

# MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)



COUNTY OF

EL PASO  
TEXAS

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## **Management's Discussion and Analysis**

As management of the County of El Paso (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, 2015. 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 liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources from governmental and business type activities at the close of fiscal year 2015 by (\$45,236,688) which represents total net position. Of this amount, (\$55,669,655) or (123.06) percent relates to governmental-type activities while \$10,432,967 or 23.06 percent represents business-type activities. The significance of the negative net position is attributable to implementation of GASB 68/71 Accounting and Financial Reporting for Pensions and Pension Transition for Contributions Made Subsequent to the Measurement date, respectively. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize amounts for all benefits provided through the plan which include the net pension asset or liability, deferred outflows of resources, deferred inflows of resources and pension expense. Due to the implementation of these standards, beginning net position has been restated and its effect disclosed in note 3-Q to the financial statements.

Total net position is comprised of restricted and unrestricted assets and net investment in capital assets. Net investment in capital assets totaled \$56,135,205 or (124.09) 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 \$86,102,229 or (190.34) percent of total net position of which \$85,780,466 relates to the primary government and \$321,763 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 (\$187,474,122) or 414.43 percent of total net position.

The County's fiscal year 2015 operations resulted in total net position decreasing by (\$194,083,121) or (130.39) percent. This was attributable to a decrease of (\$193,706,797) or (140.33) percent in the governmental-type and a decrease in business-type activities of (\$376,324) or (3.48) 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 68 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 significance of implementation of GASB 68 is that the previously defined GASB Annual Required Contribution (ARC) has been eliminated under Statements 67 and 68 and is no longer relevant for financial reporting purposes.

Under GASB 68, employers who grant cost-of-living adjustments (COLAs) with a certain frequency are considered as granting COLAs that are repeating or 'substantively automatic' for purposes of GASB calculations, which can significantly increase future pension liability projections. As of the measurement date, COLAs for El Paso County are considered to be substantively automatic under GASB 68 and therefore are included in the actuarial calculations for El Paso County. In response to this change and for the future, the County will focus on establishing and managing a formal funding policy that is separate from financial reporting calculations. Additional details regarding the County's pension benefit plan are discussed in the notes to the financial statements.

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 them by appointing their board members, approving their budgets and setting their tax rates 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 non-major 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 Solid Waste Project and County Water Systems consisting of East Montana Water Project, Mayfair/Nuway Water Project, Colonia Revolución Water Project, and Square Dance Waste Water Project. 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. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the County's changes in net pension liability and employer contributions to the plan. 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, due to implementation of GASB 68, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by (\$45,236,688) at the close of fiscal year 2015. By far the largest component of the County's net position represents restricted net position totaling \$86,102,229 or (190.34) percent of total net position and represents resources that are subject to external restrictions on how they may be used. Restricted assets are comprised of capital project funds totaling \$57,488,313 or 66.77 percent, special revenue funds totaling \$27,890,913 or 32.39 percent, enterprise funds totaling \$281,646 or .33 percent of restricted assets. Also included are debt service funds totaling \$441,357 or .51 percent of total restricted net position. The second largest category relates to net investment in capital assets (e.g., land, buildings, machinery, and equipment) totaling \$56,135,205 or (124.09) 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 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 remaining balance of (\$187,474,122) represents unrestricted net position and the negative is due to prior period adjustments totaling (\$190,996,916) directly related to the recognition of actuarial pension liability of which (\$190,803,872) relates to governmental activities and (\$193,044) relates to business-type activities.

Furthermore, as of September 30, 2015, the County's net position for governmental activities decreased by (\$193,706,979) or (140.33) percent and business-type activities decreased by (\$376,324) or (3.48) percent for a net overall decrease of (\$194,083,121) or (130.39) percent from the previous fiscal year. Net investments in capital assets from governmental and business-type activities increased by \$32,121,958 or 133.77 percent. There was a net decrease of (\$30,559,906) or (26.20) percent in restricted assets reported, composed of a decrease of (\$30,540,359) related to governmental activities and a decrease of (\$19,547) related to business-type activities. Unrestricted net position totaled (\$187,474,122) and was down by (\$195,645,173) or (2,394) percent, which included a decline of (\$195,611,229) related to governmental activities and a decrease of (\$33,944) related to business-type activities.

On a global perspective, the County's total assets from governmental and business-type activities increased by \$7,070,879 or 1.49 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 decrease 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 \$482,897,481 an increase of \$7,070,879 or 1.49 percent, while liabilities totaled \$559,462,895, an increase of \$232,252,890 or 70.98 percent. Further analysis reflects that the majority of all assets relate to governmental activities totaling \$470,418,502 and represents 97.42 percent of total assets. Overall, capital assets (net of related depreciation) totaled \$276,141,870 and increased by \$21,417,671 or 8.41 percent from the prior year, mainly due to County facilities being constructed. Capital assets are comprised for the most part of land, roads, equipment, buildings and construction in progress.

