

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, 2009. 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 2009 by \$165,138,548, which represents total net assets. Of this amount, \$153,793,701 or 93.13 percent relates to governmental-type activities while \$11,344,847 or 6.87 percent represents business-type activities. Total net assets are comprised of restricted and unrestricted assets and investment in capital assets net of related debt. Investment in capital assets net of related debt totaled \$94,551,295 or 57.26 percent of total net assets. 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 \$41,037,463 or 24.85 percent of total net assets of which the primary government and business type activities totaled \$40,836,028 or 99.51 percent and \$201,435 or .49 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 \$29,549,790 or 17.89 percent of total net assets.

Fiscal year 2009 operations of the County resulted in total net assets decreasing by \$13,982,062 or 7.81 percent. This was attributable to a decrease of \$13,795,870 or 8.23 percent in the governmental-type net assets and a decrease in business-type net assets totaling \$186,192 or 1.61 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 the 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 and the County Solid Waste Project.

The government-wide financial statements include not only the County itself (known as the primary government), but also the University Medical Center (UMC) previously known as 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 as discussed in the letter of transmittal. 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 of 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, road and bridge fund, grant funds and capital projects 2007. 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 3-7 of this report.

Proprietary Funds. The County maintains two different types of proprietary funds - Enterprise and Internal Service 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 Project and County Solid Waste. The internal service fund is an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its employee health benefits, workers compensation, and the Sheriff's Officers Association Supplemental Benefits. 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 enterprise fund financial statements provide separate information for the East Montana Water and the County Solid Waste Projects. The internal service funds are also presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on Exhibits 8-10 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 11 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information. The combining statements regarding non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules are presented following the supplementary information 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 \$165,138,548 at the close of fiscal year 2009. By far the largest component of the County's net assets represents investment in capital assets (e.g., land, buildings, machinery, and equipment) totaling \$94,551,295 or 57.26 percent of total net assets, which is net of 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. The second largest component is restricted net assets and represents resources that are subject to external restrictions on how they

may be used. These assets are comprised of capital project funds totaling \$11,596,994 or 28.26 percent, special revenue funds totaling \$27,849,271 or 67.86 percent, enterprise funds totaling \$176,679 or .43 percent of restricted net assets. Also included are debt service funds totaling \$1,414,519 or 3.45 percent of total restricted net assets. The next category relates to unrestricted net assets totaling \$29,549,790 or 17.89 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, 2009, the County's net assets for the governmental activities decreased by \$13,795,870 or 8.23 percent and business-type activities declined by \$186,192 or 1.61 percent and netted an overall decline of \$13,982,062 or 7.81 percent from the previous fiscal year. Investments in capital assets net of related debt from governmental and business-type activities increased by \$8,492,894 or 9.87 percent. There was a net decrease of \$1,423,730 or 3.35 percent in restricted assets reported, of which \$1,454,890 related to governmental activities and \$31,160 related to business-type activities. Unrestricted net assets totaled \$29,549,790 and declined by \$21,051,226 or 41.60 percent of which the majority related to governmental activities.

On a global perspective, the County of El Paso's total assets from governmental and business-type activities declined by \$12,131,238 or 3.12 percent. This decrease 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 focus on selective information to give the reader a basic understanding of changes by evaluating changes in the statement of net assets and the associated changes in revenues and expenditures. Detailed analysis and explanation will be focused on significant changes, which occurred throughout the various levels within these financial statements.

El Paso County, Texas Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	FY2009	FY2008	FY2009	FY2008	FY2009	FY2008
Current and other assets	\$ 187,806,664	\$ 206,428,549	\$ 1,924,854	\$ 1,736,154	\$ 189,731,518	\$ 208,164,703
Capital assets	176,584,894	169,943,890	10,724,166	11,063,223	187,309,060	181,007,113
Total assets	364,391,558	376,372,439	12,649,020	12,799,377	377,040,578	389,171,816
Long-term liabilities outstanding	188,623,404	189,511,523	1,080,000	1,098,000	189,703,404	190,609,523
Other liabilities	21,974,453	19,271,345	224,173	170,338	22,198,626	19,441,683
Total liabilities	210,597,857	208,782,868	1,304,173	1,268,338	211,902,030	210,051,206
Net assets:						
Invested in capital assets, net of related debt	84,722,153	75,912,787	9,829,142	10,145,614	94,551,295	86,058,401
Restricted	40,836,028	42,290,918	201,435	170,275	41,037,463	42,461,193
Unrestricted	28,235,520	49,385,866	1,314,270	1,215,150	29,549,790	50,601,016
Total net assets	\$ 153,793,701	\$ 167,589,571	\$ 11,344,847	\$ 11,531,039	\$ 165,138,548	\$ 179,120,610

