

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, 2012. 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 2012 by \$140,306,790, which represents total net assets. Of this amount, \$129,323,033 or 92.17 percent relates to governmental-type activities while \$10,983,757 or 7.83 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 \$95,774,632 or 68.26 percent of total net assets. Restricted assets represent funds subject to constraints that are imposed externally by creditors, debt covenants, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets totaled \$26,791,909 or 19.10 percent of total net assets of which \$26,489,734 relates to the primary government and \$302,175 relates to business type activities. Unrestricted net assets on the other hand may be used to meet the county's ongoing obligations to citizens and creditors and totaled \$17,740,249 or 12.64 percent of total net assets.

The County's fiscal year 2012 operations resulted in total net assets decreasing by \$5,557,544 or 3.81 percent. This was attributable to a decrease of \$5,565,969 or 4.13 percent in the governmental-type and an increase in business-type activities of \$8,425 or .08 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, the Mayfair/Nuway 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, capital projects 2007 and capital projects 2012. 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 \$140,306,790 at the close of fiscal year 2012. By far the largest component of the County's net assets represents investment in capital assets (e.g., land, buildings, machinery, and equipment) totaling \$95,774,632 or 68.26 percent of total net assets, which is net of any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The second largest component is restricted assets and represents resources that are subject to external restrictions on how they may

be used. Restricted assets total \$26,791,909 and are comprised of capital project funds totaling \$961,318 or 3.59 percent, special purpose funds totaling \$25,309,065 or 94.47 percent, enterprise funds totaling \$266,964 or 1.00 percent of restricted assets. Also included are debt service funds totaling \$254,562 or .95 percent of total restricted net assets. The next category relates to unrestricted net assets totaling \$17,740,249 or 12.64 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, 2012, the County's net assets for the governmental activities decreased by \$5,565,969 or 4.13 percent and business-type activities increased by \$8,425 or .08 percent for a net overall decrease of \$5,557,544 or 3.81 percent from the previous fiscal year. Investments in capital assets net of related debt from governmental and business-type activities increased by \$642,603 or .68 percent. There was a net decline of \$5,627,637 or 17.36 percent in restricted assets reported, composed of a decrease of \$5,463,140 related to governmental activities and an decrease of \$164,497 related to business-type activities. Unrestricted net assets totaled \$17,740,249 and were down by \$572,510 or 3.13 percent, which included a decline of \$847,775 related to governmental activities and an increase of \$275,265 related to business-type activities.

On a global perspective, the County of El Paso's total assets from governmental and business-type activities increased by \$108,709,935 or 29.58 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.

The overall decrease 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 \$476,206,516 an increase of \$108,709,935 or 29.58 percent, while liabilities totaled \$335,899,726, an increase of \$114,267,480 or 51.56 percent. Further analysis reflects that the majority of all assets relate to governmental activities totaling \$463,748,975 and represents 97.38 percent of the total assets. Overall, capital assets (net of related depreciation) totaled \$211,968,026 and increased by \$19,166,605 or 9.94 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.

El Paso County, Texas Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	FY2012	FY2011	FY2012	FY2011	FY2012	FY2011
Current and other assets	\$ 262,146,637	\$ 172,395,195	\$ 2,091,853	\$ 2,299,965	\$ 264,238,490	\$ 174,695,160
Capital assets	201,602,338	182,576,206	10,365,688	10,225,215	211,968,026	192,801,421
Total assets	463,748,975	354,971,401	12,457,541	12,525,180	476,206,516	367,496,581
Long-term liabilities outstanding	301,859,687	191,644,222	1,266,000	1,023,000	303,125,687	192,667,222
Other liabilities	32,566,255	28,438,176	207,784	526,848	32,774,039	28,965,024
Total liabilities	334,425,942	220,082,398	1,473,784	1,549,848	335,899,726	221,632,246
Net assets:						
Invested in capital assets, net of related debt	86,681,155	85,936,209	9,093,477	9,195,820	95,774,632	95,132,029
Restricted	26,489,734	31,952,874	302,175	466,672	26,791,909	32,419,546
Unrestricted	16,152,144	16,999,919	1,588,105	1,312,840	17,740,249	18,312,759
Total net assets	\$ 129,323,033	\$ 134,889,002	\$ 10,983,757	\$ 10,975,332	\$ 140,306,790	\$ 145,864,334

