

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, 2011. 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 2011 by \$145,864,335, which represents total net assets. Of this amount, \$134,889,003 or 92.48 percent relates to governmental-type activities while \$10,975,332 or 7.52 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 \$95,157,905 or 65.24 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 \$32,487,070 or 22.27 percent of total net assets of which the primary government and business type activities totaled \$31,952,874 or 98.36 percent and \$534,196 or 1.64 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 \$18,219,360 or 12.49 percent of total net assets.

The County's fiscal year 2011 operations resulted in total net assets increasing by \$2,436,347 or 1.70 percent. This was attributable to an increase of \$2,634,070 or 1.99 percent in the governmental-type net assets and a decrease in business-type net assets totaling \$197,723 or 1.77 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, Mayfair/Nuway 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 and workers compensation. 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 and Mayfair/Nuway Water Projects and the County Solid Waste Project. 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 \$145,864,335 at the close of fiscal year 2011. By far the largest component of the County's net assets represents investment in capital assets (e.g., land, buildings, machinery, and equipment) totaling \$95,157,905 or 65.24 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 \$832,451 or 2.56 percent, special purpose funds totaling \$29,193,637 or 89.86 percent, enterprise funds totaling \$498,801 or 1.54 percent of restricted assets. Also included are debt service funds totaling \$1,962,181 or 6.04 percent of total restricted net assets. The next category relates to unrestricted net assets totaling \$18,219,360 or 12.49 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, 2011, the County's net assets for the governmental activities increased by \$2,634,070 or 1.99 percent and business-type activities declined by \$197,723 or 1.77 percent for a net overall increase of \$2,436,347 or 1.70 percent from the previous fiscal year. Investments in capital assets net of related debt from governmental and business-type activities decreased by \$335,418 or .35 percent. There was a net decline of \$4,836,978 or 12.96 percent in restricted assets reported, composed of a decrease of \$5,106,859 related to governmental activities and an increase of \$269,881 related to business-type activities. Unrestricted net assets totaled \$18,219,360 and were up by \$7,608,743 or 71.71 percent, all related to governmental activities.

On a global perspective, the County of El Paso's total assets from governmental and business-type activities increased by \$10,588,180 or 2.97 percent. This increase 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			
	FY2011	FY2010	FY2011	FY2010	FY2011	FY2010
Current and other assets	\$ 172,395,195	\$ 171,065,765	\$ 2,299,965	\$ 2,027,420	\$ 174,695,160	\$ 173,093,185
Capital assets	182,576,206	173,362,768	10,225,215	10,452,448	192,801,421	183,815,216
Total assets	354,971,401	344,428,533	12,525,180	12,479,868	367,496,581	356,908,401
Long-term liabilities outstanding	191,644,222	189,773,544	1,023,000	1,052,000	192,667,222	190,825,544
Other liabilities	28,438,176	22,400,056	526,848	254,813	28,965,024	22,654,869
Total liabilities	220,082,398	212,173,600	1,549,848	1,306,813	221,632,246	213,480,413
Net assets:						
Invested in capital assets, net of related debt	85,936,209	86,028,798	9,221,696	9,464,525	95,157,905	95,493,323
Restricted	31,952,874	37,059,733	534,196	264,315	32,487,070	37,324,048
Unrestricted	16,999,920	9,166,402	1,219,440	1,444,215	18,219,360	10,610,617
Total net assets	\$ 134,889,003	\$ 132,254,933	\$ 10,975,332	\$ 11,173,055	\$ 145,864,335	\$ 143,427,988

The overall increase in net assets of the County can be better understood when evaluating the changes to net assets, total assets minus total liabilities. Total assets amounted to \$367,496,581 an increase of \$10,588,180 or 2.97 percent, while liabilities totaled \$221,632,246, an increase of \$8,151,833 or 3.82 percent. Further analysis reflects that the majority of all assets relate to governmental activities totaling \$354,971,401 and represents 96.59 percent of the total assets. Overall, capital assets (net of related depreciation) totaled \$192,801,421 and increased by \$8,986,205 or 4.89 percent from the prior year, mainly due to County facilities being constructed. 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 increased by 2.97 percent and the most significant impact to total assets represent an increase in receivables of \$6,857,023 or 22.79 percent due to higher property taxes still outstanding along with higher billings to the granting agencies still pending reimbursement. Capital assets increased by \$8,986,205 attributed mostly to increases in construction and renovation of county facilities. These increases were offset by a decrease in cash and cash equivalents of \$5,415,370 as a result of lower funds available for investment along with lower interest rates. 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.