El Paso County, Texas Net Position						
	Governmental		Business-type		Total	
	Activities		Activities			
	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014
Current and other assets	\$ 204,126,626	\$ 218,702,220	\$ 2,628,985	\$ 2,400,183	\$ 206,755,611	\$ 221,102,403
Capital assets	266,291,876	244,519,370	9,849,994	10,204,829	276,141,870	254,724,199
Total assets	470,418,502	463,221,590	12,478,979	12,605,012	482,897,481	475,826,602
Deferred outflows of resources	31,608,188	229,836	30,589		31,638,777	229,836
Long-term liabilities outstanding	524,151,703	293,590,721	1,816,304	1,612,000	525,968,007	295,202,721
Other liabilities	33,234,591	31,823,563	260,297	183,721	33,494,888	32,007,284
Total liabilities	557,386,294	325,414,284	2,076,601	1,795,721	559,462,895	327,210,005
Deferred inflows of resources	310,051		-		310,051	-
Net position:						
Net investment in capital assets	47,865,209	15,420,418	8,269,996	8,592,829	56,135,205	24,013,247
Restricted	85,780,466	116,320,825	321,763	341,310	86,102,229	116,662,135
Unrestricted	(189,315,330)	6,295,899	1,841,208	1,875,152	(187,474,122)	8,171,051
Total net position	\$ (55,669,655)	\$ 138,037,142	\$ 10,432,967	\$ 10,809,291	\$ (45,236,688)	\$ 148,846,433

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 \$7,070,879 or 1.49 percent and the most significant impact to total assets represented an increase

in capital assets related to construction in progress for a net amount of \$21,068,359 or 92.93 percent attributed mostly to the on-going construction and renovation of county facilities. The second most significant impact to total assets was experienced with a decrease in cash and cash equivalents of (\$16,081,068) or (8.70) percent attributed to the draw down utilization of bond proceeds as projects progressed. Receivables also increased by \$1,724,995 or 4.79 percent due to an increase in billings to the granting agencies for pending reimbursement. 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 \$559,462,895 and increased by \$232,252,890 or 70.98 percent. Further analysis reflects the majority of liabilities relate to governmental activities totaling \$557,386,294 or 99.63 percent and business type activities totaling \$2,076,601 or .37 percent. Compared to fiscal year 2014, liabilities increased in the areas of net pension liability by \$233,813,156 or 100 percent due to implementation of GASB 68, claims payable by \$1,261,125 or 157.95 percent, claims and judgments by \$614,580 or 28.73 percent and compensated absences (combined current and non-current) by \$3,320,328 or 10.99 percent. Other Benefits (OPEB) increased by \$2,382,803 or 7.69 percent due to the County's continuing policy of funding retiree health benefits on a pay-as-you-go basis. Decreases included vouchers payable by (\$1,479,994) or (10.55) percent and long term bonds payable totaling (\$10,778,628) or (4.88) percent. For additional information regarding compensated absences and other post-employment benefits, please see notes 1-K and 3-J, respectively.

County of El Paso, Texas Changes in Net Position						
	Governmental		Business-type		Total	
	Activities		Activities			
	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014
Revenues:						
Program revenues:						
Charges for services	\$ 61,399,995	\$ 51,540,552	\$ 1,711,990	\$ 1,569,769	\$ 63,111,985	\$ 53,110,321
Operating grants and contributions	26,675,411	34,862,554	-	-	26,675,411	34,862,554
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	168,604,596	158,910,813			168,604,596	158,910,813
Other taxes	49,895,477	47,670,825			49,895,477	47,670,825
Other	5,073,299	5,018,380	\$2,312	1,435	5,075,611	5,019,815
Total revenues	311,648,778	298,003,124	1,714,302	1,571,204	313,363,080	299,574,328
Expenses:						
General government	58,709,978	48,578,771			58,709,978	48,578,771
Administration of justice	62,705,622	61,014,982			62,705,622	61,014,982
Public safety	145,221,244	136,339,472			145,221,244	136,339,472
Health and welfare	12,665,274	12,301,853			12,665,274	12,301,853
Community services	2,090,491	2,587,829			2,090,491	2,587,829
Resource development	404,143	410,259			404,143	410,259
Culture and recreation	8,232,189	9,042,763			8,232,189	9,042,763
Public works	14,712,518	12,575,526			14,712,518	12,575,526
Interest on long-term debt	9,943,837	10,602,053			9,943,837	10,602,053
Enterprise fund			1,939,322	1,661,786	1,939,322	1,661,786
Total expenses	314,685,296	293,453,508	1,939,322	1,661,786	316,624,618	295,115,294
Increase (decrease) in net position before transfers	(3,036,518)	4,549,616	(225,020)	(90,582)	(3,261,538)	4,459,034
Transfers	-	(100,000)	-	100,000	-	-
Change in net position	(3,036,518)	4,449,616	(225,020)	9,418	(3,261,538)	4,459,034
Net position October 1	138,037,142	136,219,343	10,809,291	10,799,873	148,846,433	147,019,216
Prior period adjustment	(190,670,279)	(2,631,817)	(151,304)	-	(190,821,583)	(2,631,817)
Net position September 30	\$ (55,669,655)	\$ 138,037,142	\$ 10,432,967	\$ 10,809,291	\$ (45,236,688)	\$ 148,846,433

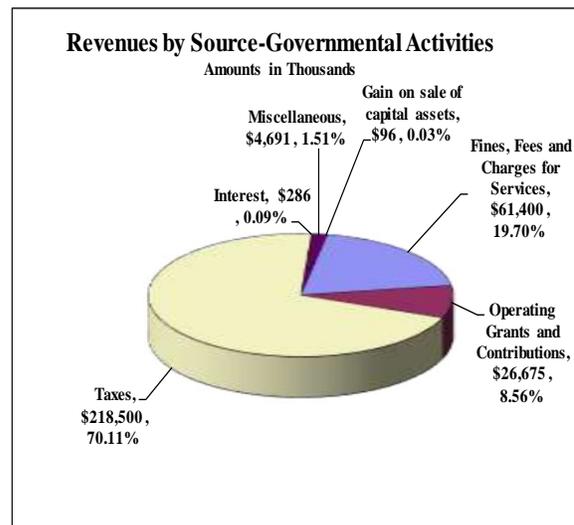
The decrease in the County’s overall net position by (\$194,083,121) or (130.39) percent is due to the implementation of GASB 68 requiring government agencies to post actuarially projected net pension asset or liability for the first time in fiscal year 2015, which resulted in a corresponding prior period adjustment to the prior year ending net position totaling (\$190,803,872) relating to governmental activities and (\$193,044) relating to business-type activities. Other factors impacting overall net position represent the degree to which expenditures totaling \$316,624,618 outpaced revenues totaling \$313,363,080.

