its use of fund balance in the budget, but at the same time, the Court budgeted transfers-in from other funds totaling \$2.5 million. It is vitally important that the Commissioners Court continue to monitor the future trend of general fund expenditures exceeding revenues, as experienced in fiscal years 2002 and 2003 totaling \$12.4 and \$10.8 million, respectively.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Restricted net assets of the Business-Type Activities (East Montana Water System) at the end of the year amounted to \$895,864, a decline of \$129,345 or 12.62 percent. Key factors concerning the finances of this fund were addressed in the discussion of the County's business-type activities.

General Fund Trends

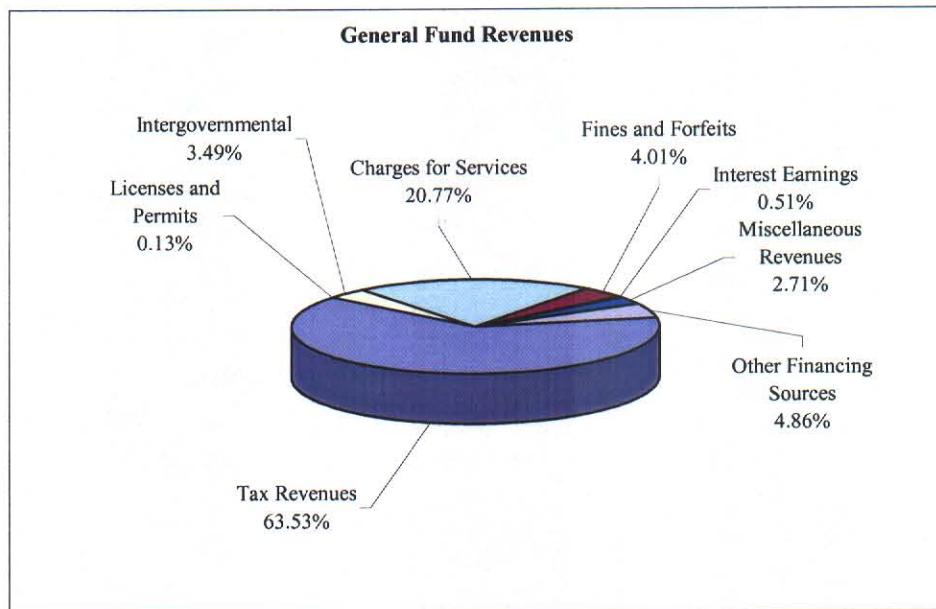
The general fund is the County's main operating fund and a major fund covering a majority of the cost of operating county government; therefore, much discussion will refer to this fund, which is within the governmental-type activities. During fiscal year 2004, total fund balance in the general fund increased by \$774 for a total of \$33,855,369. In view of stabilization of the general fund balance in comparison to the previous two fiscal years, the Commissioners Court should be commended for their interim progress but must remain focused on hurdles that lie ahead for County government. The fiscal year 2005 budget incorporated additional funding for the operations of the jail facilities, the sheriff's department and other mandated expenditures. The fiscal year 2005 budget increased although the majority of mandated departments were level funded while non-mandated departments saw varying reductions in an effort to stifle expenditure growth. Simultaneously, the reserved or designated fund balance utilized in balancing the 2005 general fund budget totaled \$8,625,529 a decline of \$10,184,357 or 54.14 percent from the prior year. As mentioned previously, the Court budgeted transfers-in from other funds totaling \$6.4 million as a means of balancing the general fund budget in fiscal year 2004 and to lesser extent again in fiscal year 2005. This was in an attempt to offset further depletion of fund balance reserves with a goal of ensuring future maintenance of first quarter operating capital, but more so, to facilitate growth in revenues while holding the line on expenditure growth.

A myriad of factors contributed to the general fund's financial position. Factors included the favorable variance of actual revenues and other financing sources over estimates of \$9,831,513, exclusive of designated fund balance of \$18,809,886. Actual revenues totaled \$138,433,145, an increase of \$4,900,419 or 3.67 percent over fiscal year 2003. On the other hand, other financing sources totaled \$7,076,844, an increase of \$6,341,242 or 862.05 percent above fiscal year 2003.