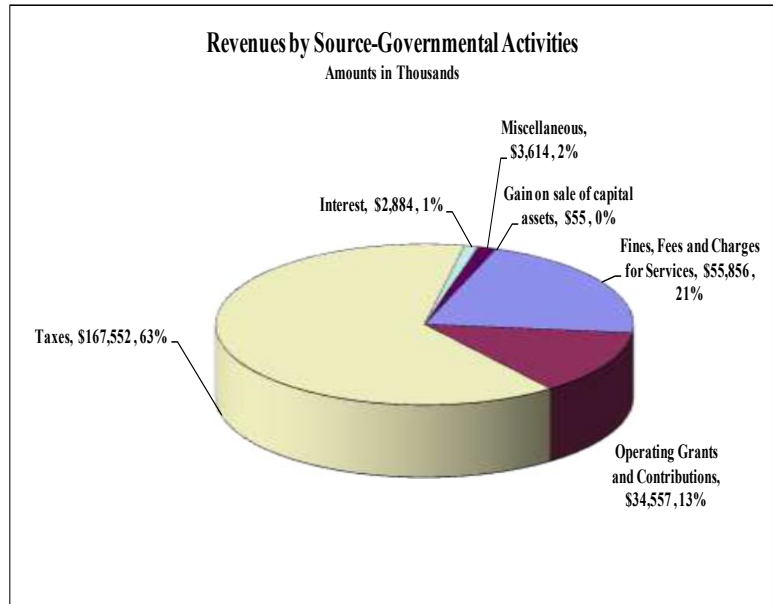
Overall, total entity-wide liabilities were \$221,632,246 and increased by \$8,151,833 or 3.82 percent. Further analysis reflects that the majority of liabilities relate to governmental activities totaling \$220,082,398 or 99.30 percent and business type activities totaling \$1,549,848 or .70 percent. Compared to fiscal year 2010, liabilities increased in the areas of vouchers payable by \$2,923,638 or 32.63 percent, payroll liabilities by \$898,476 or 16.54 percent, compensated absences by \$2,287,982 or 8.40 percent, and contingent liabilities by \$142,561 or 8.02 percent. Other Post Employment Benefits (OPEB) increased by \$4,944,860 or 39.74 percent due to the County's continuing policy of funding retiree health benefits on a pay-as-you-go basis. Bonds payable decreased by a net of \$5,421,929 or 3.64. 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 Activities		Business-type Activities		Total	
	FY2011	FY2010	FY2011	FY2010	FY2011	FY2010
Revenues:						
Program revenues:						
Charges for services	\$ 55,855,660	\$ 51,958,485	\$ 1,212,009	\$ 1,141,518	\$ 57,067,669	\$ 53,100,003
Operating grants and contributions	34,554,689	28,082,976	157,689	-	34,712,378	28,082,976
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	123,986,002	114,442,824			123,986,002	114,442,824
Other taxes	43,566,341	40,343,103			43,566,341	40,343,103
Other	6,555,421	8,139,329	16,287	18,836	6,571,708	8,158,165
Total revenues	264,518,113	242,966,717	1,385,985	1,160,354	265,904,098	244,127,071
Expenses:						
General government	38,027,384	44,977,190			38,027,384	44,977,190
Administration of justice	54,180,432	52,434,046			54,180,432	52,434,046
Public safety	128,759,893	122,685,935			128,759,893	122,685,935
Health and welfare	12,509,241	11,195,959			12,509,241	11,195,959
Community services	1,877,955	1,434,063			1,877,955	1,434,063
Resource development	1,576,294	757,317			1,576,294	757,317
Culture and recreation	8,261,639	9,116,410			8,261,639	9,116,410
Public works	9,660,880	13,199,004			9,660,880	13,199,004
Interest on long-term debt	7,011,366	7,286,191			7,011,366	7,286,191
Enterprise fund			1,595,892	1,352,146	1,595,892	1,352,146
Total expenses	261,865,084	263,086,115	1,595,892	1,352,146	263,460,976	264,438,261
Increase (decrease) in net assets before transfers	2,653,029	(20,119,398)	(209,907)	(191,792)	2,443,122	(20,311,190)
Transfers	(12,184)	(20,000)	12,184	20,000	-	-
Increase in net assets	2,640,845	(20,139,398)	(197,723)	(171,792)	2,443,122	(20,311,190)
Net assets October 1	132,254,933	153,793,701	11,173,055	11,344,847	143,427,988	165,138,548
Prior period adjustment	(6,775)	(1,399,370)	-	-	(6,775)	(1,399,370)
Net assets September 30	\$ 134,889,003	\$ 132,254,933	\$ 10,975,332	\$ 11,173,055	\$ 145,864,335	\$ 143,427,988

The increase in the County's net assets of \$2,436,347 or 1.70 percent represents the degree to which revenues have outpaced expenses. Overall, revenue increased by \$21,777,027 or 8.92 percent of which a significant share of \$9,543,178 represents property taxes, \$6,629,402 relates to operating grants and contributions and \$3,967,666 is charges for services. These increases were offset by other areas which experienced a decline such as interest which decreased by \$1,057,433 or 26.70 percent while other revenues declined by \$529,024 or 12.60 percent.

