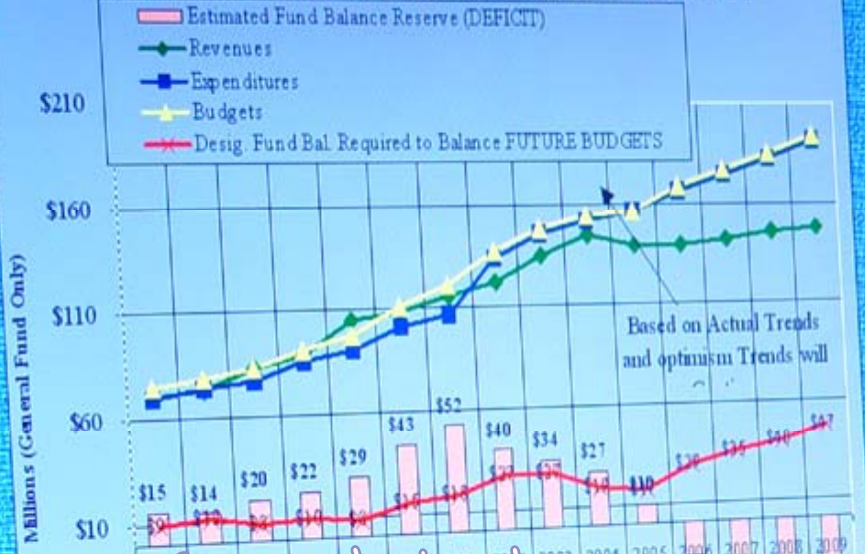


DELL

County Auditor's Financial Forecast

Assumes Effective Tax Rate and Normal 3% Growth in Tax Base



EXECUTIVE AND BUDGET SUMMARY





COUNTY OF EL PASO

OFFICE OF THE COUNTY AUDITOR

EDWARD A. DION, CPA, CIO
COUNTY AUDITOR
edion@co.el-paso.tx.us
www.co.el-paso.tx.us/auditor

ROOM 406, COUNTY COURTHOUSE BUILDING
500 EAST SAN ANTONIO STREET
EL PASO, TEXAS 79901-2407
(915) 546-2040
(915) 546-8172 FAX

January 28, 2005

The Honorable Dolores Briones, County Judge,
Honorable County Commissioners and Citizens of the County of El Paso
County Courthouse Building, Suite 301
500 East San Antonio Street
El Paso, Texas 79901

Dear County Judge, County Commissioners
and Citizens of the County of El Paso:

We are pleased to present the fiscal year 2005 published operating budget of the County of El Paso, Texas (County) for the period of October 1, 2004 through September 30, 2005. This document addresses County financial policies, managerial priorities of Commissioners Court and factors impacting this budget, which gave direction in its preparation. A County operating budget is required to be prepared each year by the *Texas Local Government Code, Chapter 111, Sub chapter B*.

ECONOMIC CONDITIONS AND OUTLOOK

POPULATION

The County enjoys fairly sound economic diversification. Being that El Paso is in the heart of the Southwest, many businesses are attracted to the El Paso/Juarez region. As of January 1, 2004 the City Planning, Research and Development Department estimated the County population at 717,211. The City of El Paso, the County seat, is estimated as having a population of 594,054. El Paso is the largest City in the United States that borders Mexico. According to the Texas State Comptroller of Public Accounts in its 2004 Annual Cash Report, based on population, El Paso is the sixth largest Texas City just behind fifth-ranked Fort Worth. Exclusive of metro areas, the City of El Paso is the twenty-second largest city in the country. The County on the



EXECUTIVE AND BUDGET SUMMARY

POPULATION, CONT'D

other hand remains the sixth largest County in the State of Texas. Only the Rio Grande River separates El Paso County from its neighboring Ciudad Juarez, Mexico. According to estimation by local officials, the population of Ciudad Juarez is 1,325,087. The geographic location of El Paso encourages enterprising businesses the unique versatility of being internationally known while remaining in the United States.

NEW PORT OF ENTRY

With Interstate 10 running east to west through El Paso and its proximity to Interstate 25 and Mexico's Pan American Highway, this area represents a trade corridor with accessibility to rail lines and six international ports of entry with Mexico. Over a number of years, the County has been actively involved in the creation of a new port of entry in Fabens. Funding in the amount of \$2,500,000 was budgeted within the Capital Project Fund in fiscal year 2002 on a project basis in support of preliminary assessment and design as negotiations between the United States and Mexican government continue. As of fiscal year 2004, capital appropriations related to this project totaled \$7,000,000 while year-to-date expenditures as of September 30, 2004 totaled \$4,424,128. Funds expended to date relate to environmental assessment, bridge design and the purchase of land and right-of-way necessary for this project. A significant amount relates to efforts to secure a presidential permit to move forward on construction of the port of entry. Based on the most recent information available, a presidential permit is in the draft stage and is anticipated during fiscal year 2005. Revenue bonds are anticipated to fund the construction of this bridge, which may be realized within the next few years as the process continues.

MOVEMENT IN THE ECONOMY

The El Paso region is seeing positive movement in the economy, as reflected in the employment chart below. Mexico's economy continues improving and the border retail activity is gaining momentum that is ultimately feeding job growth. Additionally, El Paso County has

El Paso MSA Employment by Industry					
Amounts in Thousands					
ELPaso Metropolitan Statistical Area Profile obtained from the Texas Workforce Commission					
Industry Types	September 2003	September 2004	Amount Change	% Change	% of Total
Construction	12.00	12.10	0.10	0.83%	4.64%
Manufacturing	26.40	24.30	-2.10	-7.95%	9.32%
Trade	43.10	45.90	2.80	6.50%	17.60%
Finance, Insur., Real Estate	11.90	12.20	0.30	2.52%	4.68%
Transport/Public Util.	12.30	12.90	0.60	4.88%	4.95%
Services	90.60	90.20	-0.40	-0.44%	34.59%
Total Government	60.70	63.20	2.50	4.12%	24.23%
Total Labor Market	257.00	260.80	3.80	1.48%	100.00%

EXECUTIVE AND BUDGET SUMMARY

MOVEMENT IN THE ECONOMY, CONT'D

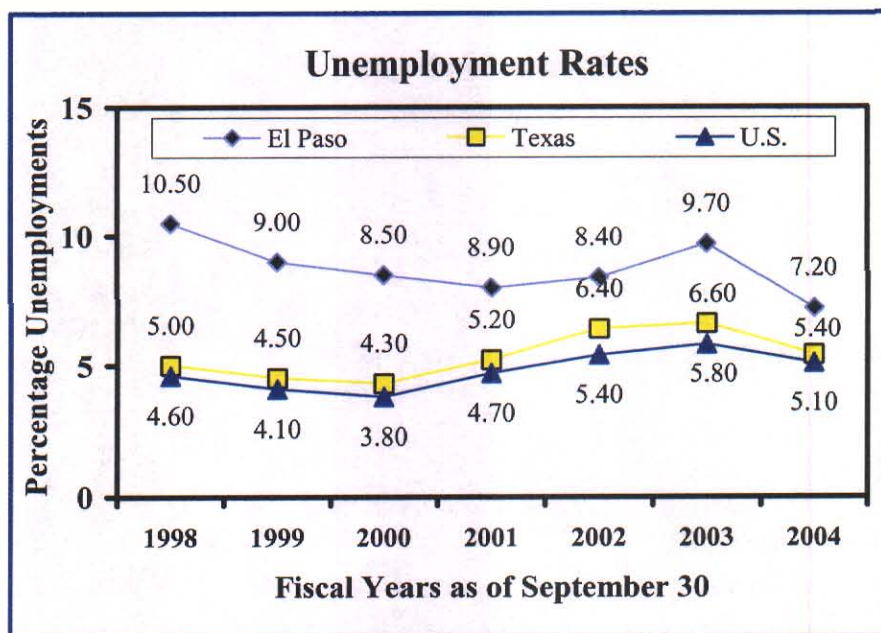
seen moderate improvement since the 1994 peso devaluation. Government remains vital to the economy as well as the University of Texas at El Paso (UTEP) and Fort Bliss Military Base. Being that the El Paso area serves as a vital retail trade center for far West Texas and Northern Mexico, the County's economy is bolstered by a variety of sectors. The economy of this region is predominately comprised of manufacturing, military establishments, refining, food processing, educational facilities including UTEP and El Paso Community College (EPCC), farming, tourism, and domestic and foreign commerce. Cattle, hogs, cotton and pecans are primary sources of agricultural income. Moreover, a substantial manufacturing sector exists mainly due to the maquiladora or "twin plant" program with the Republic of Mexico. The "twin plant" program permits various portions of manufacturing to be performed in Ciudad Juarez while associated activities are done within El Paso County.

PRINCIPAL ISSUES FACING EL PASO COUNTY

1. EMPLOYMENT

El Paso evolved from an agricultural economy to what it is today, an international center of trade and manufacturing with an increasing population. According to the Texas State Comptroller's State of Texas 2004 Annual Cash Report, the largest top 5 private employers were Sierra Providence Health Network (3,800), Wal-Mart (3,700), Las Palmas and Del Sol Regional Healthcare System (2,200) Echostar Satellite Corporation call center (2,000) and MCI/GC telemarketing services (1,700). Additionally, El Paso's largest public employers are the El Paso Independent School District, the City of El Paso, the Socorro Independent School District, and the Ysleta Independent School District. According to the Greater Chamber of Commerce, Fortune 500 companies operating in the El Paso region include Boeing, Eureka, General Electric, Hoover and Leviton. Education employment continued to grow with 9,100 employed at the El Paso ISD, 3,600 at the Socorro ISD and 5,600 at the Ysleta ISD.

According to the Texas Workforce Commission's October 2004 issue of Texas Labor Market Review, unemployment statewide was 5.4 percent in September. When compared to the same time last year, this unemployment rate was 1.20 percent higher. As reflected to the right, El Paso's unemployment rate for September was 7.2 percent, a significant 2.5 decline in



EXECUTIVE AND BUDGET SUMMARY

PRINCIPAL ISSUES FACING EL PASO COUNTY, CONT'D

comparison to 9.7 percent in September 2003. Even though El Paso's unemployment traditionally ranks higher than the State, the National Policy Research Council ranked El Paso in the top 50 cities based on government and public safety, environment, and infrastructure as stated in the Texas State Comptroller's State of Texas 2004 Annual Cash Report. Over the past fiscal year between September 2003 and September 2004, El Paso added 3,800 jobs overall. Further analysis reflects that 6,300 job gains resulted which netted with 2,500 employment losses. The job gains occurred in trade, total government, transportation/public utilities, finance and construction sectors, adding 2,800, 2,500, 600, 300 and 100 jobs respectively. The major decline occurred in the manufacturing sector, which lost 2,100 jobs followed by a decline in the services sector totaling 400. These two sectors combined comprise 9.32 and 34.59 percent of El Paso's employment market respectively. The significant reduction in the manufacturing sector is attributable mainly to apparel manufacturer VF Jeanswear (maker of Lee and Wrangler jeans) shifting a significant portion of its operations from El Paso to Mexico in order to reduce manufacturing costs. This is consistent with the nationwide trend of cost cutting within the apparel-manufacturing sector.

El Paso's cultural and business ties as a border region with Mexico drive it's 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. Due to the nature of our border economy and labor markets, El Paso continues to thrive as reflected in its employment. The strong dollar and a slow U.S. recovery battered El Paso's international economy in 2002 through 2003 with a rebound in sales and use taxes in fiscal year 2004. El Paso continues to transition from a goods-producing economy to a service economy. Overall, in line with positive economic conditions in the state and nationally and job growth reflected above in 2004, positive indications remain on the financial outlook given our low taxes, abundance of labor, and moderate wage rates.

2. PERSONAL INCOME PER CAPITA

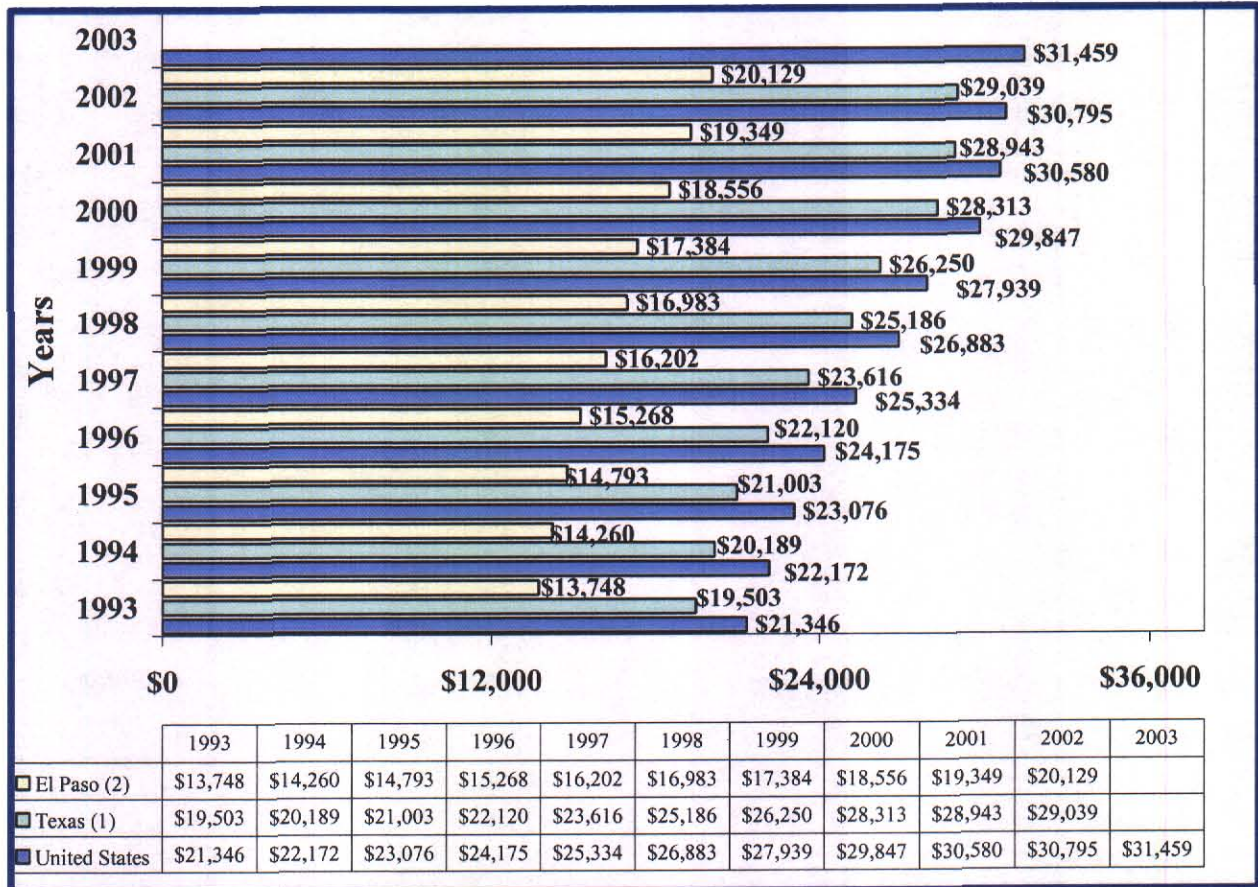
The per capita income for an area may be defined as the total personal income in an area, divided by the number of people in that area. Per capita income is often used as a measure of the wealth of the population of a nation, particularly in comparison to other nations. It is usually expressed in terms of a commonly-used international currency such as the US Dollar, and is useful because it is widely known and produces a straightforward statistic for comparison.

