

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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, 2016. 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 11 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 2016 by \$38,580,286 which represents total net position. Of this amount, \$28,796,710 or 74.64 percent relates to governmental-type activities while \$9,783,576 or 25.36 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 \$66,370,617 or 172.03 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 \$73,283,516 or 189.95 percent of total net position of which \$73,058,295 relates to the primary government and \$225,221 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 (\$101,073,847) or (261.98) percent of total net position.

The significance of the negative unrestricted 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.

The County's fiscal year 2016 operations resulted in total net position increasing by \$83,816,974 or (185.29) percent above the prior year net position of (\$45,236,688). This was attributable to an increase of \$84,466,365 or (151.73) percent in the governmental-type and a decrease in business-type activities of (\$649,391) or (6.22) 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 Revolucion 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 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 Revolucion 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 fiscal year 2015 the County implemented GASB 68 and at that time liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources resulting in a net position of (\$45,236,688). Due to changes in actuarial data the County's net position increased by \$83,816,974 for a revised net position as of September 30, 2016 totaling \$38,580,286. Therefore, it is vitally important to keep in mind the prior year's results as the current fiscal year financial data is discussed for comparison purposes.

In the case of the County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$38,580,286 at the close of fiscal year 2016. By far the largest component of the County's net position represents restricted assets and resources that are subject to external restrictions on how they may be used. Restricted assets total \$73,283,516 and are comprised of capital project funds totaling \$44,806,565 or 61.14 percent, special purpose funds totaling \$27,993,314 or 38.20 percent, enterprise funds totaling \$185,263 or .25 percent of restricted assets. Also included are debt service funds totaling \$298,374 or .41 percent of total restricted net position. The next category relates to unrestricted net position totaling (\$101,073,847) or (261.98) 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 \$66,370,617 or 172.03 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.

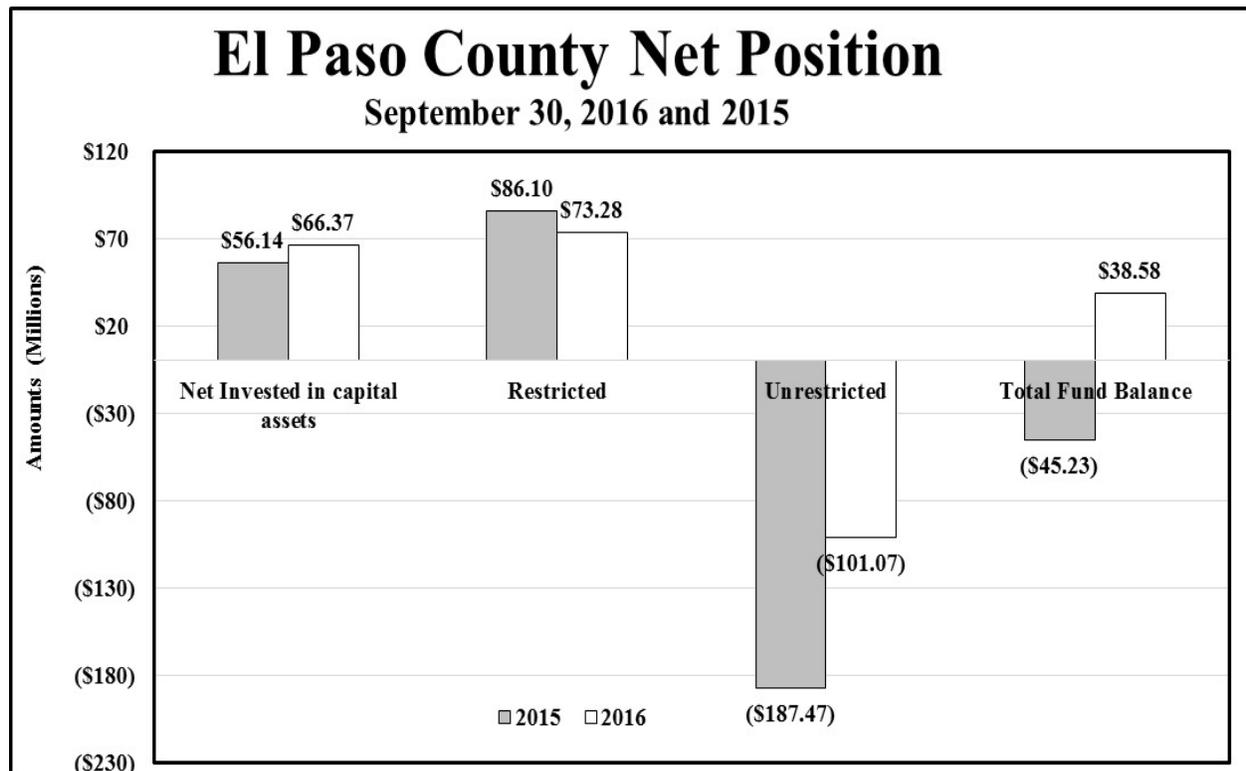
Furthermore, as of September 30, 2016, the County's net position for governmental activities increased by 84,466,365 or (151.73) percent and business-type activities decreased by (\$649,391) or (6.22) percent for a net overall increase of \$83,816,974 or (185.29) percent from the previous fiscal year. Net investments in capital assets from governmental and business-type activities increased by \$10,235,412, or 18.23 percent. There was a net decrease of (\$12,818,713) or (14.89) percent in restricted assets reported, composed of a decrease of (\$12,722,171) related to governmental activities and a decrease of (\$96,542) related to business-type activities. Unrestricted net position totaled (\$101,073,847) and increased by \$86,400,274 or 46.09 percent, which included an increase of \$86,625,667 related to governmental activities and a decrease of (\$225,392) related to business-type activities.

