

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, 2013. 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 2013 by \$147,019,216 which represents total net position. Of this amount, \$136,219,343 or 92.65 percent relates to an increase in governmental-type activities while \$10,799,873 or 7.34 percent represents business-type activities. Total net position is comprised of restricted and unrestricted assets and net investment in capital assets. Net investment in capital assets totaled \$110,255,306 or 74.99 percent of total net position. 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 \$27,745,517 or 18.87 percent of total net position of which \$27,529,341 relates to the primary government and \$216,176 relates to business type activities. Unrestricted net position on the other hand may be used to meet the county's ongoing obligations to citizens and creditors and totaled \$9,018,393 or 6.13 percent of total net position.

The County's fiscal year 2013 operations resulted in total net position increasing by \$6,712,426 or 4.78 percent. This was attributable to an increase of \$6,896,310 or 5.33 percent in the governmental-type and a decrease in business-type activities of \$183,884 or 1.67 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 position presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$147,019,216 at the close of fiscal year 2013. By far the largest component of the County's net position represents net investment in capital assets (e.g., land, buildings, machinery, and equipment) totaling \$110,255,306 or 74.99 percent of total net position, 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 \$27,745,517 and are comprised of capital project funds totaling \$3,041,992 or 10.96 percent, special purpose funds totaling \$24,487,349 or 88.26 percent, enterprise funds totaling \$190,935 or .69 percent of restricted assets. Also included are debt service funds totaling \$25,241 or .09 percent of total restricted net position. The next category relates to unrestricted net position totaling \$9,018,393 or 6.13 percent of total net position, which may be used to meet the County's ongoing obligations to citizens and creditors.

Furthermore, as of September 30, 2013, the County's net position for the governmental activities increased by \$6,896,310 or 5.33 percent and business-type activities decreased by \$183,884 or 1.67 percent for a net overall increase of \$6,712,426 or 4.78 percent from the previous fiscal year. Net investments in capital assets from governmental and business-type activities increased by \$14,480,674 or 15.12 percent. There was a net increase of \$953,608 or 3.56 percent in restricted assets reported, composed of a increase of \$1,039,607 related to governmental activities and an decrease of \$85,999 related to business-type activities. Unrestricted net position totaled \$9,018,393 and was down by \$8,721,856 or 49.16 percent, which included a decline of \$8,822,304 related to governmental activities and an increase of 100,448 related to business-type activities.

On a global perspective, the County of El Paso's total assets from governmental and business-type activities decreased by \$1,909,132 or .40 percent. This decrease was the culmination of a multitude of changes at the fund level, but more so, at the entity-wide level. Discussion here will focus on selective information to give the reader a basic understanding of changes by evaluating changes in the statement of net position 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 position of the County can be better understood when evaluating the changes to net position, total assets minus total liabilities. Total assets amounted to \$474,297,384 a decrease of \$1,909,132 or .40 percent, while liabilities totaled \$327,278,168, a decrease of \$8,621,558 or 2.57 percent. Further analysis reflects that the majority of all assets relate to governmental activities totaling \$462,183,157 and represents 97.45 percent of the total assets. Overall, capital assets (net of related depreciation) totaled \$243,057,845 and increased by \$31,089,819 or 14.67 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 Position						
	Governmental		Business-type		Total	
	Activities		Activities		FY2013	FY2012
	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012
Current and other assets	\$ 229,162,037	\$ 262,146,637	\$ 2,077,502	\$ 2,091,853	\$ 231,239,539	\$ 264,238,490
Capital assets	233,021,120	201,602,338	10,036,725	10,365,688	243,057,845	211,968,026
Total assets	462,183,157	463,748,975	12,114,227	12,457,541	474,297,384	476,206,516
Long-term liabilities outstanding	299,804,818	301,859,687	1,132,000	1,266,000	300,936,818	303,125,687
Other liabilities	26,158,996	32,566,255	182,354	207,784	26,341,350	32,774,039
Total liabilities	325,963,814	334,425,942	1,314,354	1,473,784	327,278,168	335,899,726
Net position:						
Net investment in capital assets	101,360,162	86,681,155	8,895,144	9,093,477	110,255,306	95,774,632
Restricted	27,529,341	26,489,734	216,176	303,175	27,745,517	26,792,909
Unrestricted	7,329,840	16,152,144	1,688,553	1,587,105	9,018,393	17,739,249
Total net position	\$ 136,219,343	\$ 129,323,033	\$ 10,799,873	\$ 10,983,757	\$ 147,019,216	\$ 140,306,790