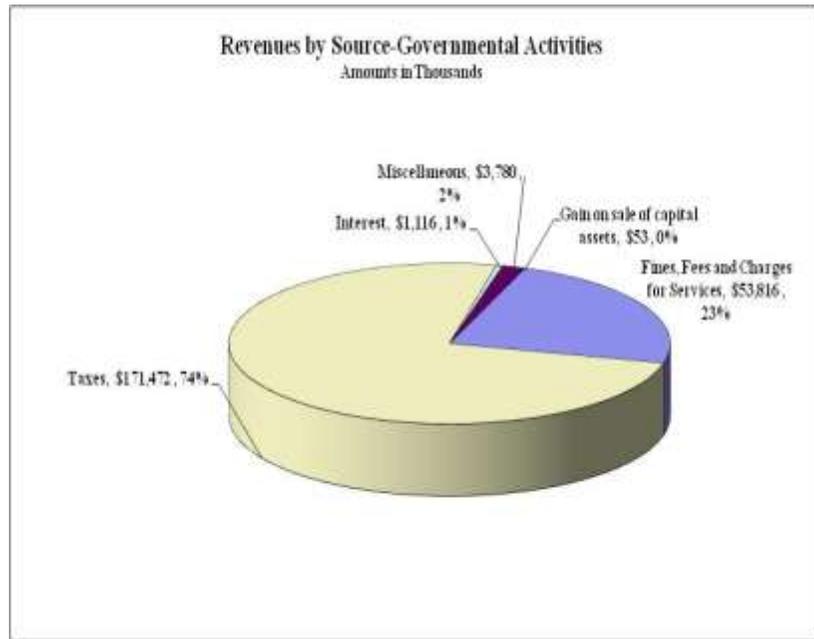
For entity-wide reporting purposes under GASB 34, capital expenditures made at the fund level must be reversed from expenses at the entity-wide level financial statements and reflected as capital assets net of depreciation. For this reason, you may observe fund level expenditure amounts in excess of what is reported at the entity-wide level or vice versa. Total assets increased by 29.58 percent and the most significant impact to total assets represent an increase in cash and cash equivalents of \$85,805,377 due to the issuance of the Certificates of Obligation, Series 2012 in July 2012. Receivables increased by \$3,892,763 or 10.54 percent due to higher property taxes still outstanding along with higher billings to the granting agencies still pending reimbursement. Capital assets increased for a net amount of \$19,166,605 attributed mostly to the on-going construction and renovation of county facilities. 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, entity-wide liabilities were \$335,899,726 and increased by \$114,267,480 or 51.56 percent. Further analysis reflects that the majority of liabilities relate to governmental activities totaling \$334,425,942 or 99.56 percent and business type activities totaling \$1,473,784 or .44 percent. Compared to fiscal year 2011, liabilities increased in the areas of vouchers payable by \$3,576,417 or 30.09 percent and compensated absences by \$1,173,846 or 3.98 percent. Other Benefits (OPEB) increased by \$5,527,357 or 31.79 percent due to the County's continuing policy of funding retiree health benefits on a pay-as-you-go basis. Bonds payable increased by \$103,921,988 or 72.31 due to the debt issuance in 2012. 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			
	FY2012	FY2011	FY2012	FY2011	FY2012	FY2011
Revenues:						
Program revenues:						
Charges for services	\$ 53,815,668	\$ 55,855,660	\$ 1,212,011	\$ 1,212,009	\$ 55,027,679	\$ 57,067,669
Operating grants and contributions	35,936,546	34,554,689	-	157,689	35,936,546	34,712,378
Capital grants and contributions	-	-	214,331	-	214,331	-
General revenues:						
Property taxes	127,685,281	123,986,002			127,685,281	123,986,002
Other taxes	43,786,254	43,566,341			43,786,254	43,566,341
Other	4,948,825	6,555,421	6,063	16,287	4,954,888	6,571,708
Total revenues	266,172,574	264,518,113	1,432,405	1,385,985	267,604,979	265,904,098
Expenses:						
General government	41,422,883	38,027,384			41,422,883	38,027,384
Administration of justice	54,599,239	54,180,432			54,599,239	54,180,432
Public safety	134,637,811	128,759,893			134,637,811	128,759,893
Health and welfare	13,235,053	12,509,241			13,235,053	12,509,241
Community services	2,909,656	1,877,955			2,909,656	1,877,955
Resource development	1,552,486	1,576,294			1,552,486	1,576,294
Culture and recreation	8,593,417	8,261,639			8,593,417	8,261,639
Public works	7,920,139	9,660,880			7,920,139	9,660,880
Interest on long-term debt	7,085,603	7,011,366			7,085,603	7,011,366
Enterprise fund			1,423,980	1,595,892	1,423,980	1,595,892
Total expenses	271,956,287	261,865,084	1,423,980	1,595,892	273,380,267	263,460,976
Increase (decrease) in net assets before transfers	(5,783,713)	2,653,029	8,425	(209,907)	(5,775,288)	2,443,122
Transfers	-	(12,184)	-	12,184	-	-
Increase in net assets	(5,783,713)	2,640,845	8,425	(197,723)	(5,775,288)	2,443,122
Net assets October 1	134,889,002	132,254,932	10,975,332	11,173,055	145,864,334	143,427,987
Prior period adjustment	217,744	(6,775)	-	-	217,744	(6,775)
Net assets September 30	\$ 129,323,033	\$ 134,889,002	\$ 10,983,757	\$ 10,975,332	\$ 140,306,790	\$ 145,864,334

