

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, 2010. 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 2010 by \$143,427,988, which represents total net assets. Of this amount, \$132,254,933 or 92.21 percent relates to governmental-type activities while \$11,173,055 or 7.79 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 \$95,493,323 or 66.58 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 assets totaled \$37,324,048 or 26.02 percent of total net assets of which the primary government and business type activities totaled \$37,059,733 or 99.29 percent and \$264,315 or .71 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 \$10,610,617 or 7.40 percent of total net assets.

The County's fiscal year 2010 operations resulted in total net assets decreasing by \$21,710,560 or 13.15 percent. This was attributable to a decrease of \$21,538,768 or 14.00 percent in the governmental-type net assets and a decrease in business-type net assets totaling \$171,792 or 1.51 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 Hospital District, known as University Medical Center (UMC), 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 separately issued 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, 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 3-6 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. The latter account was closed during the fiscal year because its intended purpose had terminated and any remaining funds were transferred to the General Fund. 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 7-9 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 10 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 \$143,427,988 at the close of fiscal year 2010. By far the largest component of the County's net assets represents investment in capital assets (e.g., land, buildings, machinery, and equipment) totaling \$95,493,323 or 66.58 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 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 \$5,658,355 or 15.16 percent, special purpose funds totaling \$30,782,672 or 82.47 percent, enterprise funds totaling \$229,736 or .62 percent of restricted assets. Also included are debt service funds totaling \$653,285 or 1.75 percent of total restricted net assets. The next category relates to unrestricted net assets totaling \$10,610,617 or 7.40 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, 2010, the County's net assets for the governmental activities decreased by \$21,538,768 or 14.00 percent and business-type activities declined by \$171,792 or 1.51 percent and netted an overall decline of \$21,710,560 or 13.15 percent from the previous fiscal year. Investments in capital assets net of related debt from governmental and business-type activities increased by \$942,028 or 1.00 percent. There was a net decrease of \$3,723,415 or 9.07 percent in restricted assets reported, of which \$3,776,295 related to governmental activities and \$52,880 related to business-type activities. Unrestricted net assets totaled \$10,610,617 and declined by \$18,929,173 or 64.08 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 \$20,132,177 or 5.34 percent. This decrease was the culmination of a multitude of changes at the fund level, but more so, at the entity-wide level. 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 expenses. 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			
	FY2010	FY2009	FY2010	FY2009	FY2010	FY2009
Current and other assets	\$ 171,065,765	\$ 187,806,664	\$ 2,027,420	\$ 1,924,854	\$ 173,093,185	\$ 189,731,518
Capital assets	173,362,768	176,584,894	10,452,448	10,724,166	183,815,216	187,309,060
Total assets	344,428,533	364,391,558	12,479,868	12,649,020	356,908,401	377,040,578
Long-term liabilities outstanding	189,773,544	188,623,404	1,052,000	1,080,000	190,825,544	189,703,404
Other liabilities	22,400,056	21,974,453	254,813	224,173	22,654,869	22,198,626
Total liabilities	212,173,600	210,597,857	1,306,813	1,304,173	213,480,413	211,902,030
Net assets:						
Invested in capital assets, net of related debt	86,028,798	84,722,153	9,464,525	9,829,142	95,493,323	94,551,295
Restricted	37,059,733	40,836,028	264,315	211,435	37,324,048	41,047,463
Unrestricted	9,166,402	28,235,520	1,444,215	1,304,270	10,610,617	29,539,790
Total net assets	\$ 132,254,933	\$ 153,793,701	\$ 11,173,055	\$ 11,344,847	\$ 143,427,988	\$ 165,138,548

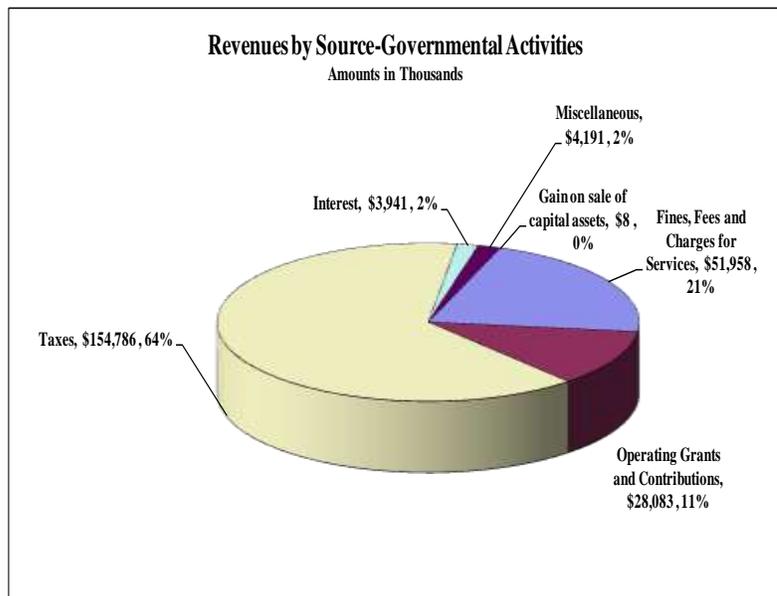
The overall decline in net assets of the County can be better understood when evaluating the changes to net assets, total assets minus total liabilities. Total assets amounted to \$356,908,401, a decrease of \$20,132,177 or 5.34 percent, while liabilities totaled \$213,480,413, an increase of \$1,578,383 or .74 percent. Further analysis reflects that the majority of all assets relate to governmental activities totaling \$344,428,533 and represents 96.50 percent of the total assets. Overall, capital assets (net of related depreciation) totaled \$183,815,216 and decreased by \$3,493,844 or 1.87 percent from the prior year, mainly due to capital assets being depreciated. Capital assets are comprised for the most part of land, roads, buildings and construction in progress.