El Paso County, Texas Net Position						
	Governmental		Business-type		Total	
	Activities		Activities			
	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015
Current and other assets	\$ 201,261,218	\$ 204,126,626	\$ 2,190,557	\$ 2,628,985	\$ 203,451,775	\$ 206,755,611
Capital assets	271,490,952	266,291,876	9,490,115	9,849,994	280,981,067	276,141,870
Total assets	472,752,170	470,418,502	11,680,672	12,478,979	484,432,842	482,897,481
Deferred outflows of resources	99,097,656	31,608,188	72,067	30,589	99,169,723	31,638,777
Long-term liabilities outstanding	513,892,007	524,151,703	1,693,749	1,816,304	515,585,756	525,968,007
Other liabilities	24,858,876	33,234,591	204,055	260,297	25,062,931	33,494,888
Total liabilities	538,750,883	557,386,294	1,897,804	2,076,601	540,648,687	559,462,895
Deferred inflows of resources	4,302,233	310,051	71,359	-	4,373,592	310,051
Net position:						
Net investment in capital assets	58,428,078	47,865,209	7,942,539	8,269,996	66,370,617	56,135,205
Restricted	73,058,295	85,780,466	225,221	321,763	73,283,516	86,102,229
Unrestricted	(102,689,663)	(189,315,330)	1,615,816	1,841,208	(101,073,847)	(187,474,122)
Total net position	\$ 28,796,710	\$ (55,669,655)	\$ 9,783,576	\$ 10,432,967	\$ 38,580,286	\$ (45,236,688)

On a global perspective, the County's total assets from governmental and business-type activities increased by \$1,535,361 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 \$484,432,842 an increase of \$1,535,361 or .32 percent and deferred outflows of resources totaled \$99,169,723 and increased by \$67,530,946 or 213.44 percent most significantly due to an increase due to pension in governmental funds totaling \$67,489,468 or 213.52 percent and business-type activities totaling \$41,478 or 135.60 percent. Liabilities on the other hand totaled \$540,648,687, a decrease of (\$18,814,208) or (3.36) percent and deferred inflows of resources totaled \$4,373,592 and increased by \$4,063,541 or 1,310.60 percent most significantly related to an increase due to pension in governmental funds totaling \$3,992,182 or 1,287.59 percent and business-type activities totaling \$71,359 or 100 percent.

Further analysis reflects that the majority of all assets relate to governmental activities totaling \$472,752,170 and represents 97.49 percent of total assets. Overall, capital assets (net of related depreciation) totaled \$280,981,067 and increased by \$4,839,197 or 1.75 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.



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 \$1,535,361 or .32 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 \$13,299,118 or 30.41 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 (\$7,106,391) or (4.21) percent attributed to the draw down utilization of bond proceeds as projects progressed. Receivables also increased by \$3,840,658 or 10.19 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 \$540,648,687 and decreased by (\$18,814,208) or (3.36) percent. Further analysis reflects the majority of liabilities relate to governmental activities totaling \$538,750,883 or 99.65 percent and business type activities totaling \$1,897,804 or .35 percent. Compared to fiscal year 2015, liabilities decreased in the areas of net pension liability by

(\$10,734,076) or (4.59) percent due to second year actuarial adjustments relating to implementation of GASB 68, payroll liabilities by (\$5,927,839) or (60.34) percent, net change in bonds by (\$1,113,346) or (.50) percent, vouchers payable by (\$2,102,035) or (16.75) percent, claims payable by (\$1,383,228) or (67.16) percent, net change in compensated absences by (\$764,044) or (2.28) percent and net changes in contingent liabilities by (\$377,000) or (9.0) percent. Other increases included other post-employment benefits (OPEB) by \$2,390,661 or 7.16 percent due to the County's continuing policy of funding retiree health benefits on a pay-as-you-go basis and retainage payable by \$522,319 or 24.09 percent. For additional information regarding compensated absences and other post-employment benefits, please see notes 1-L and 3-J, respectively.

County of El Paso, Texas Changes in Net Position						
	Governmental		Business-type		Total	
	Activities		Activities			
	FY2016	FY2015	FY2016	FY2015	FY2016	FY2015
Revenues:						
Program revenues:						
Charges for services	\$ 69,004,261	\$ 61,399,995	\$ 1,774,243	\$ 1,711,990	\$ 70,778,504	\$ 63,111,985
Operating grants and contributions	27,082,292	26,675,411	-	-	27,082,292	26,675,411
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	173,450,207	168,604,596			173,450,207	168,604,596
Other taxes	51,048,811	49,895,477			51,048,811	49,895,477
Other	4,253,026	5,073,299	\$7,308	2,312	4,260,334	5,075,611
Total revenues	324,838,597	311,648,778	1,781,551	1,714,302	326,620,148	313,363,080
Expenses:						
General government	53,842,151	58,709,978			53,842,151	58,709,978
Administration of justice	49,737,499	62,705,622			49,737,499	62,705,622
Public safety	92,424,024	145,221,244			92,424,024	145,221,244
Health and welfare	10,014,216	12,665,274			10,014,216	12,665,274
Community services	2,440,186	2,090,491			2,440,186	2,090,491
Resource development	147,771	404,143			147,771	404,143
Culture and recreation	6,199,448	8,232,189			6,199,448	8,232,189
Public works	16,701,104	14,712,518			16,701,104	14,712,518
Interest on long-term debt	8,313,460	9,943,837			8,313,460	9,943,837
Enterprise fund			2,430,942	1,939,322	2,430,942	1,939,322
Total expenses	239,819,859	314,685,296	2,430,942	1,939,322	242,250,801	316,624,618
Increase (decrease) in net position before transfers	85,018,738	(3,036,518)	(649,391)	(225,020)	84,369,347	(3,261,538)
Transfers	-	-	-	-	-	-
Increase in net position	85,018,738	(3,036,518)	(649,391)	(225,020)	84,369,347	(3,261,538)
Net position October 1	(55,669,655)	138,037,142	10,432,967	10,809,291	(45,236,688)	148,846,433
Prior period adjustment	(552,373)	(190,670,279)	-	(151,304)	(552,373)	(190,821,583)
Net position September 30	\$ 28,796,710	\$ (55,669,655)	\$ 9,783,576	\$ 10,432,967	\$ 38,580,286	\$ (45,236,688)