The decrease in the County's net assets of \$5,557,544 or 3.81 percent represents the degree to which expenses have outpaced revenues. Overall, revenue increased by \$1,700,881 or .64 percent but was outpaced by \$8,218,410 by the increase in expenses of \$9,919,291. The increase in expenses can be attributed in part to the restoration of funding for the budget cuts done in the previous fiscal year, along with a two percent cost of living for all employees plus the increase for the Sheriff's Bargaining Unit contract.

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.

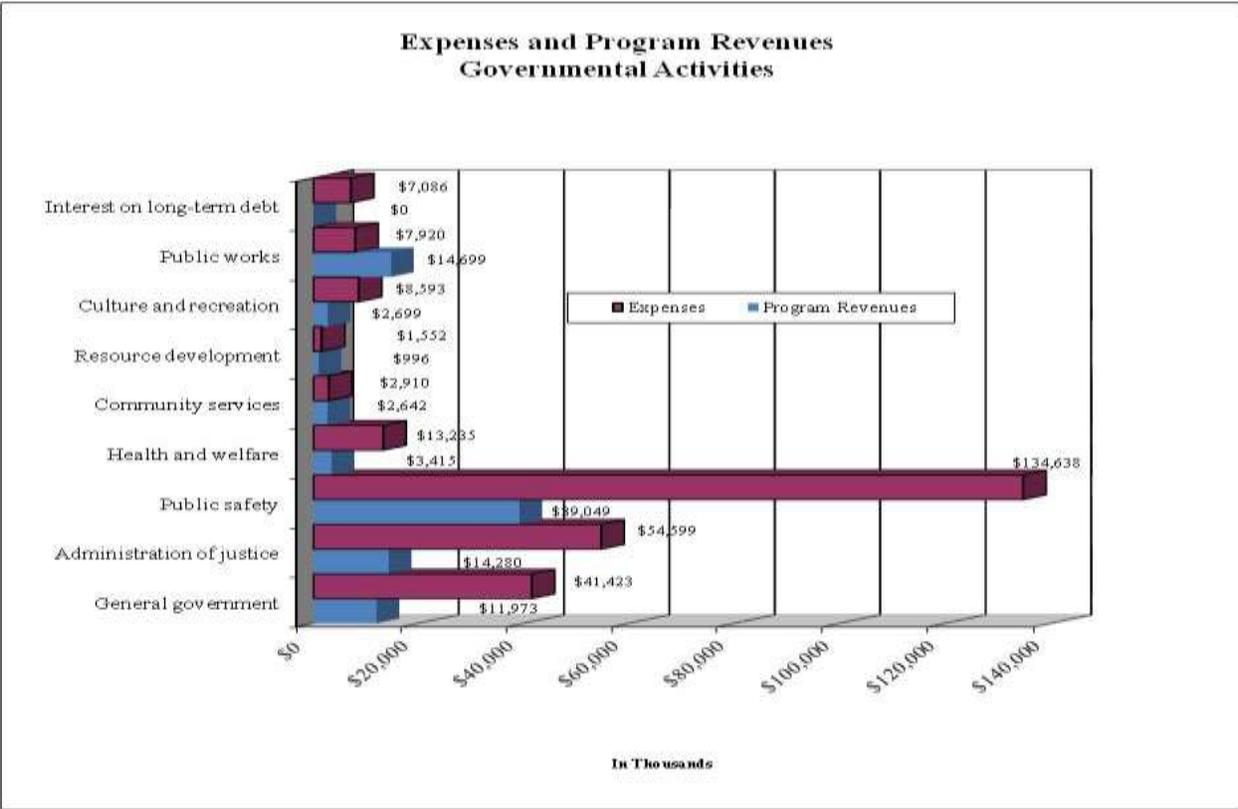


Governmental Activities

Governmental activities during fiscal year 2012 resulted in a decrease in net assets of \$5,565,969 which represents 100.15 percent of the total decrease for the primary government. Comparative fiscal year 2012 and 2011 data relating to these changes is discussed below.