For entity-wide reporting purposes under GASB 34, capital expenditures made at the fund level must be reversed from expenses 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 5.34 percent and the most significant impact to total assets represent a decrease in cash and cash equivalents of \$13,281,740 or 8.51 percent due to low collection rates in fees across County departments, and continued low interest rates along with less funds to invest compared to the prior year when more bond proceeds were available. The decrease in the assets was compounded by a decrease in receivables net of allowance for uncollectible amounts related mainly to property taxes, totaling \$3,349,976 and a net decrease in capital assets attributed mostly to decreases in construction and renovation of county facilities, totaling \$3,533,844. 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 \$213,480,413 and increased by \$1,578,383 or .74 percent. Further analysis reflects that the majority of all liabilities relate to governmental activities totaling \$212,173,600 or 99.39 percent and business type activities totaling \$1,306,813 or .61 percent. Compared to fiscal year 2009, liabilities increased in the areas of vouchers payable by \$386,064 or 4.50 percent, payroll liabilities by \$428,901 or 8.57 percent, compensated absences by \$1,026,950 or 3.92 percent, and contingent liabilities by \$1,162,439 or 189.01 percent. Other Post Employment Benefits (OPEB) increased by \$5,715,258 or 84.96 percent due to a new actuarial study using updated information. Bonds payable decreased by \$6,695,929 or 4.30 percent and due to other governments decreased by \$755,104 or 29.04 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			
	FY2010	FY2009	FY2010	FY2009	FY2010	FY2009
Revenues:						
Program revenues:						
Charges for services	\$ 51,958,485	\$ 49,960,987	\$ 1,141,518	\$ 1,116,874	\$ 53,100,003	\$ 51,077,861
Operating grants and contributions	28,082,976	28,847,060			28,082,976	28,847,060
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	114,442,824	113,138,557			114,442,824	113,138,557
Other taxes	40,343,103	38,659,308			40,343,103	38,659,308
Other	8,139,329	9,599,466	18,836	25,245	8,158,165	9,624,711
Total revenues	242,966,717	240,205,378	1,160,354	1,142,119	244,127,071	241,347,497
Expenses:						
General government	44,977,190	44,847,148			44,977,190	44,847,148
Administration of justice	52,434,046	51,971,929			52,434,046	51,971,929
Public safety	122,685,935	119,310,092			122,685,935	119,310,092
Health and welfare	11,195,959	11,951,937			11,195,959	11,951,937
Community services	1,434,063	1,311,774			1,434,063	1,311,774
Resource development	757,317	1,045,196			757,317	1,045,196
Culture and recreation	9,116,410	8,959,474			9,116,410	8,959,474
Public works	13,199,004	6,435,921			13,199,004	6,435,921
Interest on long-term debt	7,286,191	7,586,903			7,286,191	7,586,903
Enterprise fund			1,352,146	1,333,611	1,352,146	1,333,611
Total expenses	263,086,115	253,420,374	1,352,146	1,333,611	264,438,261	254,753,985
Increase (decrease) in net assets before transfers	(20,119,398)	(13,214,996)	(191,792)	(191,492)	(20,311,190)	(13,406,488)
Transfers	(20,000)	(5,300)	20,000	5,300	-	-
Increase in net assets	(20,139,398)	(13,220,296)	(171,792)	(186,192)	(20,311,190)	(13,406,488)
Net assets October 1	153,793,701	167,589,571	11,344,847	11,531,039	165,138,548	179,120,610
Prior period adjustment	(1,399,370)	(575,574)	-	-	(1,399,370)	(575,574)
Net assets September 30	\$ 132,254,933	\$ 153,793,701	\$ 11,173,055	\$ 11,344,847	\$ 143,427,988	\$ 165,138,548

The decrease in the County's net assets of \$21,710,560 or 13.15 percent represents the degree to which expenses have outpaced revenues. Overall, revenue increased by \$2,779,574 or 1.15 percent of which a significant share of \$2,022,142 relates to charges for services, \$1,304,267 represents property taxes and \$1,683,795 represents sales and hotel taxes. These increases were offset by other areas which experienced a decline such as operating grants, which decreased by \$764,084 or 2.65 percent while other revenues declined by \$1,466,546 or 15.24 percent mainly attributable to continued decline in interest earnings.