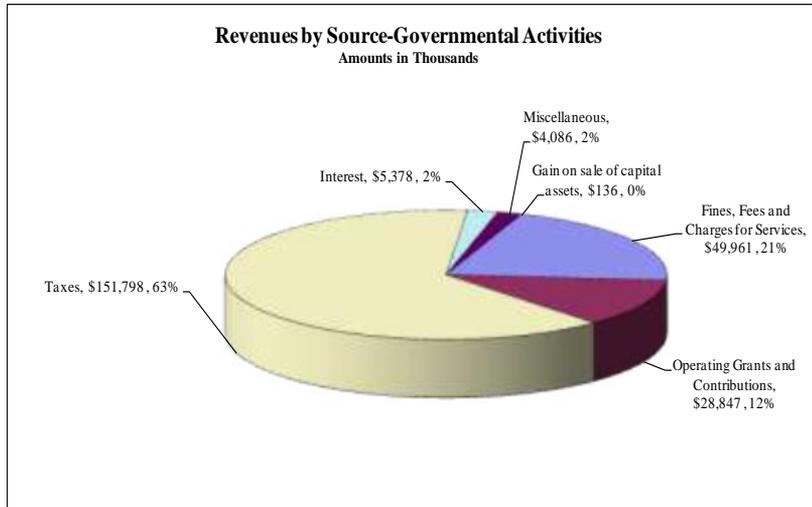
The overall decline in net assets of the County can be better understood when evaluating the changes to net assets, total assets minus total liabilities. Total assets amounted to \$377,040,578, a decrease of \$12,131,238 or 3.12 percent, while liabilities totaled \$211,902,030, an increase of \$1,850,824 or .88 percent. Further analysis reflects that the majority of all assets relate to governmental activities totaling \$364,391,558 and represents 96.65 percent of the total assets. Overall, capital assets (net of related depreciation) totaled \$187,309,060 and increased by \$6,301,947 or 3.48 percent from the prior year and represents for the most part land, furniture, roads, and construction in progress due mainly to the ongoing construction of new facilities and land acquisition for roads to accommodate the new planned port of entry.

For entity-wide reporting purposes under GASB 34, capital 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. For this reason, you may observe fund level expenditure amounts in excess of what is reported at the entity-wide level or vice versa. Total assets decreased by 3.12 percent and the most significant impact to total assets represent a decrease in cash and cash equivalents of \$21,657,776 or 12.19 percent due to low collection rates in fees across the County departments and continued low interest rates along with less funds to invest compared to the prior year when new bond proceeds were available. This decrease in the assets was offset by an increase in receivables net of allowance for uncollectible amounts related to property taxes and an increase in capital assets attributed to an increase in construction and renovation of county facilities, totaling \$3,217,690 and \$6,301,947, respectively. The significance of this can be further evaluated by shifting attention away from assets and liabilities and focusing on the changes to the component of total net assets, which is discussed immediately following discussion on total liabilities.

Overall, total entity-wide liabilities were \$211,902,030 and increased by \$1,850,824 or .88 percent. Further analysis reflects that the majority of all liabilities relate to governmental activities totaling \$210,597,857 or 99.38 percent and business type activities totaling \$1,304,173 or .62 percent. When compared to fiscal year 2008, liabilities increased in the areas of Other Post Employment Benefits (OPEB) by \$3,836,918 or 132.76 percent, vouchers payable by \$882,712 or 11.47 percent, payroll liabilities by \$761,575 or 17.95 percent, compensated absences by \$1,292,120 or 5.19 percent, contingent liabilities by \$445,000 or 261.76 percent. Bonds payable decreased by \$6,580,929 or 4.05 percent while unearned revenue decreased by \$374,289 or 25.27 percent. For additional information regarding compensated absences and other post employment benefits, please see note 1-K and 3-J, respectively.

County of El Paso, Texas Changes in Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	FY2009	FY2008	FY2009	FY2008	FY2009	FY2008
Revenues:						
Program revenues:						
Charges for services	\$ 49,960,987	\$ 52,844,527	\$ 1,116,874	\$ 1,073,712	\$ 51,077,861	\$ 53,918,239
Operating grants and contributions	28,847,060	26,756,029	-	-	28,847,060	26,756,029
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	113,138,557	108,236,305			113,138,557	108,236,305
Other taxes	38,659,308	39,951,449			38,659,308	39,951,449
Other	9,599,466	10,119,966	25,245	53,821	9,624,711	10,173,787
Total revenues	240,205,378	237,908,276	1,142,119	1,127,533	241,347,497	239,035,809
Expenses:						
General government	44,847,148	41,127,055			44,847,148	41,127,055
Administration of justice	51,971,929	48,887,372			51,971,929	48,887,372
Public safety	119,310,092	112,598,631			119,310,092	112,598,631
Health and welfare	11,951,937	11,973,899			11,951,937	11,973,899
Community services	1,311,774	1,590,454			1,311,774	1,590,454
Resource development	1,045,196	637,349			1,045,196	637,349
Culture and recreation	8,959,474	7,580,243			8,959,474	7,580,243
Public works	6,435,921	7,840,138			6,435,921	7,840,138
Interest on long-term debt	7,586,903	6,381,251			7,586,903	6,381,251
Enterprise fund			1,333,611	1,312,755	1,333,611	1,312,755
Total expenses	253,420,374	238,616,392	1,333,611	1,312,755	254,753,985	239,929,147
Increase (decrease) in net assets before transfers	(13,214,996)	(708,116)	(191,492)	(185,222)	(13,406,488)	(893,338)
Transfers	(5,300)	(5,000)	5,300	5,000	-	-
Increase in net assets	(13,220,296)	(713,116)	(186,192)	(180,222)	(13,406,488)	(893,338)
Net assets October 1	167,589,571	165,129,045	11,531,039	11,711,261	179,120,610	176,840,306
Prior period adjustment	(575,574)	3,173,642	-	-	(575,574)	3,173,642
Net assets September 30	\$ 153,793,701	\$ 167,589,571	\$ 11,344,847	\$ 11,531,039	\$ 165,138,548	\$ 179,120,610

The decrease in the County's net assets of \$13,982,062 or 7.81 percent represents the degree to which expenses have outpaced revenues. Overall, revenue increased by \$2,311,688 or .97 percent of which a significant share of \$4,902,252 relates to ad valorem property taxes. Other positive impacts included operating grants and contributions which grew by \$2,091,031 or 7.82 percent. Other areas saw a decline such



as charges for services which decreased overall by \$2,840,378 or 5.27 percent while other revenues declined by \$549,076 or 5.40 percent mainly attributable to continued decline in interest earnings. Other taxes comprised mainly of sales and use and hotel occupancy taxes also experienced a decline of \$1,292,141 or 3.23 percent mainly due to sluggish retail sales.