Expenses decreased by \$977,285 or .37 percent. Expense changes included increases of \$6,073,958 or 4.95 percent in public safety, \$1,746,386 or 3.33 percent in administration of justice, and \$1,313,282 or 11.73 percent in health and welfare. These increases netted with declines in public works of \$3,538,124 or 26.81 percent and general government of \$6,949,806 or 15.45 percent. Interest on long-term debt also decreased by \$274,825 or 3.77 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.



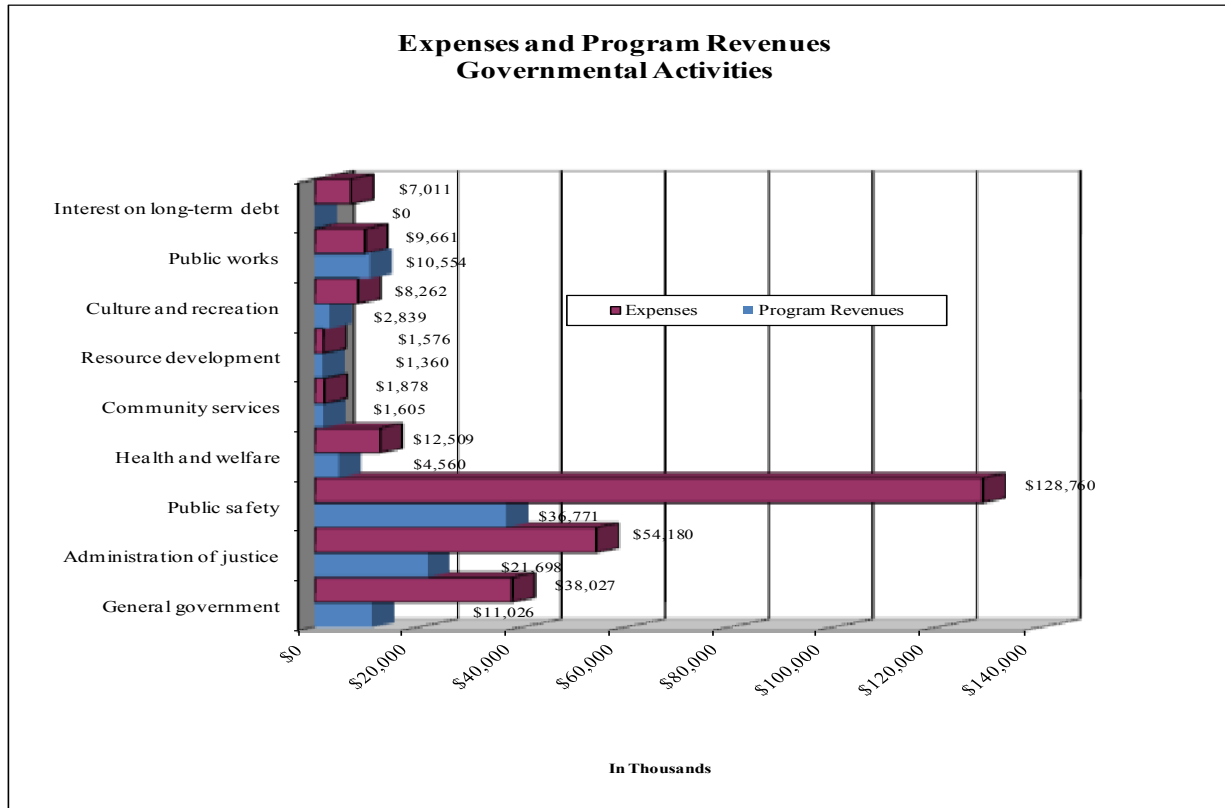
Governmental Activities

Governmental activities during fiscal year 2011 resulted in an increase in net assets of \$2,634,070 which represents 108.12 percent of the total increase for the primary government. Comparative fiscal year 2011 and 2010 data relating to these changes is discussed below.

Total revenues in the governmental activities increased by \$21,551,396 or 8.87 percent over the previous year. Charges for services increased by \$3,897,175 or 7.50 percent attributable to the increased efforts of collection of past due court costs. Property taxes increased by \$9,543,178 or 8.34 percent. This increase is attributable to increases in existing taxable property values and increases in new improvements, as well as a higher tax rate. Commissioners Court opted to raise the tax rate in fiscal year 2011 to \$0.363403 from \$0.338258 per \$100 of assessed valuation. Other taxes, comprised of sales and uses and hotel taxes, increased by \$3,195,183 or 8.31 percent.