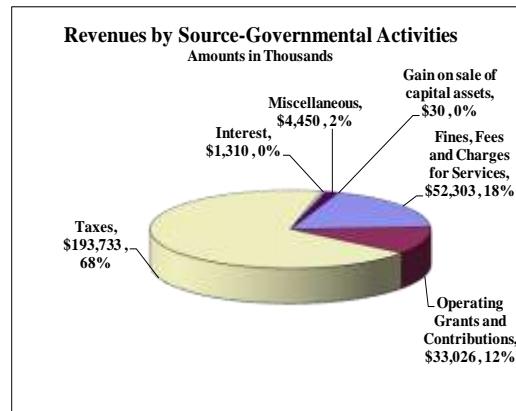
For entity-wide reporting purposes under GASB 34, capital expenditures made at the fund level must be reversed from expenses at the entity-wide level financial statements and reflected as capital assets net of depreciation. For this reason, you may observe fund level expenditure amounts in excess of what is reported at the entity-wide level or vice versa. Total assets decreased by \$1,909,132 or .40 percent and the most significant impact to total assets represented a decrease in cash and cash equivalents of \$28,208,556 attributed to the draw down utilization of bond proceeds as projects progressed. Receivables also decreased by \$4,779,388 or 11.70 percent due to a decline in property taxes still outstanding along with lower billings to the granting agencies for pending reimbursement. Capital assets increased for a net amount of \$31,089,819 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 position, which is discussed immediately following discussion on total liabilities.

Overall, entity-wide liabilities were \$327,278,168 and decreased by \$8,621,558 or 2.57 percent. Further analysis reflects that the majority of liabilities relate to governmental activities totaling \$325,963,814 or 99.60 percent and business type activities totaling \$1,314,354 or .40 percent. Compared to fiscal year 2012, liabilities increased in the areas of payroll liabilities by \$750,191 or 10.31 percent, short term bonds payable by \$1,130,000 or 13.16 percent and current and long-term compensated absences by \$1,063,273 or 3.46 percent. Other Benefits (OPEB) increased by \$5,733,955 or 25.02 percent due to the County's continuing policy of funding retiree health benefits on a pay-as-you-go basis. Decreases included vouchers payable totaling \$5,644,182 or 36.51 percent, unearned revenue by \$2,930,290 or 93.52 percent and long-term bonds totaling \$10,403,839 or 4.35 percent. For additional information regarding compensated absences and other post employment benefits, please see note 1-K and 3-J, respectively.

County of El Paso, Texas Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	FY2013	FY2012	FY2013	FY2012	FY2013	FY2012
Revenues:						
Program revenues:						
Charges for services	\$ 52,302,597	\$ 53,815,668	\$ 1,347,039	\$ 1,212,011	\$ 53,649,636	\$ 55,027,679
Operating grants and contributions	33,025,540	35,936,546	-	-	33,025,540	35,936,546
Capital grants and contributions	-	-	-	214,331	-	214,331
General revenues:						
Property taxes	148,612,137	127,685,281			148,612,137	127,685,281
Other taxes	45,121,297	43,786,254			45,121,297	43,786,254
Other	5,791,120	4,948,825	4,883	6,063	5,796,003	4,954,888
Total revenues	284,852,691	266,172,574	1,351,922	1,432,405	286,204,613	267,604,979
Expenses:						
General government	43,008,593	41,422,883			43,008,593	41,422,883
Administration of justice	60,359,745	54,599,239			60,359,745	54,599,239
Public safety	140,506,569	134,637,811			140,506,569	134,637,811
Health and welfare	10,802,156	13,235,053			10,802,156	13,235,053
Community services	2,674,116	2,909,656			2,674,116	2,909,656
Resource development	2,457,717	1,552,486			2,457,717	1,552,486
Culture and recreation	7,100,512	8,593,417			7,100,512	8,593,417
Public works	1,075,107	7,920,139			1,075,107	7,920,139
Interest on long-term debt	11,242,946	7,085,603			11,242,946	7,085,603
Enterprise fund			1,535,806	1,423,980	1,535,806	1,423,980
Total expenses	279,227,461	271,956,287	1,535,806	1,423,980	280,763,267	273,380,267
Increase (decrease) in net position before transfers	5,625,230	(5,783,713)	(183,884)	8,425	5,441,346	(5,775,288)
Transfers	-	-	-	-	-	-
Increase in net position	5,625,230	(5,783,713)	(183,884)	8,425	5,441,346	(5,775,288)
Net position October 1	129,323,033	134,889,002	10,983,757	10,975,332	140,306,790	145,864,334
Prior period adjustment	1,271,080	217,744	-	-	1,271,080	217,744
Net position September 30	\$ 136,219,343	\$ 129,323,033	\$ 10,799,873	\$ 10,983,757	\$ 147,019,216	\$ 140,306,790