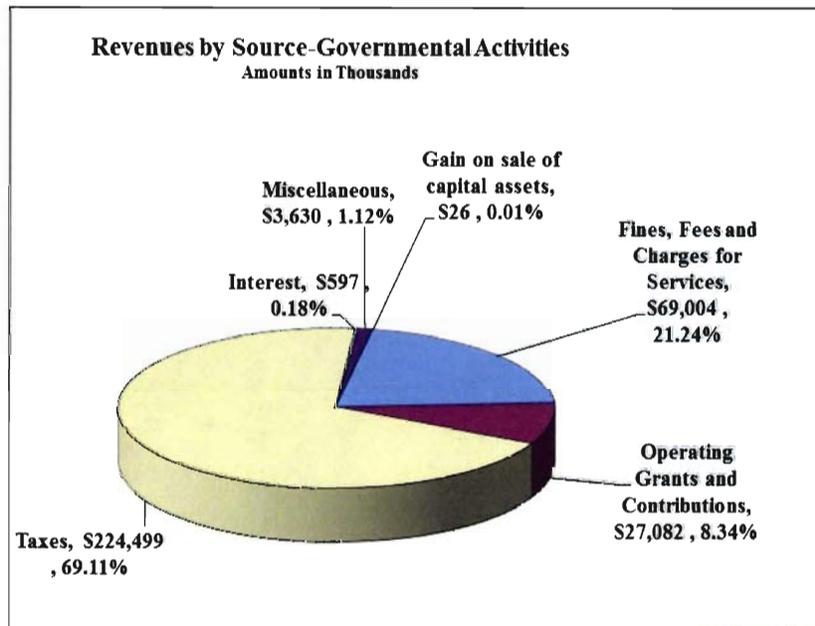
The increase in the County's overall net position by \$83,816,974 or (185.29) percent is due to the second year impacts of GASB 68 requiring government agencies to post actuarially projected net pension asset or liability tied directly to the fiscal year 2015 first year implementation which resulted in a corresponding prior year ending net position totaling (\$45,236,688) which in part rebounded in FY2016 as mentioned above. The current year increase in net position was attributable to governmental activities totaling \$84,466,365 and to business-type activities totaling (\$649,391). Other factors impacting overall net position represent the degree to which total revenues totaling \$326,620,148 outpaced expenditures totaling \$242,250,942. Due to the significance of pension expense and its impact on current year expenditure trends in comparison to the prior fiscal year, a reconciliation of expenditures has been provided in the expenditure discussion section of this document in order to provide comparative information exclusive of the impact of pension expense.

Overall, revenues grew by \$13,257,068 or 4.23 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 declined by (\$74,373,817) or (23.49) percent attributed for the most part by changes in actuarial pension expense in the current year which netted in part with other increases relating to personnel costs associated to cost of living and fringe benefits increases for all employees, but most significantly by continued expenditure of capital bond funds for existing construction projects.

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.

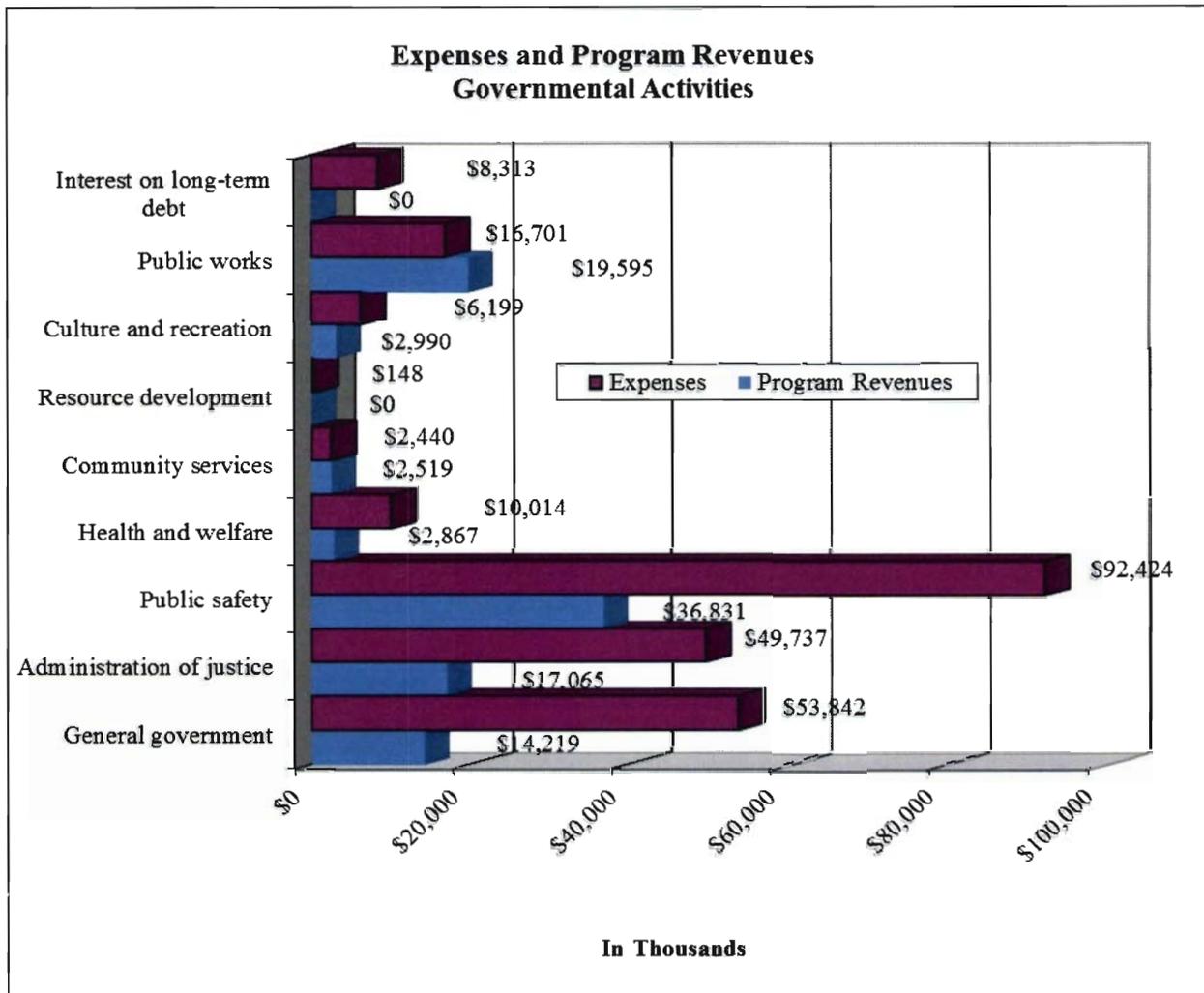
Governmental Activities

Governmental activities during fiscal year 2016 resulted in an increase in net position of \$84,466,365, or (151.73) percent which represents 100.77 percent of the total increase for the primary government. Comparative fiscal year 2016 and 2015 data relating to these changes is shown in the table on the prior page and is discussed below. Total revenues from governmental activities increased by \$13,189,819 or 4.23 percent over the previous year.