Expenses increased by \$9,684,276 or 3.80 percent. Expense changes included increases of \$3,375,843 or 2.83 percent in public safety, \$6,763,083 or 105.08 percent in public works, \$462,117 or .89 percent in administration of justice. These increases netted with declines in health and welfare totaling \$755,978 or 6.33 percent, resource development for \$287,879 or 27.54 percent and interest on long-term debt for \$300,712 or 3.96 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, 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.

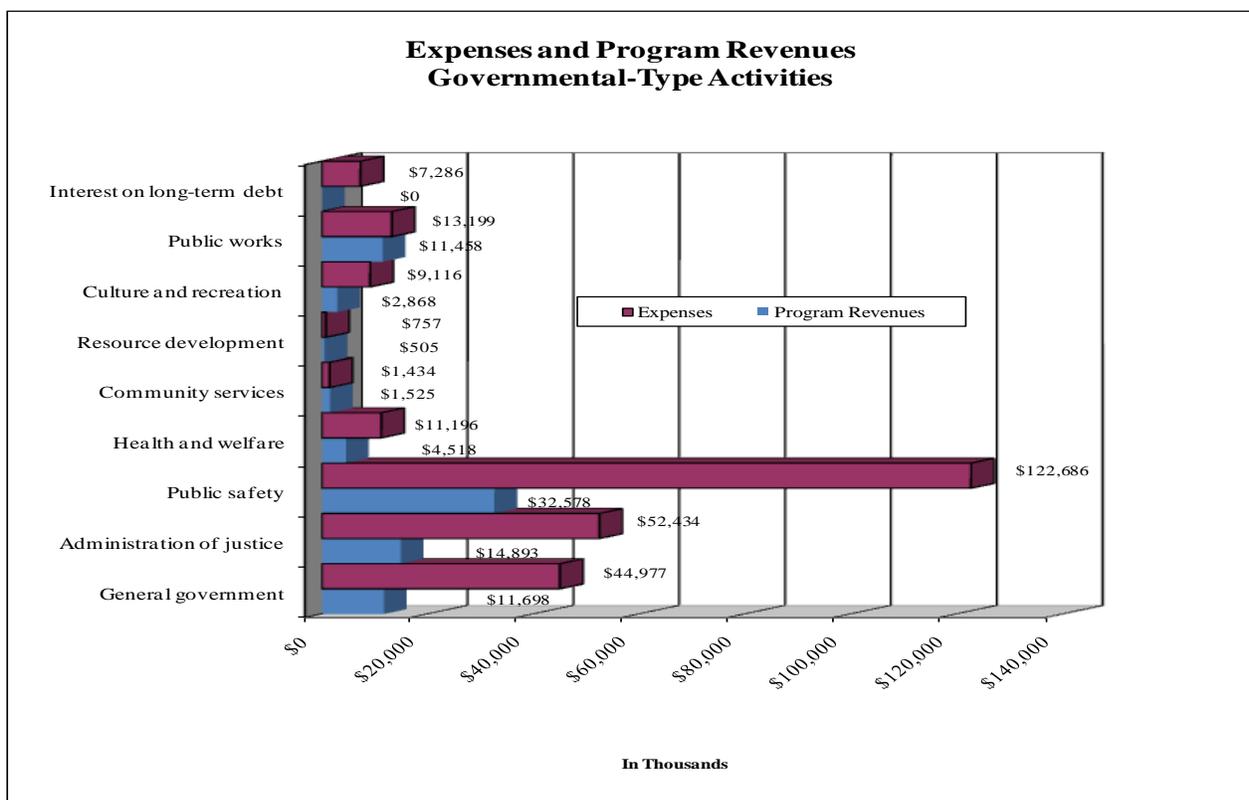
Governmental Activities

Governmental activities during fiscal year 2010 resulted in a decrease in net assets of \$21,538,768 which represents 99.21 percent of the total decrease for the primary government. Comparative fiscal year 2010 and 2009 data relating to these changes is discussed below.

Total revenues in the governmental activities increased by \$2,761,339 or 1.15 percent over the previous year. Charges for services increased by \$1,997,498 or 4.00 percent, property taxes increased by \$1,304,267 or 1.15 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. Commissioners Court opted to lower the tax rate in fiscal year 2010 to \$0.338258 from \$0.342437 per \$100 of assessed valuation. Other taxes, comprised of sales and uses and hotel taxes, increased by \$1,683,795 or 4.36 percent.