The increase in the County's net position of \$6,712,426 or 4.78 percent represents the degree to which revenues totaling \$286,204,613 outpaced expenditures totaling \$280,763,267. Overall, revenues grew by \$18,813,965 or 7.04 percent mainly due to an increased debt service levy and implementation of a one cent allocation creating a short-term county capital outlay fund and expenses grew by \$7,383,000 or 2.70 percent and can be attributed in part to the continued restoration of funding for the budget cuts done in the previous fiscal years, along with a two percent cost of living and step increases for all employees plus the increase for the Sheriff's Bargaining Unit contract and expenditure of capital bond funds.

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.



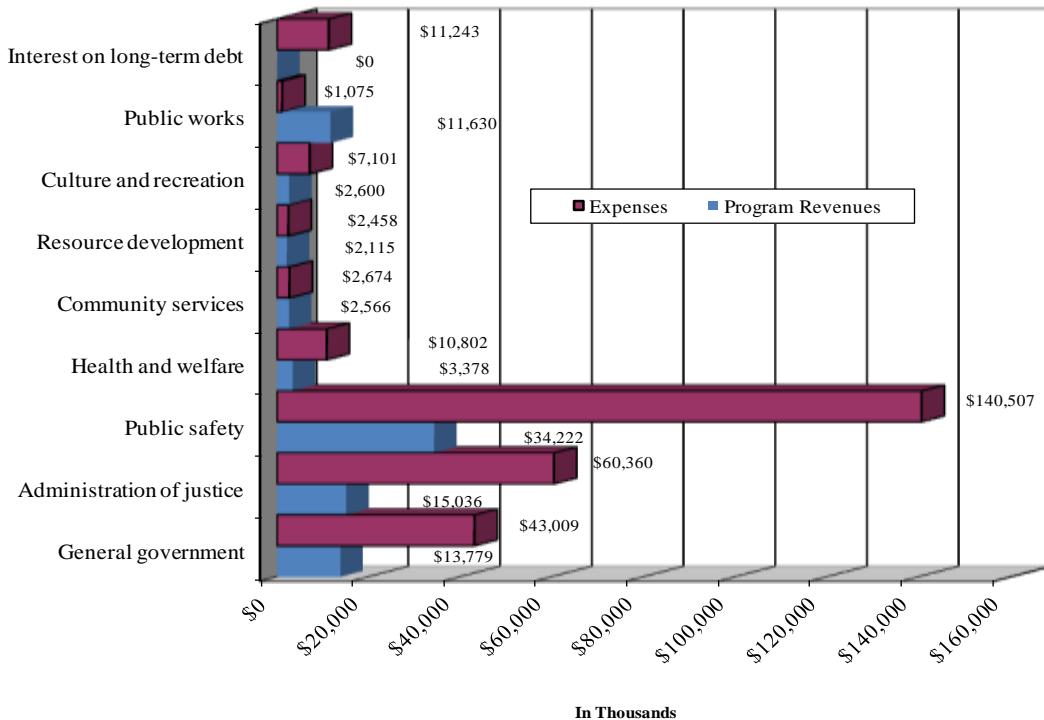
Governmental Activities

Governmental activities during fiscal year 2013 resulted in an increase in net position of \$6,896,310 or 5.33 percent which represents 102.74 percent of the total increase for the primary government. Comparative fiscal year 2013 and 2012 data relating to these changes is discussed below.

Total revenues from governmental activities increased by \$18,680,117 or 7.02 percent over the previous year. Property taxes increased by \$20,926,856 or 16.39 percent; other taxes comprised of sales and uses taxes, hotel taxes, and mixed beverage alcohol taxes increased by \$1,335,043 or 3.05 percent and other miscellaneous taxes increased by \$842,295 or 17.02 percent. The increase in property taxes is attributable to increases in existing taxable property values and increases in new improvements an increase to the tax rate. In 2012 the Commissioners Court opted to lower the tax rate in fiscal year to \$0.361196 from \$0.363403 per \$100 of assessed valuation and in 2013 it was necessary to raise the rate to \$0.408870. These increases were offset by decreases in charges for services of \$1,378,043 or 2.50 percent and Operating grants and contributions totaling \$2,911,006 or 8.10 percent.