Charges for services grew by \$7,604,266 or 12.38 percent; property taxes increased by \$4,845,611 or 2.87 percent; other taxes comprised of sales and uses taxes, hotel taxes, mixed beverage alcohol taxes increased by \$1,153,334 or 2.31 percent and operating grants and contributions by \$406,881 or 1.53 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 and in 2015 and 2016 grew and remained at \$0.452694. Additionally, these increases were offset by a decrease in other revenues by (\$820,273) or (16.17) percent.

Expenses in governmental activities decreased by (\$74,865,437) or (23.79) percent and comprise 100.66 percent of the overall entity-wide decrease of (\$74,373,769). Significant decreases were evident in most areas such as in public safety by (\$52,797,220) or (36.36) percent, administration of justice by (\$12,968,123) or (20.68) percent, general government by (\$4,867,827) or (8.29) percent, health and welfare by (\$2,651,058) or (20.93) percent, culture and recreation by (\$2,032,741) or (24.69) percent, interest on long-term debt by (\$1,630,377) or (16.40) percent, and resource development by (\$256,372) or (63.44) percent. Increases which netted with the above decreases included public works by \$1,988,586 or 13.52 percent and community services by \$349,695 or 16.73 percent. The significance of the fiscal year decrease is mainly attributable adjustment of pension expense in compliance with GASB 68 netted with increases such as spending on capital projects, personnel and associated benefits growth.



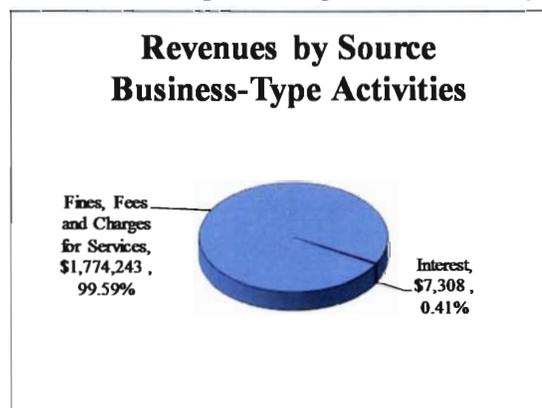
Changes mentioned previously within each of the functions above are the result of a combination of factors both at the fund level and more materially at the entity-wide level as explained in the discussion of the changes in the statement of net position. More specific information can be found in the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

County El Paso, Texas		
Supplemental Information-Reconciliation of Expenses for Pension Expense in the Statement of Changes in Net Position		
	Total	
	FY2016	FY2015
Expenses (Excluding Pension Expenses)		
General government	67,020,260	56,248,520
Administration of justice	64,498,438	60,006,663
Public safety	127,914,553	138,818,079
Health and welfare	11,644,117	12,331,601
Community services	2,486,099	2,077,819
Resource development	354,377	346,898
Culture and recreation	8,908,299	7,894,291
Public works	18,147,346	14,474,102
Interest on long-term debt	8,313,460	9,943,837
Enterprise fund	2,490,664	1,926,651
Total expenses	311,777,613	304,068,461
Pension Expense		
General government	(13,178,109)	2,461,458
Administration of justice	(14,760,939)	2,698,959
Public safety	(35,490,529)	6,403,165
Health and welfare	(1,629,901)	333,673
Community services	(45,913)	12,672
Resource development	(206,606)	57,245
Culture and recreation	(2,708,851)	337,898
Public works	(1,446,242)	238,416
Interest on long-term debt	-	-
Enterprise fund	(59,674)	12,671
Total expenses	(69,526,764)	12,556,157
Expenses (Including Pension Expenses)		
Expenses:		
General government	\$ 53,842,151	\$ 58,709,978
Administration of justice	49,737,499	62,705,622
Public safety	92,424,024	145,221,244
Health and welfare	10,014,216	12,665,274
Community services	2,440,186	2,090,491
Resource development	147,771	404,143
Culture and recreation	6,199,448	8,232,189
Public works	16,701,104	14,712,518
Interest on long-term debt	8,313,460	9,943,837
Enterprise fund	2,430,990	1,939,322
Total expenses	\$ 242,250,849	\$ 316,624,618

In order to provide a more precise depiction of current year operations in comparison to the prior fiscal year, a reconciliation of expenditures from the statement of activities has been provided above exclusive of pension expense. Total expenses increased by \$7,709,152 or 2.54 percent which results from a netting of increases totaling \$20,930,539 and decreases totaling \$13,221,287. Significant increases were evident in numerous areas such as general government by \$10,771,740 or 19.15 percent, administration of justice by \$4,491,775 or 7.49 percent, public works by \$3,673,244 or 25.38 percent, culture and recreation by \$1,014,008 or 12.84 percent, enterprise fund by \$564,013 or 29.27 percent, community services by \$408,280 or 19.65 percent and resource development by \$7,479 or 2.16 percent. Decreases were also experienced such as in public safety by (\$10,903,526) or (7.85) percent, interest on long-term debt by (\$1,630,377) or (16.40) percent and health and welfare by (\$687,484) or (5.57) percent.