Revenue increases were offset by declines in operating grants and contributions for governmental activities by \$764,084 or 2.65 percent due to decreased federal and state funds for programs such as housing assistance. Other revenue decreased by \$1,460,137 or 15.21 percent due in part to declines in interest earnings.

Expenses in governmental activities increased by \$9,665,741 or 3.81 percent and comprise 99.81 percent of the overall entity-wide increase of \$9,684,276. Most functions experienced increases in expenses. Significant increases were evident in areas including public safety totaling \$3,375,843 or 2.83 percent and public works totaling \$6,763,083 or 105.08 percent. Other areas with increases were administration of justice totaling \$462,117 or .89 percent, general government totaling \$130,042 or .29 percent, and culture and recreation \$156,936 or 1.75 percent. For the most part these increases were a result of allocation of increases in compensated absences, OPEB, and depreciation expense.



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 \$171,792 or 1.51 percent and accounted for .79 percent of the total change in the primary government's net assets. Comparative fiscal year 2010 and 2009 data relating to these changes is reflected on Exhibit 7.

Overall revenues grew by \$18,235 or 1.60 percent for a total of \$1,160,354. Charges for services increased by \$24,644 or 2.21 percent due to an increase in program revenue received from the East Montana water system and solid waste programs. Other revenues decreased by \$6,409 or 25.39 percent due to lower investment earnings on fewer funds available for investment in business-type activities.

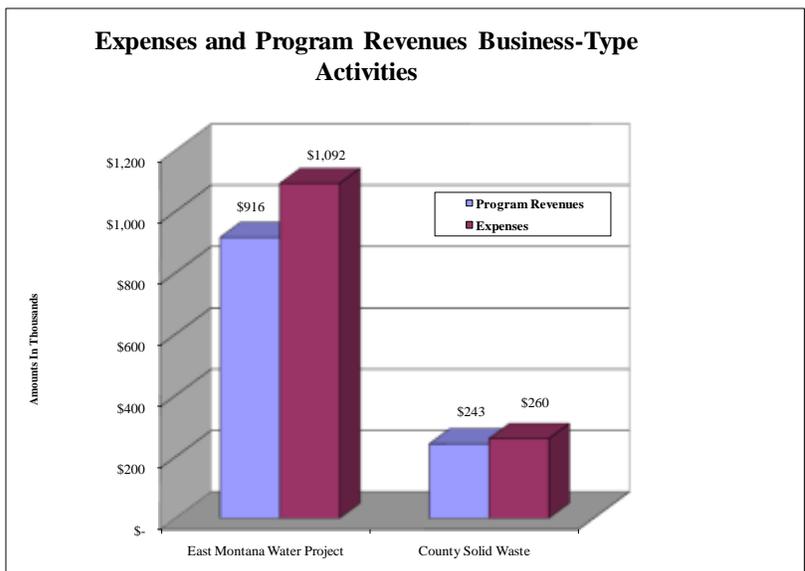
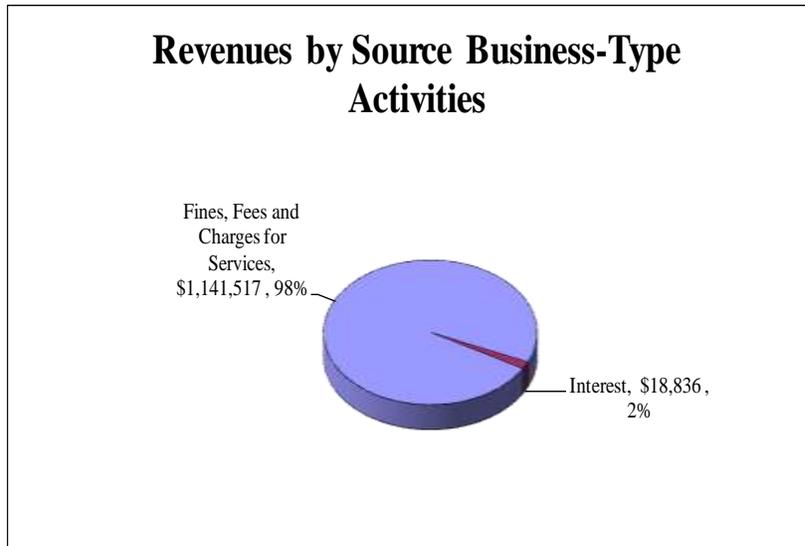
Expenses in this area totaled \$1,352,146 and increased by \$18,535 or 1.39 percent and were related to increased cost of water purchases and solid waste services for the Far East side of the County.

