

# 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, 2014. 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 9 of this report.

**Financial Highlights.** Combined County assets and deferred outflows of resources from governmental and business type activities exceeded liabilities and deferred inflows of resources at the close of fiscal year 2014 by \$148,846,433 which represents total net position. Of this amount, \$138,037,142 or 92.74 percent relates to an increase in governmental-type activities while \$10,809,291 or 7.26 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 \$24,013,247 or 16.13 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 \$116,662,135 or 78.38 percent of total net position of which \$116,320,825 relates to the primary government and \$341,310 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 \$8,171,051 or 5.49 percent of total net position.

The County's fiscal year 2014 operations resulted in total net position increasing by \$1,827,217 or 1.24 percent. This was attributable to an increase of \$1,817,799 or 1.33 percent in the governmental-type and an increase in business-type activities of \$9,418 or 0.09 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 implementation of GASB 65 created a new category in the statement of net position for deferred outflows of resources, in prior years, this item was shown as a reduction of long-term liabilities. The statement of net position presents information on all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these 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 Water Systems and Solid Waste Project. The County Water Systems includes the East Montana Water Project, the Mayfair/Nuway Water Project, the Colonia Revolución Water Project and the Square Dance Waste Water Project.

The government-wide financial statements include not only the County itself (known as the primary government), but also the discretely presented component units of the County, which include the Hospital District, known as University Medical Center (UMC), and Emergency Services Districts 1 and 2. The component units are 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 Districts' separately issued financial reports can be obtained directly from the Districts. The government-wide financial statements can be found on exhibits 1 and 2 of this report. Discretely presented Component Units are presented on exhibits 11 and 12.

**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 County Water Systems consisting of East Montana Water Project, Mayfair/Nuway Water Project, Colonia Revolución, and Square Dance Waste Water, 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 County Water and Waste Water Systems 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$148,846,433 at the close of fiscal year 2014. By far the largest component of the County's net position represents restricted assets and represents

resources that are subject to external restrictions on how they may be used. Restricted assets total \$116,662,135 and are comprised of capital project funds totaling \$91,214,902 or 78.19 percent, special purpose funds totaling \$24,882,434 or 21.33 percent, enterprise funds totaling \$303,432 or .26 percent of restricted assets. Also included are debt service funds totaling \$261,367 or .22 percent of total restricted net position. The next category relates to unrestricted net position totaling \$8,171,051 or 5.49 percent of total net position, which may be used to meet the County's ongoing obligations to citizens and creditors. The second largest component is net investment in capital assets (e.g., land, buildings, machinery, and equipment) totaling \$24,013,247 or 16.13 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.

Furthermore, as of September 30, 2014, the County's net position for the governmental activities increased by \$1,817,799 or 1.33 percent and business-type activities increased by \$9,418 or 0.09 percent for a net overall increase of \$1,827,217 or 1.24 percent from the previous fiscal year. Net investments in capital assets from governmental and business-type activities decreased by \$86,252,541 or 78.22 percent. There was a net increase of \$88,916,618 or 320.47 percent in restricted assets reported, composed of an increase of \$88,791,484 related to governmental activities and an increase of \$125,134 related to business-type activities. Unrestricted net position totaled \$8,171,051 and was down by \$836,860 or 9.29 percent, which included a decline of \$1,033,941 related to governmental activities and an increase of 197,081 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 \$1,529,218 or .32 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 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 increase in net position of the County can be better understood when evaluating the changes to net position, total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources. Total assets amounted to \$475,826,602 an increase of \$1,529,218 or .32 percent, while liabilities totaled \$327,210,005, a decrease of \$68,163 or 0.02 percent. Further analysis reflects that the majority of all assets relate to governmental activities totaling \$463,221,590 and represents 97.36 percent of the total assets. Overall, capital assets (net of related depreciation) totaled \$254,724,199 and increased by \$11,666,354 or 4.80 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			
	FY2014	FY2013	FY2014	FY2013	FY2014	FY2013
Current and other assets	\$ 218,702,220	\$ 229,162,037	\$ 2,400,183	\$ 2,077,502	\$ 221,102,403	\$ 231,239,539
Capital assets	244,519,370	233,021,120	10,204,829	10,036,725	254,724,199	243,057,845
Total assets	463,221,590	462,183,157	12,605,012	12,114,227	475,826,602	474,297,384
Deferred outflows of resources	229,836				229,836	-
Long-term liabilities outstanding	293,590,721	299,804,818	1,612,000	1,132,000	295,202,721	300,936,818
Other liabilities	31,823,563	26,158,996	183,721	182,354	32,007,284	26,341,350
Total liabilities	325,414,284	325,963,814	1,795,721	1,314,354	327,210,005	327,278,168
Net position:						
Net investment in capital assets	15,420,418	101,360,162	8,592,829	8,905,626	24,013,247	110,265,788
Restricted	116,320,825	27,529,341	341,310	216,176	116,662,135	27,745,517
Unrestricted	6,295,899	7,329,840	1,875,152	1,678,071	8,171,051	9,007,911
Total net position	\$ 138,037,142	\$ 136,219,343	\$ 10,809,291	\$ 10,799,873	\$ 148,846,433	\$ 147,019,216