Overall, revenues grew by \$13,788,752 or 4.60 percent mainly due to an increase in the maintenance and operations and debt service levies, charges for services, and growth in sales tax revenue. Expenses grew by \$21,509,324 or 7.29 percent attributed in part to personnel costs associated to cost of living and fringe benefits increases for all employees, but most significantly by expenditure of capital bond funds for existing construction projects and the recognition of projected pension expense in the current year.

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), pension expense, 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**

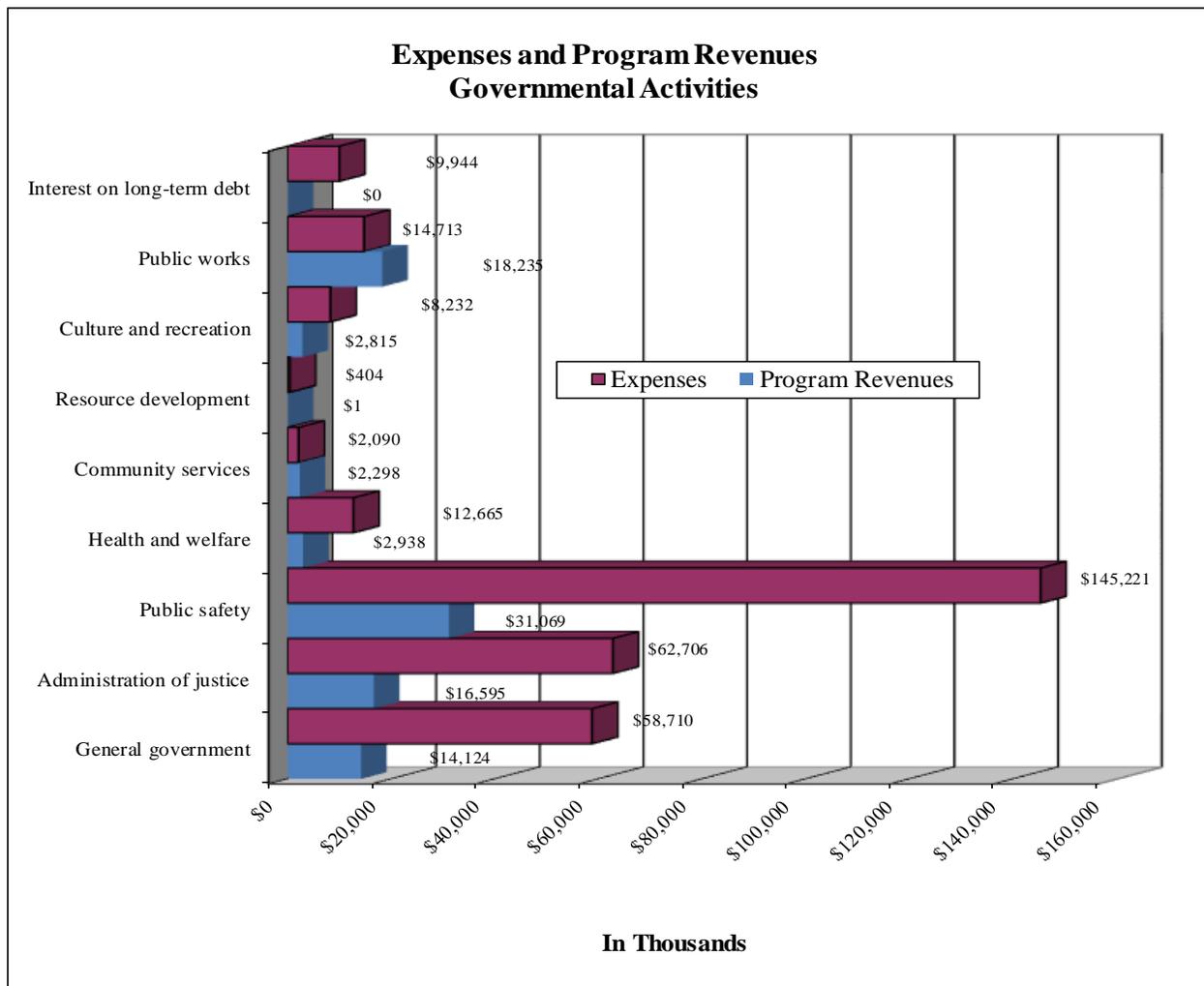
Governmental activities during fiscal year 2015 resulted in a decrease in net position of (\$193,706,797) or (140.33) percent which represents 99.81 percent of the total decrease for the primary government. Comparative fiscal year 2015 and 2014 data relating to these changes is show in the table on the prior page and is discussed below. Total revenues from governmental activities increased by \$13,645,654 or 4.58 percent over the previous year. Charges for services grew by \$9,859,443 or 19.13 percent; property taxes increased by \$9,693,783 or 6.10 percent; other taxes comprised of sales and uses taxes, hotel taxes, and mixed beverage alcohol taxes increased by \$2,224,652 or 4.67 percent. The increase in property taxes is attributable to increases in existing taxable property values, growth in new properties added to the tax rolls 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. Additionally, these increases were offset by a decrease in operating grants and contributions by (\$8,187,143) or (23.48) percent.