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, unassigned 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 \$131,518,748, a decrease of \$14,809,132 or 10.12 percent in comparison with the prior year. Unassigned fund balance constitutes \$26,764,267 or 20.35 percent of total fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that it has already been earmarked. The majority of the restricted amount is attributable to capital project funds, grant funds, and special revenue funds whose restrictions are stipulated by bond covenants, external resource providers or enabling legislation. The committed amount represents the Commissioners Court's formal action to use the funds for capital improvements within the County. The assigned amount is attributable to funds set aside to cover outstanding encumbrances at year end and an amount to balance the 2011 fiscal year's budget.



The general fund is the chief operating fund of the County. Fund balance totaled \$32,593,407, and increased by \$242,958 or .75 percent. At the end of the fiscal year, \$26,764,267 was unassigned while \$4,920,258 represents the amount assigned to balance the general fund budget for fiscal year 2011. The unassigned fund balance of the general fund increased by \$11,445,134 or 74.71 percent. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The Commissioners Court utilized unassigned reserves in balancing the fiscal year 2011 operating budget, which included an expenditure level exceeding the corresponding rate of estimated revenue growth, although the designation decreased by \$10,830,412 or 68.76 percent from that of the prior fiscal year.

Grant funds ended the fiscal year with a fund balance of \$2,974,765, a decrease of \$1,422,946 or 32.36 percent. This decrease is mainly attributed to less funding from the federal and state level for such programs as Title IV-E and funding for the Sheriff's overtime.

The Capital Projects 2007 fund ended the fiscal year with a fund balance of \$46,422,380 and decreased by \$7,069,934 or 13.22 percent and is attributable to the bond proceeds from a prior fiscal year expended for the intended capital projects for which the debt was issued.

The debt service fund ended the fiscal year with a fund balance of \$1,499,137, all of which is restricted for the payment of debt service.

The special revenue funds in the aggregate have a fund balance of \$27,807,907 and increased by \$13,007,905 compared to the previous year. This increase was mainly due to the Road and Bridge fund not classified as a major fund as in the previous year. The Road and Bridge Fund ended the year with a fund balance of \$12,390,865, a decrease of \$5,276,034 or 29.86 percent.

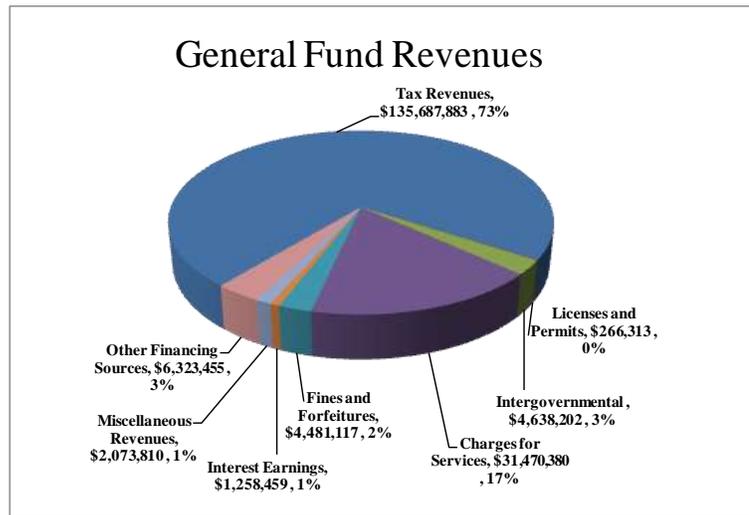
General Fund Trends

General Fund Revenues	2010 Actuals	2009 Actuals	Amount Increase (Decrease) from FY 2009	Percent Increase (Decrease)	2010 Actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$ 135,687,883	\$ 134,980,088	\$ 707,795	0.52%	72.87%
Licenses and Permits	\$ 266,313	\$ 282,841	\$ (16,528)	-5.84%	0.14%
Intergovernmental	\$ 4,638,202	\$ 5,605,182	\$ (966,980)	-17.25%	2.49%
Charges for Services	\$ 31,470,380	\$ 30,718,968	\$ 751,412	2.45%	16.90%
Fines and Forfeits	\$ 4,481,117	\$ 4,691,135	\$ (210,018)	-4.48%	2.41%
Interest Earnings	\$ 1,258,459	\$ 1,602,150	\$ (343,691)	-21.45%	0.68%
Miscellaneous Revenues	\$ 2,073,810	\$ 2,149,394	\$ (75,584)	-3.52%	1.11%
Other Financing Sources	\$ 6,323,455	\$ 1,608,939	\$ 4,714,516	293.02%	3.40%
Total revenues and other sources	\$ 186,199,619	\$ 181,638,697	\$ 4,560,922	2.51%	100.00%

A myriad of factors contributed to the general fund's financial position. Factors included actual revenues and transfers-in over expenditures and transfers-out in the amount of \$283,828. Actual revenues totaled \$179,876,164, a decrease of \$153,594 or .09 percent over fiscal year 2009 mainly due to more property taxes being deferred based on new estimates of the taxes receivable. Sales and uses taxes rebounded from the previous year for an increase of \$1,300,787. Charges

for services saw an increase of \$751,412 or 2.45 percent. Other financing sources also increased by \$4,714,516 or 293.02 percent due to a one-time transfer from the Road and Bridge Fund.