Revenue increases were offset by declines in other revenue such as interest earnings and miscellaneous revenue which decreased by \$1,631,633 or 20.06 percent due for the most part to declines in interest rates.

Expenses in governmental activities decreased by \$1,221,031 or .46 percent and comprise 125.0 percent of the overall entity-wide decrease of \$977,285. Several functions experienced increases in expenses. Significant increases were evident in public safety totaling \$6,073,958 or 4.95 percent due in part to the collective bargaining agreement; administration of justice for a total of \$1,746,386 or 3.33 percent; and, health and welfare for a total of \$1,313,282 or 11.73 percent. Decreases were experienced in public works totaling \$3,538,124 or 26.81 percent and general government totaling \$6,949,806 or 15.45 percent.

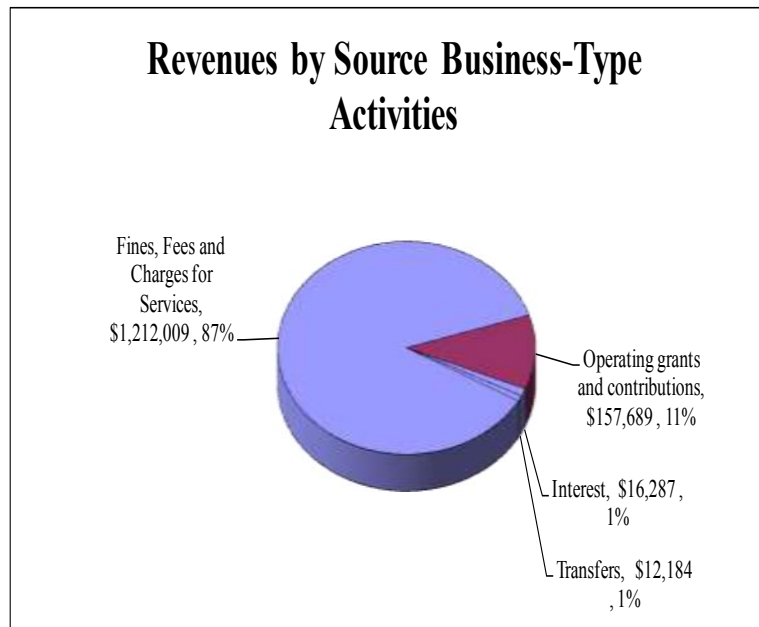


Changes mentioned previously within each of the functions above are the result of a combination of factors both at the fund level and more materially at the entity-wide level as explained in the discussion of the changes in the statement of net assets. More specific information can be found in the fund 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 \$197,723 or 1.77 percent and accounted for .79 percent of the total change in the primary government's net assets. Comparative fiscal year 2011 and 2010 data relating to these changes is reflected on Exhibit 7.

Overall revenues grew by \$225,631 or 19.45 percent for a total of \$1,385,985. Charges for services increased by \$70,491 or 6.18 percent due to an increase in user fees received from the East Montana water system and solid waste programs. Operating grants and contributions increased by \$157,689 due to a new water system being built to serve another Colonia in West El Paso County. Interest earnings and transfers decreased by \$2,549 and \$7,816, respectively.

Expenses in this area totaled \$1,595,892 and increased by \$243,746 or 18.03 percent and were related to increased cost of water purchases and solid waste services for the Colonias in the County.



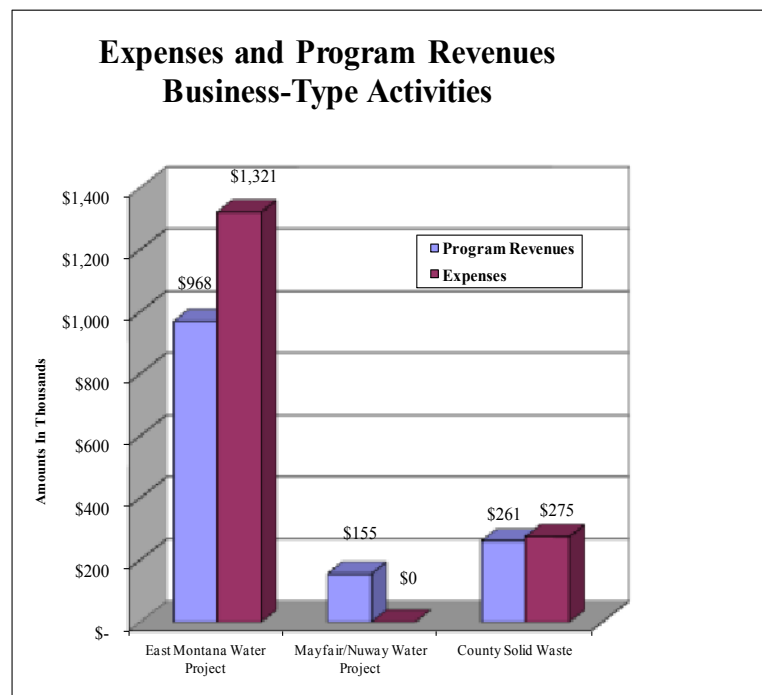
Financial Analysis of the Government's Funds

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 \$125,568,461 a decrease of \$5,950,287 or 4.52 percent in comparison with the prior year.