Expenses in governmental activities increased by \$7,271,174 or 2.67 percent and comprise 98.49 percent of the overall entity-wide increase of \$7,383,000. Most functions experienced increases in expenses. Significant increases were evident most areas such in public safety totaling \$5,868,758 or 4.36 percent due in part to the collective bargaining agreement; administration of justice totaling \$5,760,506 or 10.55; interest on long-term debt totaling \$4,157,343 or 58.67; general government \$1,585,710 or 3.83 percent and resource development totaling \$905,231 or 58.31 percent. Decreases were experienced in public works totaling \$6,845,032 or 86.43 percent; health and welfare totaling \$2,432,897 or 18.38 percent; culture and recreation totaling \$1,492,905 or 17.37 percent and community services totaling \$235,540 or 8.10 percent.

Expenses and Program Revenues Governmental Activities

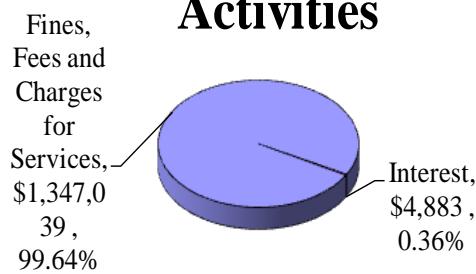


Changes mentioned previously within each of the functions above are the result of a combination of factors both at the fund level and more materially at the entity-wide level as explained in the discussion of the changes in the statement of net position. More specific information can be found in the 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.

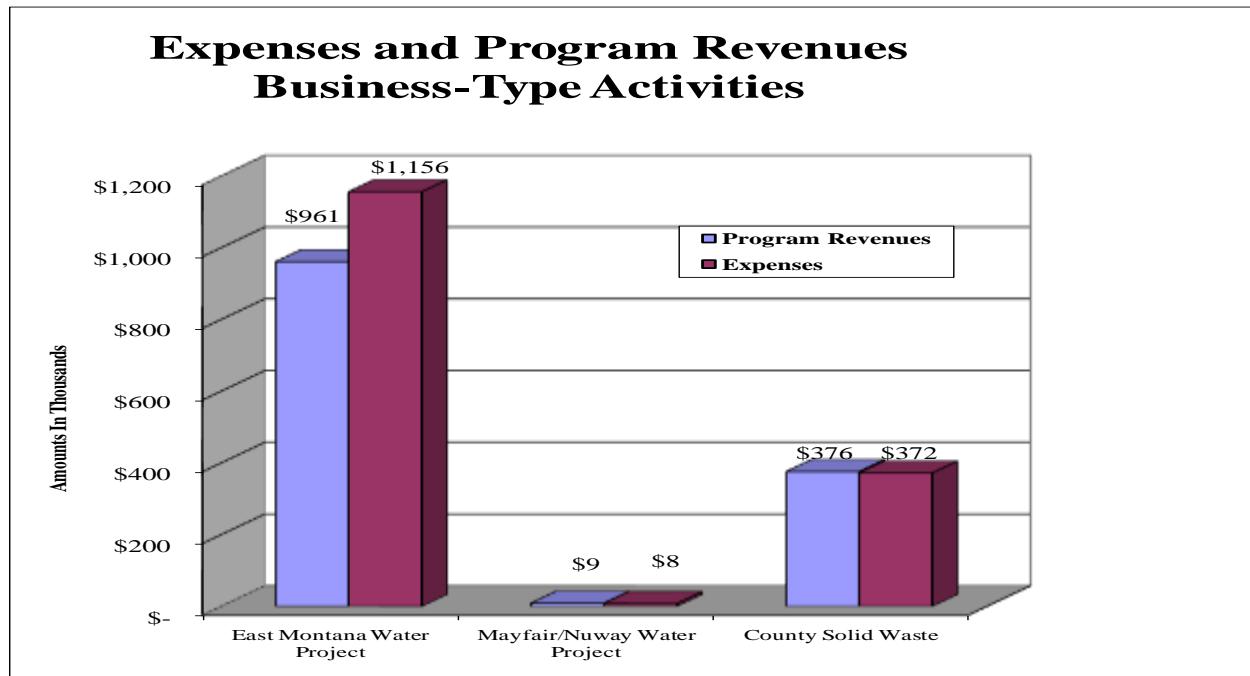
Business-type Activities Business-type activities resulted in a decrease in net position of \$183,884 or 1.67 percent and accounted for 2.83 percent of the total change in the primary government's net position. Comparative fiscal year 2013 and 2012 data relating to these changes is reflected on Exhibit 7 of this report.