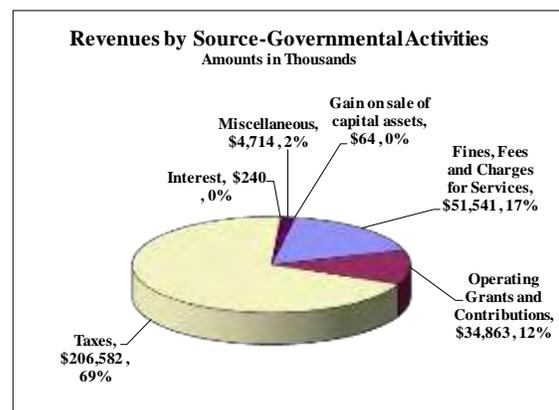
For entity-wide reporting purposes under GASB 34, capital expenditures made at the fund level must be reversed from expenses at the entity-wide level financial statements and reflected as capital assets net of depreciation. For this reason, you may observe fund level expenditure amounts in excess of what is reported at the entity-wide level or vice versa. Total assets increased by \$1,529,218 or .31 percent and the most significant impact to total assets represented a decrease in cash and cash equivalents of \$10,050,047 attributed to the draw down utilization of bond proceeds as projects progressed. Receivables also decreased by \$80,087 or 0.22 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 \$11,666,353 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 \$327,210,005 and decreased by \$68,163 or 0.02 percent. Further analysis reflects that the majority of liabilities relate to governmental activities totaling \$325,414,284 or 99.45 percent and business type activities totaling \$1,795,721 or 0.55 percent. Compared to fiscal year 2013, liabilities increased in the areas of payroll liabilities by \$1,180,028 or 14.70 percent, vouchers payable by \$4,211,754 or 42.90 percent, unearned revenue by \$342,250 or 168.67 percent, and current compensated absences by \$709,924 or 6.72 percent. Other Benefits (OPEB) increased by \$2,353,118 or 8.21 percent due to the County's continuing policy of funding retiree health benefits on a pay-as-you-go basis. Decreases included short and long term bonds payable totaling \$7,543,026 or 3.16 percent, and long-term compensated absences by \$2,244,380 or 10.59 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		Business-type		Total	
	Activities		Activities			
	FY2014	FY2013	FY2014	FY2013	FY2014	FY2013
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 51,540,552	\$ 52,302,597	\$ 1,569,769	\$ 1,347,039	\$ 53,110,321	\$ 53,649,636
Operating grants and contributions	34,862,554	33,025,540	-	-	34,862,554	33,025,540
Capital grants and contributions	-	-	-	-	-	-
<b>General revenues:</b>						
Property taxes	158,910,813	148,612,137			158,910,813	148,612,137
Other taxes	47,670,825	45,121,297			47,670,825	45,121,297
Other	5,018,380	5,791,120	\$1,435	4,883	5,019,815	5,796,003
<b>Total revenues</b>	<b>298,003,124</b>	<b>284,852,691</b>	<b>1,571,204</b>	<b>1,351,922</b>	<b>299,574,328</b>	<b>286,204,613</b>
<b>Expenses:</b>						
General government	48,578,771	43,008,593			48,578,771	43,008,593
Administration of justice	61,014,982	60,359,745			61,014,982	60,359,745
Public safety	136,339,472	140,506,569			136,339,472	140,506,569
Health and welfare	12,301,853	10,802,156			12,301,853	10,802,156
Community services	2,587,829	2,674,116			2,587,829	2,674,116
Resource development	410,259	2,457,717			410,259	2,457,717
Culture and recreation	9,042,763	7,100,512			9,042,763	7,100,512
Public works	12,575,526	1,075,107			12,575,526	1,075,107
Interest on long-term debt	10,602,053	11,242,946			10,602,053	11,242,946
Enterprise fund			1,661,786	1,535,806	1,661,786	1,535,806
<b>Total expenses</b>	<b>293,453,508</b>	<b>279,227,461</b>	<b>1,661,786</b>	<b>1,535,806</b>	<b>295,115,294</b>	<b>280,763,267</b>
Increase (decrease) in net position before transfers	4,549,616	5,625,230	(90,582)	(183,884)	4,459,034	5,441,346
Transfers	(100,000)	-	100,000	-	-	-
Increase in net position	4,449,616	5,625,230	9,418	(183,884)	4,459,034	5,441,346
Net position October 1	136,219,343	129,323,033	10,799,873	10,983,757	147,019,216	140,306,790
Prior period adjustment	(2,631,817)	1,271,080	-	-	(2,631,817)	1,271,080
Net position September 30	\$ 138,037,142	\$ 136,219,343	\$ 10,809,291	\$ 10,799,873	\$ 148,846,433	\$ 147,019,216