Expenses increased by \$14,824,838 or 6.18 percent. Expense changes included increases in public safety of \$6,711,461 or 5.96 percent, administration of justice of \$3,084,557 or 6.31 percent, general government of \$3,720,093 or 9.05 percent, culture and recreation of \$643,895 or 9.28 percent, resource development of \$192,710 or 43.34 percent, interest on long-term debt of \$1,205,652 or 18.89 percent, and the East Montana Water Project of \$20,856 or 1.59 percent. These increases netted with a decline in public works totaling \$1,404,217 or 17.91 percent, community services of \$278,680 or 17.52 percent, health and welfare of \$21,962 or .18 percent. Further explanation of all the above changes is discussed hereafter.

From here forward in the discussion, please note that the increases and decreases in entity-wide expenses in the various functions of county government are the result of a combination of financial impacts, such as depreciation expense along with the other adjustments such as the recognition of compensated absences, other post employment benefits (OPEB), allocation of profit/loss of the internal service funds back to departments and the conversion of capital outlays which are reflected at the entity-wide level as expenses by function.

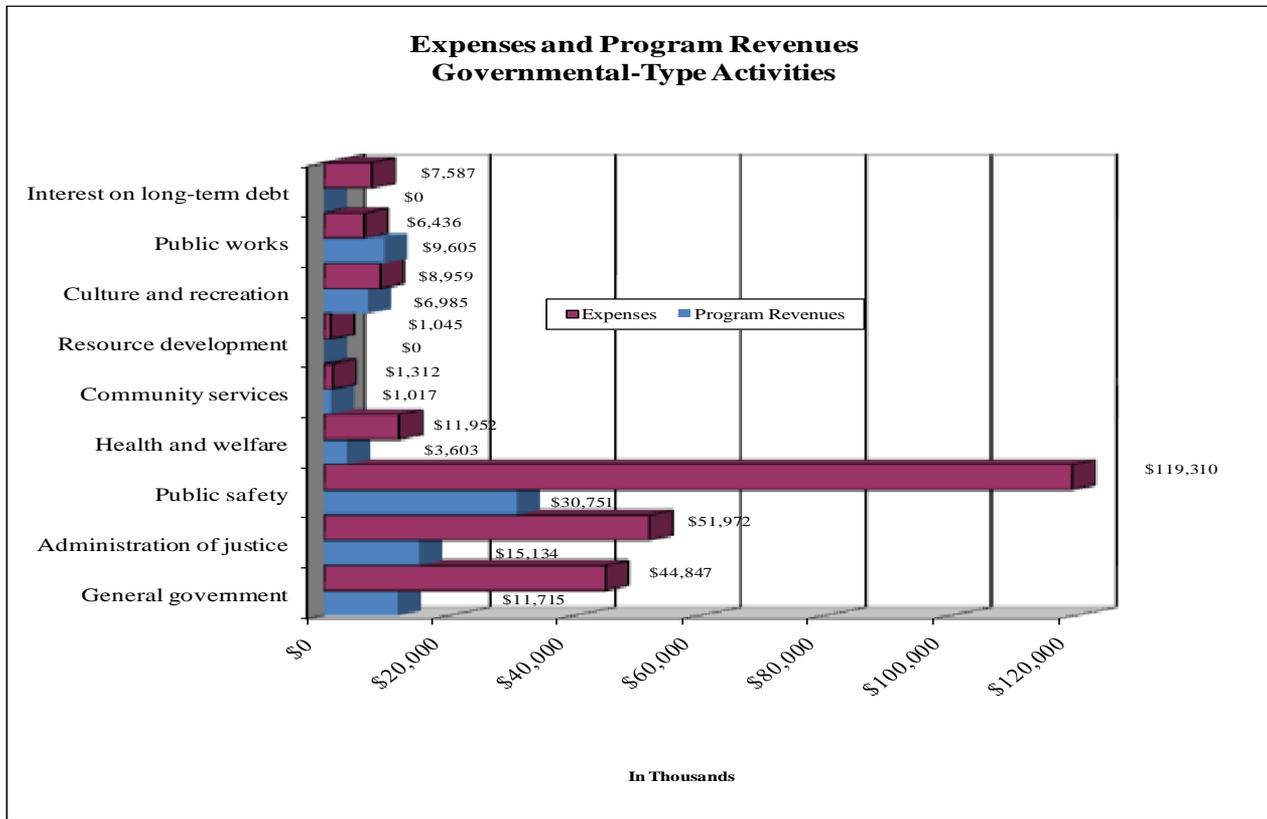
Governmental Activities

Governmental activities during fiscal year 2009 resulted in a decrease in net assets of \$12,507,180 which represents 99.95 percent of the total decrease for the primary government. Comparative fiscal year 2009 and 2008 data relating to these changes is discussed below.

Total revenues in the governmental activities increased by \$2,297,102 or .97 percent over the previous year. Property taxes increased by \$4,902,252 or 4.53 percent during the year. This increase is attributable to increases in existing taxable property values totaling \$1,949,877,419 or 6.57 percent and the addition of new taxable properties totaling \$721,420,357 or 2.43 percent for a total increase of \$2,671,297,776 or 9.0 percent over the previous year's appraisals and as a result the Court opted to lower the tax rate from \$0.342437 to \$0.338258.