El Paso County being a border community, historically has lagged behind the State of Texas and the National average when it comes to per capita income. Based on data obtained from the Regional Economic Information System, Bureau of Economic Analysis, per capita income has grown substantially in El Paso from \$13,748 in 1993 to \$20,129 in 2002, an increase of 46.41 percent. On average the annual growth for the United States, Texas and El Paso has approximated 4.17, 4.55 and 4.34 percent respectively between 1993 and 2002. Further analysis reflects that per capital income in El Paso recently gained momentum in the period between 2000 and 2002 reflecting average annual growth of 5.02 percent while simultaneously the average in the United States and Texas was 3.33 and 3.47 percent respectively. The reasoning for this can be explained by economic stimulus in the region which is further confirmed by employment gains and an unemployment rate that reflects a greater decline locally in comparison to that of the United States and Texas.

EXECUTIVE AND BUDGET SUMMARY

PRINCIPAL ISSUES FACING EL PASO COUNTY, CONT'D

Per Capita Income



- (1) Regional Economic Information System, Bureau of Economic Analysis, September 2004.
- (2) Regional Economic Information System, Bureau of Economic Analysis, May 2004.

3. RETAIL SALES TAX

El Paso County relies on sales and use tax, as it comprises almost seventeen percent of general fund revenues. In the advent of the September 11, 2001 terrorist attack, retail sales took a beating across the nation. Gross retail sales in El Paso totaled \$6.3 billion of which \$3.1 billion was subject to State tax and only grew by only a tenth of a percent in 2001. Slight rebounds were seen in 2002 and 2003 but it was not until 2004 did El Paso experience a significant rebound in its sales tax revenue. Between fiscal year 2001 and 2003, sales and use tax revenue grew on average by \$470,000 or 1.9 percent. Fiscal year 2004 gave the County a sigh of relief, since this revenue source grew by approximately \$938,000 or 5 percent over fiscal year 2003. Assuming continued recovery of the national and local economy, this trend is expected to continue.

EXECUTIVE AND BUDGET SUMMARY

PRINCIPAL ISSUES FACING EL PASO COUNTY, CONT'D

4. AVERAGE VALUE OF HOMES

The average home value in El Paso County according to the El Paso Central Appraisal District in 2004 was \$75,364, an increase of \$6,743 or 9.83 percent over 2003. According to the Real Estate Center at Texas A&M University, the El Paso area had the greatest percentage increase in housing starts in 2003 for the State of Texas. This increase was the fifth largest increase in the nation, according to a report by the National Association of Home Builders "Housing Economics." To further reflect current home sale values in the El Paso area, the graph on the right shows the price distribution of homes sales in 2003 in comparison to 2002. This information reflects that approximately 56.5 percent of all homes sold were valued at less than \$100,000, in 2003. Additionally, approximately 35.5 percent of homes sold were valued between \$100,000 and \$200,000 leaving a balance of 8 percent representing home sales over \$200,000. Furthermore, analysis of homes sales reflects that approximately 74 percent of all sales had a home value of between \$60,000 and \$160,000.

Price Distribution of Homes Sold-El Paso Area (In Percent)		
Price Range	2002	2003
\$29,999 or less	1	0.8
30,000 - 39,999	1.8	1.4
40,000 - 49,999	3.2	3.1
50,000 - 59,999	7.5	6.1
60,000 - 69,999	13.6	12.1
70,000 - 79,999	13.4	12.5
80,000 - 89,999	11.2	12.1
90,000 - 99,999	8.2	8.4
100,000 - 119,999	11.3	12.2
120,000 - 139,999	9	10.3
140,000 - 159,999	6	6.3
160,000 - 179,999	4.1	3.8
180,000 - 199,999	2.6	2.9
200,000 - 249,999	3.4	4
250,000 - 299,999	1.7	1.7
300,000 - 399,999	1.3	1.6
400,000 - 499,999	0.4	0.6
500,000 and more	0.3	0.2

5. LEGISLATIVE CHANGES

El Paso County as well as Counties across the State remain concerned and alert to recent legislative initiatives focused on the Texas tax system and proposals for change. Just over 47 percent of the County's local tax revenue comes from the ad valorem property tax. The sales and use tax, which is the largest tax paid by most El Pasoans comprises just over 16.7 percent of the County's total revenue. Governments across the nation, at the Federal, State and Local levels, have all experienced a budget crunch during the past few years of economic downturn; therefore, governments continue to struggle to provide sustainable public services with limited resources. Depending upon action taken by the State of Texas, if any, in the 2005 Legislative Session, the potential future financial impacts could range from tens to hundreds of millions of dollars assuming tax revenues are capped or shifted from local governments to the State.

Based on "Sources of Revenue Growth, A History of State Taxes and Fees in Texas 1972-2003", issued by the Texas Comptroller of Public Accounts, it is estimated that about half of all Texan's taxes goes to the State government or represents approximately (44.8 percent) of the State's net revenue in fiscal year 2003; the other half goes to Local governments, primarily to school districts. The bulk of State taxes go to pay for public and higher education, and health and human services, which together account for three quarters of the State budget. Local taxes are divided about evenly between supporting public education and funding services of Cities, Counties and Special

EXECUTIVE AND BUDGET SUMMARY

PRINCIPAL ISSUES FACING EL PASO COUNTY, CONT'D

Districts. Schools receive amounts of funding from State and Local taxes. The Federal government has played an increasingly important role in supporting State services, but future Federal funding is very uncertain, placing great pressure on State revenue sources and ultimately local County government. Concern revolves around the premise that the current Texas state and local tax system fails to provide a stable source of adequate revenue from a balance of sources, and furthermore that the system does not distribute tax burdens equitably. El Paso County remains concerned as to how the State of Texas will address this funding issue, as any change in the tax system should ensure provision of sufficient revenue to meet the current needs of all Texans for adequate public services, not only at the State level but the local level as well.

6. COUNTY FINANCIAL POSITION-FUND BALANCE

Fund balance refers to the excess of assets over liabilities in governmental funds. As implied in the County's financial policies, for the purpose of financial planning, fund balance is defined as the cumulative surpluses or deficits resulting from the difference between expenditures and revenues in any one fiscal year. The cumulative effect of yearly fund balance amounts is furthermore addressed as a fund balance reserve. When evaluating fund balance reserves, it is vitally important to maintain sufficient positive fund balance reserves in order to avoid borrowing to meet short term operating needs.

The County operates under a balanced budget as required by law. This does not mean that estimated revenues must always be exactly equal to budgeted appropriations. In most of the annual operating budgets, the Commissioners Court members usually decide to use, at least, a portion of the undesignated fund balances to balance the revenues to appropriations. As a sound financial management practice, members of the Commissioners Court consistently emphasize maintaining sufficient undesignated fund balance levels in order to maintain and enhance the County's bond ratings. More importantly, the County focuses on having sufficient working capital for meeting current operating needs throughout the fiscal year, but in particular during its first fiscal quarter of October through December. Since the County's main cash inflow, namely property taxes do not become a significant inflow until late in December each year, maintaining adequate working capital during the first fiscal quarter to meet payroll and other normal operating expenses is always of paramount concern.

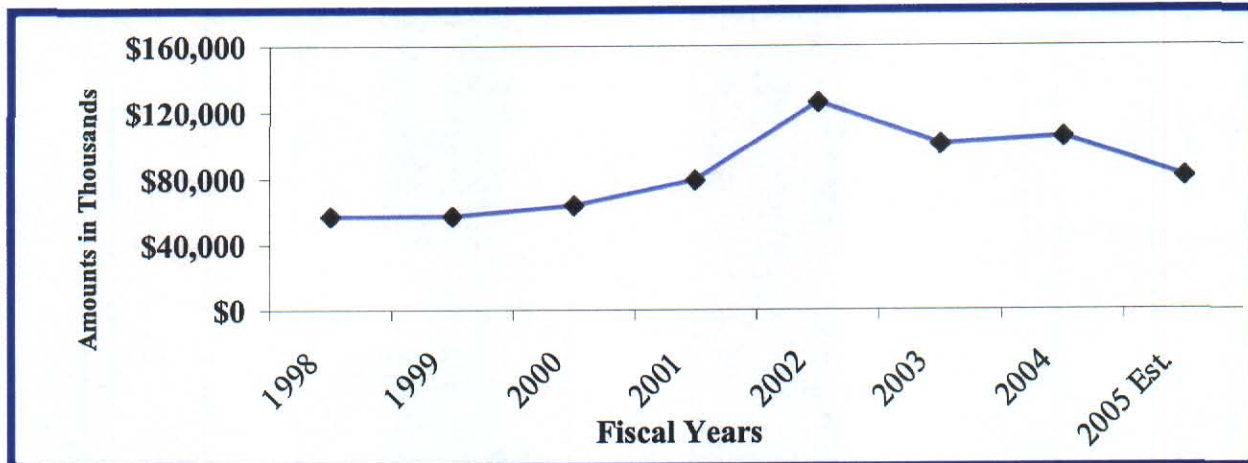
Another significant purpose of fund balance is to offset unexpected increases in costs and unanticipated dips in revenues. Fund balances serve as buffers absorbing the bumps from unanticipated and adverse short-term financial fluctuations.

The graph on the next page depicts all fund balances over the past seven years plus an estimate for fiscal year 2005. From the early to mid 1990's, the County struggled but made significant achievements in rebuilding fund balance reserves. In looking at total fund balances combined, one can lose sight of the significant trends occurring in the County's General fund, the main operating fund of the County, such as the downward trend of its fund balance since 2001. Due

EXECUTIVE AND BUDGET SUMMARY

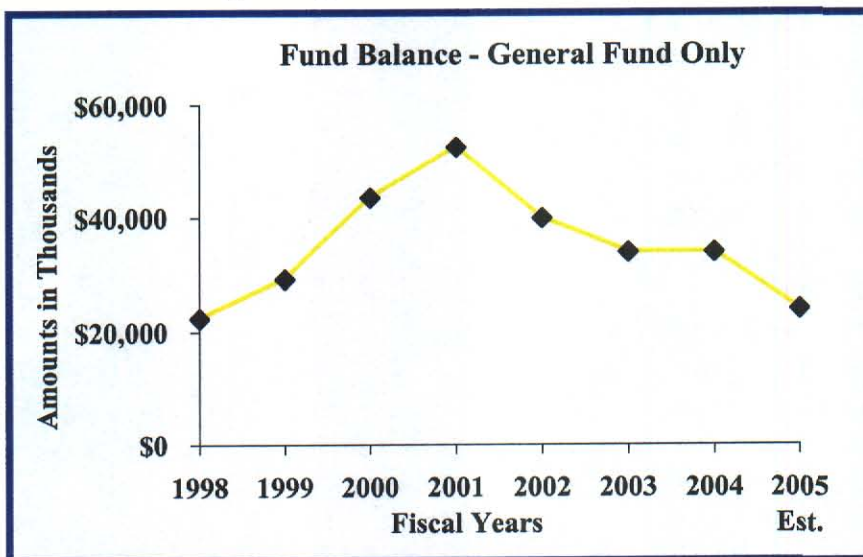
PRINCIPAL ISSUES FACING EL PASO COUNTY, CONT'D

TOTAL FUND BALANCE – ALL BUDGETED FUNDS



to the fact that the County issues capital debt from time to time, capital funds received cause spikes in fund balance that can be mistaken for as a measure of financial health, if not evaluated closer. For this reason, special attention is focused on distinguishing all funds and the General Fund. As can be seen in the capital projects section, capital funds were received in fiscal years 2000 and 2001 and therefore are attributable to the significant spike in the graph above.

The County of El Paso maintained a bond rating from Moody's Investors Service of A2 and a rating from Standards & Poor's of AA through fiscal year 1992. Beginning with fiscal year 1993, both rating



companies downgraded the County's bond ratings to A and AA- respectively. In June 1997 Moody's Investors Service upgraded the County's rating to A1.