The increase in the County's net position of \$1,827,217 or 1.24 percent represents the degree to which revenues totaling \$299,574,328 outpaced expenditures totaling \$295,115,294. Overall, revenues grew by \$13,369,715 or 4.67 percent mainly due to an increase in the maintenance and operations and debt service levies, and expenses grew by \$14,352,027 or 5.11 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.

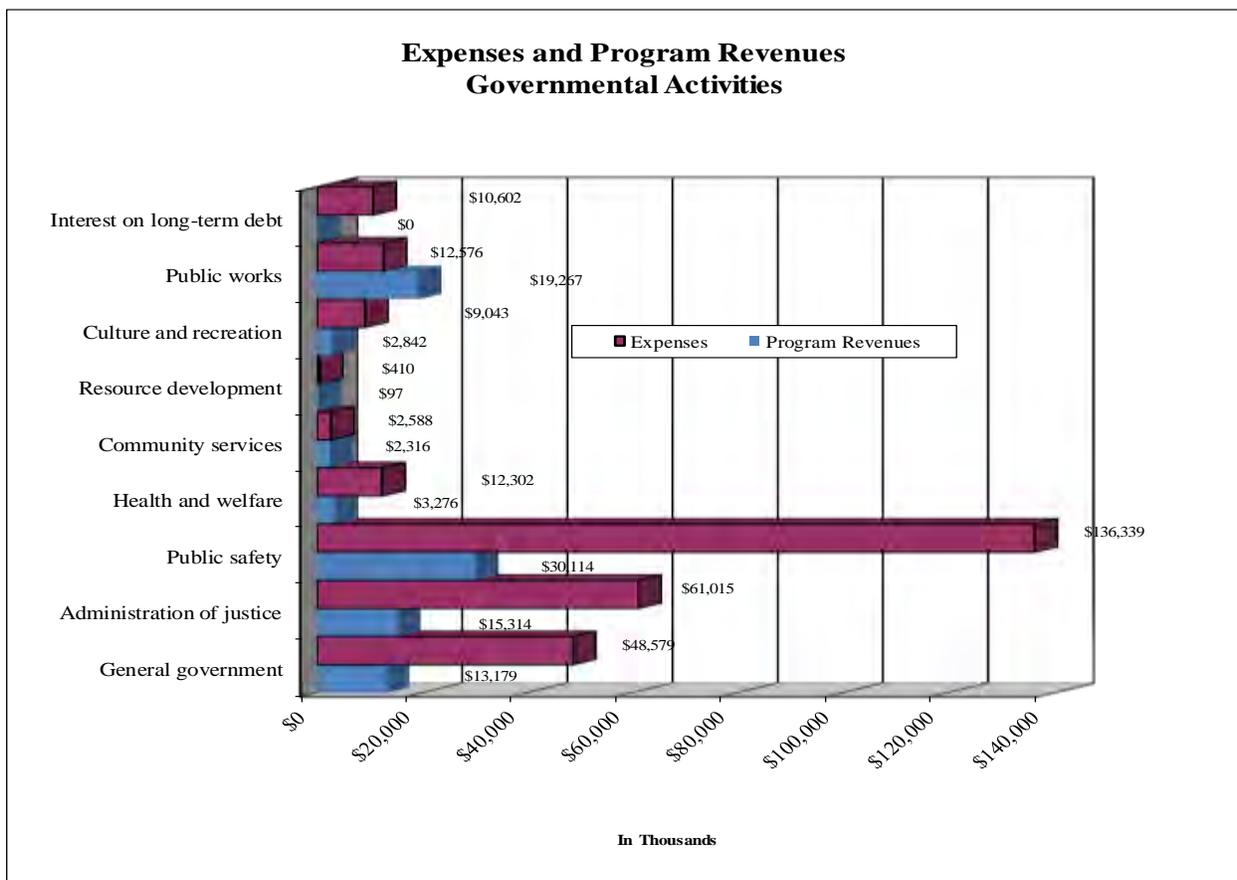


### Governmental Activities

Governmental activities during fiscal year 2014 resulted in an increase in net position of \$1,817,799 or 1.33 percent which represents 99.48 percent of the total increase for the primary government. Comparative fiscal year 2014 and 2013 data relating to these changes is discussed below.

