

City Indebtedness

The Virginia Constitution authorizes Virginia cities to issue general obligation bonds, secured by a pledge of full faith and credit. For the payment of such bonds, the city's governing body is required to levy, if necessary, an ad valorem tax on all property subject to local taxation. General obligation bond issuance is subject to a 10 percent limitation of the assessed value of taxable real property in the City. The City has a self-imposed debt service limit of 12% of general fund revenues.

In determining the debt limitation, certain classes of indebtedness may be excluded, including revenue anticipation notes maturing in one year or less, referendum approved general obligation bonds payable from a specified revenue producing undertaking (as long as the undertaking is self-supporting), and revenue bonds. The City's Public Utility bonded debt is a self-supporting referendum-approved general obligation and excluded from the City's legal debt limit. In addition, the City's lease-purchase obligations which are subject to annual appropriation are excluded from the City's legal debt limit.

The following table shows the Legal Debt Margins for five Fiscal Years ending June 30.

As of	Taxable Real Property Assessed Value	Debt Limit: 10% of Assessed Value	Debt Applicable to Debt Limit	Legal Margin for Additional Debt
July 1, 2011*	\$7,200,000,000	\$720,000,000	\$300,599,766	\$419,400,234
July 1, 2010	7,677,617,651	767,761,765	308,220,824	459,540,941
July 1, 2009	7,591,663,330	759,166,333	241,689,840	517,476,493
July 1, 2008	7,422,683,650	742,268,365	223,157,851	519,110,514
July 1, 2007	6,658,813,670	665,881,367	236,589,142	429,292,225

* Estimated

Overlapping or Underlying Debt

The City of Portsmouth is autonomous and entirely independent of any county or other political subdivision. It is not subject to taxation by any county or school district, nor is it liable for any county or school district indebtedness.

The City Council authorized the creation of the New Port Community Development Authority (the "New Port CDA") in August 2005 to finance certain infrastructure improvements, including road improvements, signage, updated and relocated utilities, lighting, fencing, sidewalks and streetscapes (the "Improvements"), related to the construction of a high-quality planned residential community. To fund the Improvements, the New Port CDA issued \$16,240,000 in revenue bonds in May 2006 (the "CDA Bonds"), which mature September 1, 2036. The CDA Bonds are secured by and payable from special assessments (the "Special Assessments") to be levied by the City on the taxable parcels within the New Port CDA District (the "District"). The CDA Bonds are also secured by funds held pursuant to an Indenture of Trust dated May 1, 2006, between the New Port CDA and Manufacturers and Traders Trust Company, as trustee. Pursuant to a Special Assessment Agreement dated February 15, 2006, the City is obligated, subject to appropriation, to pay over to the New Port CDA those Special Assessments collected by the City. However, such obligations do not constitute a general obligation of the City or a pledge of the City's full faith and credit. The City is not responsible for paying the debt service on the CDA Bonds.

Statement of No Past Default

The City has never defaulted on any debt payment of either principal or interest.

Outstanding Debt

The City's bonded debt consists almost entirely of general obligation bonds which are supported by City general revenues. For the Golf Fund, the outstanding debt is secured solely by a general obligation pledge – the full faith and credit of the City. The proprietary fund debt, consisting of the Public Utility, Parking Fund, City Garage, Waste Management,

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and the Information Technology debt is expected to be paid from the revenues of the respective enterprise and internal service funds.

Debt Ratios

The following table shows the General Debt to Property Value ratios for the fiscal years ended 2008 through 2012. The City's real estate assessed values are determined as of January 1, and those values are effective for taxation as of July 1. The ratio is determined by dividing the total sales by the total of all assessed values after the annual assessment is completed. The calculations include all City debt excluding proprietary fund debt which is recorded as debt of the respective proprietary funds.

<i>As of</i>	Outstanding General Debt	General Debt as a % of Assessed Real Property Value	General Debt as % of Assessed Real and Personal Property Value
July 1, 2011*	\$301,510,760	4.19%	3.80%
July 1, 2010	308,894,389	4.0%	3.71%
July 1, 2009	242,727,956	3.23%	2.95%
July 1, 2008	224,077,206	3.02%	2.75%
July 1, 2007	239,816,665	3.5%	3.1%

*Estimated/unaudited

Public Utility Debt

All outstanding Public Utility bonds are general obligations of the City; however, as a matter of practice, the City pays such bonds from its Public Utilities Fund. This is a self-supporting Enterprise Fund. The revenues include water and sewer system fees. In the event Public Utilities Fund fees are not sufficient to pay the debt service on public utility bonds, the City is obligated to pay the debt service from the General Fund or other available revenues. Public Utility bond debt service coverage by net system revenues are shown in the following table.

Fiscal Year	Available for Debt Service	Principal	Interest	Total	Coverage
June 30, 2012*	\$22,613,704	\$4,393,905	\$5,344,799	\$9,738,704	2.32%
June 30, 2011*	22,900,996	4,191,287	5,140,856	9,332,143	2.45%
June 30, 2010	19,899,736	4,065,176	4,086,185	8,151,361	2.44%
June 30, 2009	18,668,801	3,941,975	4,270,929	8,212,904	2.27%
June 30, 2008	17,630,710	3,831,246	4,440,071	8,271,317	2.13%

*Estimated/unaudited

Impact of Capital Budget on Debt

The Constitution of the Commonwealth of Virginia and related laws dictate the legal limits of debt for political subdivisions. As such, the City's only legal limit of debt is 10% of taxable real estate assessed value. The City has a debt service policy limit of 12% of general fund budgeted revenue. The City will retire \$10.3 million general debt principal maturities and \$4.4 million of Public Utility debt in FY2012.

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Computation of Legal Debt Margin

CITY OF PORTSMOUTH, VIRGINIA			
Computation of Legal Debt Margin			
June 30, 2011			
Taxable real estate assessed value - July 1, 2011 (estimated)			\$ 7,200,000,000
Debt limit - 10 percent of assessed value (1)			720,000,000
Total debt - June 30, 2011 (estimated) (2)		437,559,224	
<u>Less amounts exempt from debt limit:</u>			
<u>Enterprise debt:</u>			
Golf bonds outstanding	6,590,000		
Public Utility bonds outstanding	113,314,341		
Parking bonds outstanding	5,532,112		
<u>Capital leases subject to appropriation:</u>			
General equipment and vehicles	476,812		
Waste Management equipment	2,586,990		
City garage equipment and vehicles	8,458,694		
Information Technology equipment	509		
	Total exempt debt	136,959,458	
Debt applicable to debt limit			300,599,766
Legal margin for additional debt			\$ 419,400,234
Notes:			
(1)	The legal debt limit is established by State law as 10 percent of taxable real estate assessed value		
(2)	Includes general obligation bonds and notes, school literary loans and obligations under capital leases. Excludes compensated absences, net pension obligation, other post employment benefits close		