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 only a few areas. Some of the increases in revenues were briefly discussed previously in the governmental-type activities revenue discussion.



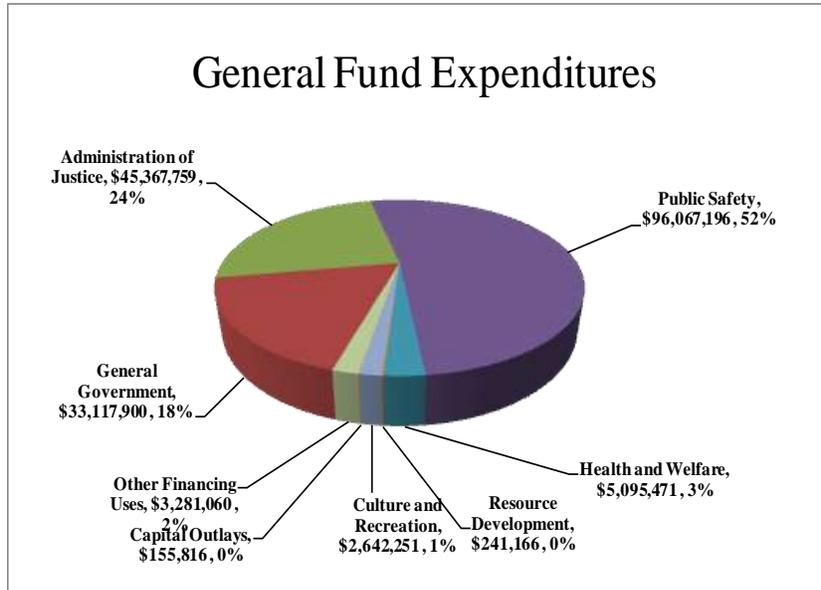
Further analysis of the general fund reflects that these increases were netted by revenue declines in intergovernmental revenues for a decrease of \$966,980 or 17.25 percent, due to lower reimbursements from the federal government for prosecuting of federal inmates; fines and forfeits for a decrease of \$210,018 or 4.48 percent; and a decrease of \$343,691 or 21.45 percent in interest earnings.

Comparison of the general fund adopted appropriations reflects a decline in fiscal year 2010 of \$6,722,424 or 3.22 percent for a total of \$202,221,201. Actual expenditures and transfers-out in fiscal year 2010 declined by \$6,474,208 or 3.36 percent bringing the total of general fund expenditures and transfers to \$185,968,619.

Declines in expenditures by category as reflected in the chart below, were the result of a multitude of changes, including a hiring freeze. The increase in public safety is mainly attributed to the reclassification of the Juvenile Probation Department from special revenue to general fund.

General Fund Expenditures	2010 Actuals	2009 Actuals	Amount Increase (Decrease) from FY 2009	Percent Increase (Decrease)	2010 Actual as a % of Total Expenditures and Other Financing Uses
Current:					
General Government	\$ 33,117,900	\$ 35,751,669	\$ (2,633,769)	-7.37%	17.81%
Administration of Justice	\$ 45,367,759	\$ 47,014,435	\$ (1,646,676)	-3.50%	24.40%
Public Safety	\$ 96,067,196	\$ 84,574,932	\$ 11,492,264	13.59%	51.66%
Health and Welfare	\$ 5,095,471	\$ 6,352,081	\$ (1,256,610)	-19.78%	2.74%
Resource Development	\$ 241,166	\$ 949,686	\$ (708,520)	-74.61%	0.13%
Culture and Recreation	\$ 2,642,251	\$ 2,741,461	\$ (99,210)	-3.62%	1.42%
Capital Outlays	\$ 155,816	\$ 307,001	\$ (151,185)	-49.25%	0.08%
Other Financing Uses	\$ 3,281,060	\$ 14,751,562	\$ (11,470,502)	-77.76%	1.76%
Total Expenditures (Uses)	\$ 185,968,619	\$ 192,442,827	\$ (6,474,208)	-3.36%	100.00%

Further analysis reflects decreases affecting most categories, such as general government by \$2,633,769 or 7.37 percent, administration of justice by \$1,646,676 or 3.50 percent. Health and welfare experienced a decrease of \$1,256,610 or 19.78 percent due to lower contribution for the shared City-County health services agreement. Capital outlays declined by \$151,185 or 49.25 percent as a result of the Commissioners Court's attempt at reducing cost wherever possible. Other financing uses declined by \$11,470,502 or 77.76 percent.