Expenses in governmental activities increased by \$21,231,788 or 7.24 percent and comprise 98.71 percent of the overall entity-wide increase of \$21,509,324. Significant increases were evident in most areas such as in public safety by \$8,881,772 or 6.51 percent, general government by \$10,131,207 or 20.86 percent, administration of justice by \$1,690,640 or 2.77 percent, public

works by \$2,136,992 or 16.99 percent and health and welfare by \$363,421 or 2.95 percent. These increases were due in part to the increased spending on capital projects, personnel and associated benefits growth and recognition of pension related expenses. Decreases were experienced in interest on long-term debt by (\$658,216) or (6.21) percent, culture and recreation by (\$810,574) or (8.96) percent and community services by (\$497,338) or (19.22) 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.

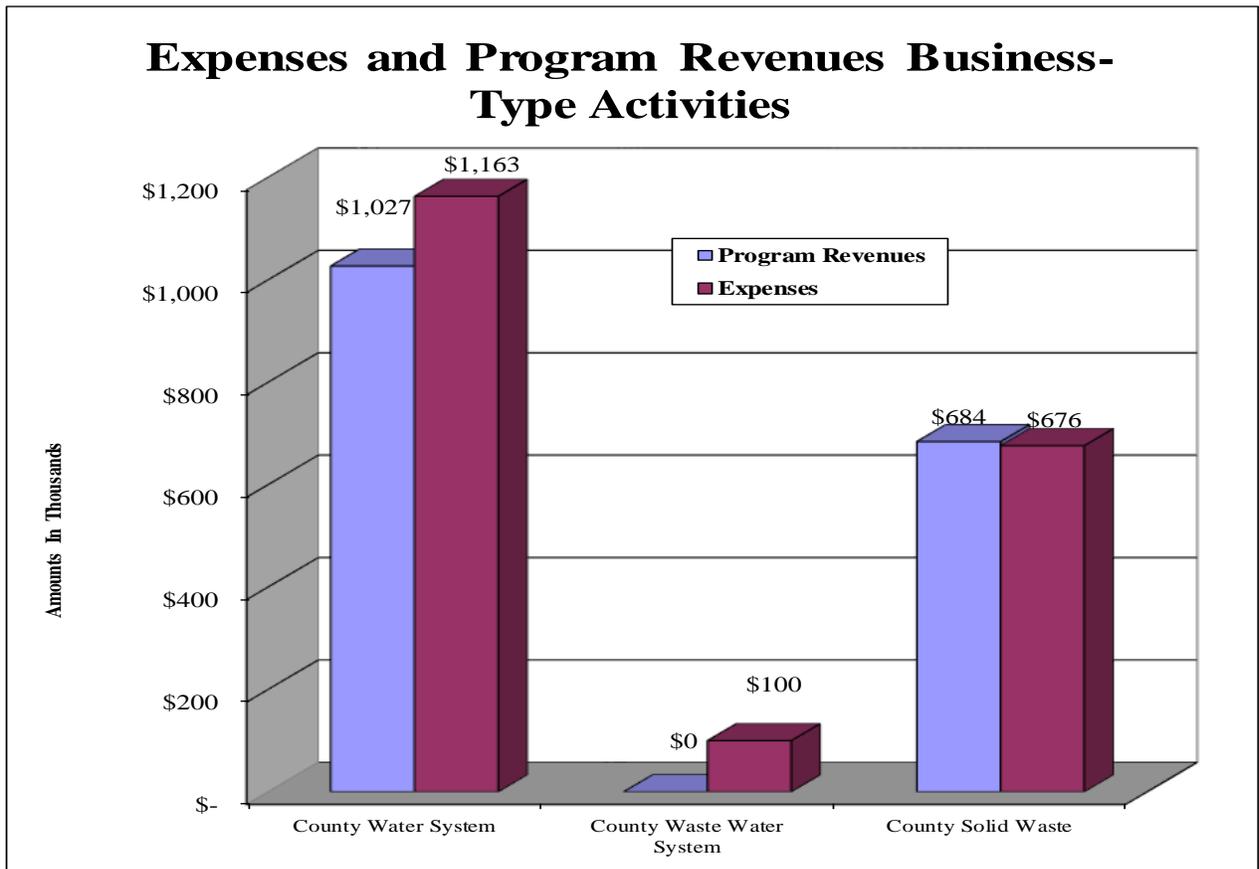
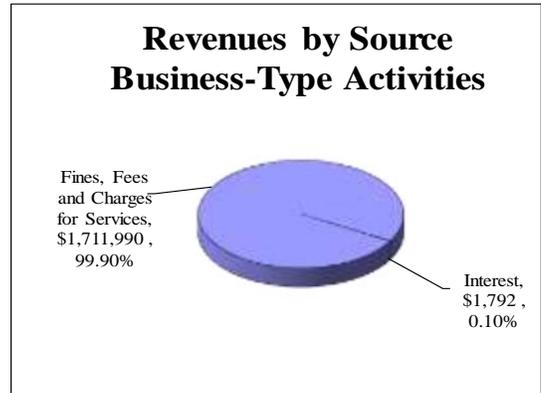


### Business-type Activities

Business-type activities resulted in a decrease in net position of (\$376,324) or (3.48) percent and accounted for 0.19 percent of the total change in the primary government's net position. Comparative fiscal year 2015 and 2014 data relating to these changes is reflected on Exhibit 7 of this report.