Total revenues from governmental activities increased by \$13,150,433 or 4.62 percent over the previous year. Property taxes increased by \$10,298,676 or 6.93 percent; other taxes comprised of sales and uses taxes, hotel taxes, and mixed beverage alcohol taxes increased by \$2,549,528 or 5.65 percent and other miscellaneous revenues decreased by \$772,740 or 13.34 percent. The increase in property taxes is attributable to increases in existing taxable property values and increases in new improvements and an increase to the tax rate. In 2013 the Commissioners Court opted to raise the tax rate in fiscal year to \$0.408870 from \$0.361196 per \$100 of assessed valuation and in 2014 it was necessary to raise the rate to \$0.433125. These increases were offset by decreases in charges for services of \$762,045 or 1.46 percent and other general revenues totaling \$772,740 or 13.34 percent.

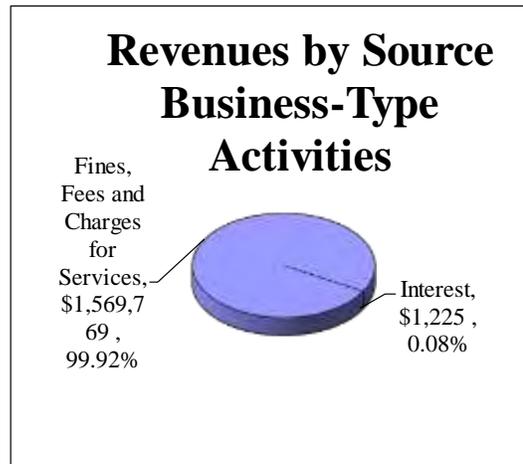
Expenses in governmental activities increased by \$14,226,047 or 5.09 percent and comprise 99.12 percent of the overall entity-wide increase of \$14,352,027. Significant increases were evident most areas such in public works totaling \$11,500,419 or 1069.70 percent due in part to the increased spending on infrastructure; administration of justice totaling \$655,237 or 1.09 percent, general government \$5,570,178 or 12.95 percent, culture and recreation \$1,942,251 or 27.35 percent, and health and welfare \$1,499,697 or 13.88 percent. Decreases were experienced in public safety works totaling \$4,167,097 or 2.97 percent; resource development totaling \$2,047,458 or 83.31 percent; interest on long-term debt totaling \$640,893 or 5.70 percent and community services totaling \$86,287 or 3.23 percent.



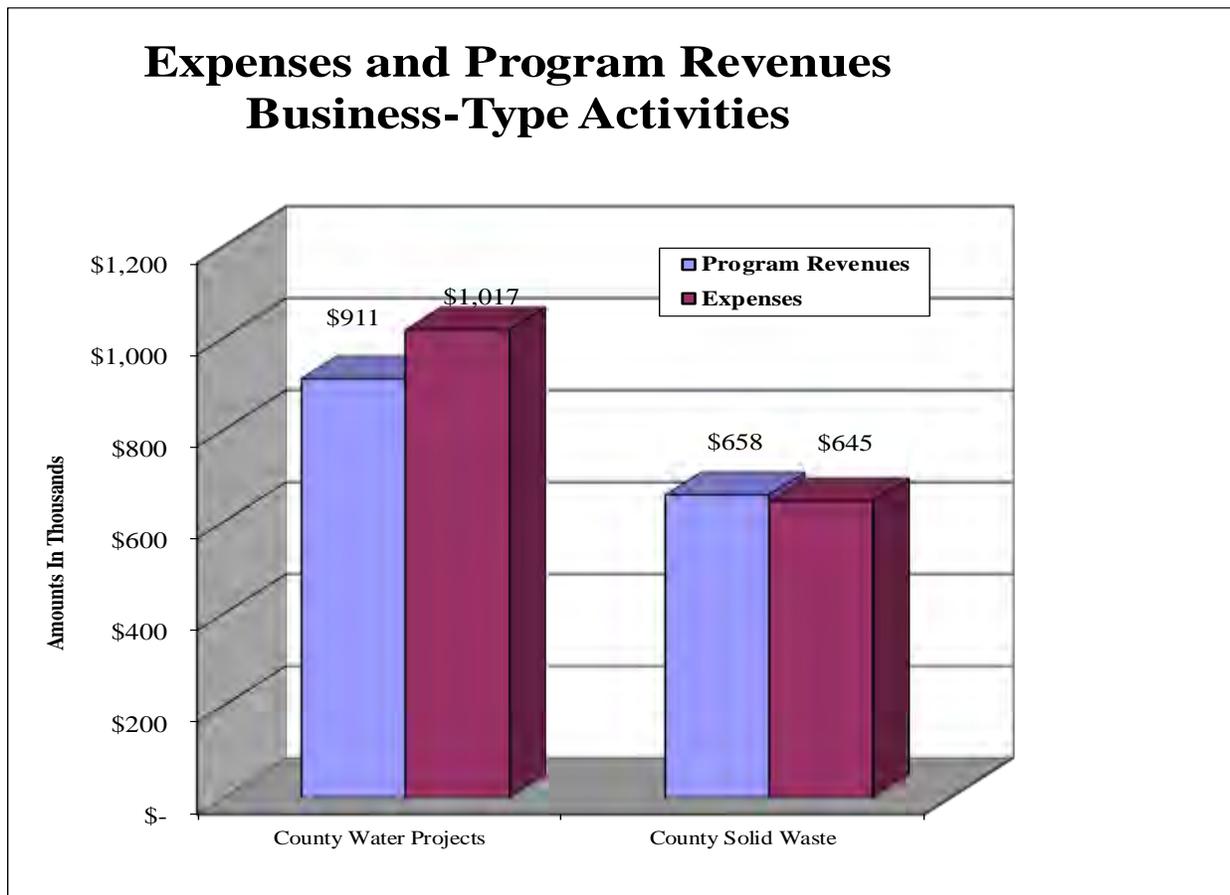
Changes mentioned previously within each of the functions above are the result of a combination of factors both at the fund level and more materially at the entity-wide level as explained in the discussion of the changes in the statement of net position. More specific information can be found in the 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 an increase in net position of \$9,418 or 0.09 percent and accounted for 0.34 percent of the total change in the primary government's net position. Comparative fiscal year 2014 and 2013 data relating to these changes is reflected on Exhibit 7 of this report.