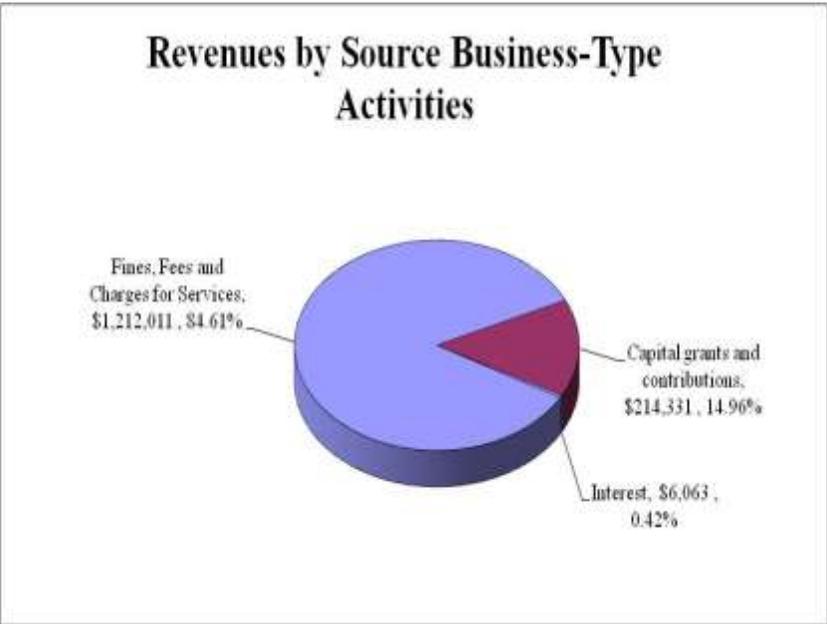
Total revenues in the governmental activities increased by \$1,654,461 or .63 percent over the previous year. Property taxes increased by \$3,699,279 or 2.98 percent; operating grants and contributions increased by \$1,381,857 or 4.00 percent; and other taxes increased by \$219,913. The increase in property taxes is attributable to increases in existing taxable property values and increases in new improvements. Commissioners Court opted to lower the tax rate in fiscal year 2012 to \$0.361196 from \$0.363403 per \$100 of assessed valuation. Other taxes comprised of sales and uses taxes, hotel taxes, and mixed beverage alcohol taxes increased by \$219,913 or .50 percent. These increases were offset by a decrease in charges for services of \$2,039,992 or 3.65 percent and by a decrease in interest earnings of \$1,770,454 or 61.34 percent.

Expenses in governmental activities increased by \$10,091,203 or 3.85 percent and comprise 101.73 percent of the overall entity-wide increase of \$9,919,281. Most functions experienced increases in expenses. Significant increases were evident in public safety totaling \$5,877,918 or 4.57 percent due in part to the collective bargaining agreement; general government \$3,395,499 or 8.93 percent attributed to increases for employee benefits and computer maintenance contracts; and community services \$1,031,701 or 54.94 percent. Decreases were experienced in public works totaling \$1,740,741 or 18.02 percent and resource development \$23,808 or 1.51 percent.