Overall revenues declined by \$80,483 or 5.62 percent for a total of \$1,351,922. Charges for services grew by \$135,028 or 11.14 which netted with a net decrease in capital grants and contributions of \$214,331 or 100 percent due to a new water system being completed to serve another Colonia in West El Paso County. Additionally, interest earnings decreased by \$1,180 or 19.46 percent due to lower interest rates.

Revenues by Source Business-Type Activities



Expenses in this area totaled \$1,535,806 an increase of \$111,826 or 7.85 percent and is mainly related to completion of the water system upgrades 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 \$183,898,784 a decrease of \$26,016,089 or 12.40 percent in comparison with the prior year. Unassigned fund balance constitutes \$35,672,858 or 19.40 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 2014 fiscal year's budget.

The general fund is the chief operating fund of the County. Fund balance totaled \$49,824,760, and decreased of \$446,881 or 0.89 percent. At the end of the fiscal year, \$35,672,858 was unassigned while \$13,141,204 represents the amount assigned to balance the general fund budget for fiscal year 2014. 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 2014 operating budget, which included an expenditure level exceeding the corresponding rate of estimated revenue growth, and therefore, increased the designation by \$1,944,610 or 17.37 percent from that of the prior fiscal year.

Grant funds ended the fiscal year with a fund balance of \$3,457,076, an increase of \$1,428,374 or 70.41 percent. This increase is mainly attributed to HIDTA program income.

The Capital Projects 2007 reported as a major fund ended the fiscal year with a fund balance of \$4,238,809 and decreased by \$6,966,182 or 62.17 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 \$98,561,396 and decreased by \$11,623,904 or 10.55 due to the completion or near completion of the projects which were covered with these funds.

The debt service fund ended the fiscal year with a fund balance of \$766,094, a decline of 869,254 or 53.15 percent, 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 \$21,030,273, a decrease of \$2,250,090 or 9.67 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 and additional expenditures related to the Tornillo Guadalupe Port of Entry project. The Road and Bridge Fund ended the year with a fund balance of \$6,118,167, a decrease of \$2,578,018 or 29.65 percent.

General Fund Trends

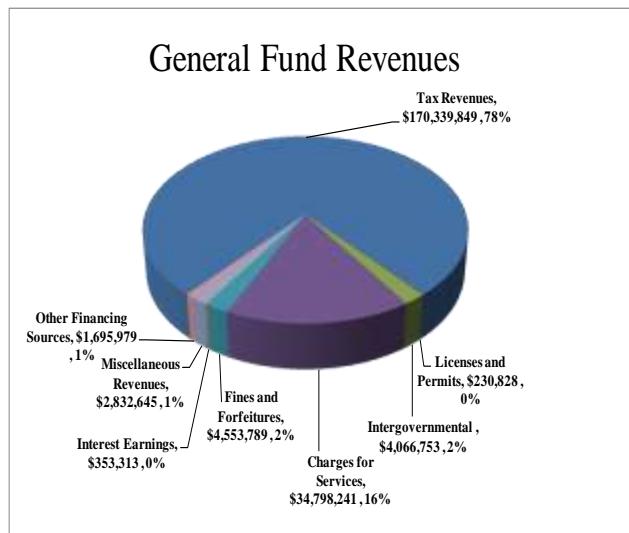
General Fund Revenues	2013 Actuals	2012 Actuals	Amount Increase (Decrease) from FY 2012	Percent Increase (Decrease)	2013 Actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$170,339,849	\$155,892,465	\$14,447,384	9.27%	77.83%
Licenses and Permits	230,828	259,217	(28,389)	-10.95%	0.11%
Intergovernmental	4,066,753	4,520,023	(453,270)	-10.03%	1.86%
Charges for Services	34,798,241	36,757,322	(1,959,081)	-5.33%	15.90%
Fines and Forfeits	4,553,789	4,464,529	89,260	2.00%	2.08%
Interest Earnings	353,313	421,107	(67,794)	-16.10%	0.16%
Miscellaneous Revenues	2,832,645	2,389,866	442,779	18.53%	1.29%
Other Financing Sources	1,695,979	1,332,229	363,750	27.30%	0.77%
Total revenues and other sources	\$218,871,397	\$206,036,758	\$12,834,639	6.23%	100.00%

A myriad of factors contributed to the general fund's financial position. Factors included actual revenues and transfers-in under expenditures and transfers-out in the amount of \$397,145. Actual revenues before transfers in totaled \$217,175,418, an increase of \$12,470,889 or 6.09 percent over fiscal year 2012 partly due to higher property taxes. Sales and uses taxes

experienced an increase of \$1,310,123. Fines and forfeits saw an increase of \$89,260, or 2.00 percent.