General Fund Revenues	2003 Actuals	2004 Actuals	Amount Increase (Decrease) from FY 2003	Percent Increase (Decrease)	2004 Actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$ 85,650,457	\$ 92,442,719	\$ 6,792,262	7.93%	63.53%
Licenses and Permits	\$ 179,036	\$ 192,744	\$ 13,708	7.66%	0.13%
Intergovernmental	\$ 9,189,186	\$ 5,075,635	\$ (4,113,551)	-44.77%	3.49%
Charges for Services	\$ 29,524,793	\$ 30,221,742	\$ 696,949	2.36%	20.77%
Fines and Forfeits	\$ 5,367,762	\$ 5,828,028	\$ 460,266	8.57%	4.01%
Interest Earnings	\$ 803,996	\$ 735,253	\$ (68,743)	-8.55%	0.51%
Miscellaneous Revenues	\$ 2,817,496	\$ 3,937,024	\$ 1,119,528	39.73%	2.71%
Other Financing Sources	\$ 735,602	\$ 7,076,844	\$ 6,341,242	862.05%	4.86%
Total revenues and other sources	\$ 134,268,328	\$ 145,509,989	\$ 11,241,661	8.37%	100.00%

It is noteworthy to mention that various factors and actions by the County during the fiscal year had the effect of maintaining the County's favorable fund balance and unspent budget balance within the general fund. Significant factors impacting the general fund balance were revenue increases in a variety of areas. Together, revenues and other sources netted a total increase of \$11,241,661 or 8.37 percent. Some of the increases in revenues were briefly discussed

previously in the governmental-type activities revenue discussion. Further analysis of the general fund reflects increases such as taxes, \$6,792,262 or 7.93 percent of which the majority of this increase related to ad valorem property taxes totaling \$5,175,407 or 8.72 percent and sales and use taxes totaling \$1,276,549 or 5.05 percent. The



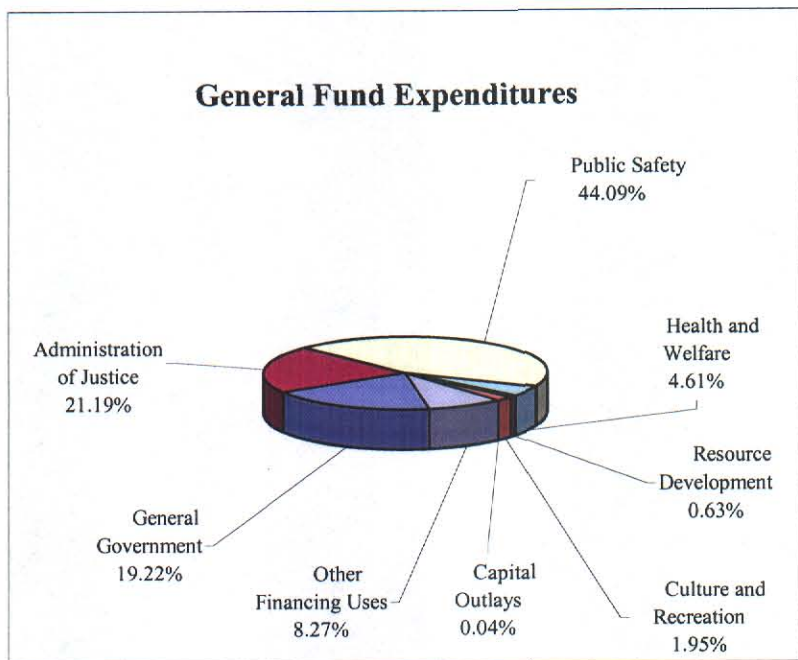
increase in taxes was attributable in part to continued growth in the property tax base and valuation increases and slightly rebounding sales and use taxes. As stated earlier, the Commissioners Court increased the tax rate to \$0.410817 from \$0.396610 in fiscal 2004 in an effort to align revenues with expenditures trends. Previously, the tax rate remained unchanged from fiscal years 1999 through 2002 and grew in fiscal year 2003 to \$0.361434.

