

Finance and City Bonds of Fukuoka City

Oct, 2012



Finance Bureau of Fukuoka City

Contents

1. Profile of Fukuoka City	2	14. Municipal Bond Issues and Reliance on Bonds (Initial Budget for General Account)	16
2. Economy of Fukuoka City	3	15. Municipal Bond Issues	17
3. Strengths of Fukuoka City	4	16. Municipal Bonds Outstanding by Account	18
4. Improved functionality at Fukuoka Airportet	6	17. Municipal Bonds Outstanding	19
5. Recognition from Overseas	7	18. Ratios to Judge Financial Soundness (Four indicators)	20
6. FY2011 Results	8	19. Ratios to Judge Financial Soundness (Outlook for effective bond expense ratio)	21
7. Revenue (General Account)	9	20. Profit and Loss for Corporate Account (FY2011)	22
8. Tax Revenue	10	21. Historical Profit/Loss for Corporate Account	23
9. Expenditures (General Account)	11	22. Fukuoka Municipal Subway	24
10. Special Accounts Summary	12	23. Operations of Extra-governmental Organizations	25
11. Major Financial Indicators (FY2011)	13	24. Operations of Three Fukuoka Public Corporations (FY2011) ..	26
12. Measures to Improve Financial Soundness and Progress of Fukuoka City	14	25. Credit Rating of Fukuoka City	27
13. Progress in Achieving Fiscal Soundness	15	26. FY 2012 Fukuoka City Plan for Municipal Bond Public Offerings	28