Overall revenues increased by \$219,282 or 16.22 percent for a total of \$1,571,204. Charges for services increased by \$222,730 or 16.53 along with a net decrease in interest earnings by \$3,658 or 74.91 percent due to lower interest rates.



Expenses in this area totaled \$1,661,786 an increase of \$125,980 or 8.20 percent and is mainly related to completion of the water system upgrades in 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 \$168,518,561 a decrease of \$15,380,223 or 8.36 percent in comparison with the prior year. Unassigned fund balance constitutes \$33,220,819 or 19.71 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 2015 fiscal year's budget.

The general fund is the chief operating fund of the County. Fund balance totaled \$50,912,414, and an increase of \$1,087,654 or 2.18 percent. At the end of the fiscal year, \$33,220,819 was unassigned while \$16,634,775 represents the amount assigned to balance the general fund budget for fiscal year 2015. 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 2015 operating budget, which included an expenditure level exceeding the corresponding rate of estimated revenue growth, and therefore, increased the designation by \$3,493,571 or 26.58 percent from that of the prior fiscal year.

Grant funds ended the fiscal year with a fund balance of \$3,216,848, a decrease of \$240,228 or 6.95 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 \$3,116,322 and decreased by \$1,122,487 or 26.48 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 \$80,339,430 and decreased by \$18,221,966 or 18.49 percent 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 \$1,508,811, an increase of 742,717 or 96.95 percent, due to excess sales tax, 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 \$21,665,586, an increase of \$635,313 or 3.02 percent compared to the previous year. This increase is mainly due to the Transportation Fee Fund for an extra auto license fee of \$10 that was added to auto

registrations in El Paso County to fund road improvement and construction projects through the Camino Real Regional Mobility Authority starting in January 2014. The Transportation Fee Fund ended the year with a fund balance of \$231,670.

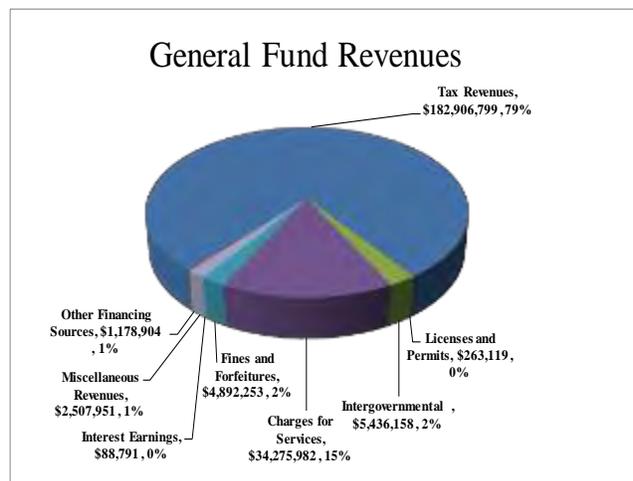
### General Fund Trends

A myriad of factors contributed to the general fund’s financial position. Factors included actual revenues and other financing sources over expenditures and other financing uses in the amount of \$1,120,273. Actual revenues before transfers in totaled \$230,371,053, an increase of \$13,195,635 or 6.08 percent over fiscal year 2013 primarily due to higher property taxes. Sales and uses taxes experienced an increase of \$1,846,051. Mixed beverage increased by \$532,378 or 32.31 percent. Licenses and permits increased by \$32,291 or 13.99 percent. Intergovernmental increased by \$1,369,405 or 33.67 percent. Fines and forfeits saw an increase of \$338,464, or 7.43 percent.