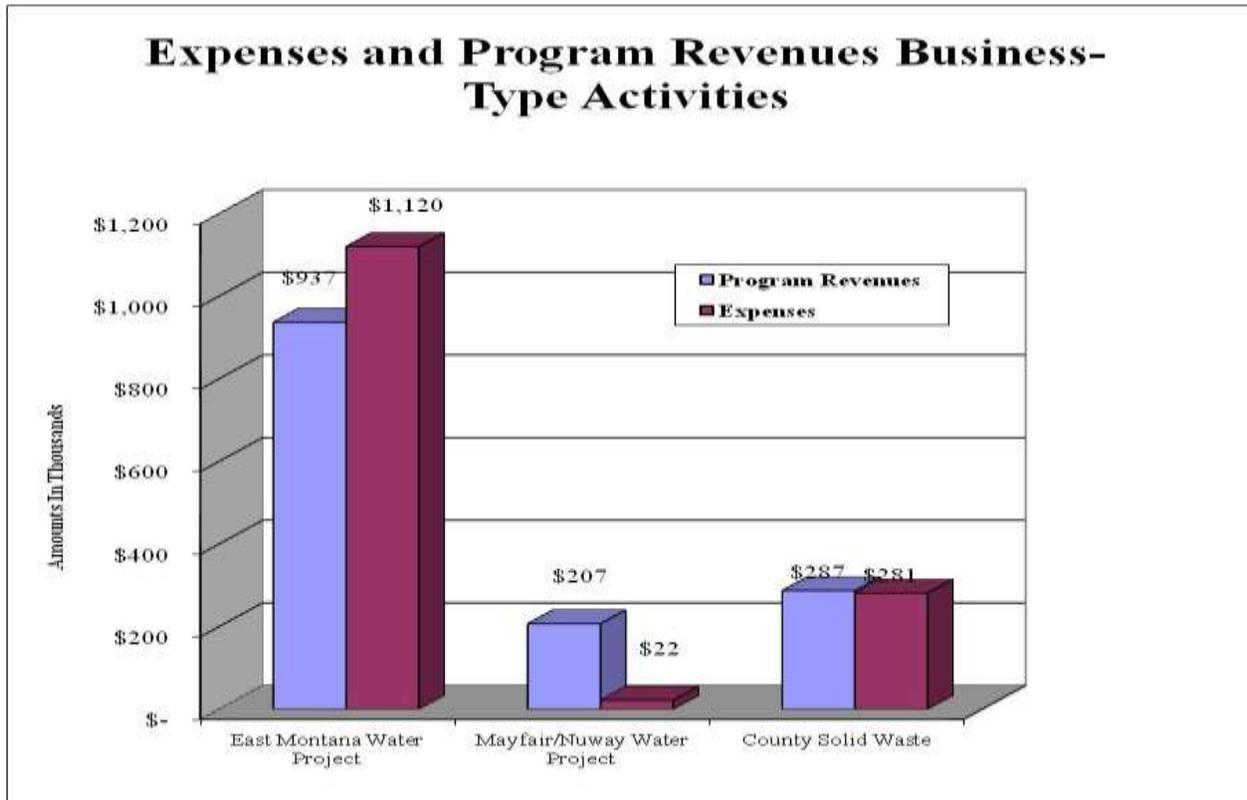
Changes mentioned previously within each of the functions above are the result of a combination of factors both at the fund level and more materially at the entity-wide level as explained in the discussion of the changes in the statement of net assets. More specific information can be found in the fund 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 an increase in net assets of \$8,425 or .08 percent and accounted for .15 percent of the total change in the primary government's net assets. Comparative fiscal year 2012 and 2011 data relating to these changes is reflected on Exhibit 7 of this report.



Overall revenues grew by \$46,420 or 3.35 percent for a total of \$1,432,405 due to an increase in capital grants and contributions. Capital grants and contributions increased by \$214,331 due to a new water system being built to serve another Colonia in West El Paso County. Interest earnings decreased by \$10,224 or 62.77 percent.

Expenses in this area totaled \$1,423,980 a decrease of \$171,912 or 10.77 percent and is mainly related to a reduction in the water rates for the enterprise operations.



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 \$209,914,873 an increase of \$84,346,412 or 67.17 percent in comparison with the prior year. Unassigned fund balance constitutes \$38,317,585 or 18.25 percent of total fund balance, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable, 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 2013 fiscal year's budget.

The general fund is the chief operating fund of the County. Fund balance totaled \$50,271,641, and increased by \$3,679,104 or 7.90 percent. At the end of the fiscal year, \$38,317,585 was unassigned while \$11,196,594 represents the amount assigned to balance the general fund budget for fiscal year 2013. The unassigned fund balance of the general fund increased by \$3,259,150 or 9.30 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 2013 operating budget, which included an expenditure level exceeding the corresponding rate of estimated revenue growth, and therefore, increased the designation by \$276,685 or 2.53 percent from that of the prior fiscal year.

Grant funds ended the fiscal year with a fund balance of \$2,028,702, a decrease of \$757,343 or 27.18 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 as well as less funding for the Border Children's Mental Health. The latter program will eventually be picked up entirely by County funds.

The Capital Projects 2007 reported as a major fund ended the fiscal year with a fund balance of \$11,204,991 and decreased by \$22,399,417 or 66.66 percent due to the completion or near completion of the projects which were covered with these funds. This fund is presented as a major fund only for consistency purposes even though it does not meet the criteria for such presentation. The Capital Projects 2012 reflects a fund balance of \$110,185,300 and represents the new bond proceeds in fiscal year 2012.