Fukuoka's Trees



Camphor Laurel



Round Leaf Holly

Fukuoka's Flowers



Cotton rosemallow

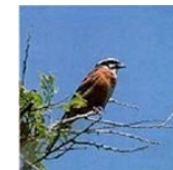


Sasanqua

Fukuoka's Birds

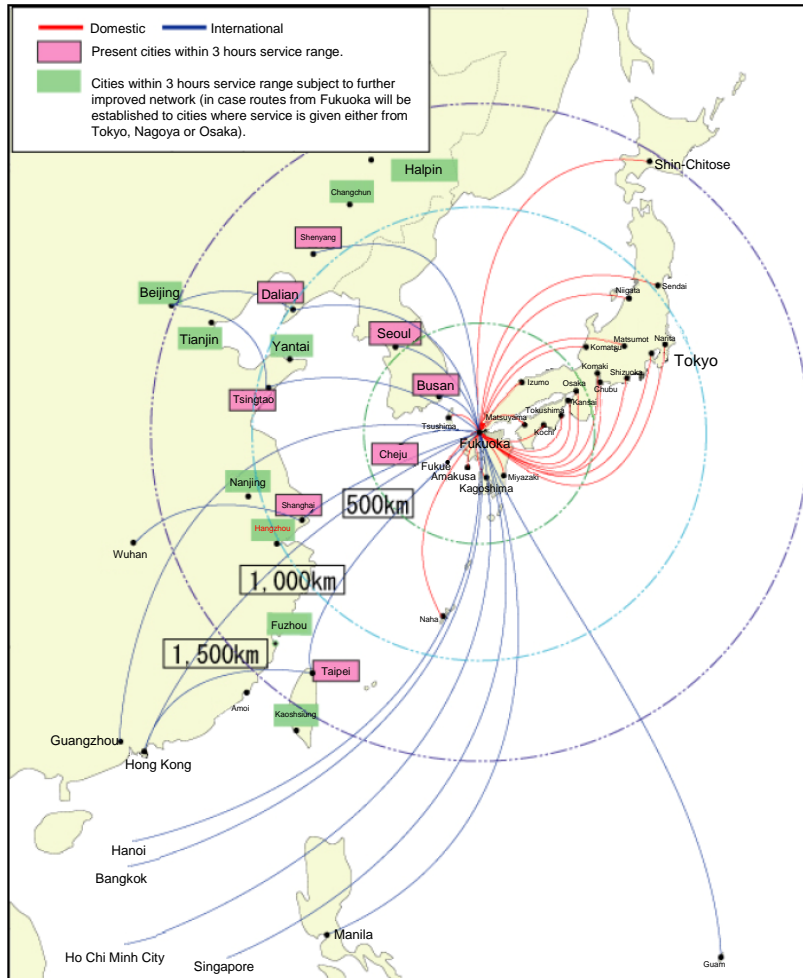


Black-headed Gull

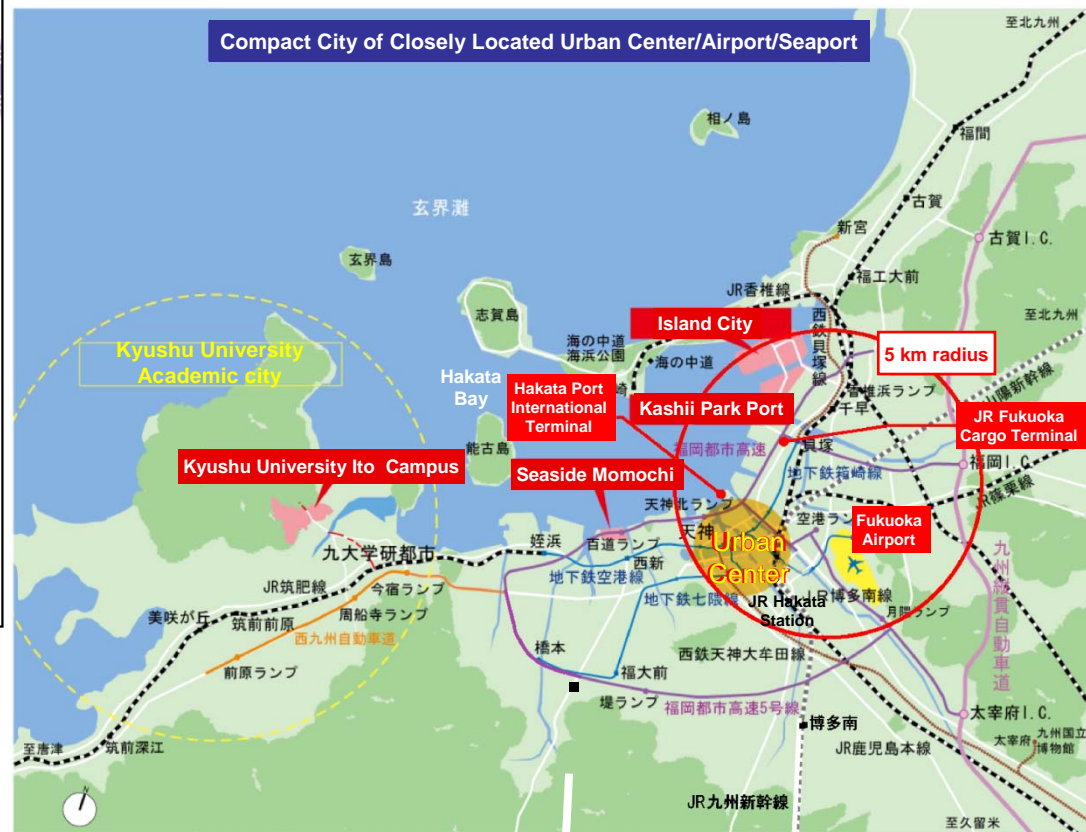


Meadow Bunting

1. Profile of Fukuoka City



- Population of Fukuoka City is approx. 1.49 million and the number of households is approx. 730 thousand.
- Geographically, the distance to major cities in the nation (Osaka, Tokyo, Sapporo) and the distance to major cities in East Asia (Pusan, Shanghai, Beijing, Taipei) fall almost within the same range, being optimal located for interchange with Asian nations including Korea and China.



2. Economy of Fukuoka City

- Fukuoka City is developing as the commercial/business/cultural center of the Kyushu/Yamaguchi economic sphere with a population of 15 million. The city's aggregate production ranks fourth among the ordinance-designated cities, after Osaka, Nagoya, and Yokohama.
- Being at the center of Kyushu and West Japan, national government institutions, branch offices of major corporations, and aggregations of financial and service companies are seen in Fukuoka City. Historically known as the "commercial capital" since the Middle Ages, wholesale, retail, and other service industries make up approximately 90% of the City's industrial structure.
- The City aims to become "Asia's business center" by leveraging its historical characteristics as well as its favorable location, being at a similar distance from major domestic cities (Osaka, Tokyo, Sapporo) as from major East Asian capitals (Pusan, Seoul, Shanghai, Beijing, Taipei, etc.).

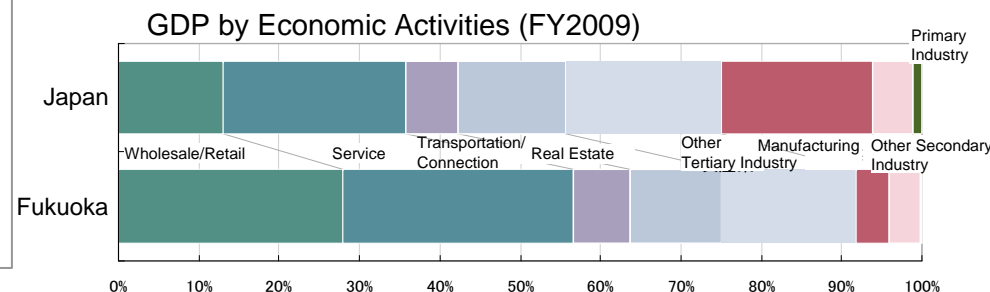
Kyushu/Yamaguchi Economic Sphere with Population of 15 million



Economic Structure of Fukuoka City

Gross Production	¥6.6 trillion	No.4 / 13 cabinet order designated cities
Income per Capita	¥3.02 million	No.4 / 13 cabinet order designated cities
Day/Night Population	113.4% (FY2010 111.9%)	No.3 / 17 cabinet order designated cities
% of Employees in Tertiary Industries	87.4%	No.3 / 19 cabinet order designated cities
Sale of Goods	¥13.9 trillion	No.3 / 17 cabinet order designated cities

* The figures of "gross production" and "income per capita" are for FY2009; "Day/Night Population" for FY2005; "% of Employees in Tertiary Industries" for FY2009; and "Sale of Goods" for FY2007.



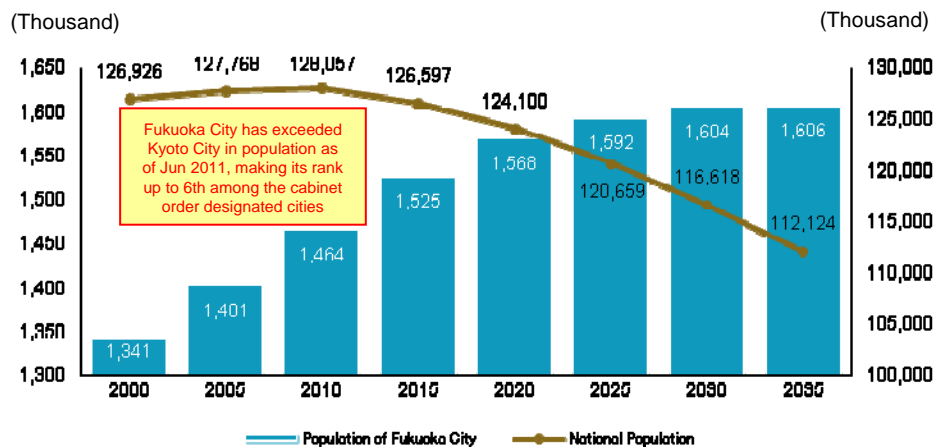
Growth Rate of Gross Production (2009)

Kitakyushu	-0.2%
Saitama	-1.2%
Kobe	-1.4%
Sapporo	-1.4%
Sendai	-1.8%
FUKUOKA	-2.4%
Yokohama	-2.5%
Hiroshima	-2.6%
Kyoto	-3.2%
Chiba	-4.3%
Osaka	-5.2%
Kawasaki	-7.5%
Nagoya	-9.4%

3. Strengths of Fukuoka City (1. Population Growth)

- Fukuoka City's population is growing by approximately 10,000 per year. In addition to the high growth rate, growth is expected to continue in the future. Fukuoka City is the sixth largest of the twenty cabinet order designated cities with a population of approximately 1.49 million and approximately 730,000 households as of October 2012.
- The demographic mix is young population (age 0-14) of 13.2%, productive population (age 15-64) of 67.2%, old age (age 65+) of 18.3%. The average age of 42.5 old years is the youngest and active age composition among designated cities. (as of September 1, 2012)
- Especially, Fukuoka is a 'student city' with 21 universities and junior colleges. The ration of students (5.2%) is the third highest next to Kyoto City and Tokyo 23 Wards in Japan.