In December 2001, despite the looming economic downturns, both Moody's Investors Service and Standards & Poors reaffirmed a stable outlook to El Paso County's \$20.9 million Refunding Bonds, Series 2001 and \$34.4 million Certificates of Obligations, Series 2001 with rating of A1 and AA- respectively. At the same time, both firms reaffirmed these ratings on the County's outstanding general obligation debt. As a border County, these ratings reflect our diverse and moderately growing economic base, El Paso County's well managed financial operations with emphasis on long-range financial goals of maintaining ample reserves, sound financial position and a manageable debt position. In August 2002, El Paso County issued \$1.3 million in Limited Tax Refunding Bonds, Series 2002 and \$29.5 million in Certificates of Obligations, Series 2002 while receiving the same stable ratings. This rating was once again reaffirmed on November 1, 2004.

EXECUTIVE AND BUDGET SUMMARY

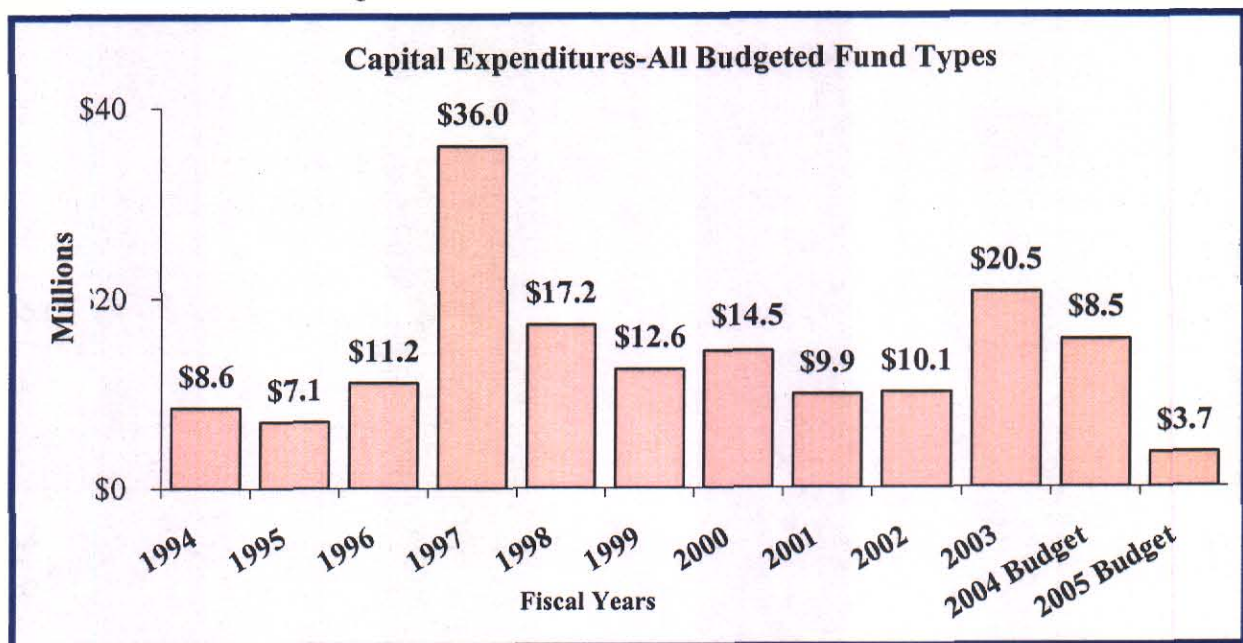
PRINCIPAL ISSUES FACING EL PASO COUNTY, CONT'D

Overall, both ratings reflect the County's current stable credit position that depends upon adequate operating margins and fund balance reserves in order to maintain and improve the County's current credit quality. It is believed that the County's fiscal 2005 budget along with the stability of General Fund reserves as shown on the prior fund balance exhibit, enhances the County's credit worthiness and reflects a commitment in attaining set goals and objectives.

Moody's Investors Service defines bonds rated with an "A" as possessing many favorable attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present suggesting susceptibility to impairment some time in the future. The County's "A1" designation indicates that the security meets all of Moody's criteria for a single "A" rating and that it ranks at the high end of that generic rating category. According to rating definitions from Standards and Poor's, an obligation of "AA" differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

The County anticipates remaining financially sound and stable through, at least, and probably beyond the fiscal year ending September 30, 2007 as reflected in the strategic plan section of this document. This optimistic outlook is based on the actions exhibited by the Commissioners Court in generating additional revenues and expenditure reductions in fiscal year 2005. Also, this outlook is based on the premise that revenue enhancements continue to outpace the growth in expenditures for the next two fiscal years, which should propel the County's revenues and expenses into relative alignment for the future. Furthermore, future gains of budgetary alignment will be dependent upon the actions of the Commissioners Court, statutory mandates imposed by the State and the impact of economic conditions in the El Paso region.

7. MAINTAINING ADEQUATE LEVELS OF OPERATING CAPITAL



EXECUTIVE AND BUDGET SUMMARY

PRINCIPAL ISSUES FACING EL PASO COUNTY, CONT'D

Operating capital provides for the construction and acquisition of capital projects. A capital expenditure may be defined as any significant expenditure to acquire or improve land, building, engineering structures, machinery and equipment.

Capital expenditure budgets represent the County's intention to proceed with certain programs of capital works and services, which may be funded from either current general appropriated funds or from proceeds of debt issued for specific projects.

The County, to an extraordinarily high degree, operates on a "pay-as-you-go" basis. This is accomplished by paying for salaries, fringe benefits, goods, services and equipment with current revenues, rather than with funds obtained from borrowing.

In prior years, the Commissioners Court members choose to defer equipment purchases for a year or more. Services to the citizens may not be affected much if the purchases of some replacement vehicles for the Sheriff's fleet are postponed for only one year. Services to the citizens will begin to diminish if this type of postponement is allowed for two consecutive years or more. In other words, the overall systematic long-term equipment replacement program should be kept in place to avoid major consequences. The County has initiated steps in developing a perpetual ongoing capital plan whereby the County of El Paso on an annual basis reevaluates present and future needs for planning budgetary impacts and forecasting future needs, usually the next five years. The chart on the prior page reflects the actual expenditure trends related to capital expenditures for the past ten years including budgets for fiscal years 2004 and 2005 for all funds.

A few years ago the Court established an equipment committee and required that all departments justify their capital needs to this committee. The committee usually meets quarterly or as capital related matters arise in addition to the annual budgetary planning process. In December 2001, the County issued Certificates of Obligation, Series 2001 totaling \$55,385,000 of which \$20,920,000 and \$34,465,000 related to General Obligation Refunding Bonds and Certificates of Obligation Bonds Series 2001 respectively for a variety of capital needs. Some of the purposes of the Certificates of Obligation included constructing or improving public works such as courthouse expansion, courthouse parking, Ascarate Park improvements, courthouse capital needs, an east side regional park, rural parks, an animal shelter, Fabens port of entry, coliseum and other County facility renovations, purchase of land and purchase of election equipment. Again in August 2002, the County issued bonds totaling \$30,825,000 of which \$1,330,000 and \$29,495,000 related to limited tax refunding and Certificates of Obligation Bonds Series 2002 respectively. These Certificates of Obligation were issued for the purpose of constructing and or improving public works such as expansion of the County courthouse, courthouse parking, and courthouse capital needs and the acquisition of and improvements of the County's water infrastructure.

As a component of fund balance, operating capital can serve as a buffer to absorb some unexpected and unfavorable economic changes. Operating capital has filled this role in the County's budget, increasing and decreasing with economic changes.

EXECUTIVE AND BUDGET SUMMARY

ACTION TAKEN AS A RESULT OF THESE IMPACTS

As a result of these impacts: high unemployment rate, low personal income per capita, possible limitations on taxes, etc. the County of El Paso is placing emphasis on minimizing the need for future increases in ad valorem property taxes, increasing collection efficiencies, reassessing fines and fees charged for services to ensure costs are at least recovered and finding new sources of revenues. In the event future legislation is passed, El Paso County anticipates government services as we know them may be reduced to the fundamental functions of County government such as, health and welfare, administration of justice and public safety and possibly would no longer be able to meet the public service growth needs of its community, due to reductions in force, or holding off on future capital improvements. Furthermore, it is envisioned this could severely drain County financial resources to a point of financial instability. Long term priorities, impacts on the 2005 budget and further discussion on the actions to be taken by the County, are described in further detail below.

LONG TERM PRIORITIES

The Commissioners Court took great strides, which resulted in successfully impacting and stifling the growth of appropriations in the fiscal year 2005 budget and beyond. The Courts approach during the 2005 budget process and from here forward, was that of taking a strong stance on the following priorities:

1. Ongoing revenues should be sufficient to support ongoing expenditures; therefore, one-time revenues should not be used for ongoing expenditures on a continuous basis.
2. Subsequent year estimated unbudgeted unreserved fund balance should, at a minimum, equal to projected cash needs for the first fiscal quarter to meet operating obligations (approximately \$12-15 million net cash outflow) or 10 percent of the total general fund adopted operating budget in any one fiscal year. In the event reserves are estimated to trend below the subsequent year's estimated first quarter net cash outflow, sustainable expenditure reductions or revenue enhancements should be proposed in the budgetary process.
3. Funding priority will be given to all mandated functions and programs within the County when allocating scarce resources.
4. Statutorily required, new or expanded services will be implemented without reduction or trade-off of expenses or revenues from other mandated functions or programs. This applies to personnel, operating and capital budgets.
5. All other additions or expansions of expenditures will be implemented provided there is a trade off with other expenditures or certification of new revenue sources prior to adoption of the budget. All proposals require analysis to assess current and future impacts.

EXECUTIVE AND BUDGET SUMMARY

LONG TERM PRIORITIES, CONT'D

6. Discretionary or non-mandated funding will be restricted to programs that enhance economic development or which are deemed necessary to supplement support services as provided by the County.
7. Enterprise funds should reflect the true cost of operation, including direct and indirect costs of services provided by the General Fund.
8. Activities that are supported by user fees should be fully cost recoverable.
9. Budget development should be guided by a long term, or strategic budget plan proposed and approved by the Commissioners Court with the assistance of the County Auditor.

SHORT TERM INITIATIVES IN THE BUDGET PROCESS

County strategies and plans are integrated into all departmental budgets to ensure unified efforts within County government to achieve the goals and objectives of the County. These are guidelines that demonstrate the steps undertaken in order to meet the objectives of the County without negatively impacting other goals within the County.

During the 2005 budget process, the Commissioners Court emphasized:

- Meeting with department heads and elected officials to discuss its economic and financial concerns as well as to solicit feedback from within the organization;
- Soliciting departmental proposals for cost reductions and reorganizations;
- Impact current spending for future expenditure savings;
- The importance of being frugal with taxpayer dollars and reinforced continual efforts of increasing efficiencies of public services;
- Enhancement of operations in meeting the increasing public need;
- Regular departmental reports to the Commissioners Court regarding operations and public service issues;
- Supporting its program to recognize exceptional individuals, departments or organizations that exhibit innovation and efficiencies in County government;
- Recognition of employees for tenure and cost cutting and efficiency, "The Bright Idea Program";
- Shifting healthcare premiums from taxpayers back to County employees and retirees;
- Construction of a courthouse annex and or courthouse renovations;
- Addressing county-wide office space needs, courthouse-parking, capital equipment needs;

EXECUTIVE AND BUDGET SUMMARY

SHORT TERM INITIATIVES IN THE BUDGET PROCESS, CONT'D

- Presidential Permit for and construction of the Fabens Port of Entry; and;
- Streamline of functions in County government to improve operational efficiencies, minimize costs, controlling spending habits, consolidate duplicate activities and save tax dollars wherever possible.

Additional short-term initiatives and their impact on the 2005 budget are provided in the “Focus of Financial Policies in the Budget Process” section of this document.

DIFFERENCES IN 2005 BUDGET WHEN COMPARED TO 2004

Development of the fiscal year 2005 budget presented an enormous challenge due to the widening gap of expenditures exceeding revenues. The County Auditor recommended priorities with emphasis on limiting discretionary expenditures, which the Court considered in developing the 2005 budget. This resulted in the beginning of reductions in many discretionary programs and departments and will remain the central focus in future budgets. Some of the changes in this budget when compared to prior budget include:

- Privatization of County run operations such as solid waste disposal, which is anticipated being outsourced to a collection company for community trash collection in the outlying areas of the County for a savings of \$143,987.
- Instructed the purchasing agent to develop at County supply catalog for which office supplies will be purchased in an effort to obtain additional cost savings, yet to be determined.
- Elimination of discretionary funding for items such as cellular phones, palm pilot service approximating \$210,000 and mileage reimbursement affecting 135 employees and approximating \$73,000.
- Taking back the function of on-site sewage inspections presently administered by the City of El Paso in anticipation of substantial cost savings utilizing in-house resources. Savings regarding this transition are still pending coordination with the City of El Paso via inter-local agreement.
- Shifting of additional health care premium costs previously paid by the County back to employees and retirees resulting in the County only picking up only 20 percent of the increased premium cost, with the intent of fully shifting 100 percent of the cost to employees in fiscal year 2006. Due to increasing health care costs and the premium shift, the savings in 2005 approximated \$398,263 leaving an appropriation for the remaining 20 percent approximating \$1.3 million.