Overall revenues increased by \$143,098 or 9.11 percent for a total of \$1,714,302. Charges for services increased by \$142,221 or 9.06 along with an increase in interest earnings by \$877 or 61.11 percent due to an increase in interest rates.

Expenses in this area totaled \$1,939,322 an increase of \$277,536 or 16.70 percent and is mainly related to water system operations and allocation of pension expense applicable to 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 \$147,748,464 a decrease of (\$20,770,097) or (12.33) percent in comparison with the prior year. Unassigned fund balance constitutes \$45,161,962 or 30.57 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 2016 fiscal year's budget.

The general fund is the chief operating fund of the County. Fund balance totaled \$60,773,655, an increase of \$9,861,241 or 19.37 percent. At the end of the fiscal year, \$45,161,962 was unassigned while \$14,372,817 represents the amount assigned to balance the general fund budget for fiscal year 2016. 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 or annual operating revenues. The Commissioners Court utilized unassigned reserves in balancing the fiscal year 2016 operating budget in order to cover an expenditure level that exceeded the corresponding estimated revenues certified in the budget by the County Auditor. In comparison to fiscal year 2014, the amount required to cover this gap decreased by (\$2,261,958) or (13.60) percent.

Grant funds ended the fiscal year with a fund balance of \$3,437,196, an increase of \$220,348 or 6.85 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 \$2,428,969 and decreased by (\$687,353) or (22.06) 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 \$46,696,006 and decreased by (\$33,643,424) or (41.88) 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 \$1,595,583, an increase of \$86,772 or 5.75 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 \$24,453,717, an increase of \$2,788,131 or 12.87 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.

### **General Fund Trends**

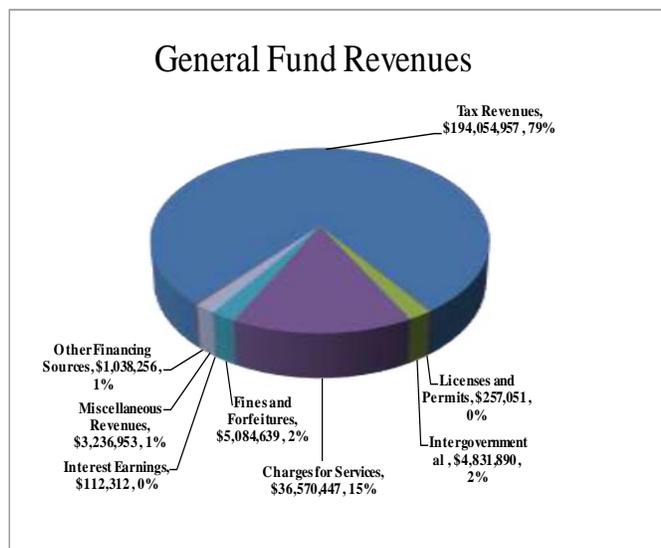
A myriad of factors contributed to the general fund's financial position. Factors included actual revenues and other financing sources over expenditures and other financing uses in the amount of \$10,019,722. Actual revenues before transfers in totaled \$244,148,249 an increase of \$13,777,196 or 5.98 percent over fiscal year 2014. Further analysis reflects that various revenues increased by \$14.4 million which was offset by declines in other revenue accounts totaling \$750,984. Increases to revenues were primarily due to an increase in the taxes category totaling \$11.1 million or 6.09 percent and was comprised of ad valorem property taxes which grew by \$9.2 million or 6.63 percent, mainly due to a two penny tax rate increase in the 2015 tax rate and the addition of new

property values to the tax rolls. Other increases included charges for services of \$2,294,465 or 6.69 percent and miscellaneous revenues of \$729,002 or 29.07 percent, fines and forfeitures of \$192,386 or 3.93 percent and interest earnings of \$23,521 or 26.49 percent.

General Fund Revenues	2015 Actuals	2014 Actuals	Amount Increase (Decrease) from FY2014	Percent Increase (Decrease)	2015 actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$194,054,957	\$182,906,799	\$11,148,158	6.09%	79.15%
Licenses and Permits	257,051	263,119	(6,068)	-2.31%	0.10%
Intergovernmental	4,831,890	5,436,158	(604,268)	-11.12%	1.97%
Charges for Services	36,570,447	34,275,982	2,294,465	6.69%	14.92%
Fines and Forfeitures	5,084,639	4,892,253	192,386	3.93%	2.07%
Interest Earnings	112,312	88,791	23,521	26.49%	0.05%
Miscellaneous Revenues	3,236,953	2,507,951	729,002	29.07%	1.32%
Other Financing Sources	1,038,256	1,178,904	(140,648)	-11.93%	0.42%
<b>Total revenues and other sources</b>	<b>\$245,186,505</b>	<b>\$231,549,957</b>	<b>\$13,636,548</b>	<b>5.89%</b>	<b>100.00%</b>

Further analysis of the general fund reflects that revenue increases were netted by revenue declines in intergovernmental of (\$604,268) or (11.12) percent, other financing sources of (\$140,648) or (11.93) percent and licenses and permits of (\$6,068) or (2.31) 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. Emphasis and focus by the Commissioners Court, elected officials and department heads in fiscal year 2015 remained on efficient operations and cost saving measures. This included the continual monitoring of attrition, thorough evaluation and analysis of staffing resource requests and implementation of reorganization of staffing resources consistent with the County’s fiscal policies and procedures.