Population Growth of Japan and Fukuoka City *1



Population growth rate (%) *2	
Kawasaki	7.42
FUKUOKA	4.46
Chiba	4.05
Saitama	3.92
Yokohama	3.05
Sagamihara	2.27
Nagoya	2.21
Sendai	2.04
Okayama	1.93
Sapporo	1.74
Hiroshima	1.69
Osaka	1.39
Sakai	1.32
Kobe	1.23
Kyoto	- 0.05
Niigata	- 0.24
Hamamatsu	- 0.39
Shizuoka	- 0.99
Kitakyushu	- 1.68

Ratio of productive population (%) *3	
Kawasaki	69.3
FUKUOKA	68.2
Sapporo	67.5
Sendai	67.2
Sagamihara	67.1
Saitama	66.5
Yokohama	66.2
Osaka	65.1
Nagoya	64.7
Hiroshima	64.4
Niigata	63.9
Kobe	63.5
Okayama	63.4
Kyoto	63.4
Sakai	63.1
Chiba	63.1
Hamamatsu	62.3
Shizuoka	62.1
Kitakyushu	61.3

Average age (years old) *3	
Kawasaki	41.5
FUKUOKA	41.9
Sendai	42.3
Sagamihara	42.8
Saitama	42.8
Hiroshima	43.1
Yokohama	43.4
Okayama	43.6
Nagoya	43.8
Chiba	44.0
Sakai	44.3
Sapporo	44.4
Kyoto	44.6
Hamamatsu	44.7
Osaka	44.8
Kobe	45.0
Niigata	45.3
Shizuoka	45.9
Kitakyushu	46.1

*1. Source: Japan's Falling Population and Regional Economies, Kyushu Economic Research Center, 2012

*2. The "population growth rate" represents growth rate of 2010 National Census (preliminary) from 2005 National Census

*3. The figures of the "ratio of productive population" and "average age" are based on the National Census for 2010

3. Strengths of Fukuoka City (2. Transportation Networks)

- A major reason that Fukuoka became the most important city in Kyushu is the compact layout of the city's airport, harbor, rail lines (conventional and Shinkansen), expressways and other transportation networks.
- Fukuoka Airport ranks fourth in Japan in 2011 in terms of the number of passengers (about 15.6 million) and trade (about 872.6 billion yen). The airport has flights to 20 overseas cities, mainly in Asia.
- The Port of Hakata serves about *660,000 (870,000) international passengers in 2011, ranking first in Japan every year since 1993.(*as of 2011, (as of 2010))
- Fukuoka Airport and the Port of Hakata see more entrants from China/Taiwan /Korea than from Haneda Airport, and serve as one of Japan's most important gateways to Asia. In particular, the number of entrants from Korea almost matches that of Narita and Kansai Airports.
- Further expansion of urban network was achieved by opening of the entire Kyushu Shinkansen line (Kagoshima route) and completion of the urban expressway belt line.



International Terminal at Port of Hakata



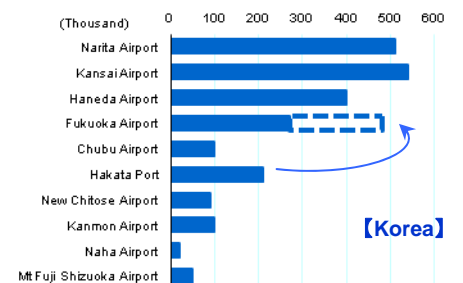
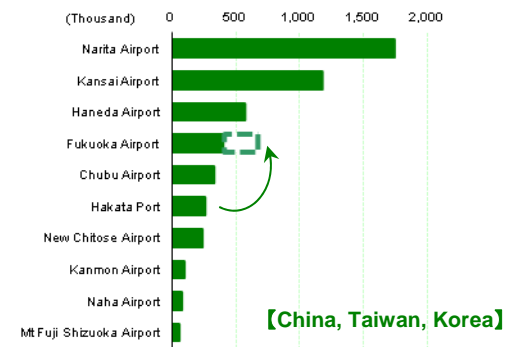
Fukuoka Airport



JR Hakata Station



Number of Immigration (FY2010)

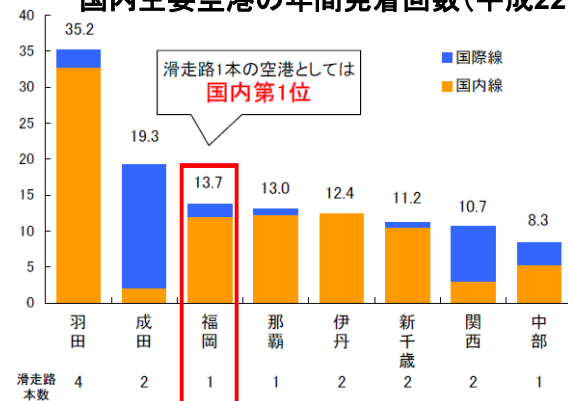


4. Improved functionality at Fukuoka Airport

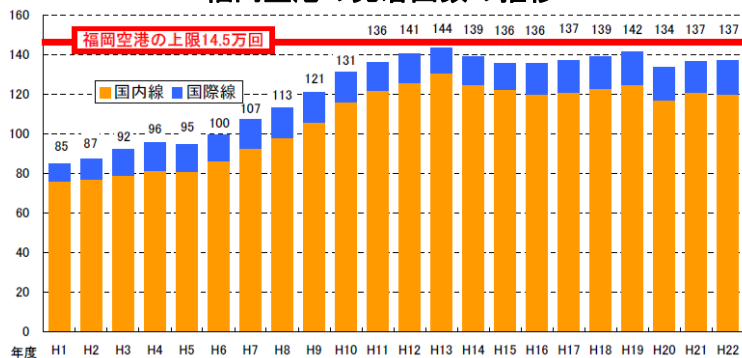
- Fukuoka Airport ranks third in Japan with respect to annual departures and arrivals (and ranks first among airports with one runway), serving a crucial role as the gateway to Kyushu for both domestic and overseas visitors. On the other hand, the runway is operating near full capacity with 145,000 departures and arrivals per year, making it difficult to increase flights during peak periods.
- As a result of investigations conducted in concert by the national government, Fukuoka Prefecture, and Fukuoka City, an initiative to add a runway to the current airport is in its planning phase and the process of the environmental assessment has started in FY2012. The project would cost JPY 180 billion, of which Fukuoka City would bear approximately JPY 20 billion based on previous cost allocations.