Unassigned fund balance constitutes \$35,058,435 or 26.66 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 projects, debt service, grants, 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 2012 fiscal year's budget.

The general fund is the chief operating fund of the County. Fund balance totaled \$46,592,537, and increased by \$13,999,130 or 42.95 percent. At the end of the fiscal year, \$35,058,435 was unassigned while \$10,919,909 represents the amount assigned to balance the general fund budget for fiscal year 2012. The unassigned fund balance of the general fund increased by \$8,294,168 or 30.99 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 2012 operating budget, which included an expenditure level exceeding the corresponding rate of estimated revenue growth, and therefore, increased the designation by \$5,999,651 or 121.94 percent from that of the prior fiscal year.

Grant funds ended the fiscal year with a fund balance of \$2,786,045, a decrease of \$188,720 or 6.34 percent. This decrease is mainly attributed to less funding from the federal and state level for such programs as Title IV-E geared toward juveniles.

The Capital Projects 2007 reported as a major fund ended the fiscal year with a fund balance of \$33,604,408 and decreased by \$12,817,972 or 27.61 percent. The non-major capital projects had a fund balance of \$13,402,468 and decreased by \$6,818,684 or 33.72 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.

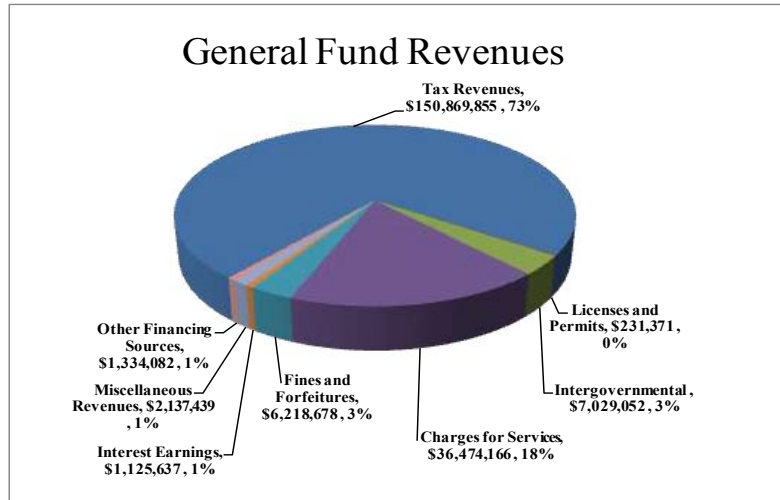
The debt service fund ended the fiscal year with a fund balance of \$2,775,411, all of which is restricted for the payment of debt service.

The special revenue funds in the aggregate ended the year with a fund balance of \$26,407,592, a decrease of \$1,400,315 or 5.04 percent compared to the previous year. This decrease is mainly due to the Road and Bridge fund receiving less allocation from the auto sales tax that is now being split between general fund and the road and bridge fund pursuant to a change in the statute by the State Legislature. The Road and Bridge Fund ended the year with a fund balance of \$12,105,193, a decrease of \$285,672 or 2.31 percent.

General Fund Trends

General Fund Revenues	2011 Actuals	2010 Actuals	Amount Increase (Decrease) from FY 2010	Percent Increase (Decrease)	2011 Actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$ 150,869,855	\$ 135,687,883	\$ 15,181,972	11.19%	73.44%
Licenses and Permits	231,371	266,313	(34,942)	-13.12%	0.11%
Intergovernmental	7,029,052	4,638,202	2,390,850	51.55%	3.42%
Charges for Services	36,474,166	31,470,380	5,003,786	15.90%	17.76%
Fines and Forfeits	6,218,678	4,481,117	1,737,561	38.78%	3.03%
Interest Earnings	1,125,637	1,258,459	(132,822)	-10.55%	0.55%
Miscellaneous Revenues	2,137,439	2,073,810	63,629	3.07%	1.04%
Other Financing Sources	1,334,082	6,323,455	(4,989,373)	-78.90%	0.65%
Total revenues and other sources	\$ 205,420,280	\$ 186,199,619	\$ 19,220,661	10.32%	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 \$14,184,072. Actual revenues totaled \$204,086,198, an increase of \$24,210,034 or 13.46 percent over fiscal year 2010 partly due to higher property taxes. Sales and uses taxes experienced an increase of \$3,169,226. Charges for services saw an increase of \$5,003,786 or 15.90 percent.