The debt service fund ended the fiscal year with a fund balance of \$1,635,348, 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 \$23,280,363, a decrease of \$127,229 or .54 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 \$8,696,185, a decrease of \$3,409,008 or 28.16 percent.

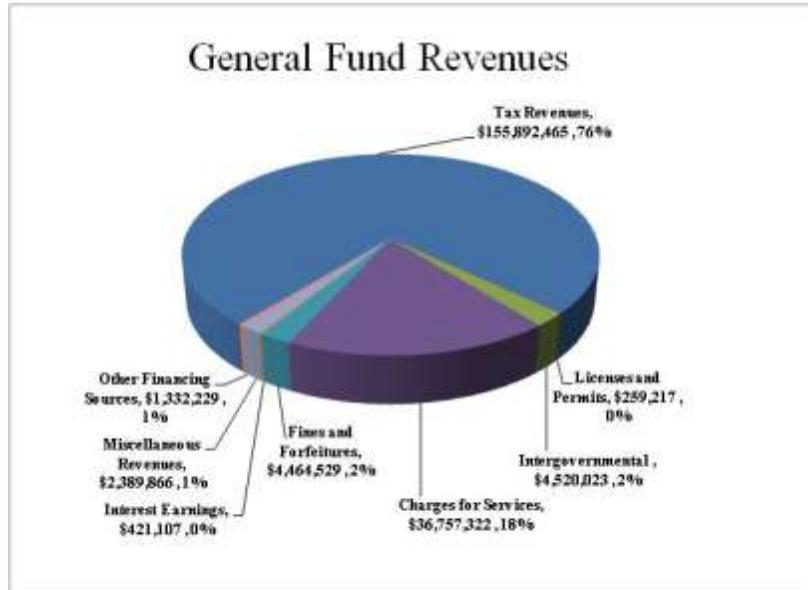
General Fund Trends

General Fund Revenues	2012 Actuals	2011 Actuals	Amount Increase (Decrease) from FY 2011	Percent Increase (Decrease)	2012 Actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$155,892,465	\$ 150,869,855	\$5,022,610	3.33%	75.66%
Licenses and Permits	259,217	231,371	27,846	12.04%	0.13%
Intergovernmental	4,520,023	7,029,052	(2,509,029)	-35.70%	2.19%
Charges for Services	36,757,322	36,474,166	283,156	0.78%	17.84%
Fines and Forfeits	4,464,529	6,218,678	(1,754,149)	-28.21%	2.17%
Interest Earnings	421,107	1,125,637	(704,530)	-62.59%	0.20%
Miscellaneous Revenues	2,389,866	2,137,439	252,427	11.81%	1.16%
Other Financing Sources	1,332,229	1,334,082	(1,853)	-0.14%	0.65%
Total revenues and other sources	\$206,036,758	\$ 205,420,280	\$ 616,478	0.30%	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 \$3,456,453. Actual revenues totaled \$204,704,529, an increase of \$618,331 or .30 percent over fiscal year 2011 partly due to higher property taxes. Sales and uses taxes experienced an increase of \$293,842. Charges for services saw an increase of \$283,156, or .78 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 the continuation of the hiring freeze unless justification was made to the Hiring Freeze Committee.

Further analysis of the general fund reflects that revenue increases were netted by revenue declines in interest earnings of \$704,530, fines and forfeits of \$1,754,149 and intergovernmental of \$2,509,029, due to lower interest rates, lower collections due to fewer warrants issued because of the conversion to a new judicial computer system, and less funds received from the federal government, in particular for prosecuting drug cases.



Comparison of the general fund adopted appropriations reflects an increase in fiscal year 2012 of \$15,026,181 or 7.54 percent for a total of \$214,260,168. Actual expenditures and transfers-out in fiscal year 2012 increased by \$11,344,097 or 5.93 percent bringing the total of general fund expenditures and transfers to \$202,580,305.