General Fund Revenues	2014 Actuals	2013 Actuals	Amount Increase (Decrease) from FY2013	Percent Increase (Decrease)	2014 actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$182,906,799	\$170,339,849	\$12,566,950	7.378%	79.00%
Licenses and Permits	263,119	230,828	32,291	13.989%	0.11%
Intergovernmental	5,436,158	4,066,753	1,369,405	33.673%	2.35%
Charges for Services	34,275,982	34,798,241	(522,259)	-1.501%	14.80%
Fines and Forfeitures	4,892,253	4,553,789	338,464	7.433%	2.11%
Interest Earnings	88,791	353,313	(264,522)	-74.869%	0.04%
Miscellaneous Revenues	2,507,951	2,832,645	(324,694)	-11.463%	1.08%
Other Financing Sources	1,178,904	1,695,979	(517,075)	-30.488%	0.51%
<b>Total revenues and other sources</b>	<b>\$231,549,957</b>	<b>\$218,871,397</b>	<b>\$12,678,560</b>	<b>5.793%</b>	<b>100.00%</b>

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 \$522,259 mainly due to housing fewer reimbursable federal prisoners, interest earnings of \$264,522 due to lower interest rates and cash balances, and Miscellaneous of \$324,694.



Comparison of the general fund adopted appropriations reflects an increase in fiscal year 2014 of \$13,887,724 or 5.99 percent for a total of \$245,743,663. Actual expenditures and transfers-out in fiscal

year 2014 increased by \$10,171,590 or 4.64 percent bringing the total of general fund expenditures and transfers to \$229,374,536.

<b>General Fund Expenditures</b>	<b>2014 Actuals</b>	<b>2013 Actuals</b>	<b>Amount Increase (Decrease) from FY2013</b>	<b>Percent Increase (Decrease)</b>	<b>2014 actual as a % of Total Expenditures and Other Financing Uses</b>
General Government	\$39,913,724	\$37,258,714	\$2,655,010	7.126%	17.32%
Administration of Justice	54,199,753	52,870,335	1,329,418	2.514%	23.52%
Public Safety	117,035,903	113,737,194	3,298,709	2.900%	50.79%
Health and Welfare	8,165,658	5,633,583	2,532,075	44.946%	3.54%
Resource Development	301,208	312,440	(11,232)	-3.595%	0.13%
Culture and Recreation	3,814,434	3,682,141	132,293	3.593%	1.66%
Public Works	15,719	273	15,446	5657.875%	0.01%
Capital Outlays	292,633	353,240	(60,607)	-17.157%	0.13%
Other Financing Uses	6,690,652	5,420,622	1,270,030	23.430%	2.90%
<b>Total Expenditures (Uses)</b>	<b>\$230,429,684</b>	<b>\$219,268,542</b>	<b>\$11,161,142</b>	<b>5.090%</b>	<b>100.00%</b>

Expenditures increases as reflected in the chart above were mainly the 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.

Further analysis reflects an increase in the other financing uses of \$1,270,030 or 23.43 percent was mainly due to the excess sales tax transfer from general fund to debt service.

### **General Fund Budgetary Highlights**

The fiscal year 2014 adopted budget of \$244,249,556 did not increase during the fiscal year other than for carryover appropriations totaling \$1,494,107 bringing the original budget total to \$245,743,663. This budget included \$13,141,204 of fund balance reserves to balance the fiscal year 2014 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 \$207,201 more than estimates and occurred in areas of taxes, intergovernmental, licenses and permits, and fines and forfeitures which netted with other negative variances. Further analysis of this variance depicts increases in sales tax of \$2,285,731 or 5.75 percent, mixed beverage of \$480,010 or 28.24 percent, licenses and permits of \$20,119 or 8.28 percent, intergovernmental of \$448,031 or 8.98 percent, fines and forfeitures of \$144,253 or 3.04 percent, and miscellaneous revenues of \$221,951 or 9.71 percent. Offsetting negative variances included property taxes for a decrease of \$1,053,091 or 0.75 percent, charges for services of \$2,311,518 or 6.32 percent, bingo of \$7,076, or 11.79 percent, and interest of \$21,209 or 19.28 percent. Other financing sources representing transfers-in also had a positive variance of \$214,623 or 22.72 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 \$16,369,127 which represents 6.66 percent of the adopted general fund budget with carryover. The most significant favorable variance was in the area of general government totaling \$9,742,813 or 59.52 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	
	2014	2013	2014	2013	2014	2013
Land	\$17,505,119	\$17,524,889	\$19,770		\$17,524,889	\$17,524,889
Easements	110,000	110,000			110,000	110,000
Artwork	56,255				56,255	-
Buildings	124,117,389	102,472,743			124,117,389	102,472,743
Improvements	6,978,031	7,459,731			6,978,031	7,459,731
Equipment	21,261,153	5,524,335	\$9,701,468	\$9,423,715	30,962,621	14,948,050
Furniture and Fixtures	179,862	387,182			179,862	387,182
Infrastructure	5,736,278	4,923,262			5,736,278	4,923,262
Vehicles	7,280,780	7,052,940	25,111		7,305,891	7,052,940
Roads	31,521,029	24,833,794			31,521,029	24,833,794
Bridges and culverts	7,441,645	1,309,684			7,441,645	1,309,684
Leased equipment	119,997	218,448			119,997	218,448
IT Systems in progress	2,111,365	10,409,276			2,111,365	10,409,276
Construction in progress	20,100,467	50,794,836	458,480	613,010	20,558,947	51,407,846
Total assets	\$244,519,370	\$233,021,120	\$10,204,829	\$10,036,725	\$254,724,199	\$243,057,845