It is note-worthy to mention that various factors and actions by the County during the fiscal year had the effect of mitigating erosion of the fund balance and unspent budgeted amounts within the general fund. This included the continuation of the Staffing Review Committee (SRC) for further review and justification prior to submission to the Commissioners Court.

Further analysis of the general fund reflects that revenue increases were netted by revenue declines in charges for services of \$1,959,081 mainly due housing fewer reimbursable federal prisoners, intergovernmental of \$453,270 due to less funds received from the federal government, in particular for prosecuting drug cases, interest earnings of \$67,794 due to lower interest rates and licenses and permits of \$28,389.



Comparison of the general fund adopted appropriations reflects an increase in fiscal year 2013 of \$16,771,865 or 7.80 percent for a total of \$231,855,939. Actual expenditures and transfers-out in fiscal year 2013 increased by \$16,908,957 or 8.36 percent bringing the total of general fund expenditures and transfers to \$219,202,946.

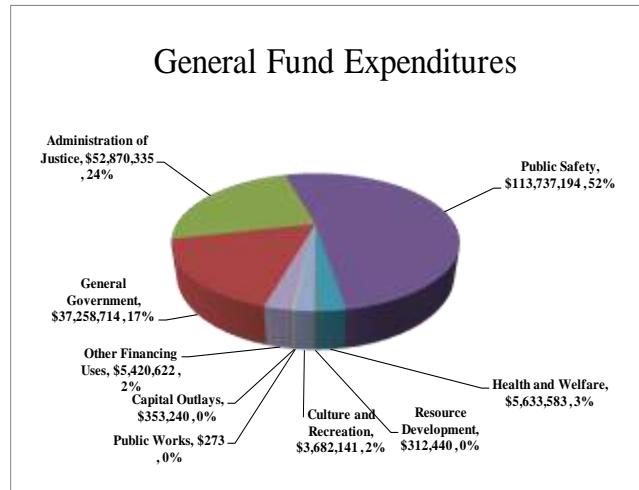
Expenditures increases as reflected in the chart below were mainly as a result of a two percent cost of living and step increases afforded to County employees and an increase in the employee retirement benefit contributions. The increase in public safety is mainly attributed to the automatic step increases in the Sheriff's Department for law enforcement in accordance with the CLEAT contract.

General Fund Expenditures	2013 Actuals	2012 Actuals	Amount Increase (Decrease) from FY 2012	Percent Increase (Decrease)	2013 Actual as a % of Total Expenditures and Other Financing Uses
Current:					
General Government	\$37,296,434	\$34,422,290	\$2,874,144	8.35%	17.01%
Administration of Justice	52,870,335	47,502,229	5,368,106	11.30%	24.12%
Public Safety	113,737,194	108,897,329	4,839,865	4.44%	51.89%
Health and Welfare	5,633,583	5,671,876	(38,293)	-0.68%	2.57%
Resource Development	312,440	253,576	58,864	23.21%	0.14%
Culture and Recreation	3,682,141	3,481,027	201,114	5.78%	1.68%
Public Works	273	4,436	(4,163)	-93.85%	0.00%
Capital Outlays	353,240	357,077	(3,837)	-1.07%	0.16%
Other Financing Uses	5,317,306	1,704,149	3,613,157	212.02%	2.43%
Total Expenditures (Uses)	\$219,202,946	\$202,293,989	\$16,908,957	8.36%	100.00%

Further analysis reflects an increase in the other financing uses of \$3,613,157 or 212.02 percent due to the Commissioners Court allocation of one penny of the Tax Rate or dedicated as a transfer out to the Capital Projects fund (CPCNTYCAPIMP) totaling \$3,630,000 for short-term capital outlays and improvements.