Expenditures increases as reflected in the chart below were mainly as a result of a two percent cost of living afforded to County employees, staff increases for the medical examiner, county and district attorneys and an increase in the employee retirement benefit contributions. The increase

General Fund Expenditures	2012 Actuals	2011 Actuals	Amount Increase (Decrease) from FY 2011	Percent Increase (Decrease)	2012 Actual as a % of Total Expenditures and Other Financing Uses
Current:					
General Government	\$34,400,799	\$32,085,864	\$2,314,935	7.21%	16.98%
Administration of Justice	47,502,229	45,138,602	2,363,627	5.24%	23.45%
Public Safety	108,897,329	102,106,535	6,790,794	6.65%	53.76%
Health and Welfare	5,671,876	5,259,017	412,859	7.85%	2.80%
Resource Development	253,576	205,336	48,240	23.49%	0.13%
Culture and Recreation	3,481,027	3,153,371	327,656	10.39%	1.72%
Public Works	4,436	6,984	(2,548)	-36.48%	0.00%
Capital Outlays	357,077	94,333	262,744	278.53%	0.18%
Other Financing Uses	2,011,956	3,186,166	(1,174,210)	-36.85%	0.99%
Total Expenditures (Uses)	\$202,580,305	\$191,236,208	\$11,344,097	5.93%	100.00%

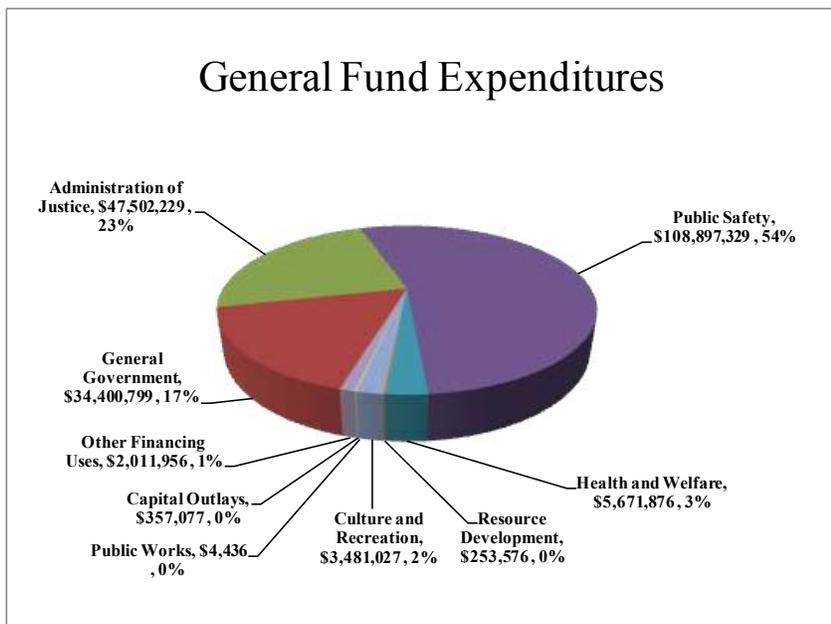
in public safety is mainly attributed to the automatic step increases in the Sheriff's Department for law enforcement in accordance with the CLEAT contract.

Further analysis reflects a decrease in the other financing uses of \$1,174,210 or 36.85 percent due to less excess sales taxes available to transfer to debt service as required by state law.

General Fund Budgetary Highlights

The fiscal year 2012 adopted budget of \$214,260,168 did not increase during the fiscal year other than for carryover appropriations

totaling \$823,906 bringing the original budget total to \$215,084,074. This budget included \$10,919,909 of fund balance reserves to balance the fiscal year 2012 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 \$2,397,103 more than estimates and occurred in all areas except in intergovernmental and in fines and forfeitures. Significant positive variances were in property taxes for an increase of \$1,347,270 or 56.20 percent and in sales and use taxes of \$1,200,146 or 50.07 percent of the total variance. Other financing sources representing transfers-in had a positive variance of only \$401 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 \$12,790,085 which represents 5.95 percent of the adopted budget with carryover. The most significant favorable variance was in the area of general government totaling \$7,073,268 or 55.30 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	
	2012	2011	2012	2011	2012	2011
Land	\$ 16,825,806	\$ 16,322,295			\$ 16,825,806	\$ 16,322,295
Easements	110,000	100,000			110,000	100,000
Buildings	98,338,417	100,892,756			98,338,417	100,892,756
Improvements	6,498,793	6,797,975			6,498,793	6,797,975
Equipment	4,745,127	4,520,398	\$ 9,752,678	\$ 10,068,215	14,497,805	14,588,613
Furniture and Fixtures	183,179	166,255			183,179	166,255
Infrastructure	3,800,666	1,500,621			3,800,666	1,500,621
Vehicles	4,493,515	5,313,600	-	1,416	4,493,515	5,315,016
Roads	18,089,212	17,345,027			18,089,212	17,345,027
Bridges and culverts	1,404,561	1,499,431			1,404,561	1,499,431
Leased equipment	308,068	191,146			308,068	191,146
IT Systems in progress	7,771,920	4,646,324			7,771,920	4,646,324
Construction in progress	39,033,074	23,280,378	613,010	155,584	39,646,084	23,435,962
Total assets	\$ 201,602,338	\$ 182,576,206	\$ 10,365,688	\$ 10,225,215	\$ 211,968,026	\$ 192,801,421