Business-type Activities

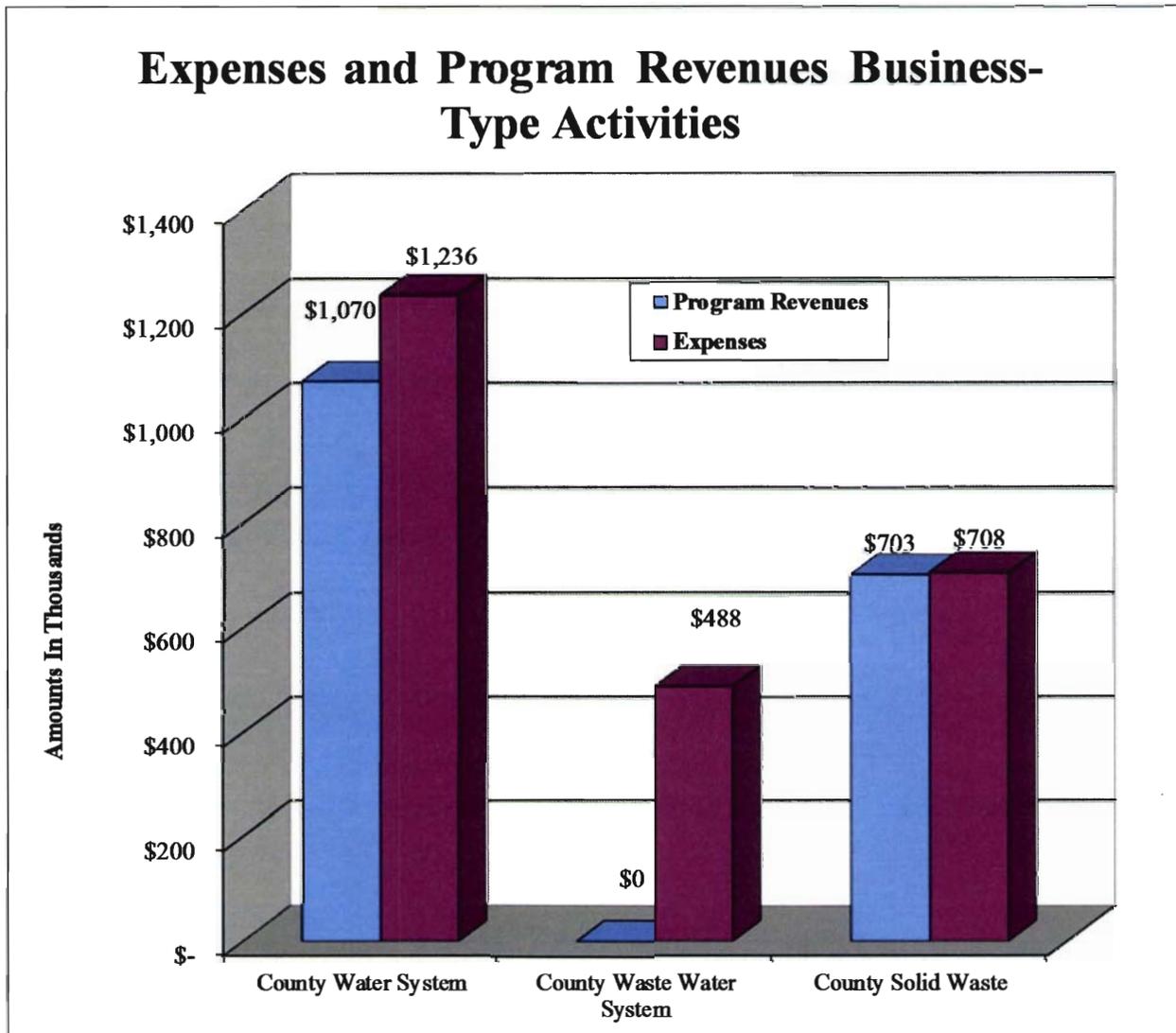
Business-type activities resulted in a decrease in net position of (\$649,391) or (6.22) percent and accounted



for 0.76 percent of the total change in the primary government's net position. Comparative fiscal year 2016 and 2015 data relating to these changes is reflected on Exhibit 7 of this report.

Overall revenues increased by \$67,249 or 3.92 percent for a total of \$1,781,551. Charges for services increased by \$62,253 or 3.64 along with an increase in other revenues by \$4,996 or 216.09 percent due to an increase in interest rates.

Expenses in this area totaled \$2,430,942 an increase of \$491,620 or 25.35 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.

For fiscal year 2016, the Commissioners Court significantly increased its use of assigned fund balance in the subsequently fiscal year budget by \$42,927,175 or 298.67 percent above the previous year for a total of \$57,299,992. It is noteworthy to clarify the significance of this change between the assigned and unassigned fund balances which were predicated in the fiscal year 2017 General Fund adopted budget. As stated in the County's Financial Policies, "Assignments will be made when necessary to utilize reserves to balance the proposed budget as needed or in the event of unforeseen circumstances that arise and require the expenditure of funds for which there was not an offsetting revenue source to account for the increase in unplanned appropriations, i.e. a catastrophic event."

In this regard, Local Government Code, Sec. 111.070 provides "The commissioners court may spend county funds only in strict compliance with the budget, except as provided by this section. Pursuant to section 111.070 (b) "...commissioners court may authorize an emergency expenditure as an amendment to the original budget only in a case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonably diligent thought and attention. If the court amends the original budget to meet an emergency, the court shall file a copy of its order amending the budget with the county clerk and the clerk shall attach the copy to the original budget." Section 111.070 (c) states, "The commissioners court by order may: (1) amend the budget to transfer an amount budgeted for one item to another budgeted item without authorizing an emergency expenditure; or (2) designate the county budget officer or another officer or employee of the county who may, as appropriate and subject to conditions and directions provided by the court, amend the budget by transferring amounts budgeted for certain items to other budgeted items."

Therefore, beginning with fiscal year 2017 budget, pursuant to the County's Financial Policies, the Commissioners Court directed that a portion of the projected unassigned yearend fund balance be assigned and placed as a line item in the budget after considering the portion to be assigned in balancing the subsequent fiscal year 2017 general fund operating budget, which the amount totaled \$27,299,992, an increase of \$12,927,175 above the prior assignment of \$14,372,817. Based on the County Auditor's fiscal year 2016 yearend fund balance projection and 2017 revenue estimate certifications, the Budget Officer recommended to the Commissioner Court the earmarking of \$30 million as a line item in the 2017 fiscal year general fund budget **to be used only in the unlikely event of an unforeseen emergency**. As a result, the County ended fiscal year 2016 with an assigned fund balance in the general fund of \$57,299,992, an increase of \$42,927,175 or 298.67 percent. Additionally, the resulting unassigned fund balance totaled \$16,648,299 a decline of (\$28,513,663) or (63.14) percent.