EXECUTIVE AND BUDGET SUMMARY

DIFFERENCES IN 2005 BUDGET WHEN COMPARED TO 2004, CONT'D

- The lowest General Fund budget appropriation growth in over ten years:

FISCAL YEAR	ADOPTED BUDGETS	AMOUNT CHANGE	% CHANGE
1995	\$74,694,090		
1996	\$78,706,163	\$4,012,073	5.4%
1997	\$82,575,608	\$3,869,445	4.9%
1998	\$90,849,656	\$8,274,048	10.0%
1999	\$97,400,387	\$6,550,731	7.2%
2000	\$111,325,062	\$13,924,675	14.3%
2001	\$120,546,660	\$9,221,598	8.3%
2002	\$137,017,965	\$16,471,305	13.7%
2003	\$148,261,112	\$11,243,147	8.2%
2004	\$154,385,518	\$6,124,406	4.13%
2005	\$157,451,140	\$3,065,622	1.99%

- Continued the transfer of excess road and bridge funds to the general fund to offset the cost of patrolling County roads as means of funding the budget, which declined from \$5 million in 2004 to \$2.5 million in 2005.
- Impose a hiring freeze effective the beginning of the new fiscal year for any positions that become vacant and further requiring Court approval prior to filling those vacancies. Estimated savings expected range from \$500,000-\$800,000 during fiscal year 2005.
- The Court authorized transitioning a variety of County parks to include the Ascarate Park, Sportspark and Gallegos Park and the Ascarate Golf Course subject to the City of El Paso's willingness to take them over. Furthermore, reductions in these budgets approximated one-third and management personnel were cut twenty-five percent. The net savings to the County if this transition occurs is approximately \$1.3 million on an annual basis.
- Budgeting of park revenues approximating \$1.4 million from the Parks Improvement Fund back in the General Fund, effective in fiscal year 2005. Prior to the establishment of the improvement fund, these revenues were a revenue source in the General Fund. The improvement fund dedicated the revenues generated from various parks to leverage grant funds and to make park improvements over a number of years.
- Requests for funding were redirected to funding sources other than the General Fund, as deemed appropriate, such as the creation of the County Criminal Court 2 – DWI Court which was funded from District Attorney Drug Forfeiture funds remitted to the County and restricted for drug related expenditures.

EXECUTIVE AND BUDGET SUMMARY

DIFFERENCES IN 2005 BUDGET WHEN COMPARED TO 2004, CONT'D

- Substantial reduction to discretionary expenditures in various areas of the budget such as health and welfare, resource development, culture and recreation and capital outlays discussed later on in this document. Some of those departments to name a few are reflected in the table below and include: Ascarate Golf Course and Park, Facilities Management, General Assistance, Child Welfare, Community Centers and the Information Technology Department.

DEPARTMENTS THAT WERE IMPACTED BY REDUCTION IN FORCE				
DEPARTMENT NAME	FY 2004 POSITION COUNT	FY 2005 BUDGET POSITION COUNT	CHANGE IN POSITIONS	SAVINGS
Agricultural Co-op	15	10	-5	\$ 112,352
Planning and Development	11	6	-5	\$ 211,143
**General Assistance	12	9	-3	\$ 109,364
***Veterans Assistance	2	1	-1	\$ 31,406
Library	7	5	-2	\$ 65,060
*Solid Waste Disposal	6	0	-6	\$ 139,190
Ascarate Park	21	14	-7	\$ 177,230
Golf Course	23	14	-9	\$ 256,266
Human Resources	13	11	-2	\$ 54,175
Information Technology	40	38	-2	\$ 85,441
Agua Dulce Community Center	1	0	-1	\$ 13,627
*Community Services	3	2	-1	\$ 28,223
Rural Parks	5	4	-1	\$ 25,970
Facilities Management	36	30	-6	\$ 176,310
	195	144	-51	\$ 1,485,757
* Effective January 1st.				
**Two positions impacted in October, and 1 position in January 2005.				
***Consolidated with General Assistance.				

EL PASO COUNTY'S FINANCIAL STRATEGY

Specific areas have been identified to protect against future financial difficulties:

1. STABILIZE THE PROPERTY TAX RATE AND INCREASE COLLECTION EFFORTS

El Paso County Government is largely financed by property taxes based on truth-in-taxation guidelines set forth by the Texas Comptroller of Public Accounts. El Paso is a multi jurisdictional area in that each jurisdiction has taxing authority; therefore, taxpayers are charged with overlapping taxation. Property tax revenues for 2003 totaled \$74.8 million and represents approximately 37.34 percent of total County revenues, exclusive of fund balances. Ultimately, the County's first priority is to stabilize its property tax rate and to keep it as low as possible while sustaining basic public services. This was the case in fiscal years 1999 through 2002 when the Court kept its tax rate of \$0.361434 the same four years in a row. Based on truth in taxation guideline calculations, as sales and use tax revenues increase, property tax revenues should decline correspondingly. During these years, the County was fortunate to receive various uncertified and unbudgeted reimbursements, which resulted in significant fund balance gains. The drawback to this was that various

EXECUTIVE AND BUDGET SUMMARY

EL PASO COUNTY'S FINANCIAL STRATEGY, CONT'D

Commissioners Courts subsequently set expenditure levels significantly higher than sustainable actual future revenues. As a result, subsequent tax rate increases were necessary and resulted in fiscal years 2003, 2004 and 2005 totaling \$0.396610, \$0.410817 and \$.0432259 respectively.

As previously stated, a possible legislative initiatives aimed at limiting local governments ability to levy property taxes and in essence shifting of local property taxes to the State, the Court has placed even more emphasis on minimizing future tax burden on its residents. To the contrary, efforts have been and remain focused on increasing collection efficiencies, reassessing fines and fees charged for services in order to ensure costs are at least recovered in addition to finding new revenue sources.

2. MONITOR REVENUE TRENDS CLOSELY

The second major revenue source is the extra half-cent sales and use tax that is incorporated into the local sales and use tax rate of 8.25 percent. This half-cent tax comprises \$25 million or 14.03 percent of total County revenues. This tax usually responds quickly and unpredictably to unanticipated changes in national and local economic conditions such as the peso devaluation in Mexico and the September 11, 2001 disaster. Unfortunately, there have been times when the County's service costs have not varied in relation to the erratic sales and use tax inflows. Fortunately, fiscal year 2004 was the first year of substantial recovery in growth of sales and use tax revenue since the September 11, 2001 tragedy.

Sales tax revenues are monitored very closely for erratic fluctuations, which could impact subsequent operating budgets. Therefore, this revenue projection is forecasted based on actual collections of past years rather than on future year's presumed growth in sales. Furthermore, State Tax Code requires that as long debt obligations exist, any excess of sales and use tax collections from the prior year must be calculated and transferred to the Debt Service Fund for the repayment of debt. As a result, there is at least a one-year lag before the General Fund realizes the full impact of substantial revenues gains for this source. Additionally, the County's sales tax rate is presently at the maximum and growth is solely dependent upon the taxable sales tax base and the local economy.

In response to shortfalls as the result of actual expenditures outpacing the trend of actual revenues, the County Auditor's approach is that of projecting revenues, expenditures and fund balance reserves five years into the future, which is maintained on a perpetual basis and updated monthly. This method has proven effective in communicating past and future financial trends to the Court, and the ability to factor in impact of initiatives for revenue estimation or expenditure enhancements or reductions. Based on the financial trend analysis, the County is able to project a future financial position based on current actions. This strategy played a vital role in setting the pace of gaining significant additional revenue and reductions in the 2005 budget process which will be utilized for years to come allowing the Court to assess its position and better evaluate the impacts of its actions prior to implementation.

3. PLAN FOR FUTURE COUNTY SPACE NEEDS

For the County of El Paso, space issues have continued to be an issue for the Court. El Paso

EXECUTIVE AND BUDGET SUMMARY

EL PASO COUNTY'S FINANCIAL STRATEGY, CONT'D

County completed its new downtown courthouse in 1990 costing approximately \$53,146,220 with a total of 428,129 square feet of which 295,523 is usable area. Since then, a study of the County's space needs has been performed to give the Court options for planning effectively and keeping pace with future growth needs. The Courthouse for all intent and purposes, is a judicial courthouse; therefore, in fiscal years 2001 and 2002, the Commissioners Court issued debt for a multitude of projects, the main project being, construction of a courthouse annex, renovation or expansion of the existing downtown courthouse annex and additional parking at the downtown courthouse. These bond issues totaled \$33,954,732 and \$29,467,361 respectively. Since the issuance of these bonds, numerous transactions have occurred which are intended to alleviate the County's space needs for many years to come. First of all, a contract totaling \$7,598,557 for another 800 car parking facility was authorized in 2004 and is in the works to be completed within the next sixteen months directly next to the County's present 800 car parking facility. This additional garage will provide greater convenience and accessibility to the public and especially those reporting for jury duty at the downtown courthouse.

As a means of addressing existing space needs, the County recently purchased a facility in Far East El Paso near the Sheriff's Jail Annex for a total cost of \$2,974,824. This facility encompasses roughly 100,000 square feet of which approximately 25,000 is office space and 75,000 square feet of warehouse space. Current plans are to make minimal modifications to this facility and to relocate the administrative offices of the El Paso County Sheriff from another County owned building just a little over two blocks east of the downtown courthouse, the Mumsen, Dunnigan and Ryan Building (MDR). By freeing up space in this building in close proximity to the Courthouse, it is envisioned that non-essential departments will be relocated from the downtown courthouse to this adjacent facility. Furthermore, other departments that are presently leasing facilities will be evaluated for possible transition into County owned facilities. By doing so, the Courthouse space will become available to the judiciary to meet short-term space concerns. It is further anticipated that minimal funds will be required to retrofit the MDR building to accommodate the transitioning departments. Although short-term space needs are being addressed somewhat, future growth in the community and the addition of courts in the future mandate further space modifications to the exiting facility or possibly another judicial facility. The present downtown courthouse is a 12-story facility with 6 elevators, which currently are insufficient to meet the volume of traffic of this facility. Projections of the County's space study indicate by 2008, an additional probate court will be necessary as well as three additional new courts by 2010, one County Criminal Court and two Family Courts. Total County space currently available from the downtown courthouse and MDR buildings total 584,000 square feet. Projections are that within the next five years, the County's space needs will grow by an additional 80,000 to 120,000 square feet along with the need for at least 6 additional elevators.

Do to the fact that projects identified by the Court within the purpose and intent of two bond issues mentioned earlier have been earmarked absorbing much of these funds, it is estimated that funds available to address County space needs approximates between \$12 to \$15 million assuming some existing projects are reprioritized requiring reallocation of those funds by the Court. Utilization of these funds would significantly address the County's judicial short-term space needs

EXECUTIVE AND BUDGET SUMMARY

EL PASO COUNTY'S FINANCIAL STRATEGY, CONT'D

but would likely only allow for the addition of a shell structure onto the existing courthouse including the build out of new elevators and possibly two complete floors renovations. This remaining structure would require subsequent build out in future years as space need arise at a cost of approximately \$2 to \$3 million per floor or a total of \$6 to \$9 million to completely finish out the facility. In any event, it is anticipated that the County will continue to address its space needs on an ongoing basis and will evaluate it options for funding such improvements and renovations in future years.

The downtown detention facility was constructed around 1980 at a cost of \$35.1million dollars with a capacity to house 1,024 prisoners. Due to overcrowding from rapid prisoner population growth from State, Federal and City prisoners, the Court constructed another Jail Facility in far East El Paso for approximately \$52 million with a capacity to house 1,440 prisoners. For the past year, County jails have been virtually at capacity and therefore, discussion is under way to alleviate crowding and to more effectively manage prisoner population. Due to the fact that the Jail Annex was constructed with pods which can hold up to 576 prisoners, emphasis is presently focused on either expanding the number of pods or outsourcing incarceration of certain classes of prisoners such as weekender inmates. Freeing up space in either jail facilities provides valuable space to house federal prisoners, and in return, the County receives reimbursement of its cost. Additionally, pods are efficient allow the sheriff to open or close a pod as necessary and therefore saving on utilities and staffing costs. Construction of future pods would require funding of approximately \$9.2 million and impact the operating budget by \$8.67 million to operate on an annual basis.

On November 5, 2003, the County Commissioners Court approved a design-build contract for a new County Annex in Northeast El Paso. The Northeast Annex approximates 13,900 square feet and opened on December 6, 2004, housing Justice of the Peace, Precinct Number 2, as well as branch offices for Adult Probation, the County Tax Assessor-Collector and the County's Veterans Assistance departments. This concept of a one-stop-shop for public services shifts departments from leased facilities to a County owned facility at a cost of \$1,640,015 and gives residents easier access to services. The County will continue to assess its space issues in its effort to provide efficient and convenient government in all parts of El Paso County. This initiative also resulted in annual savings from lease contracts of approximately \$120,000.

4. IMPLEMENT TECHNOLOGY INITIATIVES

The Information Technology Department (ITD) is continuing to implement a number of systems that improve the efficiency of County departments. The digitizing of County records and allowing for electronic document filing is providing service and convenience to the public and improving productivity of County employees.

ITD is working with the El Paso County Sheriff's Department and El Paso Police Department, which are implementing a regional record management system for law enforcement. This includes a database of all criminal activity in the area to improve crime prevention and improve the efficiency of our agencies. Together with the County Auditor's office, IT will be evaluating the County's financial accounting, purchasing, budgeting, fixed assets, payroll and human resources software to replace the current legacy systems. Emphasis will be placed on the new systems being

EXECUTIVE AND BUDGET SUMMARY

EL PASO COUNTY'S FINANCIAL STRATEGY, CONT'D

more efficient and therefore reducing maintenance and support costs while providing better financial reporting capabilities and more efficient government services.

5. GRADUALLY REPLACE OBSOLETE EQUIPMENT

The strategic capital plan is to gradually and regularly replace some of the equipment each year in order to prevent all or most of the County's equipment from becoming obsolete at any one point in time. As part of the budgetary process, the equipment committee evaluates all capital requests and makes recommendations to the Commissioners Court. No capital requests were funded in fiscal year 2005 due to the budget constraints with emphasis on the possible use of existing Capital Project Funds authorized by the Commissioners Court. In fiscal years 2001 and 2002, the Court annually funded one million dollars for future capital needs in the County Capital Project Fund. Due to budgetary constraints, for a second consecutive year, the Court was reluctant to appropriate General Fund dollars but rather authorized limited utilization of available Capital Funds previously funded from the General Fund in prior years. The equipment committee is also tasked with the development of the County's five-year strategic capital plan.