Other areas which experienced growth, included other financing sources, miscellaneous revenues, charges for services, fines and forfeits and licenses and permits totaling \$6,341,242 or 862.05 percent, \$1,119,528 or 39.73 percent, \$696,949 or 2.36 percent, 460,266 or 8.57 percent and \$13,708 or 7.66 percent, respectively. These increases were netted by general fund revenue declines in intergovernmental and interest earnings totaling \$4,113,551 or 44.77 percent and \$68,743 or 8.55 percent, respectively.

General Fund Expenditures	2003 Actuals	2004 Actuals	Amount Increase (Decrease) from FY 2003	Percent Increase (Decrease)	2004 Actual as a % of Total Expenditures and Other Financing Uses
Current:					
General Government	\$ 27,692,063	\$ 27,794,655	\$ 102,592	0.37%	19.22%
Administration of Justice	\$ 29,468,631	\$ 30,644,570	\$ 1,175,939	3.99%	21.19%
Public Safety	\$ 67,947,028	\$ 63,769,219	\$ (4,177,809)	-6.15%	44.09%
Health and Welfare	\$ 7,082,392	\$ 6,674,680	\$ (407,712)	-5.76%	4.61%
Resource Development	\$ 1,189,374	\$ 914,215	\$ (275,159)	-23.13%	0.63%
Culture and Recreation	\$ 2,724,974	\$ 2,826,648	\$ 101,674	3.73%	1.95%
Capital Outlays	\$ 100,734	\$ 56,534	\$ (44,200)	-43.88%	0.04%
Other Financing Uses	\$ 4,236,386	\$ 11,963,402	\$ 7,727,016	182.40%	8.27%
Total Expenditures (Uses)	\$ 140,441,582	\$ 144,643,923	\$ 4,202,341	2.99%	100.00%

Comparison of the general fund budgeted appropriations reflects growth in fiscal year 2004 of \$5,504,060 or 3.66 percent, whereas budgeted actual expenditures in fiscal year 2004 grew \$4,202,341 or 2.99 percent before non-budgeted expenditure accrual adjustments bringing the total of general fund expenditures and transfers to \$144,643,923. Growth in expenditures by category is reflected in the chart on the prior page and was a result of a multitude of increases related to the county's salary-step-plan, the sheriff's collective bargaining agreement, new costs to fund mandated services as well as to keep pace with general inflationary increases. Increases in expenditures before non-budgeted adjustments were attributed to various categories. Further analysis reflects increases totaling \$102,592 or .37 percent in general government, \$1,175,939 or 3.99 percent in administration of justice, \$101,674 or 3.73 percent in culture and recreation and \$7,727,016 or 182.40 percent in other financing uses.

Declines were also experienced such as \$4,177,809 or 6.15 percent in public safety, \$407,712 or 5.76 percent in health and welfare, \$275,159 or 23.13 percent in resource development and \$44,200 or 43.88 percent in capital outlays. Additionally, revenues and other sources, exceeded expenditures and other uses by \$774 after non-budgeted accrual adjustments. This is explained by analyzing the effect of non-budgeted adjustments for the comparative years for vested benefits, contingent liabilities, payroll liabilities and excess sales and use tax transfers to the debt service fund. Other changes not elaborated on here include statutory mandates such as in administration of justice and public safety.



General Fund Budgetary Highlights

The fiscal year 2004 budget of \$154,385,518 did not increase during the fiscal year other than for carryover appropriations totaling \$1,389,096 bringing the original budget total to \$155,774,614. This budget included \$18,809,886 of fund balance reserves to balance the fiscal year 2004 budget gap of appropriations in excess of estimated revenues. The only other changes were for reallocations within expenditure classifications and can be briefly summarized as follows:

- (\$360,095) decreases in general government activities.
- \$741,514 increases allocated to administration of justice.
- (\$20,912) decreases allocated to public safety.
- \$29,141 increases allocated to health and welfare.
- \$115,164 increases allocated to culture and recreation.
- \$2,848 increases in resource development.

- (\$95,226) decreases to capital outlays.
- (\$412,434) decreases to transfers out.

Capital Asset and Debt Administration

Capital assets

The County's investment in capital assets for its governmental and business type activities as of September 30, 2004 amounts to \$178,082,179, (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads and bridges. The total increase in the County's investment in capital assets for the current fiscal year was a net of \$3,511,420 or 2.01 percent, comprised of an increase of \$3,900,239 or 2.41 percent in governmental activities and \$388,819 or 3.02 percent decrease for business-type activities.