Operating grants and contributions for governmental activities increased by \$2,091,031 or 7.82 percent due to increased federal and state funds for programs such as housing assistance and overtime pay for the Sheriff's department. Increases were offset by declines such as charges for services which declined by \$2,883,450 or 5.46 percent mainly due to a decline in prisoner housing revenue and county clerk fees; and other taxes which declined by \$1,292,141 or 3.23 percent due to lower sales taxes because of the sluggish economy. Other revenue also declined by \$520,500 or 5.14 percent mainly due to declines in interest earnings.

Expenses in governmental activities increased by \$14,803,982 or 6.20 percent and comprise 99.86 percent of the overall entity-wide increase of \$14,824,838. Most functions experienced increases in expenses. Significant increases were evident in areas including public safety totaling \$6,711,461 or 5.96 percent, administration of justice totaling \$3,084,557 or 6.31 percent, general government totaling \$3,720,093 or 9.05 percent, and culture and recreation \$1,379,231 or 18.20 percent. For the most part these increases were a result of allocation of increases in compensated absences, OPEB, and depreciation expense. Interest on long-term debt also increased for a total of \$1,205,652 or 18.89 percent.

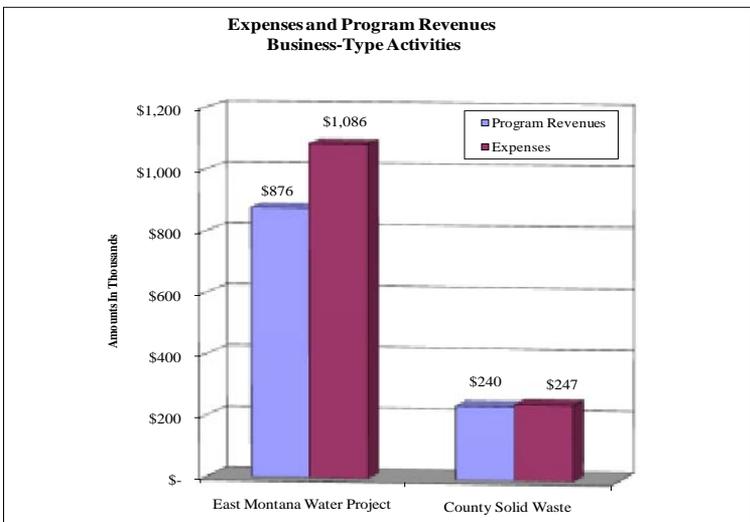
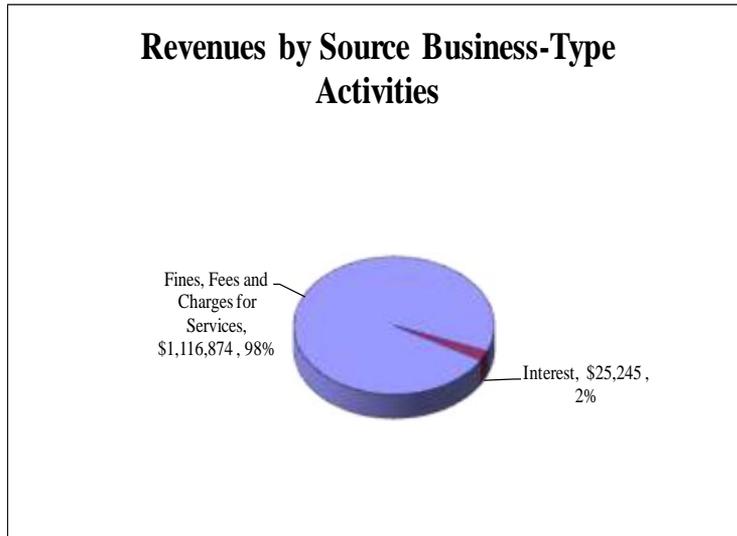


Changes mentioned previously within each of the functions above are the result of a combination of factors both at the fund level and more materially at the entity-wide level as explained in the discussion of the changes in the statement of net assets. More specific information can be found in the fund level discussion. 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 resulted in a decrease in net assets of \$186,192 or 1.61 percent and accounted for 1.33 percent of the total change in the primary government's net assets. Comparative fiscal year 2009 and 2008 data relating to these changes is reflected on Exhibit 8.

Overall revenues grew by \$14,586 or 1.29 percent for a total of \$1,142,119. Charges for services increased by \$43,162 or 4.02 percent due to an increase in program revenue received from the East Montana water system and solid waste programs. Other revenues decreased by \$28,576 or 53.09 percent mostly due to lower investment earnings on fewer funds available for investment in business-type activities.

Expenses in this area totaled \$1,333,611 and increased by \$20,856 or 1.59 percent and were related to increased cost of water purchases and solid waste services for the Far East side of the County.



Financial Analysis of the Government's Funds

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.

At the end of the fiscal year, the County’s governmental funds reported combined ending fund balances of \$146,327,880, a decrease of \$21,543,740 or 12.83 percent in comparison with the prior year. Unreserved undesignated fund balance constitutes \$25,407,650 or 17.36 percent of total fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it has already been committed. The majority of this designated balance is attributable to capital project funds totaling \$69,863,800 or 47.74 percent of combined fund balance for planned capital assets and infrastructure. Also included in the unreserved balance is \$41,219,630 or 28.17 percent designated to balance the fiscal year 2010 operating budget. Designations include \$15,750,670 in the General Fund and

\$25,468,960 in Special Revenue for a variety of specific purposes. Additionally, \$2,304,912 is reserved for future debt service principal and interest payments.