6. MAINTAIN FUND BALANCE TO MEET PROJECTED CASH NEEDS

As a rule of thumb, since the General Fund is the County's main operating fund, the County strives to maintain a General Fund balance of, at a minimum, equal to projected cash needs for the first fiscal quarter to meet operating obligations (approximately \$12-15 million net cash outflow) or 10 percent of the total General Fund adopted operating budget in any one fiscal year. At the present level, this means that the County should strive to maintain a minimum undesignated General Fund balance of at least \$15,438,551 based on the fiscal year 2005 General Fund budget. By maintaining a low fund balance, the County remains vulnerable to the lowering of its bond ratings. Lower bond ratings ultimately result in more costly future borrowing at higher interest rates, and therefore, increased interest expense in response to an entity's declining financial position depicted at any one point in time. In essence, having some amount of fund balance gives the County the financial ability to cover unanticipated revenue losses or significant unanticipated expenditures, should they occur.

Historically speaking, up until fiscal years 2002 and 2003, actual expenditures were less than amounts budgeted and total actual revenues exceeded total expenditures. Not until fiscal year 1998, even with these favorable trends, the County was not able to achieve its 10 percent undesignated General Fund balance reserve goal. Continued persistence and emphasis on building and maintaining some amount of reserves resulted in retaining a stable fund balance reserve at or near the County's goal in the General Fund six years in a row. A myriad of factors contributed to the stable results on the General Fund's financial position. It is noteworthy to mention that the actions of Commissioners Court during mid and late summer and at fiscal year-end had a contributing effect of enhancing a favorable expenditure budget variance, or unspent budget balance of approximately \$10.4 million within the General Fund. The Court has taken the position of putting a squeeze on the General Fund budget, especially due to actual shortfalls in 2002 of \$12.3 million, 2003 approximating \$6.2 million. As a result of the Courts fiscal restraints, fiscal year 2004 resulted in revenues outpacing expenditures by approximately \$600,000. It is noteworthy to mention that the

EXECUTIVE AND BUDGET SUMMARY

EL PASO COUNTY'S FINANCIAL STRATEGY, CONT'D

fiscal year 2004 General Fund budget was balanced utilizing transfers of funds within the discretion of the Commissioners Court approximating \$6.4 million, otherwise, a third consecutive shortfall would have resulted. Additionally, uncertified revenue relating to reimbursement approximating \$3.1 million was received which contributed to the positive stabilization of the General Fund reserves.

Although fund balance was maintained at a stable level through fiscal year end, it is vitally important that the Commissioners Court remain cognizant of the County's trend of General Fund **expenditure growth exceeding revenues**, especially in fiscal year 2005 and beyond. As stated in the strategic financial priorities, the Court should continually focus on revenue enhancement in order adequately fund present and future mandates placed on County government. The fiscal year 2005 budget incorporated additional funding for the Sheriff's budget and other mandated expenditures, while the majority of other departments received budgetary cuts or level funding due to revenue enhancing programs being implemented. Simultaneously, the General Fund designated fund balance utilized in balancing the 2005 budget decreased from 2004, with a decrease of \$10,184,357 or 54.14 percent, for a total of \$8,625,529.

Departments will continue to be challenged with increasing efficiencies in order to operate within their budgets. More than ever, monitoring of expenditures will be paramount in forecasting budget inadequacies, identifying potential excesses and new revenues.

A SIMULATION MODEL FOR THE FUTURE

For the future, it is anticipated that in fiscal year 2006 the Court will continue to face funding challenges. Some of those challenges will be additional operational costs of new facilities that may be constructed or purchased, automatic contractual collective bargaining salary adjustments for the Sheriff's department and continuing the County's salary-step-plan. Specific monitoring will remain focused on revenues related to tourism such as hotel occupancy and sales and use taxes as they tend to be impacted negatively during times of national and international conflict due to the nature of El Paso County's proximity to the international Juarez, Mexico border. Also growth due to inflation and the possibility of new mandates will be challenges faced by the Court.

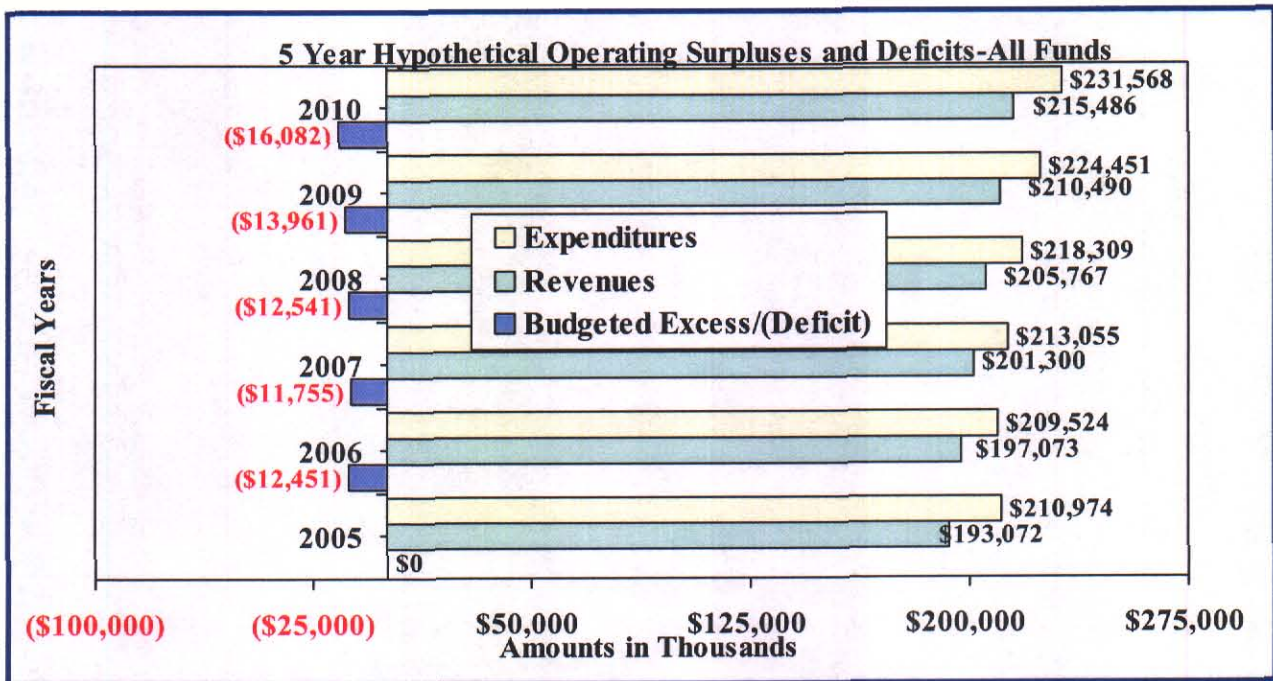
The County will be tasked with identifying new or additional revenues to counter these expenditures. As stated in the County's Financial Strategy, the Court will continue to be tasked with limiting the expenditure growth of the General Fund to within available funding limits while focusing on revenue enhancements. At its discretion, the Court will probably 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. **Based on the reduced amount of fund balance utilized in the 2005 budget, the Court has made great strides in positively impacting its financial trends.** Planning for 2006 will still involve challenges; therefore, County government will continually strive to maintain steady increases in revenue while costs are on the rise. In terms of the overall financial condition, the County's present position, still contains an amount of instability which if not corrected will result in continued budgetary reductions and as a consequence, possible reduction in service to its citizens.

EXECUTIVE AND BUDGET SUMMARY

A SIMULATION MODEL FOR THE FUTURE, CONT'D

All Funds Fiscal Years	2005	2006	2007	2008	2009	2010
Revenue Trends	\$ 193,071,555	\$197,072,969	\$201,767,231	\$205,767,231	\$210,490,493	\$215,486,486
Expenditure Trends	\$210,974,197	\$209,523,652	\$213,055,436	\$218,308,559	\$224,451,301	\$231,568,385
Increase in County Revenue needed (From prior year)	\$17,902,642	\$12,450,682	\$11,755,481	\$12,541,328	\$13,960,807	\$16,081,900
Projected increase (decrease) in Revenues (From prior year)		\$4,001,414	\$4,226,986	\$4,467,275	\$4,723,262	\$4,995,992
Revenues over/(under) Requirement (Utilized Fund Balance in Fiscal Year 2004)		<u>(\$8,449,268)</u>	<u>(\$7,528,495)</u>	<u>(\$8,074,053)</u>	<u>(\$9,237,545)</u>	<u>(\$11,085,907)</u>
Total amount Over/(Under) Requirements for 5 year forecast						<u>(\$44,375,268)</u>

The County's plan is a five-year projection based on known future impacts on the County and expected growth potential. In-depth and detailed studies are made before bond issues are submitted by the governing body or to the voters to approve funding of construction or acquisition of new capital. These studies are designed to ascertain whether new revenues will be required or if normal anticipated revenue growth is expected to be sufficient to fund new operating and maintenance costs associated with each project. A five-year forecast of the County's net budget requirements is shown above representing all funds.



This model has been designed to show some hypothetical outcomes, both favorable and unfavorable, which could happen from following identified strategies over the next five fiscal years. This model shows that in fiscal year 2005, the County estimates utilizing approximately \$17,902,642 in fund balance reserves to balance the overall operating budget. Again in fiscal year 2006,

EXECUTIVE AND BUDGET SUMMARY

A SIMULATION MODEL FOR THE FUTURE, CONT'D

countywide trends indicate the County will need to continue to pursue identifying discretionary expenditure reductions along with ways to generate additional revenues or even new revenue sources in order to stabilize projected expenditure growth and depletion of fund balance reserves.

One important feature of this model is that it shows that the actual revenues sometimes fluctuate in opposite ways and in different proportions from actual expenditures for goods and services. These variances produce built-in budget "surpluses or deficits". The County's balanced budget requirement means, of course, that there will never be an overall budget deficit. The purpose of the strategic financial plan is to equalize revenue and expenditure fluctuations through financial mechanisms, rather than through constant changes in the County's programs and service levels. The bar chart on the prior page reflects hypothetical "surpluses and deficits". In fiscal year 2005 the Commissioners Court utilized \$17,902,642 of fund balance reserves to balance the operating budget in order to supplement the County Auditor's estimated certifiable revenues. Of this amount, \$330,773, \$339,181, \$100,000, \$8,625,529 and \$8,507,159 represented Capital Project, Debt Service, Enterprise, General Fund and Special Revenue Funds. These difference amounts are founded on the premise that actual revenues are anticipated to increase varying by 2 to 6.5 percent in various areas. In the area of taxes, a change in the property tax base appraisal values is factored in at 2 percent. Changes in other categories vary but for the most part are factored to increase on average by 6.5 percent annually mainly due to aggressive efforts of the County to increase collections of fines and fees and continual monitoring of costs in pursuit of cost saving efficiencies in public services.

Overall, the actual trend of revenues is expected to fluctuate somewhat from year to year with an average annual growth rate of 5 and 6 percent. Expenditure changes are expected to continue to grow slightly, varying anywhere between 3.5 and 5.5 percent each year beginning with fiscal year 2006 depending upon mandates and legislative changes exclusive of any significant additions to the budget. The fiscal year 2005 budget was balanced by utilization of fund balance. The main factor for the projected deficits in fiscal years beginning with 2006 is the fact that fund balance has not been factored into balancing future budgets nor have new revenues been identified other than anticipated growth. Other factors considered in future years were additional costs associated to inflationary cost of living adjustments, continued funding of the County's scheduled salary-step-plan that systematically steps individuals by 2.5 percent on their 1st, 2nd, 3rd, 5th, 7th, 9th and 12th year of their job class anniversary date. Additional factors include the cost of the Sheriff's department collective bargaining contract and a factor for inflationary increases in operational costs. Due to the fact that significant capital expenditures occur subsequent to receipt of capital funds, subsequent expenditures tend to increase projected deficits

A five-year forecast of the County's net budget requirements is shown on the next page representing the General Fund only.

In fiscal year 2005 the Commissioner's Court increased the ad valorem property tax rate in response to estimates of diminishing fund balance reserves, but more so in response to widening disparity of expenditures over revenues, a financial turning point since fiscal year 2001. For the

EXECUTIVE AND BUDGET SUMMARY

A SIMULATION MODEL FOR THE FUTURE, CONT'D

future, the County must continue to focus on identifying additional revenues to counter future expenditure growth (3.5% in fiscal year 2006 and a one-half percent each year thereafter for a total increase of 5.5% in fiscal year 2010), which in this analysis is restricted based on projected available funds, which could possibly result in further reductions in discretionary (non-mandated) programs. Failure to further restrict non-mandated expenditures may result in either raising additional tax revenue or pursuing counterbalancing service reductions through budgetary cuts. Failure to adequately maintain sufficient revenue sources may promote further utilization of fund balance reserves to a point of financial instability and inadequate fund balance reserves. The County is actively monitoring all expenditure levels and revenue stability to assure a sound financial budget.