Current Status of Fukuoka Airport

(万回/年) 国内主要空港の年間発着回数(平成22年度)



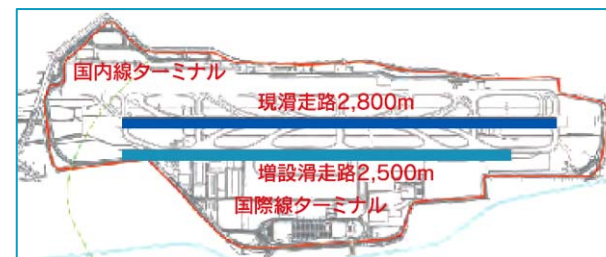
福岡空港の発着回数の推移



Initiatives to improve the functionality of Fukuoka Airport

Current Vision

Add a 2,500-meter runway to the current airport. Annual capacity: 183,000 flights per year (26% increase from the current level)



Project Cost

¥ 180 billion (tentative)

Plan

Current status – Stated the environmental assessment (FY2012).
Decision-making and Implementation Schedule: TBD (expected construction period of 7 years)

5. Recognition from Overseas

Ranked 12th in Monocle (UK) magazine's "Quality of Life: the World's 25 Most Livable Cities" ranking in 2012



Recognition

- World-class shopping and dining
- Convenient access to the ocean as well as to the mountains
- Launch of the Kyushu Shinkansen (bullet train) and flights to various Asian cities
- Tourist site attracting worldwide attention

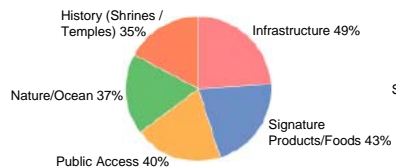
Fukuoka is regarded as "a good example of an urban redevelopment" and its ranking went up to 12th (from 16th in 2011)

Top 25 Most livable cities

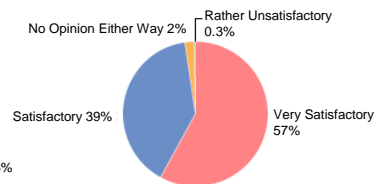
1	Zurich
2	Helsinki
3	Copenhagen
4	Wien
5	Munich
6	Melbourne
7	Tokyo
8	Sydney
9	Auckland
10	Stockholm
11	Kyoto
12	FUKUOKA
13	Hong Kong

First in the number of international conventions held among the cabinet order designated cities

Attractiveness of Fukuoka



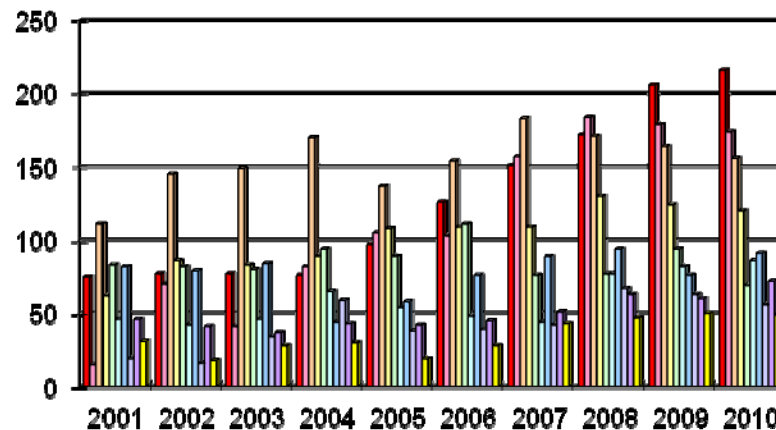
Impression of Fukuoka



Reputation among (Foreign) Convention Participants



International Conventions Held In Major Cities



6. FY2011 Results

- General account expenditures increased by 1.5% year-on-year, due to the 5.9% year-on-year increase in social aid for livelihood subsidies, among other factors.
- Expenditures across all accounts increased by 4.1% year-on-year, to JPY 1,917.9 billion.

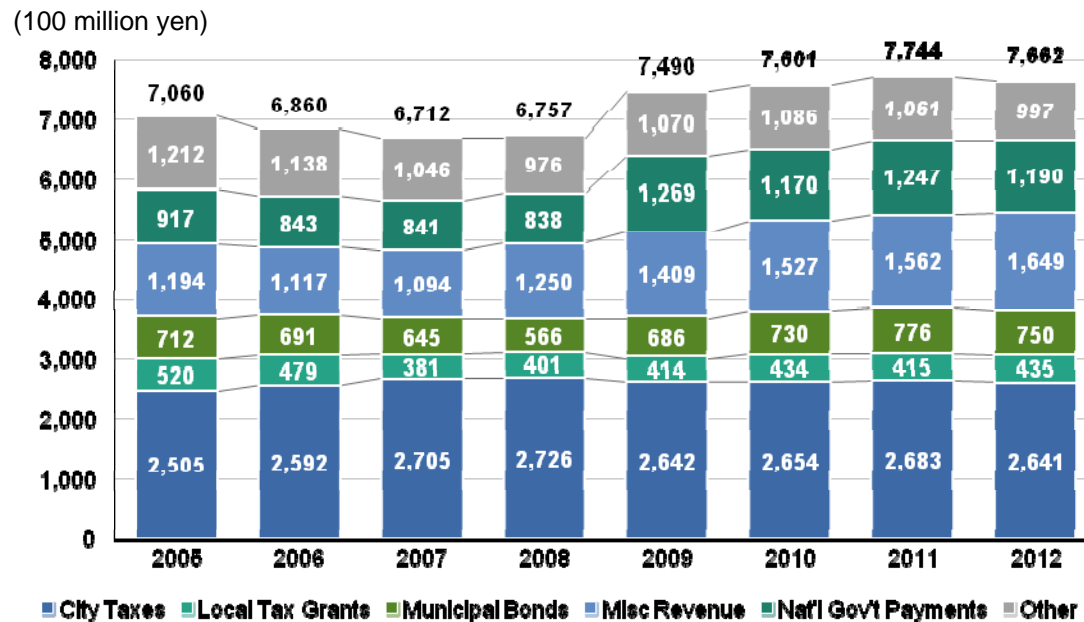
Category		FY2011 Results (A)	FY2010 Results (B)	YoY Change (C) = (A) - (B)
General Account	Revenue	¥774.4 billion	¥760.1 billion	¥14.3 billion
	Expense	¥763.8 billion	¥752.9 billion	¥10.9 billion
Special Account	Revenue	¥915.7 billion	¥845.6 billion	¥70.1 billion
	Expense	¥912.1 billion	¥844.7 billion	¥67.4 billion
Corporate Account	Revenue	¥206.5 billion	¥206.7 billion	— ¥0.2 billion
	Expense	¥242.1 billion	¥244.1 billion	— ¥0.2 billion
Total	Revenue	¥1,896.7 billion	¥1,812.4 billion	¥84.3 billion
	Expense	¥1,917.9 billion	¥1,841.7 billion	¥76.2 billion

*Totals may not match sums of individual figures due to rounding.