Major capital asset activity occurring in fiscal year 2004 included road construction, purchases of land, equipment, software and hardware upgrades. The most significant increases were attributable to the addition of county roads to the County's capital assets and construction in progress from expenditure of capital bonds issued in prior years. Another activity of significance includes the Fabens Port of Entry in Far East El Paso whereby the County is working with State, Federal and Mexican officials for the construction of a new international port of entry between the United States and Mexico. Additional information on the County's capital assets can be found in note 3-C and Exhibit G1- G3.

El Paso County, Texas						
Summary of Capital Assets (Net of Depreciation)						
Categories	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$ 13,555,040	\$ 11,393,266			\$ 13,555,040	\$ 11,393,266
Buildings	117,338,603	119,941,600			117,338,603	119,941,600
Improvements	4,624,604	3,679,215			4,624,604	3,679,215
Equipment	9,635,878	11,191,451	\$ 12,499,909	\$ 12,888,728	22,135,787	24,080,179
Furniture and Fixtures	234,561	167,658			234,561	167,658
Vehicles	2,833,332	3,314,609			2,833,332	3,314,609
Roads	5,876,350	5,988,592			5,876,350	5,988,592
Bridges and culverts	2,189,810	2,291,282			2,189,810	2,291,282
Leased equipment	42,199	39,500			42,199	39,500
Construction in progress	9,251,893	3,674,858			9,251,893	3,674,858
Total assets	\$ 165,582,270	\$ 161,682,031	\$ 12,499,909	\$ 12,888,728	\$ 178,082,179	\$ 174,570,759

Long-term debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$132,932,000 as reflected below. Of this amount, \$131,765,000 comprises debt backed by the

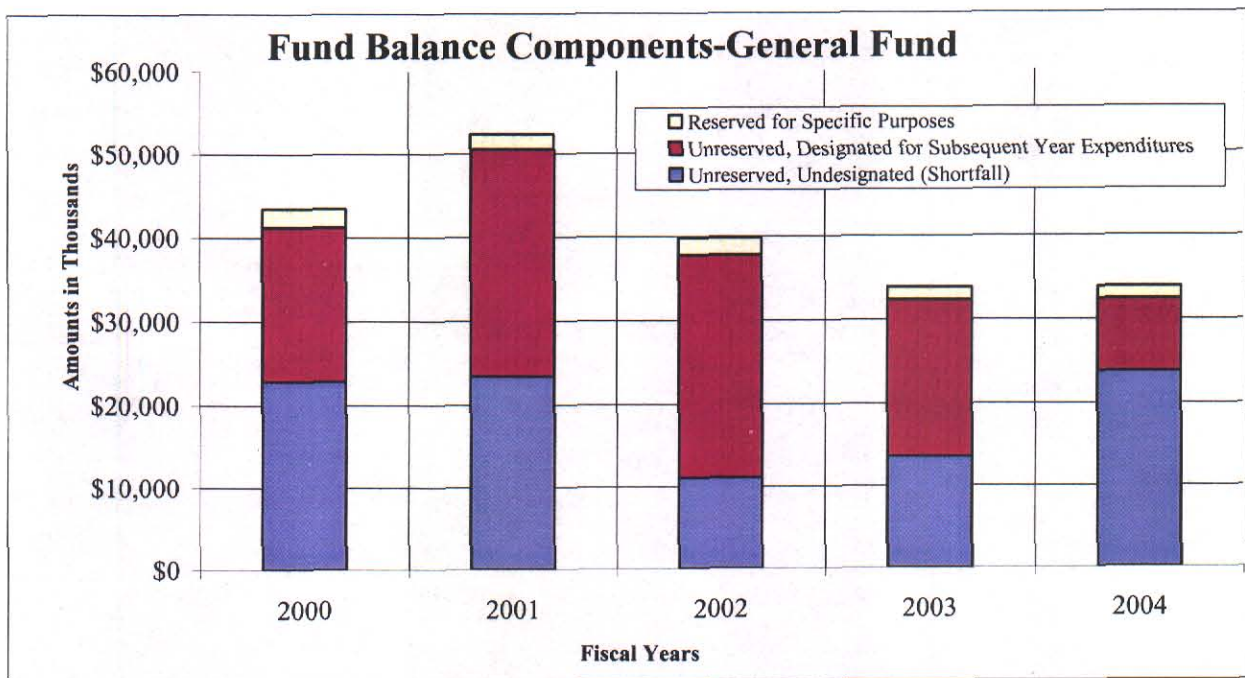
El Paso County's Outstanding Debt						
Type of Debt	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$51,145,000	\$57,720,000			\$51,145,000	\$57,720,000
Certificates of obligation bonds	80,620,000	83,590,000			80,620,000	83,590,000
Revenue bonds			\$1,167,000	\$1,183,000	1,167,000	1,183,000
Total	\$131,765,000	\$141,310,000	\$1,167,000	\$1,183,000	\$132,932,000	\$142,493,000