General Fund Only Fiscal Years	2005 (Budget)	2006	2007	2008	2009	2010
Revenue Trends	\$148,825,611	\$157,717,615	\$165,390,023	\$175,056,013	\$186,867,228	\$200,952,078
Expenditure Trends	\$157,451,140	\$160,284,678	\$167,379,159	\$174,860,596	\$183,547,376	\$192,455,606
Increase in County Revenue needed (From prior year)	\$8,625,529	\$2,567,154	\$1,989,136	(\$195,417)	(\$3,319,852)	(\$8,496,472)
Projected increase (decrease) in Revenues (From prior year)		\$2,569,137	\$7,672,408	\$9,665,990	\$11,811,215	\$14,084,850
Revenues over/(under) Requirement (Utilized Fund Balance in Fiscal Year 2004)		<u>(\$2,567,154)</u>	<u>(\$1,989,136)</u>	<u>\$195,417</u>	<u>\$3,319,852</u>	<u>\$8,496,472</u>
Total amount Over/(Under) Requirements for 5 year forecast						<u>\$7,455,451</u>

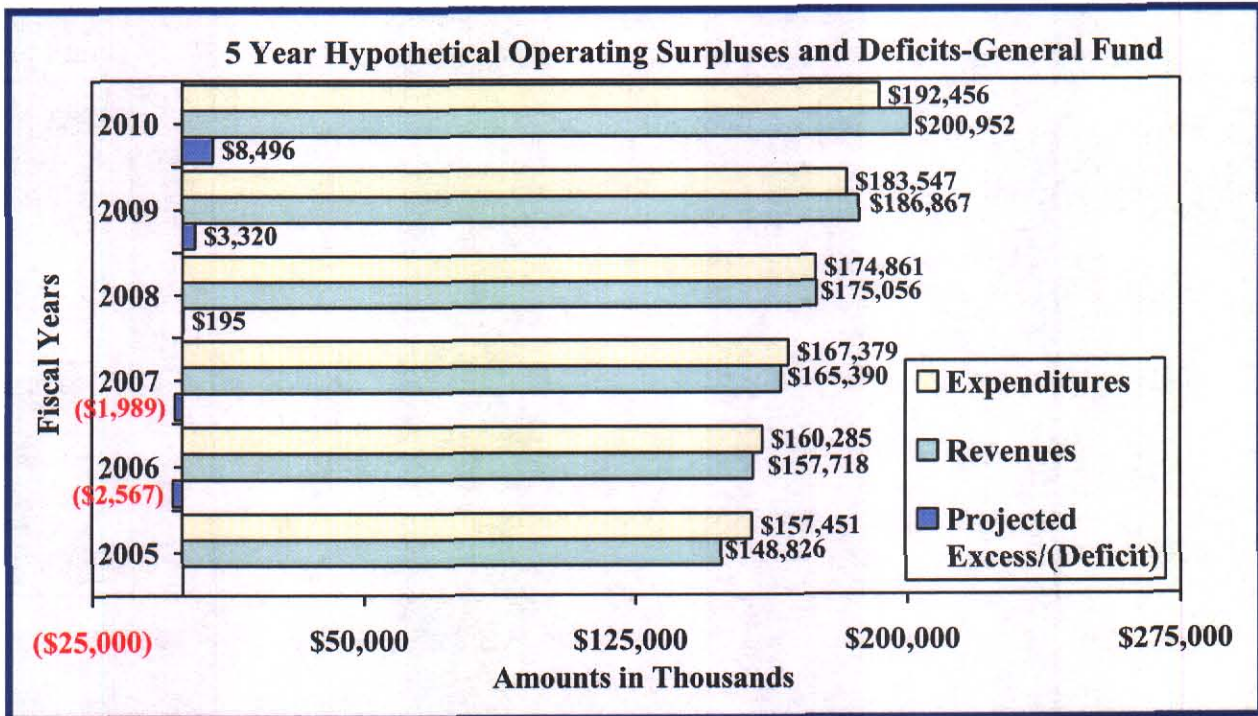
As mentioned earlier in this document, fiscal year 2005 reflects the smallest budget appropriation growth in over 10 fiscal years. Without a doubt, this is a significant accomplishment. Even though, the County must remain vigilant in its efforts to further control expenditure trends to ensure that sustainable actual revenues equal planned expenditures without depleting fund balance reserves below future first quarter operating cash flow needs in any one fiscal year.

For the sixth year in a row, revenue generation by the County jails, although unstable at times due to its reliance on federal prisoner population counts, has trended positively and made a substantial impact on fiscal year 2004. It is anticipated that this revenue source will remain stable for future budgets and should alleviate some of the negative impacts on the County's reserves.

Although the first analysis was based on a global perspective of all budgeted funds, the General Fund is the operating fund of the County and represented approximately 68.92 percent of all expenditures in fiscal year 2004 exclusive of grants. With this in mind, the previous graphic depictions merit special attention as the general fund's financial condition is indicative of the County's general operating health in providing public services, whereas other funds mainly operate within their funding limits and do not require special Court action to cover future expenditures.

EXECUTIVE AND BUDGET SUMMARY

A SIMULATION MODEL FOR THE FUTURE, CONT'D



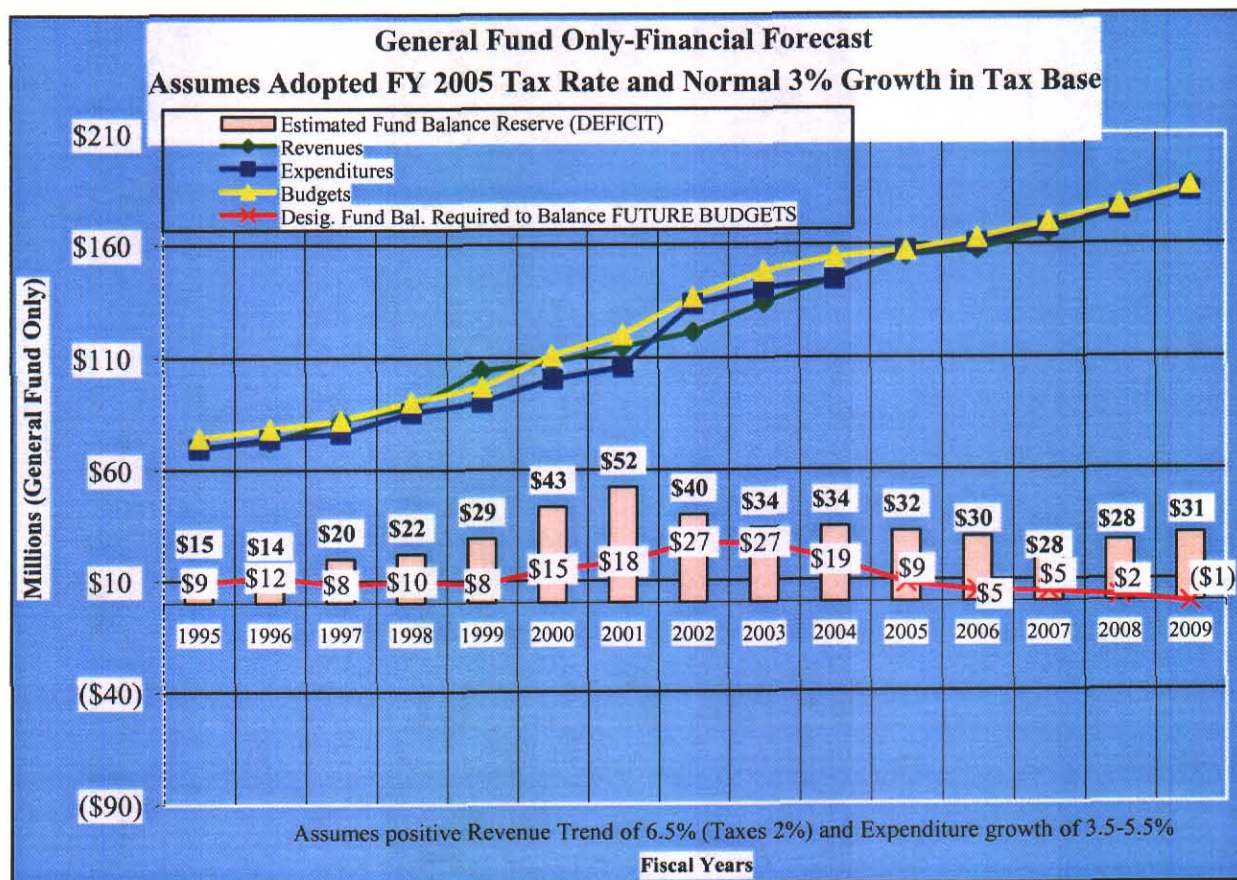
During the fiscal year 2004 budgetary hearings, significant discussion revolved around this five-year General Fund forecast of revenue and expenditures. This analysis differs from the evaluation of the all funds perspective in that it focuses on a perpetual trend prior year revenues to predict future trends irrespective of whether those funds could be certified by the County Auditor in the future. This method perpetuates a positive revenue trend while expenditures continue to trend upwards into the future and would not be a reliable means to support the setting of an operating budget pursuant to State budget statutes. In light of recent actions by the Commissioners Court to control expenditures growth, the five year projections factors in that the Court will keep expenditures within available funds projected to be on hand even if the actual trend exceeds the projected capped growth of between 3.5 percent in fiscal year 2006 and 5.5 percent in fiscal year 2010. Any deviations of expenditures in excess of these caps would require counterbalancing expenditure allocations within future budgets or action by the Court to seek new revenues.

The graphic depiction on the next page gains its value in that it provides the Court with a somewhat unbiased perspective of the trend of revenues and expenditures assuming all prior trends whether anticipated or not continued into the future. All trends prior to the current budget are based on audited actual data, whereas the future is purely a trend of optimism. The Court is able to see the result of its actions or inactions in this graph, which has helped facilitate a better understanding of the cause and effect for future planning. By plotting budget and actual revenue and expenditure data simultaneously with pertinent fund balance components, the Court is provided a snapshot in time of the effect of one trend on another. Furthermore, this graphical depiction is utilized interactively during budgetary hearings to simulate what if scenarios to the Court. As a result of this analysis, the Court has charted a course of stabilization of expenditures, and revenue enhancement in fiscal year 2005 consistent with its financial priorities as mentioned earlier.

EXECUTIVE AND BUDGET SUMMARY

A SIMULATION MODEL FOR THE FUTURE, CONT'D

In response to this analysis, the Commissioners Court mandated that discretionary departments place emphasis on expenditure reductions, unless offsetting revenues were identified. County departments overall were directed to concentrate on collection of all fines and fees due to the County and to make further reductions wherever possible. As a result, the County experienced a more efficient budget process, which has in the short-term impacted the General Fund trend of spending for fiscal year 2005, and positively impacted the fiscal year 2004 fund balance reserves of the General Fund. Although the County has made short-term progress, the trend for the future depicts the possible recurrence of budgetary difficulties mainly in fiscal years 2006 and 2007 and beyond unless the Court remains focused on actively controlling expenditure growth. It is recommended that emphasis remain on actively ensuring that future expenditures do not outpace revenues to a point of substantially reducing fund balance reserves below that needed for first quarter operations. These efforts should sustain a positive trend of rising revenues and stabilization of expenditure growth in order to avoiding significant financial repercussions continuing into the very near future.



Over the long-term, the County's financial strategy helps smooth out the economic peaks and valleys by diverting money to fund balance and operating capital to meet fiscal quarter financial obligations as previously discussed. Also, within the strategic financial plan's controlled environment, the economic valleys can be smoothed by cautiously utilizing fund balance while maintaining adequate undesignated reserves, presently the greater of first quarter operating cash outflows or 10 percent of the General Fund budget, regulating operating capital expenditures and to aggressively pursue stabilization of property taxes as previously mentioned.

EXECUTIVE AND BUDGET SUMMARY

A SIMULATION MODEL FOR THE FUTURE, CONT'D

Under standard estimating procedures, it would be impossible to predict exactly when and how much actual revenue dips and increases will be. Also, the operating budget could be based on an overly optimistic property or sales tax revenue estimate or prisoner maintenance cost reimbursement. A vital feature of the strategic plan is that it provides an outlook to the Court for the County to take immediate action in order to alleviate continued shortfalls and substantial depletion of fund balance reserves. **Based on this projection, continued attention and possible action is warranted by the Commissioners Court to ensure stabilization of future expenditures or the generation additional revenues in fiscal year 2005 and beyond.**

Some governmental entities, other than Texas Counties, are able to use tax rates to make short-term adjustments in the operating budget. In El Paso County, however, the very stringent truth-in-taxation legislation enacted by the State greatly limits the County's ability to use property taxes and the sales and use taxes to make short-term adjustments.

Generally, changes in the County's tax rates or tax structure should be viewed as long-term financial adjustments. For example, a tax rate increase is usually made to correct an existing or projected long-term imbalance between revenues and service costs, not just to balance a single year's budget. For this reason, County government should strive to maintain a steady increase in revenue while costs are on the rise. Failure to adequately fund current expenditures in effect compounds future funding deficiencies. Without adequately funding expenditures when introduced into the budget, the County limits its financial future by impacting future revenues with past costs that were not funded and preventing growth. **Due to the nature of the County's property tax calculations, lost revenues may not be recaptured in subsequent years; as to do so would expose the County to even further reductions as mandated by taxpayers.**

ALL FUNDS- FUND BALANCE IMPACTS

TOTAL FUND BALANCE COMPONENTS – ALL BUDGETED FUNDS

Fund Balances	Fund Balance All Governmental Funds					Total
	General Fund	Special Revenue	Debt Service	Capital Projects	Other Funds	
October 1, 2003	\$33,860,029	\$17,953,831	\$903,662	\$46,535,941	\$12,723,530	\$111,976,994
September 30, 2004	\$33,849,656	\$15,805,174	\$873,149	\$41,607,010	\$12,685,668	\$104,820,658
Increase(decrease)	-\$10,373	-\$2,148,657	-\$30,513	-\$4,928,931	-\$37,862	-\$7,156,336
Percentage Change	-0.03%	-11.97%	-3.38%	-10.59%	-0.30%	-6.39%

Although the General Fund grew by only \$635,774 or 1.88 percent, special attention is appropriate in that actions by the Commissioners Court deterred any significant reduction to fund balance. In this regard, tax revenues grew by approximately \$11.4 million or 8.58 percent mainly attributable to transfers from other funds such as \$5.0 and \$1.4 million from the Road and Bridge and Park Improvement funds respectively as a means of addressing fiscal year 2004 revenue shortfalls. The County also received \$3.1 million from the federal government relating to reimbursement of its costs of processing federal drug bridge cases in the region. Additionally, during the budget process in fiscal year 2004, the Court authorized a moderate increase in the ad valorem

EXECUTIVE AND BUDGET SUMMARY

ALL FUNDS- FUND BALANCE IMPACTS, CONT'D

tax rate and experienced a significant sale and use tax rebound approximating \$1.3 million or 5 percent. On the other hand, in spite of receiving uncertified federal reimbursement, intergovernmental revenues declined by \$4.1 million below the prior year mainly due to receipt of significantly less federal reimbursement for federal bridge drug cases previously mentioned.