### Capital assets

The County's capital assets for governmental and business type activities as of September 30, 2014 amounted to \$254,724,199 net of accumulated depreciation. This investment in capital assets includes land, easements, artwork, buildings, improvements, equipment, vehicles, roads, bridges, leased equipment, and IT systems and construction in progress. The total change in the County's capital assets for the current fiscal year was a net increase of \$11,666,353 or 4.80 percent, comprised of an increase of \$11,498,250 or 4.93 percent in governmental activities and an increase of \$168,103 or 1.67 percent in the business-type activities.

Major capital asset activity occurring in fiscal year 2014 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, the completion of the Northwest County Annex facility in the Far West El Paso and the construction commencement for a new

Jail Annex facility in Far East El Paso. Additional information on the County's capital assets can be found in note 3-C and Exhibits G1- G3.

### Long-term Debt

<b>El Paso County's Outstanding Debt</b>						
<b>Type of Debt</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
General obligation bonds	\$45,980,000	\$52,065,000			\$45,980,000	\$52,065,000
Certificates of obligation bonds	170,340,000	173,950,000			170,340,000	173,950,000
Revenue bonds			\$1,612,000	\$1,132,000	1,612,000	1,132,000
Total	\$216,320,000	\$226,015,000	\$1,612,000	\$1,132,000	\$217,932,000	\$227,147,000

At the end of the fiscal year, the County had total bonded debt outstanding of \$217,932,000 as reflected above. Of this amount, \$216,320,000 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 \$9,215,000 or 4.06 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 & Poor's 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 2013 and moderate expenditure growth in 2014. 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 2014 issue of Texas Labor Market Review, the statewide unemployment rate was 5.7 percent in September 2014. In comparison to the same time last year, when the rate was 7.0 percent. El Paso's unemployment rate for September was 7.0 percent in comparison to 8.6 percent in September 2013. El Paso's employment grew by a 1.49 percent and a gain of 4,600 jobs. The reason for the rate decrease was the sharp growth in new job creation that exceeded the growth in the unemployed population.

- Over the past fiscal year, between September 2013 and September 2014, El Paso gained 4,600 jobs overall. Further analysis reflects that 5,500 job were added which netted with 900 employment losses. The various job gains occurred in services, 2,200, trade 1,600, transportation, 800, total government, 600 and financial activities, 200. On the other hand manufacturing lost 800 and Information lost 100.
- 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 2005 and 2014. 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 4.80 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 and to \$0.433125 in 2014 in a continued effort to align revenues with expenditure trends and due to a capital policy change to fund short-term capital outlays from the maintenance and operations tax rate equal to one penny rather than thru the issuance of debt.
- For fiscal year 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 stabilization and growth the past four 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 \$446,881 or .89 percent in 2013 and increased by \$1,087,654 or 2.18 percent in 2014.
- Sales and use tax revenues grew in 2010 after a decline in 2009 and have reflected positive growth through fiscal year 2014. On a positive note, inflationary trends in the region have continued trending 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 2015 fiscal year.