7. Revenue (General Account)

- Tertiary industries account for about 90% of Fukuoka City's gross production, giving the city a comparatively stable tax base.
- Fukuoka ranks highly among cabinet order designated cities in terms of the ratio of independent revenue sources, mainly city taxes.
- While the issue amount of municipal bonds had been reduced steadily due to efforts towards fiscal soundness, it has increased in recent years mainly due to effect of increase in "extraordinary fiscal measure bond" that are virtually local tax grants.
- While personal residents' tax decreased in FY2011 as a result of the difficult employment conditions, a recovery in corporate profits led to an increase in corporate residents' tax. National treasury disbursements also increased significantly due to the increase in livelihood subsidies, etc.

Revenue Breakdown*



※ Actual through 2011, initial budget for 2012

Major Revenue Sources for Cabinet Order Designated Cities (2011)

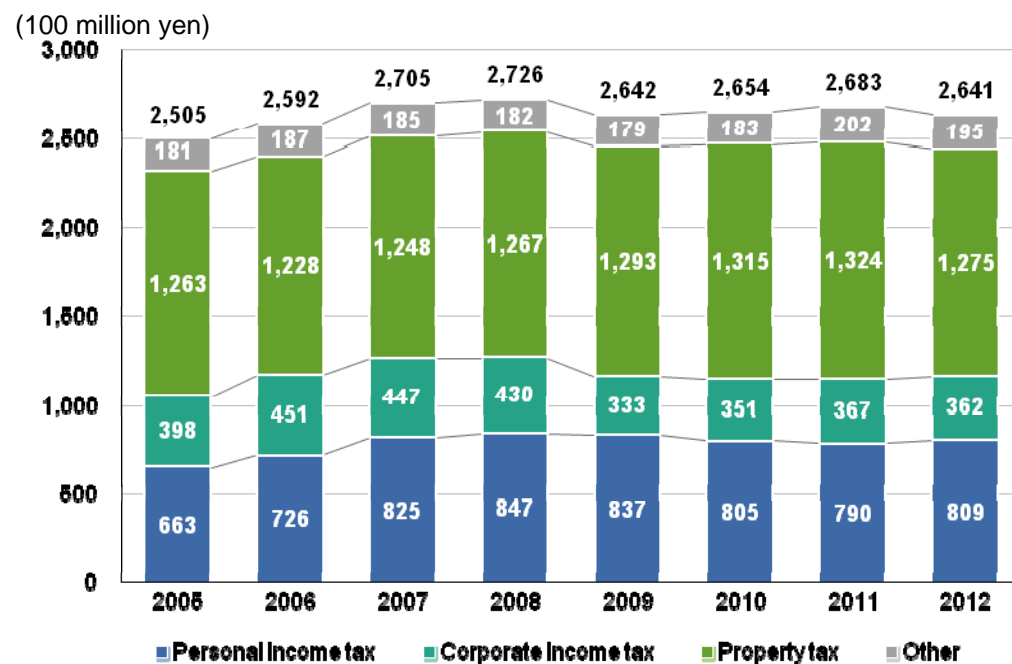
	Independent revenue pct.(%)	Local allocation tax (%)	Municipal bonds (%)
Nagoya	66.5	Kawasaki 0.3	Sapporo 7.9
Yokohama	64.8	Nagoya 0.8	Yokohama 9.1
Kawasaki	64.3	Yokohama 1.7	Nagoya 9.2
Chiba	62.6	Saitama 1.8	Kobe 9.4
Saitama	61.9	Sagamihara 3.0	Osaka 9.9
FUKUOKA	60.7	Osaka 3.3	Kawasaki 10.1
Osaka	58.8	Chiba 3.9	FUKUOKA 10.4
Kyoto	56.9	Shizuoka 5.3	Chiba 10.8
Sagamihara	56.4	FUKUOKA 5.3	Saitama 11.6
Kobe	56.0	Sakai 6.2	Sendai 11.7
Shizuoka	54.6	Hiroshima 6.9	Okayama 11.7
Hiroshima	53.8	Hamamatsu 8.1	Kyoto 11.9
Hamamatsu	53.7	Kyoto 8.4	Kitakyushu 12.2
Kitakyushu	51.9	Kobe 9.8	Hiroshima 12.3
Sapporo	50.7	Kitakyushu 11.4	Hamamatsu 12.6
Okayama	49.1	Sapporo 12.0	Sagamihara 12.8
Niigata	46.5	Okayama 12.1	Shizuoka 14.2
Sakai	45.4	Niigata 12.8	Sakai 16.5
Sendai	39.6	Sendai 15.0	Niigata 18.0

* Based on ordinary accounts to facilitate comparison

8. Tax Revenue

- The tax revenue base is relatively stable due to the steady annual population increase. Further, Fukuoka City ranks highly among the cabinet order designated cities with respect to tax revenue per capita.
- In the FY2009 results, we experienced the largest-ever fall in revenue with a 3.1% decrease compared with the previous year as city taxes as a whole due to substantial decline in corporate income tax revenue by the impact of economic recession and higher costs caused by strong yen and surged oil price since the fall 2008.
- FY 2011 tax income increased by approximately JPY 2.9 billion (1.1%) year-on-year despite a decrease in personal residents' tax, due to increases in corporate residents' tax, fixed property tax, etc.