Overall, expenditures grew by \$4.8 million or 3.43 percent which mainly entailed growth in administration of justice by \$1,175,939 or 3.99 percent, general government \$101,417 or .37 percent and culture and recreation which saw a growth of \$101,674 or 3.73 percent. Although many other areas saw a decline, the most significant decline occurred do to the change in accounting for the Juvenile Probation Departments from Public Safety to other financing uses wherein accounting changed from the general fund to special revenue. All other areas declined mainly due to a reduced employee cost of living allowance, a freeze on the salary step plan and shifting of health care cost to employees and retirees as well of reductions in force and reduction of non-mandated programs. As a result of the continued growth of mandated services, the Commissioners Court will continue to be cautioned to remain focused on stabilized growth to the extent possible without reducing services while revenue growth to a level of sustaining such expenditures.

Special revenue's fund balance fell by just over \$2.1million or 11.97 percent due to a combination a decline in fine and forfeiture revenue and compounded by growth in general government and public safety expenditures totaling \$444,108 and \$9.9 million respectively. This increase was offset by an increase in transfers in of approximately \$10.3 million, from the reclassification of Juvenile Probation into this fund. This change in fund balance should have no consequence on any one program within this fund as each is funded with a revenue source that is assessed and utilized for a specific purpose.

Capital projects utilized approximately \$5 million dollars of fund balance as various projects continue in progress utilizing bond proceeds for specific purposes as discussed earlier and in the capital projects section of this document. Again, this change in fund balance has no consequence to the fund overall as it merely reflects the consumption of funds designated for specific construction projects in accordance with the underlying bond issues.

SUMMARY OF FINANCIAL POLICIES

Financial policies are indicative of significant factors impacting the budgetary decisions of the Commissioners Court, County Officials, and department heads in the fiscal management of the County. These summarized financial policies are intended to provide readers of this document insight and background on County government. The complete adopted financial polices of the County along with the County Vision, Mission, Goals and Objectives can be found in Appendix E.

Operating Budget Policies

- During the budgetary process, funding priority will be given to all mandated functions and programs within the County when allocating scarce resources. All other additions or expansions of expenditures will be implemented provided there is a trade off with other expenditures or certification of new revenue sources prior to adoption of the budget.

EXECUTIVE AND BUDGET SUMMARY

SUMMARY OF FINANCIAL POLICIES, CONT'D

- The Court will aggressively seek and encourage cooperation between local governmental entities; support efforts of increased efficiency in planning and funding of discretionary community projects; identify and eliminate duplicate services and related costs and encourage community and business involvement in improving services to the citizenry of the County.
- The County will continually formulate and maintain revenue trends and expenditure forecasts at a minimum five years ahead of the current fiscal year.

Revenue Policies

The County will maintain a stable and diversified revenue system to protect it from short-term fluctuations in any single revenue source by doing the following:

- Establishing user fees and charges permitted by law at levels associated with the direct costs of providing those services including, when applicable, indirect costs;
- Pursuing the enactment of new legislation;
- Aggressively collecting ad valorem property tax revenues;
- El Paso County will restrict its reliance on non-recurring revenue sources by:
 - Remaining cognizant of intergovernmental grant revenues exceeding **20** percent of the total operating budget when approving grants that ultimately result in 100 percent County funding.
 - Cautiously monitoring the balancing of the general fund budget utilizing fund balance equaling 15 percent or more of the general fund appropriations while concurrently assuring the County maintains adequate reserves as defined by the County.
- Not allowing revenues generated by the levies of the sales and use taxes and ad valorem property taxes to exceed **65** percent of the total budgeted expenditures.

Budget Process

The County of El Paso prepares a balanced budget on an annual basis for planned expenditures which pursuant to the *Texas Local Government Code, § 111.039(b)*, may not exceed the balances in those funds as of the first day of the fiscal year, plus the anticipated revenues for the fiscal year as estimated by the county auditor. The balanced budget concept strictly implies that El Paso County cannot plan to operate with a projected deficit during any fiscal year when funds are not available to cover such projected deficit. In the event a significant loss of revenue is experienced in a budget year, a deficit could result. Consequently, in that case, unless the County Auditor is able to

EXECUTIVE AND BUDGET SUMMARY

SUMMARY OF FINANCIAL POLICIES, CONT'D

certify the fact that sufficient fund balance will be available to cover such deficit, the Commissioners Court immediately would be required to make reductions in appropriations to ensure a balanced budget

Approximately six months in to the fiscal year, the County Auditor holds a pre-budget planning meeting with the Commissioners Court to provide a financial update and gain consensus from the Court regarding policies, procedures and overall budgetary guidance. Subsequent to this meeting, the County Auditor, prepares preliminary budgetary guidelines for distribution for departments and elected officials. Due to the present financial concerns of the County, budgetary discussion and updates are given monthly with special emphasis focus on results the annual financial audit. The budgetary process is currently monitored and analyzed on an ongoing basis between the Commissioners Court, the County Auditor and the respective county departments.

Accounting, External and Internal Auditing, and Financial Planning

- The County Auditor's Office will continue to maintain the County's financial records on a basis that is compatible with the guidance and generally accepted accounting principles and standards that have been promulgated by the Governmental Accounting Standards Board for local governments.
- Pursuant to the *Texas Local Government Code, § 115.045*, once each fiscal year, the Commissioners Court will engage a disinterested Certified Public Accounting firm to conduct a comprehensive external audit of all books, records and accounts of the County.
- The County Auditor's staff will continually conduct internal audits throughout the County that are designed to strengthen internal accounting and budgeting controls and to protect the County' assets.

Personnel Policies

- The Court will continue to support its salary plan and its salary committee having developed step levels within the approved salary plan within job classes.
- All additional positions, position upgrades, reclassifications and reorganizations will not be implemented without prior approval of Commissioners Court.

Reserve Policies

Each fiscal year, the Court will establish four contingency reserves (Personnel, Maintenance and Operations, Equipment, and Professional Services) within the general fund account titled general and administrative. Each reserve, when allowable, will be established at one quarter of one percent (.25%) of the total general fund appropriations for any fiscal year. These funds will only be distributed by majority vote of the Commissioners Court.

EXECUTIVE AND BUDGET SUMMARY

SUMMARY OF FINANCIAL POLICIES, CONT'D

Fixed Assets and Capital Planning

- All purchases of items costing \$5,000 or more and having a useful life expectancy of at least one year will be reflected in the County's financial inventory.
- Capital expenditures for projects and equipment are reviewed by the equipment committee and are budgeted when appropriated funds are identified.
- To reduce the County's overall expenditures, the purchasing agent will, wherever deemed appropriate, issue useable items placed in storage to departments and agencies requesting comparable new equipment.
- The Court will evaluate the capital needs with the assistance of the County Equipment Committee throughout the year and especially during the budget cycle for fiscal budget impact and will update its present and future capital plan.

Debt Management Policies

When the Commissioners Court makes a determination to issue bonds, the policies below will be followed.

- New bonds issued will be amortized resulting in equal principal amounts being retired each fiscal year with payments due on February and August 15th. This will produce a total debt schedule with a declining yearly balance.
- Debt service appropriations in total will not exceed 35 percent of the total budget in any fiscal year pursuant Article VIII, Section 9, of the Texas Constitution.
- The County's total bonded debt will never exceed 2 percent of the net valuation of taxable property values in El Paso County.
- Bond financing arrangements will be restricted to capital improvement projects that cannot be feasibly funded with current revenues and reserves.
- The term of bonds will not exceed the useful life expectancy of the capital project or equipment for which the borrowing was done.

Cash Management and Investment Policies

- All County funds received by the treasury division will be deposited on the same day received in order to optimize the County's cash flow, liquidity and interest earnings.
- The County Auditor will serve as the County's investment officer.
- Commissioners Court will approve and maintain a written investment policy.

EXECUTIVE AND BUDGET SUMMARY

THE FOCUS OF FINANCIAL POLICIES IN THE BUDGET PROCESS

Throughout fiscal year 2004, the County Auditor held numerous workshops with County departments, and the Court. These meetings were attended by elected officials, department heads, key staff members, news media as well as many interested citizens up to final adoption. Furthermore, recipients of County funds continued to have an opportunity to discuss their operations and any unique situations affecting their organization when they addressed their budget request to the Court although the budget focus put emphasis in fiscal year 2005 of again not funding non-mandated recipients. Furthermore, emphasis by the Court was expanded to make reductions to discretionary departments and programs. Transitional changes in the budgetary process have been received favorably with the majority of departments and the Court continues to express that the process has added value to the budget and added greater accountability to the decision making process. At these departmental and budgetary meetings, many issues were addressed in support of the County's financial policies such as:

- (a) Formulating a budget based on actual and anticipated revenue while utilizing some fund balance reserves and minimizing any increase to the County tax rate;
- (b) Specific emphasis was placed on the County's 5 year strategic financial plan with emphasis on aligning the trend of revenues and expenditures immediately and for the next fiscal year;
- (c) Prioritizing funding of mandated functions before considering non-mandated funding requests provided they enhance economic development;
- (d) Instituting a budget freeze unless contractually obligated otherwise;
- (e) Annually, analyzing fees and charges to enhance a stable and diverse revenue stream and to place emphasis on ensuring collection of County-wide fines and fees in a timely manner;
- (f) Continued emphasis was made on innovations for increased efficiencies in County government and public accountability via utilization of the County's computer system and software as a means of tracking and reporting meaningful performance measures;
- (g) Maintaining an adequate General Fund balance in compliance with the Court's reserve policy of maintaining fund balance reserves totaling net cash outflow to cover financial obligations of the County's first fiscal quarter or 10 percent of the adopted General Fund budget;
- (h) Emphasis on continued implementation of the County's salary step plan in fiscal year 2005 (after freezing the plan in fiscal year 2004) and investing in the work force;
- (i) The continued support of a 2 percent Cost of living raise for County employees;
- (j) Funding for the County's collective bargaining agreement;
- (k) Adequately funding premiums to the Health and Life Benefits Fund for employee health benefits and shifting non-employee costs healthcare cost back to employees and retirees, and
- (l) Implementation of task tracking and refinement of performance measures for all departments.

EXECUTIVE AND BUDGET SUMMARY

THE FOCUS OF FINANCIAL POLICIES IN THE BUDGET PROCESS, CONT'D

The budget reflects a multitude of changes throughout this document. Many changes resulted in budget cuts and trade-off of appropriations in the budget while some were capped pending further evaluation due to changing legislation and the related mandates of County government. Other major adjustments were obtained as a result of what was defined as being either mandated or non-mandated functions of County government.

While addressing the ever-increasing departmental requests, the Court orchestrated its financial priorities and was firm with departments resulting in a multitude of changes. The Court worked diligently considering the many possible sources and uses of funds and even imposed spending restrictions in late fiscal year 2004 in order to minimize last minute spending. This lengthy and diligent budgetary development process resulted in producing a very practical and cost efficient spending plan for the current fiscal year.

Throughout the budget process, the Court continued its support of the County Auditor's evaluation of each budget request and making recommendations to the Court. The County Auditor based all recommendations on justification submitted and further financial analysis and recommendations of the Commissioners Court such as the discretionary cuts mentioned earlier in this document. The resultant impacts, which comprise this budget, involve a multitude of scenarios and ultimately, the direction of the Commissioners Court. Budget cutting was the most prevalent emphasis for fiscal year 2005 although some departments or elected officials maintained level funding when they exhibited a sustainable increase in the present revenue stream to offset such cuts.

As a result of the Court's actions and the receipt of unanticipated revenues during fiscal year 2004 the County once again achieved its goal of significantly reducing year-end expenditures. This, coupled with a moderate increase in charges for service revenues, resulted in the County's successfully minimizing the negative impact to its unreserved fund balance. The Commissioners Court is to be commended for their commitment, fiscal and financial leadership, for the diligent decisions, which resulted in this budget and the attainment of adequate undesignated fund balance reserves in the General Fund. **The Court is however, cautioned that maintenance of this fund balance in fiscal year 2005 and beyond will require continued effort, not only to stabilize expenditure growth, but in realization of substantial new revenue sources to alleviate General Fund shortfalls as experienced in the past two fiscal years.**

LINKING THE GOALS

Examples of the County of El Paso's entity wide goals being aligned with departmental goals have been achieved in the following areas:

County-wide goal: Providing high quality services to customers and constituents

- **County Sheriff Law Enforcement:** To meet or exceed the national average for Uniform Crime Report for theft, vehicle theft, burglary and arson.
- **Communications:** To continuously improve the telecommunications and information service in order to allow County government to conduct its business in the most efficient and cost effective manner.

EXECUTIVE AND BUDGET SUMMARY

LINKING THE GOALS, CONT'D

- **Veterans Assistance:** To network with families, County, State and National agencies which serve veterans and their families.
- **County Attorney:** To provide high quality, cost effective legal services to our clients in all legal matters.
- **Public Defender:** To provide quality legal representation to our clients on felony, misdemeanor, juvenile, extradition, direct appeal and post conviction cases.

Countywide goal: Improve the way the County does business.

- **Medical Examiner:** Improve the efficiency and effectiveness in performing autopsies and investigations.
- **County and District Courts:** To serve the State of Texas, the County of El Paso and the general public more efficiently in all judicial matter in accordance with the laws of the State of Texas.
- **Ascarate Golf Course:** To expand the range of services offered and to continue growing and providing friendly and courteous service.
- **Ascarate Regional Park:** To provide more park facilities to include picnic shelters, vegetation, playground equipment and other park amenities for the Citizens of El Paso.
- **Information Technology:** To address the issues of information technology and implement new releases of software for the financial, human resource and justice systems.