The general fund is the chief operating fund of the County. Fund balance totaled \$32,350,449, and decreased by \$10,721,717 or 24.89 percent. At the end of the fiscal year, \$15,319,133 was unreserved and undesignated, while \$15,750,670 represents the amount unreserved and designated for subsequent years expenditure in balancing the general fund budget for fiscal year 2010. The undesignated fund balance of the general fund decreased by \$5,430,369 or 26.17 percent. As a measure of the general fund's liquidity, it may be useful to compare both unreserved undesignated fund balance and total fund balance to total fund expenditures. The Commissioners Court utilized undesignated reserves in balancing the fiscal year 2010 operating budget, which included an expenditure level exceeding the corresponding rate of estimated revenue growth, although the designation decreased by \$5,232,356 or 24.94 percent from that of the prior fiscal year.

The debt service fund ended the fiscal year with a fund balance of \$2,304,912, all of which is reserved for the payment of debt service.

The special revenue funds in the aggregate have a fund balance of \$36,864,612 and increased by \$1,551,544 or 4.39 percent compared to the previous year. The Road and Bridge Fund ended the year with a fund balance of \$17,666,899, an increase of \$1,804,180 or 11.37 percent and was attributable to an increase in funds received from the State.

Grant funds ended the fiscal year with a fund balance of \$4,397,711, an increase of \$117,341 or 2.74 percent. This increase is mainly attributed to additional funding received for colonia road paving and overtime pay for law enforcement efforts.

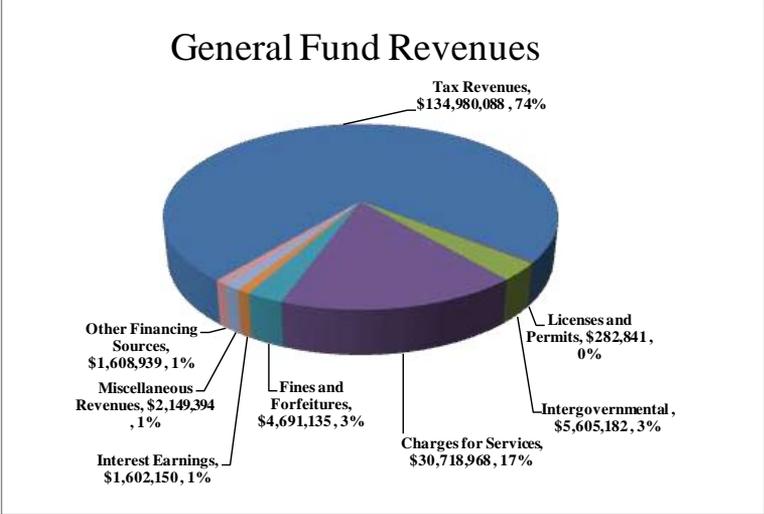
The Capital Projects 2007 fund ended the fiscal year with a fund balance of \$53,492,314 and decreased by \$5,801,681 and is attributable to the bond proceeds from the prior fiscal year expended for the intended capital projects for which the debt was issued.

General Fund Trends

General Fund Revenues	2008 Actuals	2009 Actuals	Amount Increase (Decrease) from FY 2008	Percent Increase (Decrease)	2009 Actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$ 130,574,340	\$ 134,980,088	\$ 4,405,748	3.37%	74.31%
Licenses and Permits	229,677	282,841	53,164	23.15%	0.16%
Intergovernmental	5,013,517	5,605,182	591,665	11.80%	3.09%
Charges for Services	32,749,281	30,718,968	(2,030,313)	-6.20%	16.91%
Fines and Forfeits	5,456,478	4,691,135	(765,343)	-14.03%	2.58%
Interest Earnings	2,618,636	1,602,150	(1,016,486)	-38.82%	0.88%
Miscellaneous Revenues	1,800,414	2,149,394	348,980	19.38%	1.18%
Other Financing Sources	1,063,642	1,608,939	545,297	51.27%	0.89%
Total revenues and other sources	\$ 179,505,985	\$ 181,638,697	\$ 2,132,712	1.19%	100.00%

A myriad of factors contributed to the general fund’s financial position. Factors included actual expenditures and transfers-out over revenues and transfers-in in the amount of \$10,690,735. Actual revenues totaled \$180,029,758, an increase of \$1,587,415 or .89 percent over fiscal year 2008 mainly due to higher property taxes. Other financing sources also increased by \$545,297 or 51.27 percent for a total of \$1,608,939.

It is noteworthy to mention that various factors and actions by the County during the fiscal year had the effect of minimizing the impact on fund balance and unspent budget balances within the general fund. This included reducing staff and enforcing the hiring freeze unless justification was made to the Hiring Freeze Committee. Factors impacting the general fund balance were revenue increases in a variety of areas. Together, revenues and other sources netted a total increase of \$2,132,712 or 1.19 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 in taxes of \$4,405,748 or 3.37 percent, of which the majority of this increase relates to ad valorem property taxes totaling \$5,506,059 or 5.88 percent. The increase in taxes was attributable mainly to continued growth in the property tax base and property valuation increases, which netted with a decline of \$1,182,655 or 3.35 percent in sales and use taxes.

Other revenue areas which experienced growth included intergovernmental, increasing by \$591,665 or 11.80 percent, licenses and permits by \$53,164 or 23.15 percent, and miscellaneous charges by \$348,980 or 19.38 percent. Miscellaneous revenue growth can be attributed in part to inmate phone commissions due to a new contract negotiated with the County in late fiscal year 2008.

These increases were netted by revenue declines in charges for services of \$2,030,313 or 6.20 percent, related to lower civil case filings and lower recordings for property deeds. Fines and forfeits declined by \$765,343 or 14.03 percent, which is consistent with the overall decline in criminal case collection activity during fiscal year 2009. Interest earnings dropped by \$1,016,486 or 38.82 percent due to continued action by the Federal Reserve of lowering interest rates and lower cash balances available for investment.