Fukuoka City Tax Revenue *



※Actual through 2011, initial budget for 2012

Tax Revenue at Cabinet Order Designated Cities (FY2011)

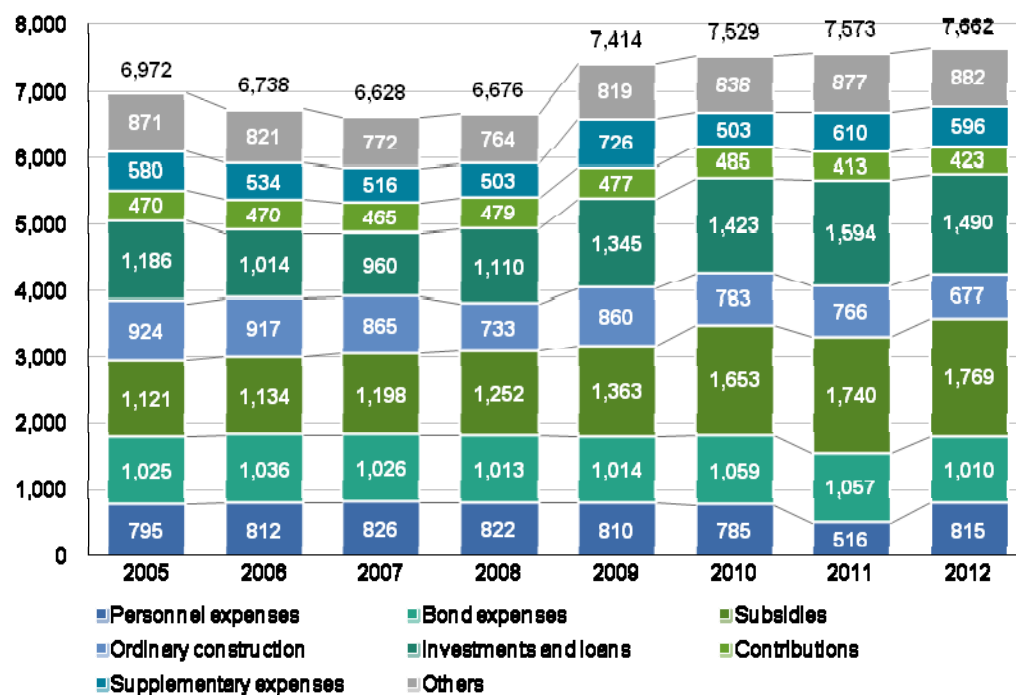
City	Tax revenue (Million yen)	Population (3/31/2012)	Tax per capita (Thousand yen)
Osaka	636,066	2,540,873	(1) 250
Nagoya	486,147	2,182,154	(2) 223
Kawasaki	287,127	1,388,481	(3) 207
Yokohama	705,469	3,629,257	(4) 194
FUKUOKA	268,264	1,422,831	(5) 189
Chiba	170,415	937,146	(6) 182
Kyoto	248,620	1,382,113	(7) 180
Kobe	269,848	1,512,109	(8) 178
Saitama	217,600	1,223,954	(9) 178
Shizuoka	124,816	713,640	(10) 175
Hiroshima	199,908	1,162,032	(11) 172
Kitakyushu	159,792	974,691	(12) 164
Sakai	132,616	838,675	(13) 158
Hamamatsu	125,049	791,710	(14) 158
Okayama	109,152	691,955	(15) 158
Sendai	158,485	1,020,241	(16) 155
Sagamihara	107,784	700,923	(17) 154
Niigata	117,833	802,778	(18) 147
Sapporo	277,128	1,904,319	(19) 146

9. Expenditures (General Account)

- Personnel expenses make up an extremely small portion of mandatory expenditures as a result of early efforts to outsource garbage collection and to privatize day-care centers.
- On the other hand, bond expenditures remain high despite a steady decrease in the outstanding municipal bonds balance. With respect to social aid expenses, livelihood subsidies, disability welfare, and day-care center operating expenses increased while childhood allowances decreased significantly as a result of changes in the national policy.
- FY 2011 social aid expenses increased by 5.9% year-on-year, mainly due to the increase in livelihood subsidies, etc. Investments, loans, etc. also increased by 1.7% year-on-year due to the plateauing of commercial/industrial financing deposits and the establishment of a new lending system.

Expenditure Breakdown*

(100 million yen)



* Actual through 2011, initial budget for 2012

Mandatory Expenses as a % of Total Expenditures at Cabinet Order Designated Cities (2011 Ordinary Account)

Personnel expenses (%)	Bond expenses (%)	Bond expenses (%)
FUKUOKA 10.2	Sagamihara 8.5	Sendai 14.7
Sendai 11.5	Sakai 8.9	Niigata 17.9
Sapporo 12.3	Sapporo 10.3	Shizuoka 18.3
Kitakyushu 13.4	Niigata 10.3	Hamamatsu 19.5
Yokohama 14.2	Saitama 10.7	Chiba 21.4
Hiroshima 14.3	Sendai 11.0	Saitama 22.1
Osaka 14.6	Kyoto 11.2	FUKUOKA 22.4
Sakai 14.9	Hamamatsu 12.7	Kitakyushu 22.4
Niigata 15.3	Kitakyushu 12.7	Nagoya 23.4
Kyoto 15.5	Hiroshima 13.0	Kobe 23.4
Hamamatsu 15.8	Yokohama 13.2	Kawasaki 23.8
Chiba 15.9	Kawasaki 13.7	Kyoto 23.8
Nagoya 16.7	Shizuoka 14.2	Sagamihara 24.4
Kawasaki 16.8	FUKUOKA 14.4	Yokohama 24.7
Kobe 16.9	Nagoya 14.4	Hiroshima 25.4
Saitama 16.9	Osaka 14.4	Okayama 25.8
Shizuoka 17.0	Okayama 14.6	Sapporo 28.9
Okayama 17.4	Chiba 15.8	Sakai 29.9
Sagamihara 17.4	Kobe 17.6	Osaka 30.1

10. Special Accounts Summary (FY2011)

- A special accounts surplus of approximately JPY 3.4 billion was reported in FY2011, representing an increase of approximately JPY 2.7 billion year-on-year (from JPY 0.7 billion in FY 2010).
- Transfers from general accounts (excluding municipal bond management special account) basically remained flat year-on-year, at approximately JPY 38.6 billion.