The County's capital assets for governmental and business type activities as of September 30, 2012 amounted to \$211,968,026 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 \$19,166,605 or 9.94 percent, comprised of an increase of \$19,026,132 or 10.42 percent in governmental activities and a increase of \$140,473 or 1.37 percent in the business-type activities.

Major capital asset activity occurring in fiscal year 2012 included 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. Other increases to capital assets include the installation of water lines in the colonias within the County. 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	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$57,340,000	\$48,855,000			\$57,340,000	\$48,855,000
Certificates of obligation bonds	177,230,000	93,395,000			177,230,000	93,395,000
Revenue bonds			\$1,266,000	\$1,023,000	1,266,000	1,023,000
Total	\$234,570,000	\$142,250,000	\$1,266,000	\$1,023,000	\$235,836,000	\$143,273,000

At the end of the fiscal year, the County had total bonded debt outstanding of \$235,836,000 as reflected above. Of this amount, \$234,270,000 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 increased by \$92,563,000 or 64.61 percent due to the issuance of new debt.

In December 2012, the Commissioners Court issued new debt to refinance some of its existing debt, taking advantage of favorable interest rates. In July 2012, the Commissioners Court issued Certificates of Obligation for a multitude of projects, including the ongoing construction of the port of entry, expansion of the jail annex, and acquisition of software and hardware for the County's information and technology systems. 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 Aa2 and AA, respectively. The County also received a rating of AA from Fitch Ratings with a stable outlook on the certificates of obligation. 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 through 2012. Assuming the local economy continues to stabilize, 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 2012 issue of Texas Labor Market Review, the statewide unemployment rate was 6.8 percent in September. Compared to the same time last year, this was 19.0 percent lower. El Paso's unemployment rate decreased from 10.6 percent to 8.7 percent in 2012.
- Over the past fiscal year, between September 2011 and September 2012, El Paso gained 5,900 jobs overall. Further analysis reflects that 6,100 job gains were netted with 200

employment losses. The various job gains occurred in construction 500, transportation 100, trade 700, financial activities 200, the services sector 2,200, and government 2,400. The losses were in manufacturing (100) and information (100). The services sector comprises 38.6 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 4.32 percent growth over the past 5 years.
- For fiscal year 2011 the tax rate was set at \$0.363403 and decreased to \$0.361196 per \$100 of assessed valuation in 2012 as a result of increased property valuations and the addition of new property to the tax base. The tax rate was increased to \$0.408870 for fiscal year 2013 in a continued effort to align revenues with expenditure trends.
- The overall fund balance of the general fund has experienced positive growth the last three fiscal years, increasing approximately \$14 million or 42.9 percent, in fiscal year 2011 and increased slightly by \$3.7 million in fiscal year 2012.
- Sales and use tax revenues grew in 2010 after a decline in 2009 and have reflected positive growth through fiscal year 2012. On a positive note, inflationary trends in the region have trended favorably compared to the 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 2013 fiscal year.

The focus of the County remains on conservative fiscal management while addressing public service needs and State mandates. As of September 30, 2012, the Federal Funds rate was between 0 and .25 percent. The Discount rate was .75 percent as of September 2012. Interest for the twelve months ended September 2012 was \$1,121,761 down \$1,780,678 or 61.35 percent when compared to \$2,902,439 the prior fiscal year, due mainly to lower interest rates received from the depository bank. The interest rate was lowered from three percent to .75 percent from the previous fiscal year.

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 2013, 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. The Court increased its use of fund balance in the fiscal year 2013 budget by a mere \$277 thousand compared to the amount used in fiscal year 2012. This action reflects the County's continued focus on fiscal and budgetary restraint in fiscal year 2013.

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 on the next page 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 2013 budget adopted by the County totaled \$282,760,433, a net increase of \$20,512,546 or 7.8 percent in comparison to the fiscal year 2012 adopted budget. Additional information regarding the 2013 budget can be obtained from the County's official 2013 published budget presentation package on the County's web page as reflected below.

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

Fund Balance Components-General Fund



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>