Comparison of the general fund appropriations reflects an increase in fiscal year 2015 of \$8,836,523 or 3.60 percent over fiscal year 2014 for a total of \$254,580,186. As depicted in the chart on the next page, actual expenditures and transfers-out in fiscal year 2015 increased by \$4,737,099 or 2.06 percent bringing the total of general fund expenditures and transfers out to \$235,166,783.

This moderate overall growth was mainly attributed to a two percent cost of living and step increases afforded to County employees and an increased cost of related fringe benefits such as employee health premiums and matching employer retirement benefit contributions. Additionally, these increases were netted overall by various expenditure declines throughout the budget. One example of such expenditure savings was in the area of public safety which declined by

(\$1,572,756) or (1.34) percent. Further analysis depicts that in the area of the County sheriff and jails, a decline in expenditures overall occurred totaling (\$2.8) million when compared to fiscal year 2014. This decline was due to various current and prior year cost savings initiatives undertaken by the County such as renegotiation of a collective bargaining agreement that went into effect in fiscal year 2015, but the majority of these savings were mainly attributed to action taken in the current fiscal year effectuating a reduction in overtime expenditures in the Sheriff's Department due to an operational change initiated by the County Sheriff implementing a new 12 hour shift work day which resulted in increased resource efficiencies. Other areas of decline included other financing uses totaling (\$352,356) or (5.27) percent mainly due to a decline in the amount of excess sales tax required to be transferred from general fund to debt service. Furthermore, culture and recreation overall declined by (\$175,159) or (4.59) percent mainly attributable to ongoing construction at the County's Sportspark baseball complex and other cost reductions at the Ascarate Park and Golf Course.

General Fund Expenditures	2015 Actuals	2014 Actuals	Amount Increase (Decrease) from FY2014	Percent Increase (Decrease)	2015 actual as a % of Total Expenditures and Other Financing Uses
<b>Current:</b>					
General Government	\$45,512,299	\$39,913,724	5,598,575	14.03%	19.35%
Administration of Justice	55,168,046	54,199,753	968,293	1.79%	23.46%
Public Safety	115,463,147	117,035,903	(1,572,756)	-1.34%	49.10%
Health and Welfare	8,489,940	8,165,658	324,282	3.97%	3.61%
Resource Development	334,290	301,208	33,082	10.98%	0.14%
Culture and Recreation	3,639,275	3,814,434	(175,159)	-4.59%	1.55%
Public Works	58,174	15,719	42,455	270.09%	0.02%
Capital Outlays	163,316	292,633	(129,317)	-44.19%	0.07%
Other Financing Uses	6,338,296	6,690,652	(352,356)	-5.27%	2.70%
<b>Total Expenditures (Uses)</b>	<b>\$235,166,783</b>	<b>\$230,429,684</b>	<b>\$4,737,099</b>	<b>2.06%</b>	<b>100.00%</b>

### General Fund Budgetary Highlights

The fiscal year 2015 adopted budget of \$252,957,809 did not increase during the fiscal year other than for carryover appropriations totaling \$1,622,377 bringing the original budget total to \$254,580,186. This budget included \$16,634,775 of fund balance reserves to balance the fiscal year 2015 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 \$8,818,290 more than estimates and occurred with all areas experiencing positive variances. Further analysis of this variance depicts increases in property taxes of \$225,064 or .15 percent, sales tax of \$3,628,564 or 9.01 percent, bingo of \$3,906 or 7.51 percent, mixed beverage of \$236,402 or 11.53 percent, licenses and permits of \$14,051 or 5.78 percent, intergovernmental of \$88,898 or 1.87 percent, charges for services of \$2,899,001 or 8.61 percent, fines and forfeitures of \$494,639 or 10.78 percent, interest of \$12,312 or 12.31 percent and miscellaneous revenues of \$1,215,453 or 60.13 percent. Other financing sources representing transfers-in resulted in a negative variance of (\$46,436) or (4.68) 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 monitoring staffing vacancies and instituting reorganization and restructuring of departments, 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 \$19,494,769 which represents 7.85 percent of the adopted general fund budget with carryover. The most significant favorable variances were experienced in the areas of general government, public safety, administration of justice and health and welfare which totaled \$7,010,091, \$6,100,558, \$3,555,638 and \$1,121,521 or 35.96, 31.29, 18.24, and 5.75 percent of the total overall appropriation variances respectively. The majority of these variances in general government related to appropriations for various contingencies and more specifically within the general and administrative account totaling \$4,459,970 due to maintenance of operating contingency accounts for which expenditures did not materialize. In the area of public safety the majority of this variance related to the Sheriff's Department totaling \$5,098,278 mainly due to favorable collective bargaining contract changes and the implementation of a 12 hour work day shift which resulted in significantly reducing overtime costs. In the area of administration of justice the most significant change occurred in the council of judges totaling \$1,132,701, district attorney totaling 802,019, county attorney totaling \$287,683, public defender totaling \$256,628 and numerous other departments. Favorable variances overall included unspent personnel and fringe benefit appropriations throughout the budget because of continued due diligence oversight of the County's hiring policy and other departmental cost saving initiatives. In regard to operating appropriations, the favorable variance was mainly due to frugal use of operating and contingency funds under the control of the Commissioners Court and collaborative efforts of elected officials and department heads. The appropriation variance for transfers-out totaled \$259,869 and relates to leveraging county matching funds to secure state and federal grant funding.