Units: million yen

Account Category	Revenue	Expenditure	Difference	Carry-forwards	Effective Income	Inflow from General Account	Outflow to General Account
Latter-stage Elderly Healthcare	13,502	13,392	110	—	110	2,640	—
National Health Insurance	138,820	137,149	1,672	—	1,671	16,741	—
Nursing Care Insurance	73,003	72,684	318	—	319	10,702	—
Mother-infant/Widow Welfare Loans	1,109	535	574	—	574	17	—
Community Sewage	354	354	—	—	—	268	—
Central Wholesale Market	11,764	11,733	31	3	28	3,397	—
Port Maintenance	18,261	18,110	150	1	150	—	—
City-run Ferry	1,400	1,400	—	—	—	870	—
Hakozaki Land Readjustment	1,432	1,432	—	—	—	1,161	—
Ito Land Readjustment	5,306	5,301	5	5	—	834	—
Kashii Station Land Readjustment	4,283	4,035	248	248	—	1,820	—
Advanced Purchase of Public Lands	2,638	2,638	—	—	—	—	—
Parking Lots	464	464	—	—	—	188	—
Property Ward	148	148	—	—	—	—	—
City-run Boat Racing	81,246	80,688	558	—	558	—	800
Special Account for City Hospital Institute Business Debt Management	1,324	1,324	—	—	—	—	—
City Bond Management	560,668	560,668	—	—	—	105,603	77,629
Total	915,721	912,055	3,666	257	3,410	(38,639) 144,242	78,429
FY2010 Balance	845,616	844,665	951	257	694	(38,298) 144,658	73,921

*The "Special Account for City Hospital Institute Business Debt Management" was established in FY2010 (as a result of a new law concerning the hospital business).

*Figures in parentheses under "Transfer from General Account" exclude municipal bond management special account.

*With regard to the National Health Insurance business, the government subsidy for "medical treatment benefits contribution" has been overpaid by JPY1.7 billion and will be returned at the end of the fiscal year 2012

*Totals may not match sums of individual figures due to rounding.

11. Major Financial Indicators (FY 2011)

- Fukuoka City has a low percentage of mandatory expenditures due to measures to cut personnel expenses. As a result, the ordinary revenue/expenditure ratio, an indicator of fiscal flexibility, is in the top half of all cabinet order designated cities.
- The level of bond expenses remains high due to a large balance of municipal bonds.

Pct. of mandatory expenditures (%)		Ordinary revenue/expenditure ratio (%)		Financial capacity index		Effective bond expense ratio (%)	
Sendai	37.2	Okayama	87.4	Kawasaki	1.040	Sagamihara	4.2
Niigata	43.5	Hamamatsu	87.7	Nagoya	1.013	Sakai	4.9
FUKUOKA	47.0	Niigata	88.8	Saitama	0.995	Saitama	5.4
Hamamatsu	48.0	FUKUOKA	90.9	Sagamihara	0.984	Sapporo	9.1
Kitakyushu	48.5	Shizuoka	91.0	Yokohama	0.984	Osaka	10.0
Shizuoka	49.5	Saitama	92.3	Chiba	0.969	Niigata	10.8
Saitama	49.7	Yokohama	94.0	Osaka	0.912	Kawasaki	10.9
Sagamihara	50.3	Sapporo	94.0	Shizuoka	0.900	Kitakyushu	11.4
Kyoto	50.5	Sagamihara	95.4	Hamamatsu	0.857	Sendai	11.6
Sapporo	51.5	Sakai	95.5	Sendai	0.852	Hamamatsu	11.7
Yokohama	52.1	Kitakyushu	95.6	FUKUOKA	0.835	Nagoya	12.0
Hiroshima	52.7	Kobe	96.1	Sakai	0.829	Kobe	12.1
Chiba	53.1	Chiba	96.3	Hiroshima	0.804	Shizuoka	12.3
Sakai	53.7	Hiroshima	96.9	Kyoto	0.754	Kyoto	13.7
Kawasaki	54.3	Kawasaki	96.9	Okayama	0.742	Okayama	14.8
Nagoya	54.5	Kyoto	98.8	Kobe	0.734	FUKUOKA	15.7
Okayama	57.8	Osaka	99.5	Niigata	0.695	Hiroshima	16.0
Kobe	57.9	Nagoya	99.8	Kitakyushu	0.691	Yokohama	16.3
Osaka	59.1	Sendai	101.5	Sapporo	0.689	Chiba	20.5

- Mandatory expense ratio = Personnel expenses + Subsidies + Bond expenses / Total expenditures
 - Ordinary revenue/expenditure ratio = General revenue sources for ordinary expenditures / Total general revenue sources
 - Financial capacity index = Past 3 years average of standard fiscal revenue/standard fiscal demand
 - Effective bond expense ratio = [Bond expenses (interest and redemptions of municipal bonds) + Effective bond expenses] / Average over past three years for general revenue sources (revenue sources with no designated use)
- * Effective bond expenses = Ordinary expenditures, etc. used for redemptions of public corporation bonds, etc.

12. Measures to Improve Financial Soundness and Progress of Fukuoka City

- Fukuoka City developed a **Fiscal Soundness Plan** in 2004, and the city has produced a certain achievement by promoting proactive initiatives in restoring soundness both in terms of revenue and expenditure.
- In FY2012, the city is working on the further fiscal reforms engaging with the **Fiscal Renewal Plan** that was served as the guideline for fiscal management until the FY 2011.

Fiscal Soundness Plan

Fiscal Soundness Plan 2004 –2007

Directionality of three reforms

- (1) Proactive securing of revenue sources and efficient/effective raising of funds
- (2) Bold conversion into systems and methods that allow the city to respond to changing social environments
- (3) Streamlining and optimization of administrative and fiscal management

Fiscal soundness goals and progress

- Municipal bond reliance of 10% to 12%
 - Has fulfilled this goal every year since FY 2005
- Sound primary balance
 - Has fulfilled this goal for eight consecutive years since FY 2000
- Reduce ordinary expenses
 - Cut these expenses by 17.9 billion yen between FY 2005 and FY 2007

Fiscal Renewal Plan

Fiscal Renewal Plan 2008 –2011

Fundamental Stance

- (1) Drive more reforms for an earlier prospect towards fiscal soundness
- (2) Convert into fiscal management that is suitable for the city's capacity
- (3) Proactive disclosure/offer of fiscal information that are easier to understand

Objectives

- (1) Establish a sustainable fiscal structure (Reduce amount of municipal bonds outstanding)
 - Progressively reduce amount of municipal bonds issued each fiscal year to achieve a steady decline in bonds outstanding per capita.
- (2) Establish a consistently flexible fiscal structure (eliminate problem of insufficiency of revenue sources)
 - Avoid fiscal rigidity by restricting growth in mandatory expenses

Fiscal soundness goals

- Hold municipal bond issues in the FY 2011 general account to between 45 billion and 50 billion yen.
 - Reduce municipal bonds outstanding to about 2 trillion yen over the next decade (was 2.6 trillion yen in FY 2008), bringing bonds per capita to less than 1.5 million yen.
- Eliminate the revenue shortfall of 56.6 billion yen that is expected between now and FY 2011.