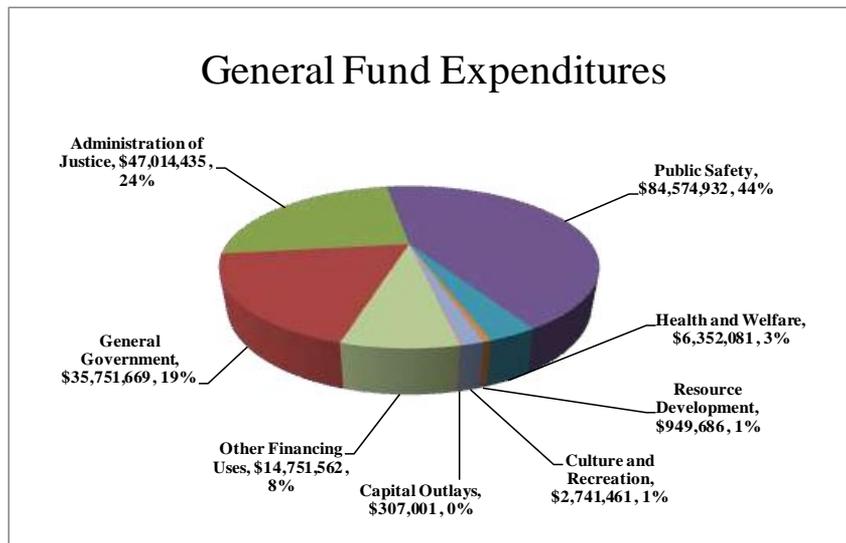
Other financing sources increased by \$545,297 or 51.27 percent mainly due to returned unspent grant match in comparison to 2008.

Comparison of the general fund adopted appropriations reflects growth in fiscal year 2009 of \$15,288,765 or 7.89 percent for a total of \$208,943,625. Actual expenditures and transfers-out in fiscal year 2009 grew by \$7,378,553 or 3.99 percent bringing the total of general fund expenditures and transfers to \$192,442,827. Growth in expenditures by category as reflected in

the chart below, were the result of a multitude of changes including increases related to cost of living and salary step plan adjustments, the sheriff's collective bargaining agreement, new costs to fund mandated services, such as full staffing of recently added courts, and general inflationary increases.

General Fund Expenditures	2008 Actuals	2009 Actuals	Amount Increase (Decrease) from FY 2008	Percent Increase (Decrease)	2009 Actual as a % of Total Expenditures and Other Financing Uses
Current:					
General Government	\$ 32,279,082	\$ 35,751,669	\$ 3,472,587	10.76%	18.58%
Administration of Justice	43,169,249	47,014,435	3,845,186	8.91%	24.43%
Public Safety	82,975,147	84,574,932	1,599,785	1.93%	43.95%
Health and Welfare	7,022,574	6,352,081	(670,493)	-9.55%	3.30%
Resource Development	576,219	949,686	373,467	64.81%	0.49%
Culture and Recreation	2,553,134	2,741,461	188,327	7.38%	1.42%
Capital Outlays	842,663	307,001	(535,662)	-63.57%	0.16%
Other Financing Uses	15,646,206	14,751,562	(894,644)	-5.72%	7.67%
Total Expenditures (Uses)	\$ 185,064,274	\$ 192,442,827	\$ 7,378,553	3.99%	100.00%

Further analysis reflects increases comprising most categories, such as general government by \$3,472,587 or 10.76 percent, administration of justice by \$3,845,186 or 8.91 percent, public safety by \$1,599,785 or 1.93 percent. Health and welfare experienced a decrease of \$670,493 or 9.55 percent due to lower contribution for the shared City-County health services agreement. Capital outlays declined by \$535,662 or 63.57 percent as a result of the Commissioners Court's attempt at reducing cost wherever possible. Other financing uses declined by \$894,644 or 5.72 percent.



General Fund Budgetary Highlights

The fiscal year 2009 budget of \$208,943,625 did not increase during the fiscal year other than for carryover appropriations totaling \$1,228,498 bringing the original budget total to \$210,172,123. This budget included \$20,983,026 of fund balance reserves to balance the fiscal year 2009 budget gap of appropriations in excess of estimated revenues. The only changes were for reallocations within expenditure classifications and between classifications as approved by the Court.

General Fund Budgetary Variance Highlights

Analysis of budget actual trends in Exhibit 5 depicts that actual revenues were \$6,832,841 less than estimates and occurred in a variety of areas. The most significant variances occurred in taxes comprised of ad valorem and sales taxes and saw a negative variance of \$807,091 and \$874,298, respectively and represented 24.61 percent of the overall variance. These two revenue sources comprise approximately 74.0 percent of total revenue. Charges for services, fines and forfeits and interest revenue also came in below estimates by \$4,599,982, \$910,865, and \$997,850, respectively. Favorable variances were experienced in intergovernmental and miscellaneous revenues due to unanticipated commissions. Other financing sources representing transfers-in had a positive variance \$510,939 due to residual matching funds remaining after close-out of respective grants.

Favorable appropriation variances were experienced in all functions of the County as the Commissioners Court and County departments remained frugal and the Court enforced cost reduction policies such as maintaining a hiring freeze on filling staffing vacancies, no appropriation transfers between categories of personnel, operating and capital without sufficient justification and encouraging efficiencies in business practices. Overall favorable appropriation variances totaled \$17,698,314 which represents 8.42 percent of the adopted budget with carryover. The most significant favorable variance was in the area of general government totaling \$12,378,781 or 69.94 percent of overall appropriation variances. The majority of this variance related to contingencies that did not materialize and unspent personnel and operating appropriations made possible due to the County's hiring freeze policy. In regard to operating appropriations, this favorable impact was due to frugal use of operating contingency funds under the control of the Commissioners Court which were not utilized for unforeseen operating needs. Appropriations for transfers-out relate to leveraging county matching funds to secure state and federal grant funding which saw a favorable variance of \$141,426.