## **Capital Asset and Debt Administration**

### **Capital assets**

The County's capital assets for governmental and business type activities as of September 30, 2015, amounted to \$276,141,870 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 \$21,417,671 or 8.41 percent, comprised of an increase of \$21,772,506 or 8.90 percent in governmental activities and a decrease of (\$354,835) or (3.48) percent in the business-type activities.

Major capital asset activity occurring in fiscal year 2015 included the expansion of the Eastside Jail Annex; renovations at the Sportspark Complex; Tornillo-Guadalupe Land Port and Toll Facility System in Far East El Paso and ongoing implementation of an Enterprise Resource Planning (ERP) financial system. Other increases to capital assets include the completion the Colonia Revolución Water System; replacement of the Eastside Jail Annex roof and the completion of the Eastside County Annex facility in East El Paso. Additional information on the County's capital assets can be found in note 3-C and Exhibits G1- G3.

El Paso County, Texas						
Summary of Capital Assets (Net of Depreciation)						
Categories	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$17,531,461	\$17,505,119	\$19,770	\$19,770	\$17,551,231	\$17,524,889
Easements	110,000	110,000			110,000	110,000
Artwork	56,255	56,255			56,255	56,255
Buildings	124,446,202	124,117,389			124,446,202	124,117,389
Improvements	6,593,517	6,978,031			6,593,517	6,978,031
Equipment	19,702,456	21,261,153	\$9,807,689	\$9,701,468	29,510,145	30,962,621
Furniture and Fixtures	173,308	179,862			173,308	179,862
Infrastructure	8,494,885	5,736,278			8,494,885	5,736,278
Vehicles	7,455,231	7,280,780	22,535	25,111	7,477,766	7,305,891
Roads	30,704,593	31,521,029			30,704,593	31,521,029
Bridges and culverts	7,181,786	7,441,645			7,181,786	7,441,645
Leased equipment	103,511	119,997			103,511	119,997
IT Systems in progress	2,625,813	2,111,365			2,625,813	2,111,365
Construction in progress	41,112,858	20,100,467	-	458,480	41,112,858	20,558,947
Total assets	\$266,291,876	\$244,519,370	\$9,849,994	\$10,204,829	\$276,141,870	\$254,724,199

### Long-term Debt

El Paso County's Outstanding Debt						
Type of Debt	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$63,360,000	\$45,980,000			\$63,360,000	\$45,980,000
Certificates of obligation bonds	141,870,000	170,340,000			141,870,000	170,340,000
Revenue bonds			\$1,580,000	\$1,612,000	1,580,000	1,612,000
Total	\$205,230,000	\$216,320,000	\$1,580,000	\$1,612,000	\$206,810,000	\$217,932,000

At the end of the fiscal year, the County had total bonded debt outstanding of \$206,810,000 as reflected above. Of this amount, \$205,230,000 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 (\$11,122,000) or (5.10) 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. During 2015, the County issued General Obligation Refunding Bonds, Series 2015 for the purpose of advance refunding a portion of the County's Certificates of Obligation, Series 2012; and General Obligation Refunding Bonds, Taxable Series 2015A for the purpose of advance refunding a portion of the County's Taxable Certificates of Obligation, Series 2007A.

On March 7, 2016, the County issued General Obligation Refunding Bonds, Series 2016A in the par amount of \$48,805,000 to advance refund a portion of the County's Certificates of Obligation, Series 2001, Series 2007 and Series 2012 and General Obligation Refunding Bonds, Series 2007 and Series 2011 for the purpose of debt service savings. This refunding resulted in a present value savings of 8.8 percent on the refunded bonds and a present value savings of 9.47 percent on the refunding bonds, and a net present value savings of \$4,623,892. The bonds were issued at a net premium of \$7,645,207.

On March 15, 2016, the County issued General Obligation Refunding Bonds, Taxable Series 2016B in the par amount of \$40,735,000 to advance refund a portion of the County's Certificates of Obligation, Series 2007 and General Obligation Refunding Bonds, Series 2007 for the purpose of debt service savings and also for the purpose of reducing or eliminating the amount of tax-exempt debt currently allocated to certain County-owned facilities. This refunding resulted in a present value savings of 5.15 percent on the refunded bonds and a present value savings of 4.72 percent on the refunding bonds, and a net present value savings of \$1,926,280.

At the time of the above recent issuances, both Moody's Investors Service and Fitch Ratings reaffirmed a stable outlook for El Paso County with ratings of Aa2 and AA, respectively. 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 and expenditure reduction efforts in 2015. Assuming the local economy continues to remain stable, 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 support the County's revenues and expenditures staying relatively in 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 2015 issue of Texas Labor Market Review, the statewide unemployment rate was 4.4 percent in September 2015. In comparison, the same time last year the rate was 4.9 percent. El Paso's unemployment rate for September was 5.1 percent in comparison to 6.3 percent in September 2014. El Paso's employment grew by a .95 percent and a gain of 2,800 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 2014 and September 2015, El Paso added 2,800 jobs overall. Further analysis reflects 4,100 job gains netted with 1,300 employment losses. Some of the various job gains occurred in construction 100, transportation 400, and the service sectors 3,600. The major decline occurred in the total trade sector which lost 700 jobs. Other job reductions were experienced in financial and government service sectors, which combined lost a total of 100 and 500 jobs respectively.
- 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 continued economic development initiatives.
- Assessed property values have averaged approximately 5.18 percent growth over the past five 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 in fiscal year 2013, and to \$0.433125 in 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 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 2015, the tax rate was increased to \$0.452694 in a continued effort to align revenues with expenditure trends.
- The overall fund balance of the general fund experienced stabilization and growth between fiscal years 2011 and 2014, increasing approximately \$14 million or 42.9 percent in fiscal year 2011, slight growth by \$3.7 million in fiscal year 2012, marginally declining by (\$446,881) or (.89) percent in 2013, increasing by \$1,087,654 or 2.18 percent in 2014, and substantially growing by \$9,861,241 in fiscal year 2015.
- Sales and use tax revenues grew in 2010 after a decline in 2009 and has reflected positive continued growth through fiscal year 2015. 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 2016 fiscal year.