In light of the significance of this change, assuming the \$30 million assigned for emergencies for all intent and purposes remained unassigned, the committed and assigned fund balance in the general fund as of September 30, 2016 in comparison would have totaled \$27,299,992, an increase of \$12,927,175 or 89.94 percent; conversely, the unassigned fund balance would have totaled \$46,648,299, an increase of \$1,486,337 or 3.29 percent over the prior year. Based on this assumption, El Paso County stayed within its minimum target goal of 10-15 percent fund balance reserve with a ratio of 14.85 percent in comparison to the fiscal year 2017 adopted general fund budget of \$314,178,971.

At the end of the fiscal year, the County's governmental funds reported combined ending net position of \$28,796,710 an increase of \$84,466,365 or (151.73) percent in comparison with the prior year. Unrestricted net position constitutes (\$101,073,847) or (261.98) percent of total net position, which typically represents the amount that 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 2017 fiscal year's budget.

The general fund is the chief operating fund of the County. Fund balance totaled \$75,575,840, an increase of \$14,802,185 or 24.36 percent. At the end of the fiscal year, \$16,648,299 was unassigned while assigned totaled \$57,299,992 of which only \$27,299,992 represents the amount assigned to balance the general fund budget for fiscal year 2017 and \$30,000,000 relates to assigned and designated for emergencies as previously discussed. 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 2017, the amount required to cover this gap increased by \$12,927,175 or 89.94 percent.

Grant funds ended the fiscal year with a fund balance of \$2,862,740, a decrease of (\$574,456) or 16.71 percent.

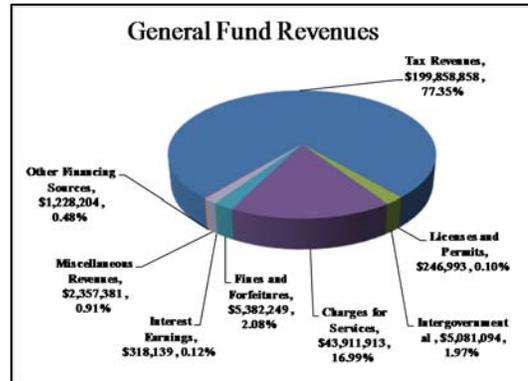
The Capital Projects 2012 reported as a major fund ended the fiscal year with a fund balance of \$44,806,565 and decreased by (\$12,681,748) or (22.06) percent due to the continuation and project completion of projects which were covered with these funds.

The debt service fund ended the fiscal year with a fund balance of \$1,271,030, a decrease of (\$324,553) or (20.34) percent, due to an increase in debt payments during the year.

The special revenue funds in the aggregate ended the year with a fund balance of \$27,993,314, an increase of \$102,401 or .37 percent compared to the previous year and is utilized to account for a variety of funds whereby which are restricted as to their use. The most recent addition relates 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 \$15,290,189. Actual revenues before transfers in totaled \$257,156,627 an increase of \$13,008,378 or 5.33 percent over fiscal year 2015. Further analysis reflects that various revenues increased by \$13.2 million. Increases to revenues were primarily due to an increase in the charges for services category totaling \$7.3 million or 20.07 percent, the taxes category totaling \$5.8 million or 2.99 percent mainly due to the addition of new property values to the tax rolls. Other increases included fines and forfeitures totaling \$297,610 or 5.85 percent, intergovernmental totaling \$249,204 or 5.16 percent, interest earnings totaling \$205,827 or 183.26 percent and other financing sources totaling \$189,948 or 18.29 percent.



General Fund Revenues	2016 Actuals	2015 Actuals	Amount Increase (Decrease) from FY2015	Percent Increase (Decrease)	2016 actual as a % of Total Revenues and Other Financing Sources
Tax Revenues	\$199,858,858	\$194,054,957	\$5,803,901	2.99%	77.35%
Licenses and Permits	246,993	257,051	(\$10,058)	-3.91%	0.10%
Intergovernmental	5,081,094	4,831,890	\$249,204	5.16%	1.97%
Charges for Services	43,911,913	36,570,447	\$7,341,466	20.07%	16.99%
Fines and Forfeitures	5,382,249	5,084,639	\$297,610	5.85%	2.08%
Interest Earnings	318,139	112,312	\$205,827	183.26%	0.12%
Miscellaneous Revenues	2,357,381	3,236,953	(\$879,572)	-27.17%	0.91%
Other Financing Sources	1,228,204	1,038,256	\$189,948	18.29%	0.48%
Total revenues and other sources	\$258,384,831	\$245,186,505	\$13,198,326	5.38%	100.00%

Further analysis of the general fund reflects revenue increases totaling \$14,087,956 were netted by revenue declines totaling (\$889,630) which comprised miscellaneous revenues totaling (\$879,572) or (27.17) percent and licenses and permits totaling (\$10,058) or (3.91) 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 2016 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 including carryforward appropriations reflects an increase in fiscal year 2016 of \$10,333,190 or 4.06 percent over fiscal year 2015 for a total of

General Fund Expenditures	2016 Actuals	2015 Actuals	Amount Increase (Decrease) from FY2015	Percent Increase (Decrease)	2016 actual as a % of Total Expenditures and Other Financing Uses
Current:					
General Government	\$55,525,646	\$45,512,299	10,013,347	22.00%	22.84%
Administration of Justice	58,327,167	55,168,046	3,159,121	5.73%	23.99%
Public Safety	109,799,208	115,463,147	(5,663,939)	-4.91%	45.17%
Health and Welfare	7,779,818	8,489,940	(710,122)	-8.36%	3.20%
Resource Development	343,077	334,290	8,787	2.63%	0.14%
Culture and Recreation	4,230,559	3,639,275	591,284	16.25%	1.74%
Public Works	108,205	58,174	50,031	86.00%	0.04%
Capital Outlays	253,040	163,316	89,724	54.94%	0.10%
Other Financing Uses	6,727,922	6,338,296	389,626	6.15%	2.77%
Total Expenditures (Uses)	\$243,094,642	\$235,166,783	\$7,927,859	3.37%	100.00%

\$254,580,186. As depicted in the chart above, actual expenditures and transfers-out in fiscal year 2016 increased by \$7,927,859 or 3.37 percent bringing the total of general fund expenditures and transfers out to \$243,094,642.