General Fund Budgetary Highlights

The fiscal year 2010 adopted budget of \$202,221,201 did not increase during the fiscal year other than for carryover appropriations totaling \$1,244,536 bringing the original budget total to \$203,465,737. This budget included \$15,750,670 of fund balance reserves to balance the fiscal year 2010 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 \$740,069 less than estimates and occurred in a variety of areas. Significant negative variances were in ad valorem property taxes of \$3,330,441 or 52.84 percent, fines and forfeits of \$323,883 or 2.41 percent, and miscellaneous revenue of \$408,290 or 1.11 percent. Property taxes comprise approximately 54.70 percent of total revenue received. Favorable variances were experienced in all other categories including intergovernmental, sales taxes, and charges for services. Other financing sources representing transfers-in had a positive variance \$469,157 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 \$18,614,358 which represents 9.15 percent of the adopted budget with carryover. The most significant favorable variance was in the area of general government totaling \$12,045,524 or 64.71 percent of overall appropriation variances. The majority of this variance related to contingencies that did not materialize and unspent personnel 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. Appropriations for transfers-out relate to leveraging county matching funds to secure state and federal grant funding which saw a favorable variance of \$123,643.

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	
	2010	2009	2010	2009	2010	2009
Land	\$ 15,325,520	\$ 15,206,585			\$ 15,325,520	\$ 15,206,585
Easements	\$ 40,000				40,000	
Buildings	107,514,124	110,226,202			107,514,124	110,226,202
Improvements	6,817,198	6,710,976			6,817,198	6,710,976
Equipment	5,016,907	5,215,724	\$ 10,390,694	\$ 10,717,899	15,407,601	15,933,623
Furniture and Fixtures	210,916	206,135			210,916	206,135
Infrastructure	1,505,361	1,602,789			1,505,361	1,602,789
Vehicles	5,459,173	5,246,253	3,841	6,267	5,463,014	5,252,520
Roads	17,489,865	17,758,546			17,489,865	17,758,546
Bridges and culverts	1,594,301	1,689,528			1,594,301	1,689,528
Leased equipment	304,502	366,753			304,502	366,753
Construction in progress	12,084,901	12,355,403	57,913		12,142,814	12,355,403
Total assets	\$ 173,362,768	\$ 176,584,894	\$ 10,452,448	\$ 10,724,166	\$ 183,815,216	\$ 187,309,060

The County’s capital assets for governmental and business type activities as of September 30, 2010 amounted to \$183,815,216 net of accumulated depreciation. This investment in capital assets includes land, easements, buildings, improvements, equipment, vehicles, roads and bridges. The total change in the County’s capital assets for the current fiscal year was a net decrease of \$3,493,844 or 1.87 percent, comprised of a decrease of \$3,222,126 or 1.82 percent in governmental activities and a decrease of \$271,718 or 2.53 percent in the business-type activities.

Major capital asset activity occurring in fiscal year 2010 included the completion of some road construction projects and building renovations. Construction in progress from the prior fiscal year was reclassified into the corresponding capital asset as the projects were completed. An on-going 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. As part of the County’s contribution to the new port of entry, the County purchased land for this purpose and turned around and donated the land to the federal government. Additional information on the County’s capital assets can be found in note 3-C and Exhibit G1- G3.

Long-term Debt

El Paso County's Outstanding Debt						
Type of Debt	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 51,640,000	\$ 56,560,000			\$ 51,640,000	\$ 56,560,000
Certificates of obligation bonds	96,375,000	98,495,000			96,375,000	98,495,000
Revenue bonds			1,052,000	1,080,000	1,052,000	1,080,000
Total	\$ 148,015,000	\$ 155,055,000	\$ 1,052,000	\$ 1,080,000	\$ 149,067,000	\$ 156,135,000

At the end of the fiscal year, the County had total bonded debt outstanding of \$149,067,000 as reflected above. Of this amount, \$148,015,000 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 \$7,068,000 or 4.53 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. For fiscal year 2010, Fitch Ratings affirmed a rating of AA on the County's outstanding general obligation and certificates of 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 years 2009 and 2010, along with continued efforts of stabilization for fiscal year 2011. 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 few 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 2010 issue of Texas Labor Market Review, the statewide unemployment rate was 7.9 percent in September. Compared to the same time last year, this was 4.8 percent lower. El Paso's unemployment rate decreased from 9.8 percent to 9.7 percent in 2010.
- Over the past fiscal year, between September 2009 and September 2010, 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 gained 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.
- For fiscal year 2008 the tax rate was set at \$0.391390 and lowered to \$0.342437 per \$100 of assessed valuation in 2009 as a result of increased property valuations and the addition of new property to the tax base. The tax rate was again lowered in fiscal year 2010 to \$0.338258, but increased to \$0.363403 in fiscal year 2011 in a continued effort to align revenues with expenditure trends.
- The overall fund balance of the general fund trended down from fiscal year 2007 to 2008, by approximately \$5.5 million or 11.41 percent, and by about \$10.7 million or 24.89 percent, from fiscal year 2008 to 2009. From fiscal year 2009 to 2010 overall fund balance increased slightly by \$243 thousand.
- Sales and use tax revenues fell in 2009 after five years of consecutive growth, but reflected positive growth in 2010. 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 2011 fiscal year.