full faith and credit of the government. The remainder of the County's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During the current fiscal year the County's total debt decreased by \$9,561,000 or 6.71 percent. This decrease was due to payment of principal.

In fiscal year 2002, the Commissioners Court issued new debt to refinance some of its existing debt, taking advantage of favorable interest rates. At that time, both Moody's Investors Service and Standards & Poors reaffirmed bond ratings for a stable outlook in El Paso County with ratings of A1 and AA-, respectively. Both firms also reaffirmed these ratings on the County's outstanding general obligation debt. These ratings reflect our diverse and moderately growing economic base, El Paso County's well managed financial operations with emphasis on long-range financial goals of maintaining ample reserves, sound financial position and a manageable debt position.

Overall, both ratings reflect the County's current stable credit position that depends upon adequate operating margins and fund balance reserves in order to maintain and improve the County's current credit quality. It is believed that the County's fiscal 2005 budget along with the stability of general fund reserves enhances the County's credit worthiness and reflects a commitment in attaining set goals and objectives. More detailed information on the County's indebtedness may be found in note 3-F.



Economic Factors and Next Year's Budgets and Rates.

- According to the Texas Workforce Commission's October 2004 issue of Texas Labor Market Review, unemployment statewide was 5.4 percent in September. When compared to the same time last year, this unemployment rate was 1.40 percent higher. El Paso's unemployment rate for September 2004 was 7.2 percent, a significant decline of 2.90 percent in comparison to 10.1 percent in September 2003. Nevertheless, even though El Paso's unemployment traditionally ranks higher than the State, the National Policy

Research Council ranked El Paso in the top 50 cities based on government and public safety, environment, and infrastructure as stated in the Texas State Comptroller's State of Texas 2004 Annual Cash Report.

- Assessed property values have averaged 3 percent growth over the past 10 years.
- The ad valorem property tax rate remained at \$0.361434 in fiscal years 1999 through 2002 but was increased to \$0.39661, \$0.410817 and \$0.432259 in fiscal years 2003, 2004 and 2005 respectively in an effort to align revenues with expenditures trends.
- Undesignated fund balance of the general fund had experienced positive growth from fiscal year 1997 through 2001. Furthermore, the Court was able to overcome the downward trend of fund balance in fiscal years 2002 and 2003 to stability in 2004. The overall fund balance of the general fund trended down fiscal years 2002 and 2003, by approximately \$8.5 and \$10 million or 16.20, and 22.82 percent, respectively and is depicted in the graph on the prior page
- Sales and use tax revenues on average have experienced growth of 3.9 percent over the past 5 fiscal years wherein fiscal year 2004 saw 5.05 percent growth over fiscal year 2003 which only grew by 1.36 percent.
- Inflationary trends in the region have trended favorably compared to the state and national levels.
- The trend of general fund expenditure growth outpacing growth in revenues has been and continues to be of central focus of the Commissioners Court as can be seen

All of these factors were considered in preparing the County's budget for the 2005 fiscal year.

Focus of the County remains on conservative fiscal management while focusing on public service needs and state mandates. The U.S economy remained weak during the first three quarters of the 2004 fiscal year and started to show signs of recovery during the last quarter. The Federal Reserve did not change the fund rates until June 30, 2004. From the June 30, 2004 meeting, the Federal Reserve raised the fund rates three times through September 30, 2004. Interest for the twelve months ended September 2004 was \$1,611,074 when compared to \$1,902,820 the prior fiscal year, a decline of \$291,746 or 15.33 percent.