General Fund Budgetary Highlights

The fiscal year 2013 adopted budget of \$230,794,713 did not increase during the fiscal year other than for carryover appropriations totaling \$1,061,226 bringing the original budget total to \$231,855,939. This budget included \$11,196,594 of fund balance reserves to balance the fiscal year 2013 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 \$1,543,701 less than estimates and occurred in areas of taxes, intergovernmental, charges for services and fines and forfeitures which netted with other positive variances. Further analysis of this variance depicts variances in property taxes for a decrease of \$1,694,559 or 58.78 percent and in intergovernmental of \$1,264,150 or 1.86 percent, charges for services of \$985,259 or 15.90 percent and fines and forfeitures of \$26,211 or 2.08 percent. Offsetting positive variances included sales and use taxes of \$1,799,680 or 18.40 percent, bingo of \$513, or .02 percent, mixed beverage of \$147,632 or .75 percent and interest of \$78,313 or .16 percent. Other financing sources representing transfers-in also had a positive variance of \$765,639 or .75 percent 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 \$12,652,993 which represents 5.46 percent of the adopted general fund budget with carryover. The most significant favorable variance was in the area of general government totaling \$7,694,206 or 60.81 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

El Paso County, Texas Summary of Capital Assets (Net of Depreciation)						
Categories	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$17,524,889	\$16,825,806			\$17,524,889	\$16,825,806
Easements	110,000	110,000			110,000	110,000
Buildings	102,472,743	98,338,417			102,472,743	98,338,417
Improvements	7,459,731	6,498,793			7,459,731	6,498,793
Equipment	5,524,335	4,745,127	\$9,423,715	\$9,752,678	14,948,050	14,497,805
Furniture and Fixtures	387,182	183,179			387,182	183,179
Infrastructure	4,923,262	3,800,666			4,923,262	3,800,666
Vehicles	7,052,940	4,493,515			7,052,940	4,493,515
Roads	24,833,794	18,089,212			24,833,794	18,089,212
Bridges and culverts	1,309,684	1,404,561			1,309,684	1,404,561
Leased equipment	218,448	308,068			218,448	308,068
IT Systems in progress	10,409,276	7,771,920			10,409,276	7,771,920
Construction in progress	50,794,836	39,033,074	613,010	613,010	51,407,846	39,646,084
Total assets	\$233,021,120	\$201,602,338	\$10,036,725	\$10,365,688	\$243,057,845	\$211,968,026

Capital assets

The County's capital assets for governmental and business type activities as of September 30, 2013 amounted to \$243,057,845 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 \$31,089,819 or 14.67 percent, comprised of an increase of \$31,418,782 or 15.58 percent in governmental activities and a decrease of \$328,963 or 3.17 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	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$52,065,000	\$57,340,000			\$52,065,000	\$57,340,000
Certificates of obligation bonds	173,950,000	177,230,000			173,950,000	177,230,000
Revenue bonds			\$1,132,000	\$1,266,000	1,132,000	1,266,000
Total	\$226,015,000	\$234,570,000	\$1,132,000	\$1,266,000	\$227,147,000	\$235,836,000

At the end of the fiscal year, the County had total bonded debt outstanding of \$227,147,000 as reflected above. Of this amount, \$226,015,000 comprises debt backed by the full faith and credit of the government. The remainder of the County's debt represents revenue bonds secured solely

by specified revenue sources. During the current fiscal year the County's total debt decreased by \$8,689,000 or 3.68 percent due to the retirement of debt.

In December 2011, 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 and moderate expenditure growth in 2013. 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 2013 issue of Texas Labor Market Review, the statewide unemployment rate was 6.3 percent in September. When compared to the same time last year, this stayed the same. El Paso's unemployment rate for September was 8.8 percent in comparison to 8.7 percent in September 2012. Although the unemployment rate went up by a small amount, El Paso lost a net 3,100 jobs. The reason for the rate increase was the sharp growth in employable population that exceeded new job creation.
- Over the past fiscal year, between September 2012 and September 2013, El Paso lost 3,100 jobs overall. Further analysis reflects that 1,400 job were added which netted with 4,500 employment losses. The various job gains occurred in manufacturing, 700, trade 300, transportation, 200, and information at 200. On the other hand construction lost 800, financial activities 100, the service sector 1,600 while total government lost 2,000. The reduction continues in the service sector and all levels of government which seems to be a common theme throughout the nation.
- 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 experienced very favorable gains in new jobs resulting from the expansion of Ft. Bliss between 2008 and 2013. Indirect and induced impacts will created nearly one additional job in El Paso for each one generated at Ft. Bliss.

- Assessed property values have averaged approximately 6.88 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 and due to a capital policy change to begin funding short-term capital outlays from the maintenance and operations tax rate equal to one penny rather than thru the issuance of debt.
- For fiscal years 2014, the tax rate was increased most significantly due to increase in the I&S tax rate for the repayment of the 2012 bond issue.
- The overall fund balance of the general fund has experienced positive growth the past three fiscal years, increasing approximately \$14 million or 42.9 percent, in fiscal year 2011, slightly grew by \$3.7 million in fiscal year 2012 and marginally declined by \$750,130 or 1.49 percent in 2013.
- Sales and use tax revenues grew in 2010 after a decline in 2009 and have reflected positive growth through fiscal year 2013. 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 2014 fiscal year.