It is noteworthy to mention that various factors and actions by the County during the fiscal year had the effect of enhancing the fund balance and unspent budgeted amounts 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 several areas. Some of the increases in revenues were briefly discussed previously in the governmental-type activities revenue discussion.

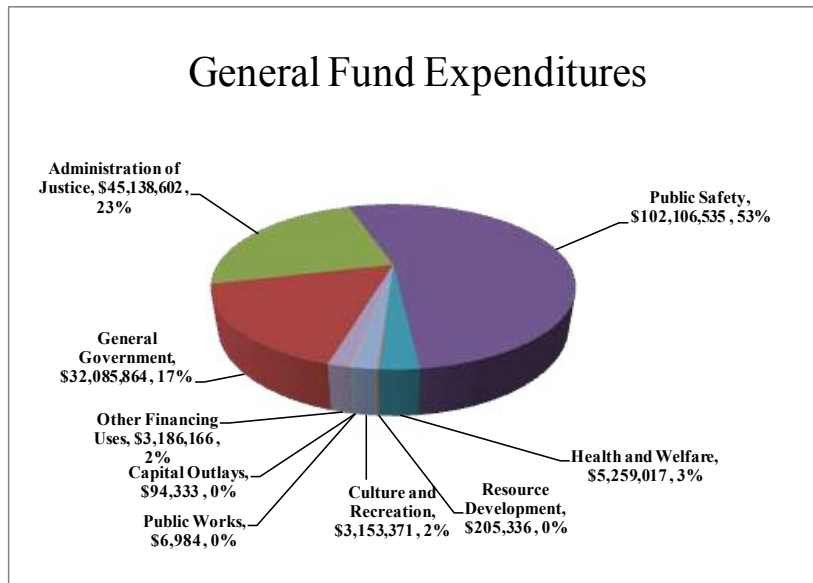
Further analysis of the general fund reflects that these increases were netted by revenue declines in interest earnings of \$132,822 and in other financing sources of \$4,989,373 or 78.90 percent, due to a one time transfer last year of \$5,000,000 from the Road and Bridge Fund.

Comparison of the general fund adopted appropriations reflects a decline in fiscal year 2011 of \$2,987,214 or 1.48 percent for a total of \$199,233,987. Actual expenditures and transfers-out in fiscal year 2011 increased by \$5,267,589 or 2.83 percent bringing the total of general fund expenditures and transfers to \$191,236,208.

Declines in expenditures by category as reflected in the chart below, were mainly as the result of a hiring freeze. The increase in public safety is mainly attributed to the automatic step increases in the Sheriff's Department for law enforcement in accordance with the CLEAT contract.

General Fund Expenditures	2011 Actuals	2010 Actuals	Amount Increase (Decrease) from FY 2010	Percent Increase (Decrease)	2011 Actual as a % of Total Expenditures and Other Financing Uses
Current:					
General Government	\$ 32,085,864	\$ 33,117,900	\$ (1,032,036)	-3.12%	16.78%
Administration of Justice	45,138,602	45,367,759	(229,157)	-0.51%	23.60%
Public Safety	102,106,535	96,067,196	6,039,339	6.29%	53.39%
Health and Welfare	5,259,017	5,095,471	163,546	3.21%	2.75%
Resource Development	205,336	241,166	(35,830)	-14.86%	0.11%
Culture and Recreation	3,153,371	2,642,251	511,120	19.34%	1.65%
Public Works	6,984		6,984	100.00%	0.00%
Capital Outlays	94,333	155,816	(61,483)	-39.46%	0.05%
Other Financing Uses	3,186,166	3,281,060	(94,894)	-2.89%	1.67%
Total Expenditures (Uses)	\$ 191,236,208	\$ 185,968,619	\$ 5,267,589	2.83%	100.00%

Further analysis reflects decreases affecting several categories, such as general government by \$1,032,036 or 3.12 percent, administration of justice by \$229,157 or .51 percent, resource development by \$35,830 or 14.86 percent. Capital outlays declined by \$61,483 or 39.46 percent as a result of the Commissioners Court's attempt at reducing cost wherever possible. Health and welfare and culture and recreation increased by \$163,546 and \$511,120, respectively. Other financing uses declined by \$94,894 or 2.89 percent.



