

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.

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 (in thousands of dollars).

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, 2014	\$7,158,905	\$715,891	\$606,121	\$109,770
July 1, 2013	\$7,197,846	\$719,784	\$631,738	\$ 88,046
July 1, 2012	\$7,435,030	\$743,503	\$466,274	\$277,228
July 1, 2011	\$7,333,064	\$733,306	\$433,196	\$406,697,400
July 1, 2010	\$7,677,617	\$767,761	\$423,011	\$459,541,700

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 entirely of general obligation bonds and notes, which are supported by City general revenues. There is no outstanding debt secured solely by revenues to be received from a particular undertaking. The City's general debt is intended to be funded from the City's General Fund. The debt of the proprietary funds, consisting of the

**City
Indebtedness**

Public Utility Fund, the Port Improvement Fund, the City Garage Fund, and the Information Technology Services Fund is expected to be paid or has been paid from the revenues of the respective enterprise and internal service funds.

Debt Ratios

The following table shows the Tax Supported Debt to Property Value ratios for the fiscal years ended 2010 through 2014. 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.

As of	Outstanding General Debt	Tax Supported Debt as a % of Assessed Real Property Value	Tax Supported Debt as % of Assessed Real and Personal Property Value
July 1, 2014	\$481,864,909	6.7%	6.7%
July 1, 2013	\$506,053,911	7.1%	6.4%
July 1, 2012	\$339,834,691	4.6%	4.2%
July 1, 2011	\$348,620,965	4.8%	4.3%
July 1, 2010	\$329,622,593	4.3%	3.8%

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, 2014	\$23,825,124	\$5,027,514	\$1,910,891	\$6,938,405	3.43x
June 30, 2013	\$24,907,619	\$4,461,208	\$2,867,582	\$7,328,790	3.40x
June 30, 2012	\$22,628,617	\$4,393,905	\$2,085,765	6,479,670	3.49x
June 30, 2011	\$24,809,389	\$4,120,281	\$1,519,110	5,639,391	4.40x
June 30, 2010	\$20,097,417	\$4,065,176	\$1,977,430	6,042,606	3.33x

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 also adopted a debt service policy limit of 10% of general fund budgeted revenue.

City
Indebtedness

Computation of Legal Debt Margin

CITY OF PORTSMOUTH, VIRGINIA
Computation of Legal Debt Margin
(in thousands of dollars)
June 30, 2014

Taxable real estate assessed value - July 1, 2014	\$	7,158,905
Debt limit - 10 percent of assessed value (1)		715,891
Total debt - June 30, 2014 (2)	628,103	
<u>Less amounts exempt from debt limit:</u>		
<u>Enterprise debt:</u>		
GO Public Utility Refunding Bonds, Series 2005 B (3)	7,965	
GO Taxable General Obligation and Refunding Bonds, Series 2013 B (3)	9,735	
<u>Capital leases subject to appropriation:</u>		
Waste Management equipment and vehicles	416	
City Garage equipment and vehicles	3,866	
Total exempt debt		21,982
Debt applicable to debt limit		606,121
Legal margin for additional debt	\$	109,770

Source : Department of Finance and City Assessor for assessed values.

Notes:

- (1) The legal debt limit is established by State law as 10 percent of taxable real estate assessed value.
- (2) Includes general obligation debt of the General Fund, Parking authority fund, Golf fund and School General fund and includes the Refunded Debt and does not include the 2015 A/B bonds. Excludes compensated absenses, net pension obligation and landfill closure and post-closure care liability. Also excludes the bonds that are self-supported by enterprise revenues from the Public Utility Fund and referendum approved. Also excludes subject to appropriation capital leases. Also excludes the City's full faith and credit obligation under the guaranty agreement securing the payment of certain of the Southeastern Public Service Authority's indebtedness.
- (3) Not included in legal debt limit as the series is self-supporting and referendum approved.