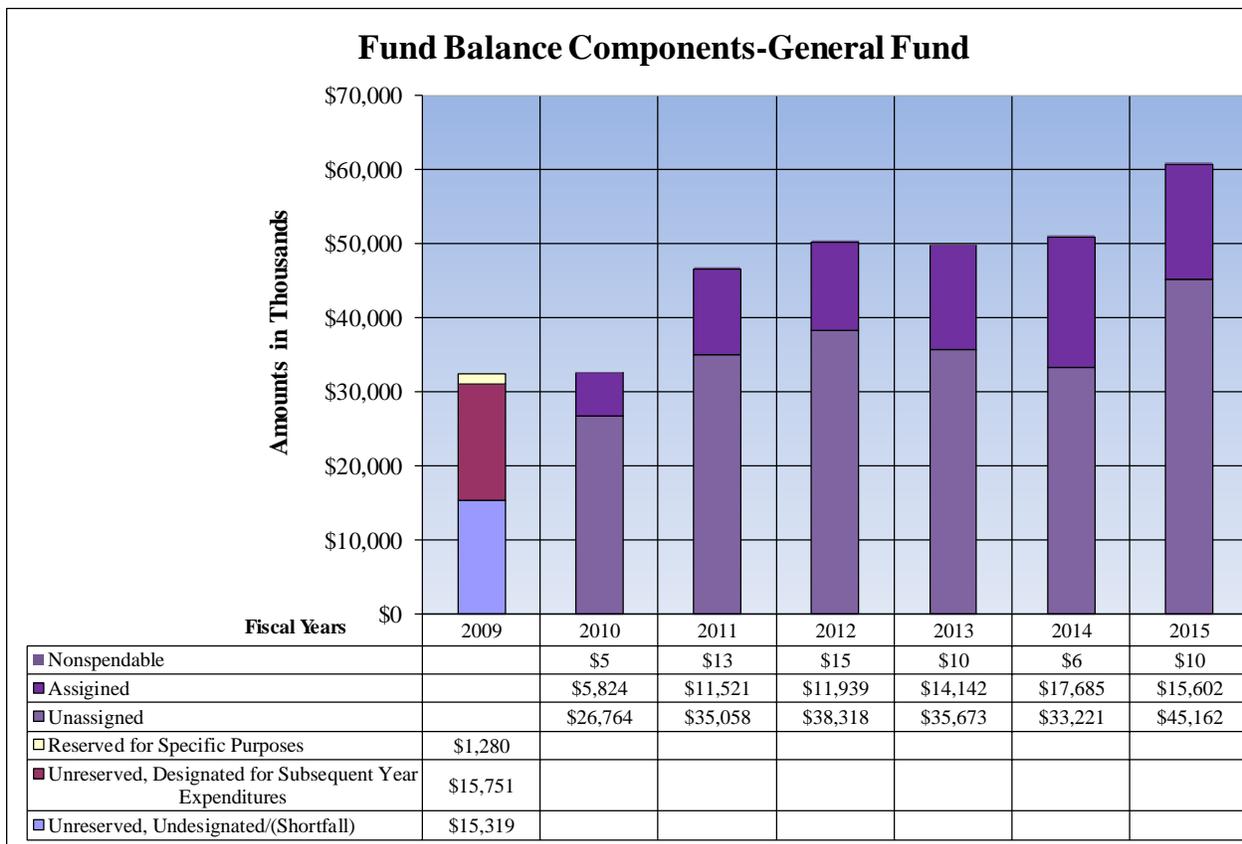
The focus of the County remains on conservative fiscal management while addressing public service needs and State mandates. As of September 30, 2015, the Federal Funds rate was between zero and .25 percent and the Discount rate remained at .75 percent. Interest for the twelve months ended September 2015 was \$288,117, up \$46,496 or 19.24 percent when compared to \$241,621 the prior fiscal year, due mainly to a decrease of 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 2016, 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, County workforce wages and fringe benefits 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 decreased its use of fund balance in the fiscal year 2016 budget by (\$2,261,958) compared to the amount used in fiscal year 2015. This action reflects the County’s continued focus on fiscal and budgetary restraint in fiscal year 2016. County government will continually strive to effectuate steady increases in revenue while costs are on the rise. In terms of 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 their focus on ensuring revenues and expenditures remain in alignment, while continually assessing the maintenance of adequate reserves at a minimum of no less than 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 and current designations are utilized to ensure statutory compliance of a balanced 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 2016 budget adopted by the County totaled \$322,858,582, a net decrease of (\$46.56) million or (12.6) percent in comparison to the fiscal year 2015 adopted budget as amended. 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 during fiscal year 2015, the County did not produce a published budget presentation package. Henceforth, for fiscal year 2016, the Budget and Fiscal Policy Department prepared an official 2016 Budget Presentation Package for submission to the Government Finance Officers Association's Budget Presentation Award Program and the formal adopted budget can be found 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.