General Fund Budgetary Highlights

The fiscal year 2011 adopted budget of \$199,233,987 did not increase during the fiscal year other than for carryover appropriations totaling \$1,203,485 bringing the original budget total to \$200,437,472. This budget included \$4,920,258 of fund balance reserves to balance the fiscal year 2011 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 \$10,575,469 more than estimates and occurred in all areas except in ad valorem property taxes and licenses and permits. Significant positive variances were in sales and use taxes of \$3,995,715 or 11.55 percent, fines and forfeits of \$719,678 or 13.09 percent, charges for services of \$2,550,816 or 7.52 percent and intergovernmental \$2,796,382 or 66.07 percent. Actual property taxes were \$55,570 less than estimates and comprise approximately 45.97 percent of total revenue received. Other financing sources representing transfers-in had a positive variance \$531,082 due to residual matching funds remaining after close-out of respective grants.

Favorable appropriation variances were experienced in all functions of the County's general fund 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 for approval by the Court and encouraging efficiencies in business practices. Overall favorable appropriation variances totaled \$10,323,345 which represents 5.15 percent of the adopted budget with carryover. The most significant favorable variance was in the area of general government totaling \$6,212,533 or 60.18 percent of overall appropriation variances. The majority of this variance related to appropriations for contingencies that did not materialize and

unspent personnel appropriations made possible due to the County's hiring freeze policy. In regard to operating appropriations, the favorable variance was mainly 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.

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	
	2011	2010	2011	2010	2011	2010
Land	\$ 16,322,295	\$ 15,325,520			\$ 16,322,295	\$ 15,325,520
Easements	100,000	40,000			100,000	40,000
Buildings	100,892,756	107,514,124			100,892,756	107,514,124
Improvements	6,797,975	6,817,198			6,797,975	6,817,198
Equipment	4,520,398	5,016,907	\$ 10,068,215	\$ 10,390,694	14,588,613	15,407,601
Furniture and Fixtures	166,255	210,916			166,255	210,916
Infrastructure	1,500,621	1,505,361			1,500,621	1,505,361
Vehicles	5,313,600	5,459,173	1,416	3,841	5,315,016	5,463,014
Roads	17,345,027	17,489,865			17,345,027	17,489,865
Bridges and culverts	1,499,431	1,594,301			1,499,431	1,594,301
Leased equipment	191,146	304,502			191,146	304,502
Construction in progress	27,926,702	12,084,901	155,584	57,913	28,082,286	12,142,814
Total assets	\$ 182,576,206	\$ 173,362,768	\$ 10,225,215	\$ 10,452,448	\$ 192,801,421	\$ 183,815,216

The County's capital assets for governmental and business type activities as of September 30, 2011 amounted to \$192,801,421 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 increase of \$8,986,205 or 4.89 percent, comprised of an increase of \$9,213,438 or 5.31 percent in governmental activities and a decrease of \$227,233 or 2.17 percent in the business-type activities.

Major capital asset activity occurring in fiscal year 2011 included the acquisition of land and some easements in support of the on-going activity in the Tornillo Guadalupe Port of Entry in Far East El Paso. 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	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 48,855,000	\$ 51,640,000			\$ 48,855,000	\$ 51,640,000
Certificates of obligation bonds	93,395,000	96,375,000			93,395,000	96,375,000
Revenue bonds			1,023,000	1,052,000	1,023,000	1,052,000
Total	\$ 142,250,000	\$ 148,015,000	\$ 1,023,000	\$ 1,052,000	\$ 143,273,000	\$ 149,067,000

At the end of the fiscal year, the County had total bonded debt outstanding of \$143,273,000 as reflected above. Of this amount, \$142,250,000 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 \$5,794,000 or 3.89 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. The last rating was done in fiscal year 2010 by Fitch Ratings and 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, 2010 and 2011, along with continued efforts of stabilization for fiscal year 2012. 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 2011 issue of Texas Labor Market Review, the statewide unemployment rate was 8.4 percent in September. Compared to the same time last year, this was 6.3 percent higher. El Paso's unemployment rate increased from 9.7 percent to 10.6 percent in 2011.
- Over the past fiscal year, between September 2010 and September 2011, El Paso gained 3,300 jobs overall. Further analysis reflects that 6,000 job gains were netted with 2,700 employment losses. The various job gains occurred in construction 800, transportation 300, trade 1,200, financial activities 300, and the services sector 3,400. The losses were in manufacturing (200), information (300) and government (2,200). The services sector

comprises 38.3 percent of El Paso's employment market, while the government sector makes up 23.8 percent of the 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 2013. 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 8.6 percent growth over the past 5 years.
- For fiscal year 2009 the tax rate was set at \$0.342437 and lowered to \$0.338258 per \$100 of assessed valuation in 2010 as a result of increased property valuations and the addition of new property to the tax base. The tax rate was 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 2008 to fiscal year 2009, by approximately \$10.7 million or 24.89 percent, and increased slightly by \$243 thousand from fiscal year 2009 to 2010. Overall fund balance increased significantly from 2010 to 2011 by approximately \$14.0 million or 42.9 percent.
- Sales and use tax revenues fell in 2009 after five years of consecutive growth, but reflected positive growth in 2010 and again in 2011. On a positive note, inflationary trends in the region have trended favorably compared to the state and national levels.
- The Commissioners Court will continue its focus of containing general fund expenditure growth while enhancing revenue growth in order to keep up with inflation.