The focus of the County remains on conservative fiscal management while addressing public service needs and State mandates. As of September 30, 2014, the Federal Funds rate was between .25 percent and zero percent and the Discount rate remains at .75 percent. Interest for the twelve months ended September 2014 was \$241,621 down \$1,073,525 or 81.63 percent when compared to \$1,315,146 the prior fiscal year, due mainly to a decrease principal to invest over

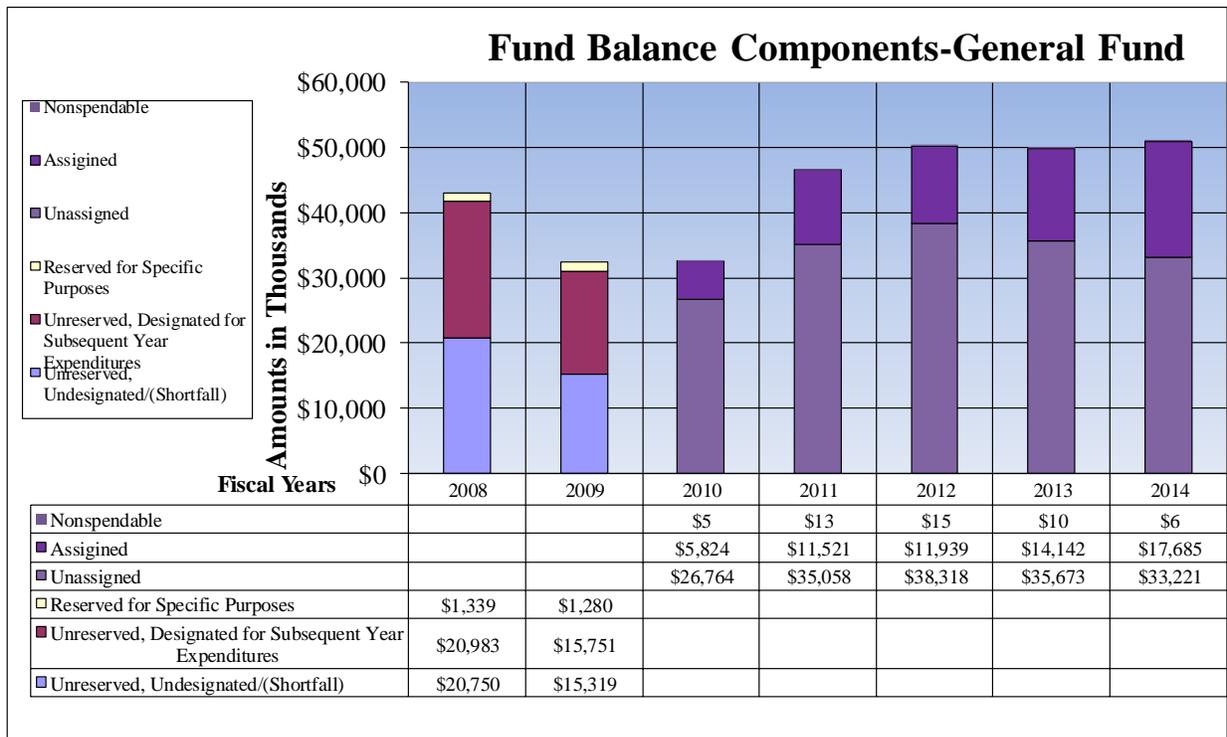
the prior year.

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 2015, 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 2015 budget by \$3,493,571 compared to the amount used in fiscal year 2014. This action reflects the County's continued focus on fiscal and budgetary restraint in fiscal year 2015.

County government will continually strive to effectuate steady increases in revenue while costs are on the rise. In terms of the overall financial condition, the County's present financial position is similar to most communities across the nation and will require that the Commissioners Court continue to focus on bringing revenues and expenditures into alignment, while maintaining reserves to approximate first quarter operating costs. The graph below is presented to reflect the change in the presentation of fund balance pursuant to the requirements of GASB 54 (Fund Balance Reporting and Governmental Fund Type Definitions), which the County implemented in fiscal year 2010. This graph depicts how the general fund's fund balances have increased or decreased over a period of years.



Although it is healthy to utilize some amount of fund balance to balance a subsequent fiscal year budget, caution should be exercised not to become dependent upon fund balance to support future expenditure growth in order to assure maintenance of reasonable fund balance reserves in accordance with County financial policies. Emphasis must be placed on generating adequate operational revenues to meet planned operational expenditures and it is paramount to maintaining sound financial stability and maintenance of realistic fund balance reserves. Departments will be challenged with continually assessing possible increased efficiencies in order to operate within their budgets. In order to maintain the County's favorable financial condition, more than ever, monitoring of expenditures will continue to be vital in forecasting budget inadequacies and identifying potential excesses.

The fiscal year 2015 budget adopted by the County totaled \$311,757,136, a net increase of \$9,941,733 or 3.29 percent in comparison to the fiscal year 2014 adopted budget. Due to some organizational restructuring and a shift of the budget officer function from the County Auditor's Office to the Budget and Fiscal Policy Department. Therefore, the County will not be preparing an official 2015 published budget presentation package, but the formal adopted budget can be found on the County's web page as reflected below.

[http://www.epcounty.com/auditor/publications/adopted\\_budget.html](http://www.epcounty.com/auditor/publications/adopted_budget.html)

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.