The focus of the County remains on conservative fiscal management while addressing public service needs and State mandates. As of September 30, 2009, the Federal Funds rate was .25 percent and remained at the same rate as of September 2010. The Discount rate was .50 percent as of September 2009 and was at .75 percent at September 2010. Interest for the twelve months ended September 2010 was \$3,959,872 down \$1,443,614 or 26.72 percent when compared to \$5,403,486 the prior fiscal year, due mainly to fewer funds available for investment plus the low interest rates.

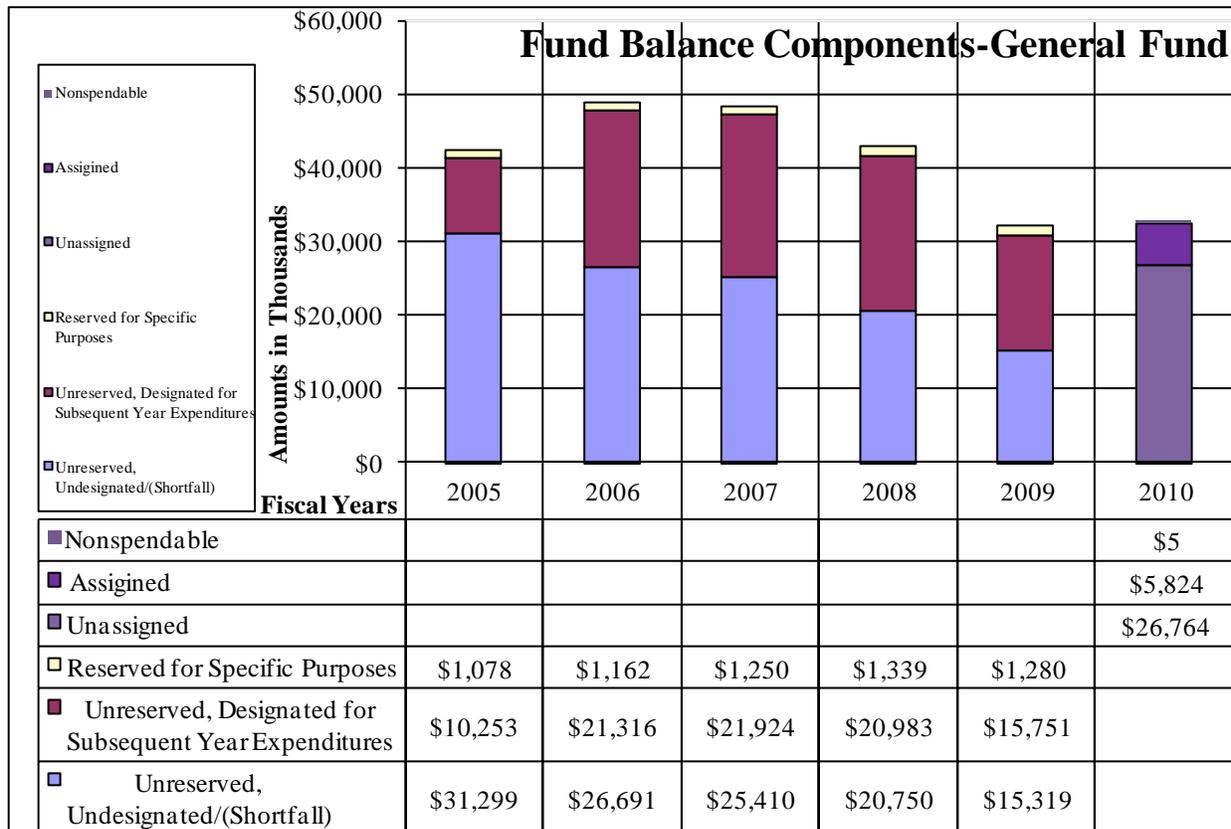
Unquestionably, the County faces continued challenges associated with meeting the steadily increasing demands for additional services and infrastructures for its rapidly growing population. The Commissioners Court members will continue to evaluate and analyze ways to streamline the County's operations 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 2011, 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 2010 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 2011 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. The graph below is presented to reflect the change in the presentation of fund balance pursuant to the requirements of GASB 54 (Fund Balance Reporting and Governmental Fund Type Definitions), which the County has elected to early implement. This graph depicts how the general fund's fund balances have increased or decreased over a period of years.



Although it is healthy to utilize some amount of 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 2011 budget adopted by the County totaled \$247,108,206, a net decrease of \$15,558,609 or 5.92 percent in comparison to the final fiscal year 2010 adopted budget. Additional information regarding the 2011 budget can be obtained from the County's official 2011 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>