Capital Asset and Debt Administration

Capital assets

El Paso County, Texas						
Summary of Capital Assets (Net of Depreciation)						
Categories	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 15,206,585	\$ 14,758,837			\$ 15,206,585	\$ 14,758,837
Buildings	110,226,202	110,775,326			110,226,202	110,775,326
Improvements	6,710,976	6,865,083			6,710,976	6,865,083
Equipment	5,215,724	5,472,591	\$ 10,717,899	\$ 11,054,531	15,933,623	16,527,122
Furniture and Fixtures	206,135	199,426			206,135	199,426
Infrastructure	1,602,789	1,452,242			1,602,789	1,452,242
Vehicles	5,246,253	5,374,028	6,267	8,692	5,252,520	5,382,720
Roads	17,758,546	15,836,870			17,758,546	15,836,870
Bridges and culverts	1,689,528	1,785,828			1,689,528	1,785,828
Leased equipment	366,753	205,203			366,753	205,203
Construction in progress	12,355,403	7,218,456			12,355,403	7,218,456
Total assets	\$ 176,584,894	\$ 169,943,890	\$ 10,724,166	\$ 11,063,223	\$ 187,309,060	\$ 181,007,113

The County's capital assets for governmental and business type activities as of September 30, 2009 amounted to \$187,309,060 net of accumulated depreciation. This investment in capital

assets includes land, buildings, improvements, equipment, vehicles, roads and bridges. The total change in the County's capital assets for the current fiscal year was a net increase of \$6,301,988 or 3.48 percent, comprised of an increase of \$6,641,004 or 3.91 percent in governmental activities and a decrease of \$339,016 or 3.06 percent in the business-type activities.

Major capital asset activity occurring in fiscal year 2009 included road construction and purchases of land. The most significant increases were attributable to construction in progress from expenditure of bonds issued in prior years. Another activity of significance includes the Guadalupe Tornillo Port of Entry in Far East El Paso whereby the County is working with the State and Federal governments 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.

Long-term Debt

Type of Debt	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
	General obligation bonds	\$ 56,560,000	\$ 61,510,000			\$ 56,560,000
Certificates of obligation bonds	98,495,000	100,480,000			98,495,000	100,480,000
Revenue bonds			1,080,000	1,098,000	1,080,000	1,098,000
Total	\$ 155,055,000	\$ 161,990,000	\$ 1,080,000	\$ 1,098,000	\$ 156,135,000	\$ 163,088,000

At the end of the current fiscal year, the County had total bonded debt outstanding of \$156,135,000 as reflected below. Of this amount, \$155,055,000 comprises debt backed by the full faith and credit of the government. The remainder of the County's debt represents revenue bonds secured solely by specified revenue sources. During the current fiscal year the County's total debt decreased by \$6,953,000 or 4.26 percent due to the pay down on principal.

In fiscal year 2008, 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 Aa3 and AA-, respectively. Both firms also reaffirmed these ratings on the County's outstanding general obligation debt. These ratings reflect the County's diverse and moderately growing economic base, well managed financial operations with emphasis on long-range financial goals of maintaining ample reserves, and a manageable debt position.

This optimistic outlook is based on the actions exhibited by the Commissioners Court in establishing expenditure controls in fiscal year 2009 and continued efforts of stabilization for fiscal year 2010. Assuming the local economy stabilizes and rebounds, this outlook is based on the premise that trends in revenue enhancements will outpace the growth in expenditures over the next two fiscal years, which should propel the County's revenues and expenditures into relative alignment for the future. Furthermore, future gains of budgetary alignment will be dependent upon the actions of the Commissioners Court, statutory mandates imposed by the State and the impact of economic conditions in the El Paso region. 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 2009 issue of Texas Labor Market Review, the statewide unemployment rate was 8.3 percent in September. Compared to the same time last year, this was 3.2 percent higher. El Paso's unemployment rate increased from 6.5 percent to 9.8 percent in 2009.
- Over the past fiscal year, between September 2009 and September 2008, El Paso lost 3,100 jobs overall. Further analysis reflects that 1,900 job gains were netted with 5,000 employment losses. The various job losses occurred in construction (1,100), transportation (200), manufacturing (2,000), trade (1,100), information services (500), and the service sectors (100). The only gain was in government 1,900. This sector comprises 24.79 percent of El Paso's employment market. The reductions in the manufacturing sector may be attributable to apparel manufacturers shifting a portion of operations from El Paso to Mexico and Asia in order to reduce manufacturing costs. This is consistent with the nationwide trend of cost cutting within the apparel manufacturing sector.
- El Paso's cultural and business ties as a border region with Mexico drive its economy. The renewed attraction of El Paso County as a favorable business environment, coupled with continued moderately low interest rates, continues to stimulate local construction activity. The El Paso labor market will gain an estimated 64,000 new jobs from the expansion of Ft. Bliss between 2008 and 2012. Indirect and induced impacts will create nearly one additional job in El Paso for each one generated at Ft. Bliss.
- Assessed property values have averaged approximately 10.00 percent growth over the past 5 years.
- In fiscal year 2005, the tax rate was increased to \$0.432259 and remained the same for fiscal year 2006 in a continued effort to align revenues with expenditure trends. For fiscal year 2007 and 2008, the tax rates fell to \$0.391390 and \$0.342437, respectively, as a result of increased property valuations and the addition of new property to the tax base.
- The overall fund balance of the general fund trended down in fiscal years 2007 and 2008, by approximately \$585 thousand and \$5.5 million or 1.19 percent, and 11.34 percent, respectively, and once again in fiscal year 2009 by over \$10.7 million or 24.89 percent as depicted on the graph on the next page.
- Sales and use tax revenues fell in 2009 after five years of consecutive growth. On a positive note, 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.