The focus of the County remains on conservative fiscal management while addressing public service needs and State mandates. As of September 30, 2013, the Federal Funds rate was between .25 percent and the Discount rate remains at .75 percent. Interest for the twelve months ended September 2013 was \$1,315,146 up \$193,385 or 17.24 percent when compared to \$1,121,761 the prior fiscal year, due mainly to increase principal to invest over the prior year. The interest rate was lowered from .75 to .0999 percent from the previous fiscal year based.

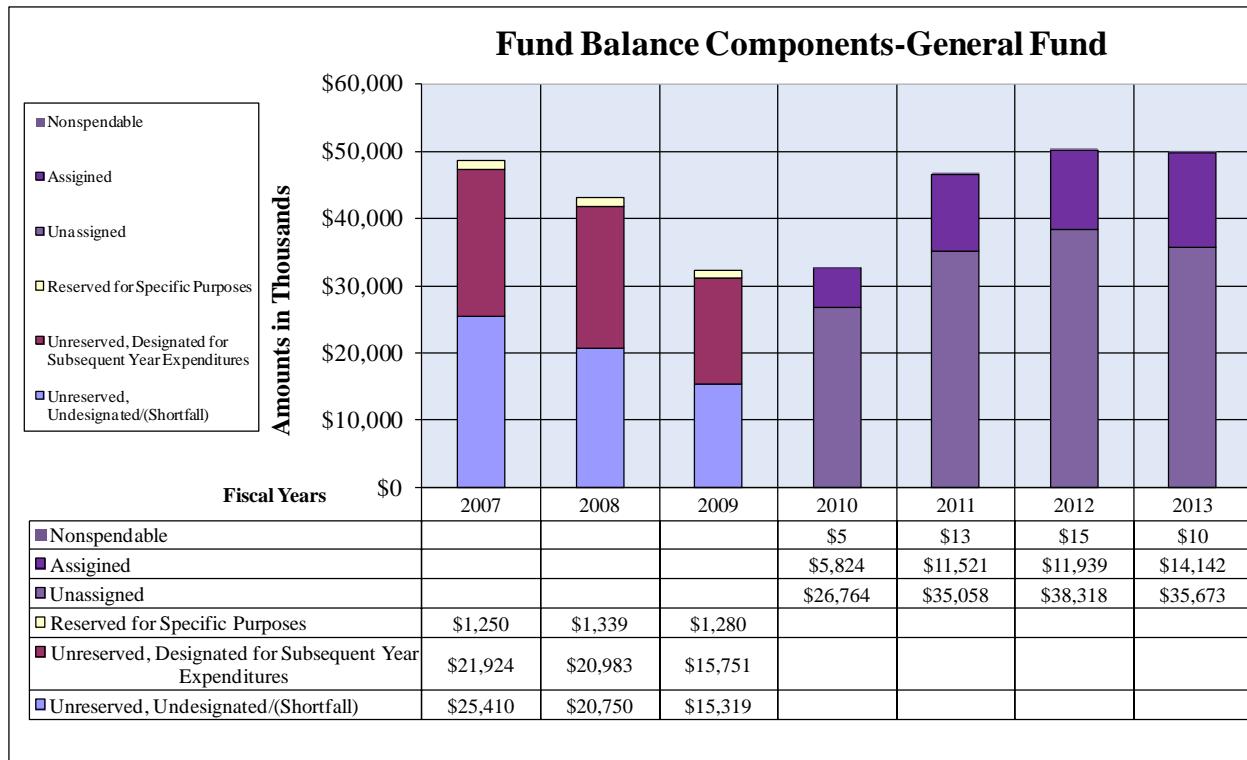
Unquestionably, the County faces continued challenges associated with meeting the steadily increasing demands for additional services and infrastructures for its rapidly growing population. The Commissioners Court members will continue to evaluate and analyze ways to streamline the County's operations 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 2014, 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 2014 budget by \$1,944,610 compared to the amount used in fiscal year 2013. This action reflects the County's continued focus on fiscal and budgetary restraint in fiscal year 2014.

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 2014 budget adopted by the County totaled \$301,815,403, a net increase of \$19,150,643 or 6.78 percent in comparison to the fiscal year 2013 adopted budget. Additional information regarding the 2014 budget can be obtained from the County's official 2014 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 above.