Unquestionably, the County could face continued challenges associated with meeting the steadily increasing demands for additional services and infrastructures for its rapidly growing population. The Commissioners Court members will continue to evaluate and analyze ways to streamline the County by consolidating activities internally and with other governmental entities and downsizing, wherever possible, to achieve maximum cost effectiveness for the taxpayers. To date, inter-local governmental agreements have been the most popular method for consolidating activities with other governmental entities

For the future, it is anticipated that in fiscal year 2005 the Court will continue to face even greater funding challenges. Some of these challenges will include identification of new sources or increases to revenues, additional costs for mandates such as new courts and possible shifting of financial funding responsibilities from the State to the County. Other areas include public health and welfare, public safety and culture and recreation in response to community needs. Health care benefit costs to the County for employees and retirees is of major concern due to the trend of increasing cost of health care. Continuation of contractual collective bargaining salary adjustments for the sheriff's department and continued adherence to the County's salary-step-plan, which was frozen during fiscal year 2004 and reinstated in fiscal year 2005, will remain of concern. Further challenges facing the court in the future are the increasing space needs,

inflation and various other funding mandates placed upon the County as it continues to grow.

At its discretion, the Court will probably continue to utilize some amount of fund balance, which is healthy in the sense that it keeps the County from building up excessive reserves and reduces a future burden on taxpayers. Based on the amount of fund balance utilized in the fiscal year 2005 budget and combined with the past pattern of declining general fund balance reserves in fiscal years 2002 and 2003, the Court must continue its focus on fiscal and budgetary restraint in fiscal years 2005 and beyond, if additional revenue sources are not identified.

County government will continually strive to maintain steady increases in revenue while costs are on the rise. In terms of the overall financial condition, the County's present position is reflective of continued significant accomplishments by the County of El Paso and the Commissioners Court is to be commended for such an attainment. The Court is furthermore cautioned that maintenance of fund balance in fiscal year 2005 and beyond now requires continued effort not only in stabilizing expenditure growth but realization of substantial new revenue sources to support the present and continued trend of expenditures exceeding revenues.

Although it is healthy to utilize fund balance to balance a subsequent fiscal year budget, caution should be exercised not to become dependent upon fund balance to support future expenditure growth in order to assure maintenance of reasonable fund balance reserves in accordance with its financial policies. Emphasis must be placed on generating adequate operational revenues to meet planned operational expenditures and it is paramount to maintaining sound financial stability and maintenance of realistic fund balance reserves. Departments will continue to be challenged with increasing efficiencies in order to operate within their budgets. In order to maintain the County's favorable financial condition, more than ever, monitoring of expenditures will continue to be paramount in forecasting budget inadequacies and identifying potential excesses.

The 2005 budget adopted by the County totaled \$210,926,762, a net decrease of \$31,294,200 or 12.92 percent in comparison to the fiscal year 2004 adopted budget as amended. A majority of the decrease is related to grants for which funds are budgeted upon certification by the county auditor. Budget increases totaled \$3,176,210 related to general government, \$2,104,287 or 5.68 percent, public works \$351,923 or 5.06 percent and debt service principle totaling \$720,000 or 7.53 percent. On the other hand, budget decreases in the aggregate totaled \$34,470,410 and are attributed to decreases within administration of justice, \$8,574,367 or 20.34 percent, public safety, \$6,015,789 or 7.09 percent, health and welfare, \$9,396,150 or 56.51 percent, community services, \$1,289,546 or 100 percent, resource development, \$328,768, or 29.42 percent, culture and recreation, \$997,580 or 14.04 percent, capital outlays, \$4,688,794 or 55.36 percent, debt service interest, \$476,221 or 7.31 percent, other debt related costs, \$38,056 or 100 percent and other financing uses, \$2,665,139 or 13.02 percent. Additional information regarding the 2005 budget can be obtained from the county's official 2005 published budget presentation package on the County's web page at <http://www.epcounty.com/auditor/publications/reports.html>.

This financial report is designed to provide a general overview of the County's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the El Paso County Auditor, 500 East San Antonio Street, Room 406, El Paso, Texas, 79901-2407.