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. Increases overall approximated \$14,301,920 and netted with declines of (\$6,374,061). Increases were experienced in a variety of areas such as \$10 million or 22.0 percent in general government, \$3.2 million or 5.73 percent in Administration of Justice and \$389,626 or 6.15 percent in other financing uses among others. Declines were most prevalent in the area of public safety which declined by (\$5.7) million or (4.90) percent followed by (\$710,122) or (8.36) percent in health and welfare. Further analysis depicts that in the area of the County sheriff and jails, a decline in expenditures overall occurred totaling (\$5) million when compared to fiscal year 2015 most of which represented salaries and fringe benefit reductions totaling (\$4.3) million. 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 2016, but the majority of these savings were mainly attributed to continued proactive action taken in the Sheriff's Department to minimize overtime costs and due to continued utilization of a 12 hour shift work day which has resulted in increased resource efficiencies. Further analysis of the overall declines mentioned netted with increases such as \$217,115 to Animal Control, \$137,665 to Medical Examiner which were offset with declines such as the Border Children Mental Health department of (\$651,075), City-County Health of (\$205,316) and Child Welfare of (\$159,334).

General Fund Budgetary Highlights

The fiscal year 2016 adopted budget of \$263,062,111 did not increase during the fiscal year other than for carryover appropriations totaling \$1,851,264 bringing the original budget total to \$264,913,375. This budget included \$14,372,817 of fund balance reserves to balance the fiscal year 2016 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 actual revenues were \$9,472,333 more than estimates and occurred with all areas experiencing positive variances except for property and bingo taxes which had unfavorable variances of (\$132,081) or (1.39) percent and (\$4,178) or (.04) percent when compared to the overall variances. Further analysis of this overall favorable variance depicts increases in charges for services of \$6,290,120 or 66.41 percent, sales tax of \$1,772,276 or 18.71 percent, intergovernmental of \$394,527 or 4.17 percent, fines and forfeitures of \$379,249 or 4.0 percent, miscellaneous of \$258,931 or 2.73 percent, interest of \$218,139 or 2.30 percent and licenses and permits of \$1,993 or .02 percent.

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 expenditures and transfers out appropriation variances totaled \$22,252,337 which represents 8.40 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 \$8,008,495, \$3,755,066, \$2,820,788 and \$1,556,928 or 35.99 16.87, 12.68, and 7.00 percent of the total overall appropriation variances respectively. The majority of these variances in general government related to appropriations in the general and administrative account totaling \$3.9 million or 48.33 percent of the variance in this areas for various contingencies which totaled \$2,571,454 due to personnel and maintenance of operating contingency accounts for which expenditure trends did not require appropriation transfers. The second significant decline in this area related to the information technology department totaling \$1,053,599 or 13.16 percent. In the area of public safety the majority of this variance or \$2.9 million or 78.21 percent related to the Sheriff's Department 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. Another significant variance was attributable to the Juvenile Probation Departments which totaled \$488,067 or 13 percent. In the area of administration of justice the most significant change occurred in the council of judges totaling \$1,030,544 or 36.53 percent, district attorney totaling \$479,298 or 16.99 percent, office of criminal justice coordination totaling \$259,947 or 9.22 percent, public defender totaling \$189,845 or 6.73 percent 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 \$3,014,636 or 13.55 percent and relates to leveraging county matching funds to secure state and federal grant funding.

Capital Asset and Debt Administration

Capital assets

El Paso County, Texas						
Summary of Capital Assets (Net of Depreciation)						
Categories	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$17,962,933	\$17,531,461	\$19,770	\$19,770	\$17,982,703	\$17,551,231
Easements	110,000	110,000			110,000	110,000
Artwork	56,255	56,255			56,255	56,255
Buildings	119,131,697	124,446,202			119,131,697	124,446,202
Improvements	6,992,665	6,593,517			6,992,665	6,593,517
Equipment	17,588,869	19,702,456	\$9,450,385	\$9,807,689	27,039,254	29,510,145
Furniture and Fixtures	243,817	173,308			243,817	173,308
Infrastructure	8,138,652	8,494,885			8,138,652	8,494,885
Vehicles	8,367,548	7,455,231	19,960	22,535	8,387,508	7,477,766
Roads	28,389,892	30,704,593			28,389,892	30,704,593
Bridges and culverts	7,111,418	7,181,786			7,111,418	7,181,786
Leased equipment	359,417	103,511			359,417	103,511
IT Systems in progress	3,501,496	2,625,813			3,501,496	2,625,813
Construction in progress	53,536,293	41,112,858	-	-	53,536,293	41,112,858
Total assets	\$271,490,952	\$266,291,876	\$9,490,115	\$9,849,994	\$280,981,067	\$276,141,870

The County's capital assets for governmental and business type activities as of September 30, 2016, amounted to \$271,490,952 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 \$4,839,149 or 1.75 percent, comprised of an increase of \$5,199,076 or 1.95 percent in governmental activities and a decrease of (\$359,927) or (3.65) percent in the business-type activities.

Major capital asset activity occurring in fiscal year 2016 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 of the Courthouse mechanical plumbing. Additional information on the County's capital assets can be found in note 3-C and Exhibits G1- G3.

