

City Indebtedness

Secured by a pledge of full faith and credit, the Virginia Constitution authorizes Virginia cities to issue general obligation bonds. 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 and Port Improvement bonded debt are self-supporting referendum-approved general obligations and, accordingly, are excluded from the City's legal debt limit. In addition, the City's lease-purchase obligations containing non-appropriation cancellation provisions are excludable from the City 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, 2005	4,525,997,452	452,599,745	178,014,982	274,584,763
July 1, 2004	3,960,731,140	396,073,114	171,991,936	224,081,178
July 1, 2003	3,609,260,900	360,926,090	167,125,364	193,800,726
July 1, 2002	3,435,041,250	343,504,125	172,761,675	170,742,450
July 1, 2001	3,250,382,910	325,038,291	157,064,189	167,974,102

* 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. There is no overlapping or underlying debt.

Statement of No Past Default

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

Outstanding Debt

Supported by City general revenues, the City's bonded debt consists almost entirely of general obligation bonds. For the Golf Revenue Bonds, 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, the Port Improvement, the City Garage, 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 2000 through 2004. The calculations include all City debt excluding Public Utility bonds, Golf Fund bonds, Port Improvement bonds, Portsmouth Parking Authority debt, City Garage debt, and Information Technology debt. All are recorded as debt of the respective proprietary funds.

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<i>As of</i>	General Debt	General Debt as a % of Assessed Real Property Value	General Debt as % of Assessed Real and Personal Property Value
July 1, 2005*	\$ 220,374,090	4.9%	4.6%
July 1, 2004	208,499,459	5.3%	5.1%
July 1, 2003	211,458,965	5.9%	5.1 %
July 1, 2002	219,119.673	6.4%	5.5%
July 1, 2001	189,379,172	5.8%	5.0%

*Estimated

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
July 1, 2005*	\$14,186,698	2,895,000	2,217,381	5,112,381	2.77%
July 1, 2004	14,240,469	2,442,489	2,644,275	5,086,764	2.80%
July 1, 2003	12,940,056	3,200,000	3,080,660	6,280,660	2.06%
July 1, 2002	11,871,335	3,405,000	3,184,191	6,589,191	1.80%
July 1, 2001	10,779,182	2,725,000	1,799,167	4,524,167	2.38%

*Estimated

Impact of Capital Budget on Debt

For the fiscal year, the City's debt service is budgeted to incorporate all interest and principal payments on the general obligation debt. While the 10% of taxable real estate value limitation, as imposed by the Commonwealth's Constitution and laws is a City constraint, the City has no other restriction on issuing new debt. As a result of the Capital Improvement Program, the City Council has implemented a self-imposed ceiling on new debt to be incurred. Presently, the new debt limit is \$8 million annually. \$4 million can be allocated to Schools and \$4 million to other municipal purposes. In FY 2006, on previously issued general public improvement debt, the City will pay off \$12.1 million in principal maturities and \$3.0 million of Public Utility debt.

City
Indebtedness

Computation of Legal Debt Margin

CITY OF PORTSMOUTH, VIRGINIA

Computation of Legal Debt Margin

June 30, 2005

Taxable real estate assessed value - July 1, 2005 (estimated)		4,525,997,452
Debt limit - 10 percent of assessed value (1)		452,599,745
Total debt - June 30, 2004 (2)	289,687,387	
Less amounts exempt from debt limit:		
Obligations under cooperation agreement subject to appropriation	40,813,736	
Enterprise debt:		
Public Utility bonds outstanding	55,909,304	
Port Improvement bonds outstanding	808,951	
Golf bonds outstanding	8,137,838	
Capital leases subject to appropriation:		
General equipment and vehicles	1,545,372	
Waste Management equipment	970,050	
City garage equipment and vehicles	3,037,964	
Information Technology equipment	449,190	
Total exempt debt	111,672,405	
Debt applicable to debt limit		178,014,982
Legal margin for additional debt		274,584,763

Notes:

- (1) The legal debt limit is established by State law as 10 percent of taxable real estate assessed value. Includes general obligation bonds, school literary loans, obligations under capital leases and obligations under cooperation agreement. Excludes compensated absences, net pension obligation and landfill closure and postclosure care liability.
- (2)