All of these factors were considered in preparing the County's budget for the 2010 fiscal year.

The focus of the County remains on conservative fiscal management while addressing public service needs and State mandates. As of September 30, 2008, the Federal Funds rate was 2.0 percent and the Discount rate was 2.25 percent and as of September 2009 the rates had declined to .25 percent and .50 percent, respectively. Interest for the twelve months ended September 2009 was \$5,403,486 down \$2,136,354 or 28.33 percent when compared to \$7,539,840 the prior fiscal year, due mainly to fewer funds available for investment plus the sharp drop in interest rates.

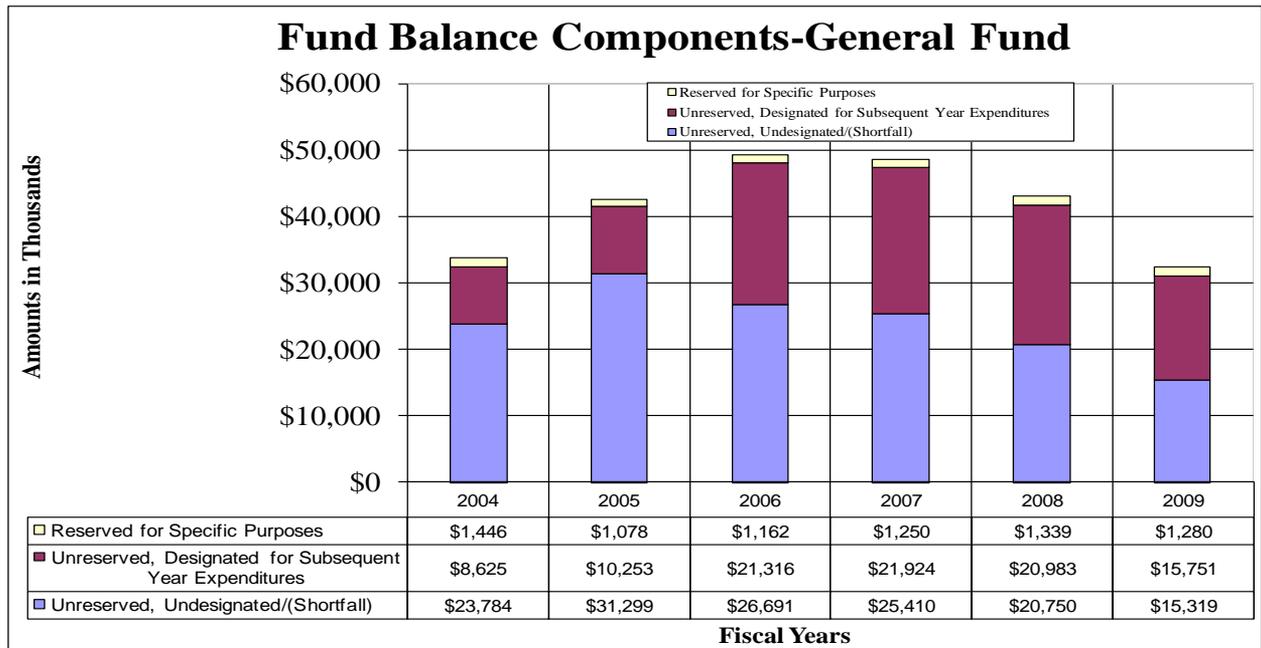
Unquestionably, the County faces continued challenges associated with meeting the steadily increasing demands for additional services and infrastructures for its rapidly growing population. The Commissioners Court members will continue to evaluate and analyze ways to streamline the

County’s operations 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 2010, the Court will continue to face funding challenges. Some of these challenges will include identification of new sources or increases to revenues through aggressive collection efforts of amounts due to the County and possible shifting of financial funding responsibilities from the State to the County. Other challenges include public health and welfare, public safety and culture and recreation in response to community needs. Healthcare benefit costs for County employees and retirees due to the trend of increasing health care costs and continuation of contractual collective bargaining salary adjustments for the sheriff’s department remain major concerns. 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 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 2009 budget and in light of a trend of declining general fund balance reserves in the past three fiscal years, the Court must continue to focus on fiscal and budgetary restraint in fiscal years 2010 and beyond, if additional revenue sources are not identified.

County government will continually strive to effectuate steady increases in revenue while costs are on the rise. In terms of the overall financial condition, the County’s present financial position is similar to most communities across the nation and will require that the Commissioners Court continue to focus on bringing revenues and expenditures into alignment, while maintaining reserves to approximate first quarter operating costs.



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 County 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 be challenged with continually assessing possible increased 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 vital in forecasting budget inadequacies and identifying potential excesses.

The fiscal year 2010 budget adopted by the County totaled \$262,666,815, a net decrease of \$12,135,625 or 4.42 percent in comparison to the final fiscal year 2009 adopted budget. Additional information regarding the 2010 budget can be obtained from the County's official 2010 published budget presentation package on the County's web page as reflected below.

<http://www.epcounty.com/auditor/publications/default.htm>

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, 800 East Overland Avenue, Room 406, El Paso, Texas, 79901. This report can also be accessed through the County's web page as reflected below.

<http://www.epcounty.com/auditor/publications/default.htm>