Countywide goal: Improve the County's financial strength

- **County Clerk Criminal Fee Collections:** To maximize the collection of court cost and fines assessed by the El Paso County judiciary.
- **Parking Garage:** To operate and maintain the garage in a safe, efficient, and business-like manner to optimize the profitability of the facility according to facility rules and procedures established by the County.
- **County Auditors:** To continue to improve the County's financial position and safeguard the County's Assets.
- **Human Resources:** To identify and control the County's exposure to financial losses and protect its physical assets through the administration of a comprehensive risk management program.

Countywide goal: Invest in the workforce

- **County Auditor:** To maintain a professional staff by having staff attend quality professional training that will result in enhancing efficiencies and the overall quality of service to the public and the County departments.
- **Human Resources:** To provide employees with a competitive compensation package in return for meeting performance expectations.
- **Risk Pool Board Operations:** To provide County employees with a beneficial comprehensive health plan.

EXECUTIVE AND BUDGET SUMMARY

A SNAPSHOT OF THE 2005 BUDGET

FY 2005 Adopted Appropriations in Comparison to FY 2004 (All Budgeted Fund Types)

Appropriations (Uses):	FY 2004 as Amended	Adopted FY 2005	Change from 2004 Amended	Percent Change	Components as % of Budget
Capital Project Fund	\$3,995,411	\$692,773	(\$3,302,638)	-82.66%	0.33%
Debt Service Fund	16,037,572	16,244,029	206,457	1.29%	7.70%
Enterprise Fund	705,874	1,424,522	718,648	101.81%	0.68%
General Fund	154,385,518	157,451,140	3,065,622	1.99%	74.65%
Grants	30,324,778	785,956	(29,538,822)	-97.41%	0.37%
Special Revenue	36,771,809	34,328,342	(2,443,467)	-6.64%	16.28%
Total Budget	242,220,962	210,926,762	(31,294,200)	-12.92%	100.00%
Encumbrance carryforward	3,168,082	5,963,599	2,795,517	88.24%	
Total Combined Appropriations	\$245,389,044	\$216,890,361	(\$28,498,683)		

The 2005 budget adopted by the County totaled \$210,926,762, a net decrease of \$31,294,200 or 12.92 percent in comparison to the fiscal year 2004 adopted budget as amended. Total estimated revenues from all sources decreased from \$211,970,674 in fiscal year 2004 in comparison to \$193,024,120 in fiscal year 2005, a decrease of \$18,946,554 or 8.94 percent, as reflected on the table above.

FY 2005 Estimated Revenues in Comparison to FY 2004 (All Budgeted Fund Types)

Revenues (Sources):	FY 2004 as Amended	Adopted FY 2005	Change from 2004 Amended	Percent Change	Components as % Budget
Tax Revenues	\$106,121,642	\$119,871,396	\$13,749,754	12.96%	56.83%
Licenses and Permits	151,500	177,500	26,000	17.16%	0.08%
Intergovernmental	29,132,590	2,309,569	(26,823,021)	-92.07%	1.09%
Charges for Services	41,294,653	44,748,469	3,453,816	8.36%	21.22%
Fines and Forfeits	5,889,617	6,069,800	180,183	3.06%	2.88%
Interest Earnings	1,386,161	1,355,042	(31,119)	-2.24%	0.64%
Miscellaneous Revenues	7,930,330	3,748,019	(4,182,311)	-52.74%	1.78%
Other Financing Sources	20,064,181	14,744,325	(5,319,856)	-26.51%	6.99%
Total Revenues and Other Financing Sources	\$211,970,674	\$193,024,120	(\$18,946,554)	-8.94%	91.51%
Fund Balance Components					
Fund balance designated to balance the budget	\$30,277,395	\$17,902,642	(\$12,374,753)	-40.87%	8.49%
Total Fund Balance Designations	\$30,277,395	\$17,902,642	(\$12,374,753)	-40.87%	8.49%
Total Revenues (Sources) and Fund Balance	\$242,248,069	\$210,926,762	(\$31,321,307)	-12.93%	100.00%
Designated Fund Balance as % of Budget	12.50%	8.49%			

Closer analyses of the components of major class groupings of revenues reveals increases in taxes, licenses and permits, charges for services and fines and forfeits for a combined total of \$18,354,383. Concurrently, all other areas declined for an aggregate total of \$37,273,830.

The most significant change and the majority of this reduction is due to grants and the fact that they are not budgeted in fiscal year 2005 until grant awards are received which the reasoning for

EXECUTIVE AND BUDGET SUMMARY

A SNAPSHOT OF THE 2005 BUDGET, CONT'D

the significant difference when compared to fiscal year 2004. The gap between estimated revenues and appropriations represents fund balances designated to balance the 2005 budget.

On September 27, 2004 the Commissioners Court approved an ad valorem property tax rate of \$0.432259 per \$100 dollar valuation. Based mostly on history and current economic influences, it is normally estimated that about 99.55 percent of the property taxes levied will actually be collected. Sales and use taxes generate the second largest amount of County revenue.

The following historical ad valorem property tax information is provided to facilitate a better understanding of some factors affecting the tax rate in order to analyze ad valorem property tax revenues. Further analyses of these components can be found in the Debt Service section of this document.

	FY 2005	FY 2004	% Change
Adopted Ad Valorem Property Tax Rates	\$0.432259	\$0.410817	5.22%
Effective Tax Rates	\$0.398329	\$0.398852	Not Comparable
Total Taxable Values	\$20,987,327,866	\$19,519,665,934	7.52%
Total Estimated Tax Revenues	\$90,311,374	\$78,091,642	15.65%

Overall, tax revenues grew in the general fund by \$12,880,113 or 14.49 percent, special revenue by \$200,000 or 10 percent, and in debt service by \$669,641 or 4.40 percent.

Intergovernmental revenues for the most part relates to grants, which are budgeted when funds are awarded. This category fell \$26,823,021 of which \$26,920,396 represented grants and \$78,219 related to Special Revenue and was offset by increase of \$175,594 in the General Fund.

Charges for Services represents 21.22 percent of total revenue estimates and exhibited a moderate increase over the fiscal year 2004 estimate by 8.36 percent or \$3,453,816. This increase relates to County imposed fees, vehicle registration fees, and other fees of elected officials throughout the County. The largest component in this category relates to projected revenues in the General Fund, which grew by \$3,552,817 and relates to elected official's fees of office, park fees and housing prisoners in both the downtown and eastside jail annex facilities. The Enterprise Fund also increased by \$629,627 and was netted with a decline in the special revenue fund totaling \$728,627.

Miscellaneous revenues declined by \$4,182,311 or 52.74 percent due mainly to capital projects totaling \$3,532,919 for proceeds of a land sale, a reduction in the area of grants totaling \$712,228 due to timing of when grants are awarded and a decline in debt service of \$201,000. These amounts were offset by the general fund, which grew by \$316,855 mainly attributable to expected growth in phone commissions.

Other financing sources trended down by \$5,319,856 mainly attributable to the reduction in the availability of funds to be transferred into to the general fund for patrolling county roads. Additionally, the timing of grants impacted this decline by \$1,846,470, which was offset by an increase of \$422,614 in the special revenue fund. Appropriations on the other hand declined by

EXECUTIVE AND BUDGET SUMMARY

A SNAPSHOT OF THE 2005 BUDGET, CONT'D

\$31,294,200 or 12.92 percent from fiscal year 2004. With the exceptions of general government and public works, all areas reflect a reduction from 2004.

Correspondingly, appropriations declined by \$31,294,200 or 12.92 percent from fiscal year 2004. As discussed earlier, grants are the most significant reason for declining appropriations followed by capital projects due to less funds becoming available for supplemental appropriation. The special revenue fund also saw a decline mainly due to a reduction of transfers out from the Road and Bridge fund to the General Fund due to diminishing fund levels to cover the cost of patrolling county roads. The tables below will give you another perspective of the areas of decline as well as areas of growth in the County budget. From this table, you can see that grants only represent .37 percent of the adopted 2005 budget although grants decreased 97.41 percent or \$29,538,822. The general fund is the most significant county budget and represented \$157,451,140 or 74.65 percent of the budget.

When looking at the overall County budget, it is helpful to note the components that comprise the overall budget such as personnel, operating and capital as shown below. The three categories are personnel totaling \$122,491,038 or 58.07 percent, operating totaling \$84,654,854 or 40.13 percent and capital totaling \$3,780,870 or 1.79 percent.

**FY 2005 Adopted Appropriations by Category and Fund Balance in Comparison to FY 2003
(All Budgeted FundTypes)**

Appropriation Categories	FY 2004 as Amended	Adopted FY 2005	Change from 2005 Amended	Percent Change	Components as % of Budget
Personnel	\$128,880,956	\$122,491,038	(\$6,389,918)	-4.96%	58.07%
Operating	104,870,342	84,654,854	(20,215,488)	-19.28%	40.13%
Capital	8,469,664	3,780,870	(4,688,794)	-55.36%	1.79%
Total Budget	242,220,962	210,926,762	(31,294,200)	-12.92%	100.00%
Encumbrance carryforward	3,168,082	5,963,599	2,795,517	88.24%	
Total Combined Appropriations	\$245,389,044	\$216,890,361	(\$28,498,683)		

Appropriations can be further delineated by function of government. As seen on the following chart, all but three categories reflected a decline from fiscal year 2004. Those that increased were general government, public works and debt service. General government totaled \$39,129,180 and represents 18.55 percent of the overall budget. General government grew by \$2,104,287 mainly in the general fund. Public works totaled \$7,312,921 and represents only 3.47 percent of the overall county budget. Growth in public works was a slight \$351,923 mainly due to increases in special revenue and the enterprise fund totaling \$215,951 and \$719,382 which was netted by a decline in special grants totaling \$583,410 because of a timing difference of budgeting these funds.

EXECUTIVE AND BUDGET SUMMARY

A SNAPSHOT OF THE 2005 BUDGET, CONT'D

Although the above areas declined from 2004, as previously mentioned, timing differences for the budgeting of grants is the most prevalent cause of these declines. Administration of justice declined represents 15.92 percent of the total budget and totaled \$33,577,368 and declined by \$8,574,367. In this category, grants declined by \$9,284,672 while the General Fund and Special revenue funds grew by \$115,539 and \$594,766 respectively. Public safety totaled \$78,871,655 and represents 37.39 percent of the overall budget. This area declined by \$9,030,489 due to grants, which netted with the general fund and special revenue, which grew by \$2,460,173 and \$554,527 respectively. Health and welfare represents 3.43 percent of the budget and totaled \$7,230,674. This area decline by \$8,942,773 for grants and \$500,872 in the general fund while special revenue grew slightly by \$47,495. The community service area decline relates only to grants and totaled \$1,289,546 and will be budgeted if and when grant awards are received. Resource development declined by \$328,768 attributable to a declines in general fund totaling \$360,768 and an offsetting increase of \$32,000 in special revenue. Resource development comprises only .37 percent of the budget. Culture and recreation comprises 2.90 percent of the budget and totaled \$6,107,749, a decline of \$997,580. This decline was mainly attributable to budgetary reduction in the general fund to non-mandate functions such as parks. Declines included the general fund totaling \$996,804 and grants totaling \$220,877 that was offsets by growth in special revenue totaling \$220,101.

Capital outlays represent for the most part bond proceeds and other designated fund for capital purchases or improvements. Funds here are budgeted when they become available for expenditure. Capital outlays budget in fiscal year 2005 totaled \$3,780,870, a decline of \$4,688,794 attributable to declines in all funds but mainly the capital projects fund of \$3,302,638, plus declines in the general fund, special revenue and grant funds totaling \$229,774, \$969,327 and \$187,055 respectively. The debt service fund totals \$16,318,551 and represents 7.74 percent. This category is utilized to account for the repayment of principal and interest on long-term debt obligations and increased by \$205,723.

FY 2005 Adopted Appropriations in Comparison to FY 2004 (All Budgeted Fund Types)					
Appropriations (Uses):	FY 2004 as Amended	Adopted FY 2005	Change from 2004 Amended	Percent Change	Components as % of Budget
General Government	\$37,024,893	\$39,129,180	\$2,104,287	5.68%	18.55%
Administration of Justice	42,151,735	33,577,368	(8,574,367)	-20.34%	15.92%
Public Safety	84,887,444	78,871,655	(6,015,789)	-7.09%	37.39%
Health and Welfare	16,626,824	7,230,674	(9,396,150)	-56.51%	3.43%
Community Services	1,289,546		(1,289,546)	-100.00%	0.00%
Resource Development	1,117,497	788,729	(328,768)	-29.42%	0.37%
Culture and Recreation	7,105,329	6,107,749	(997,580)	-14.04%	2.90%
Public Works	6,960,998	7,312,921	351,923	5.06%	3.47%
Capital Outlays	8,469,664	3,780,870	(4,688,794)	-55.36%	1.79%
Debt Service and Enterprise:					
Principal	9,561,000	10,281,000	720,000	7.53%	4.87%
Interest	6,513,772	6,037,551	(476,221)	-7.31%	2.86%
Other Debt Related Costs	38,056		(38,056)	-100.00%	0.00%
Other Financing Uses	20,474,204	17,809,065	(2,665,139)	-13.02%	8.44%
Total Appropriations (Uses)	\$242,220,962	\$210,926,762	(\$31,294,200)	-12.92%	100.00%
Encumbrance carryforward	3,168,082	5,963,599	2,795,517	88.24%	
Total Combined Appropriations	\$245,389,044	\$216,890,361	(\$28,498,683)		

EXECUTIVE AND BUDGET SUMMARY

ACKNOWLEDGMENTS

I sincerely thank the citizens, County Judge, County Commissioners, other elected and appointed officials, department heads and County employees for their roles and support in developing this annual operating budget in a remarkably responsible and professional manner. Special thanks goes to the County Auditor staff, especially the outstanding efforts of the budget division for the preparation of this document, which would not have been possible without their dedication and meticulous hard work and professionalism.

Very truly yours,

A handwritten signature in black ink, appearing to read "Edward A. Dion". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Edward A. Dion
County Auditor