All of these factors were considered in preparing the County's budget for the 2012 fiscal year.

The focus of the County remains on conservative fiscal management while addressing public service needs and State mandates. As of September 30, 2011, the Federal Funds rate was between 0 and .25 percent. The Discount rate was .75 percent as of September 2011. Interest for the twelve months ended September 2011 was \$2,900,239 down \$1,059,6633 or 26.76 percent when compared to \$3,959,872 the prior fiscal year, due mainly to lower interest rates from the depository bank.

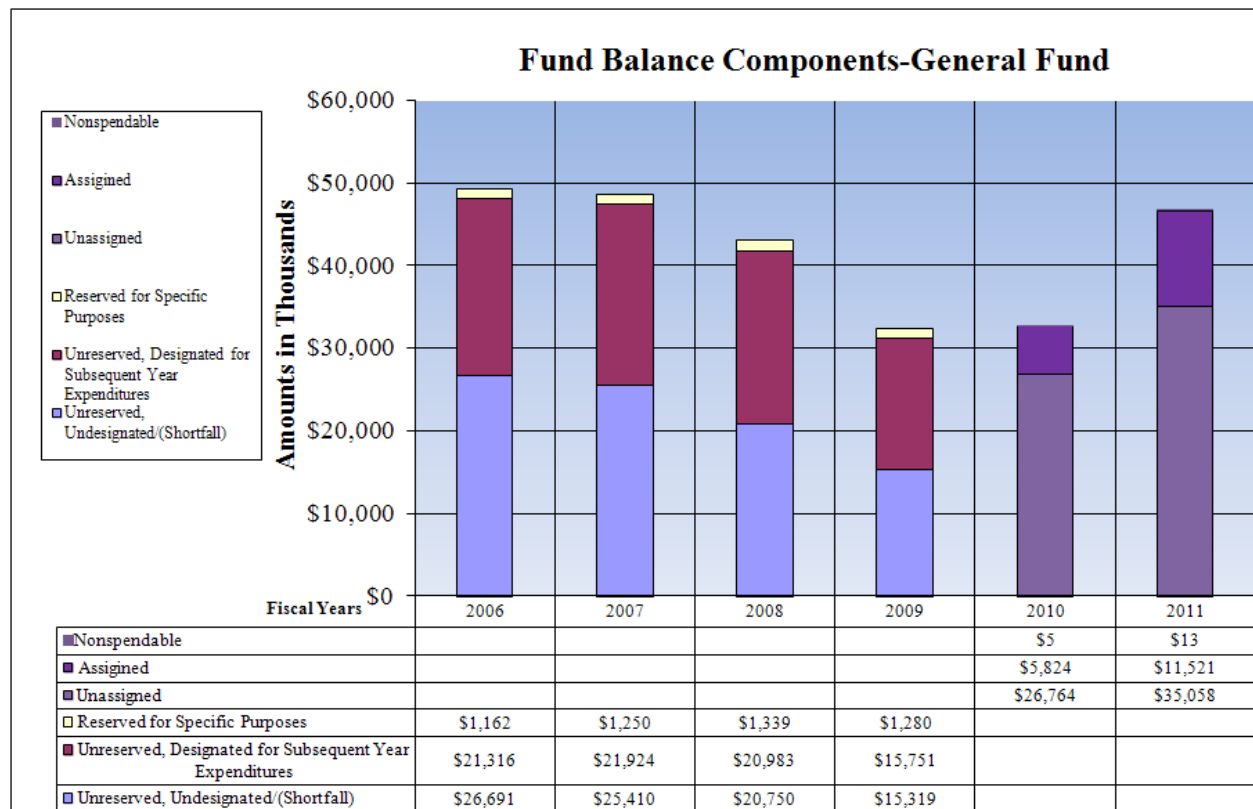
Unquestionably, the County faces continued challenges associated with meeting the steadily increasing demands for additional services and infrastructures for its rapidly growing population. The Commissioners Court members will continue to evaluate and analyze ways to streamline the County's operations 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 2012, 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 2012 budget compared to the amount used in fiscal year 2011, the Court must continue to focus on fiscal and budgetary restraint in fiscal years 2012 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 implemented in fiscal year 2010. 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 2012 budget adopted by the County totaled \$262,247,887, a net increase of \$15,139,681 or 6.12 percent in comparison to the fiscal year 2011 adopted budget. Additional information regarding the 2012 budget can be obtained from the County's official 2012 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>