Long-term Debt

El Paso County's Outstanding Debt						
Type of Debt	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$115,085,000	\$63,360,000			\$115,085,000	\$63,360,000
Certificates of obligation bonds	84,390,000	141,870,000			84,390,000	141,870,000
Revenue bonds			\$1,547,000	\$1,580,000	1,547,000	1,580,000
Total	\$199,475,000	\$205,230,000	\$1,547,000	\$1,580,000	\$201,022,000	\$206,810,000

At the end of the fiscal year, the County had total bonded debt outstanding of \$201,022,000 as reflected above. Of this amount, \$199,475,000 comprises debt backed by the full faith and credit of the government. The remainder of the County's debt represents revenue bonds secured solely

by specified revenue sources. During the current fiscal year the County's total debt decreased by (\$5,755,000) or (2.80) 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 April 14, 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 2007 and General Obligation Refunding Bonds, Series 2007 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 April 14, 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 2001, Series 2007 and Series 2012 and General Obligation Refunding Bonds, Series 2007 and Series 2011 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 2015 and 2016. 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

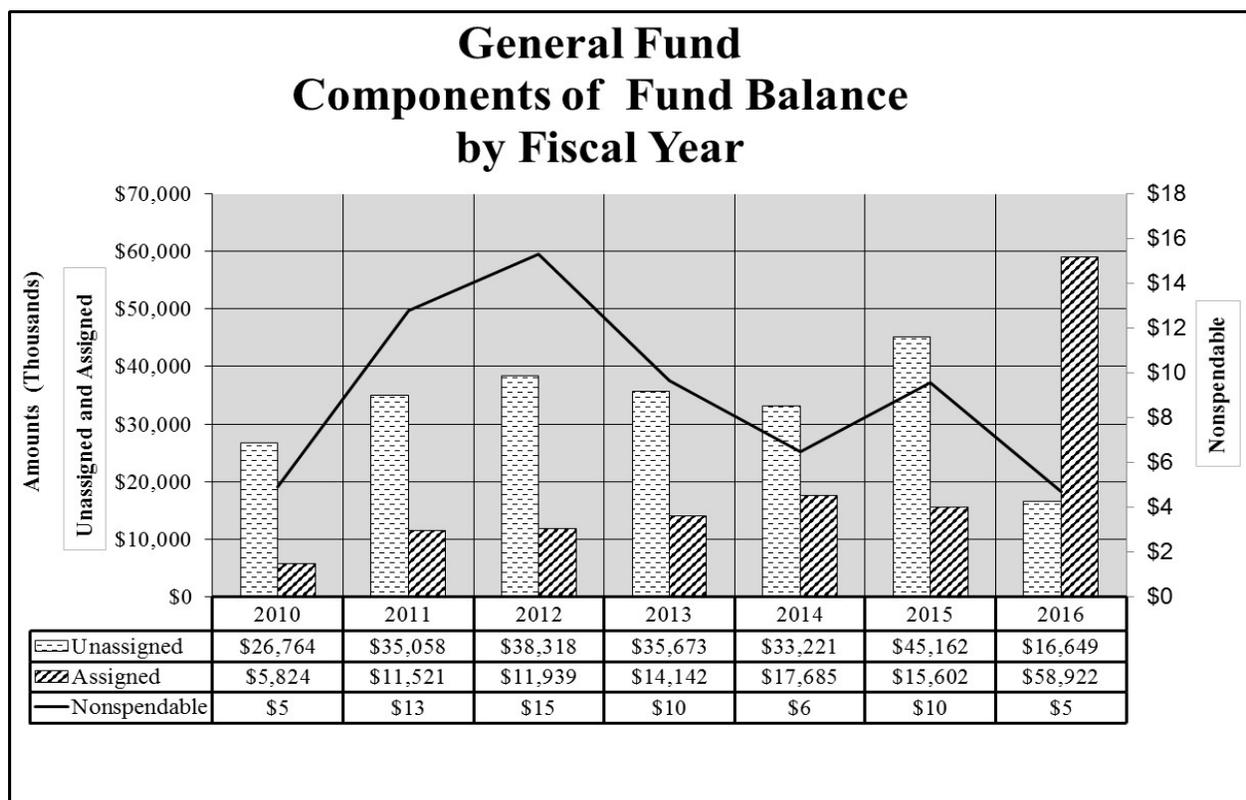
- According to the Texas Workforce Commission's October 2016 issue of Texas Labor Market Review, the statewide unemployment rate was 4.4 percent in September 2016. In comparison, the same time last year the rate was 4.9 percent. El Paso's unemployment rate for September was 5.3 percent in comparison to 5.1 percent in September 2015. El Paso's employment grew by a .20 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 2015 and September 2016, El Paso added 7,800 jobs overall. Further analysis reflects 8,700 job gains netted with 900 employment losses. Some of the various job gains occurred in construction 400, retail trade 1,600, transportation 100, financial activities 900, professional and business services 300, education and health services 1,900, leisure and hospitality 2,400, other services 200 and total government sectors 900. Minor declines occurred in the manufacturing and information sectors, which lost 700 and 200 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 2.35 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 and increase to \$0.452694 in 2015. 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 2016, the tax rate remained the same at \$0.452694.
- The overall fund balance of the general fund experienced stabilization and growth between fiscal years 2011 and 2015, 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, substantially growing by \$9,861,241 in fiscal year 2015 and again in 2016 by \$14,802,194.
- Sales and use tax revenues grew in 2010 after a decline in 2009 and has reflected positive continued growth through fiscal year 2016. 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, 2016, the Federal Funds rate was .50 percent and the Discount rate remained at 1.00 percent. Interest for the twelve months ended September 2016 was \$604,476, up \$316,358 or 109.8 percent when compared to \$288,118 the prior fiscal year, due mainly to an increase in interest rates.

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 2017, 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 increased its use of fund balance in the fiscal year 2017 budget by \$12,927,175 compared to the amount used 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 on the prior page 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 2017 budget adopted by the County totaled \$377,467,108, a net increase of \$54.6 million or 16.91percent in comparison to the fiscal year 2016 adopted budget as amended. The budget preparation function is currently performed by the Budget and Fiscal Policy Department which was created in during fiscal year 2015. This department prepared the official 2017 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/budget/currentbudget.htm>

This financial report is designed to provide a general overview of the County's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the El Paso County Auditor, 800 East Overland Avenue, Room 406, El Paso, Texas, 79901. This report can also be accessed through the County's web page as reflected below.

<http://www.epcounty.com/auditor/publications/cafr.html>