13. Progress in Achieving Fiscal Soundness

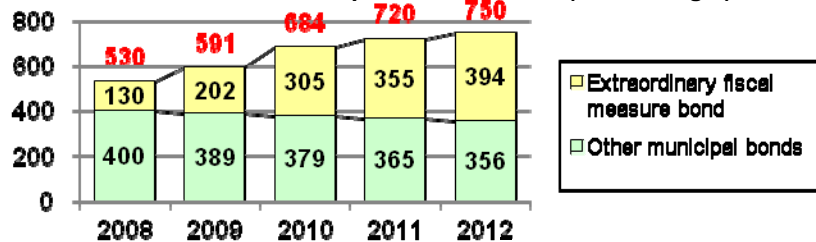
~Status of Fiscal Renewal Plan~

Reduce Municipal Bond Issuance

Fiscal Soundness Goal

Stepwise reduction to reduce municipal bond issuance for general account to **¥45 ~ 50 billion** in FY2012

(100 million yen) Trends of municipal bond issuance (initial budget)



FY2012 Total Expected Issuance

¥45~50 billion

Target Range

FY2012 Issuance

¥75.0 billion

Excluding increase in emergency fiscal measure bond, a local fiscal measure of the national government

¥48.6 billion

Within Target

Specific Initiatives in Financial Stabilization in FY2012 【FY2012 Total: JPY 8,822 million】

1. Comprehensive revision of income and expenditures

¥4,517 million

- ① Income structure reforms: JPY 1,692 million; increasing revenues, collection rates, etc.
- ② Expenditure structure reforms: JPY 1,298 million; streamlining personnel expenses, enhancing efficiency of facilities management, etc.
- ③ Management reforms on special accounts and corporate accounts: JPY 1,527 million

2. Streamlining of Assets and Liabilities

¥2,770 million

- ① Reduction of public bond expenses: JPY 2,200 million; reducing interest through indemnity waivers, early redemption, etc.
- ② Asset management efforts: JPY 61 million: reduction of utility expenses related to facilities management, etc.
- ③ Use/sale of owned assets: JPY 510 million

3. System and methodology reforms

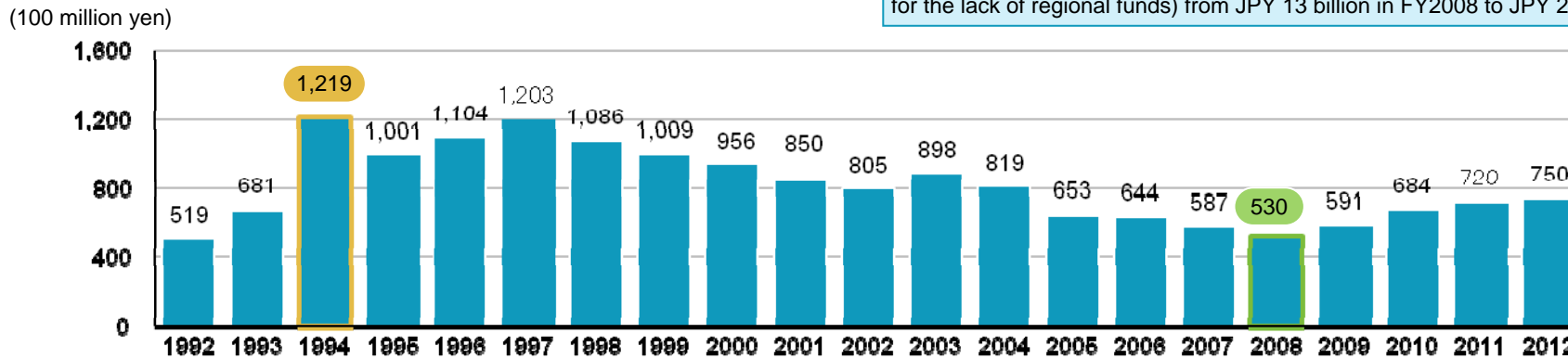
¥1,535 million

- ① Expense reduction through the service/ward budget system: JPY 1,512 million; streamlining and expense reduction through a review of operating methodologies, etc.
- ② Other system reforms: JPY 23 million; promoting concerted rollout of PCs and other office automation devices across all agencies

14. Municipal Bond Issues and Reliance on Bonds (Initial Budget for General Account)

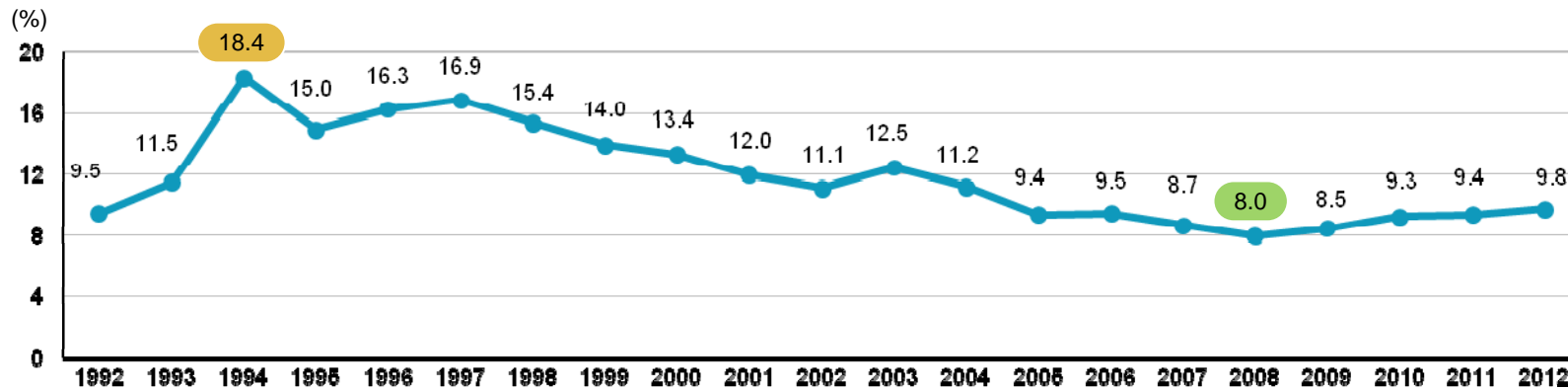
Municipal Bond Issues (Initial Budget for General Account)

The initial FY2012 budget decreased year-on-year to **JPY 48.6 billion** when excluding the increase in the interim fiscal measure bond (a national countermeasure for the lack of regional funds) from JPY 13 billion in FY2008 to JPY 26.4 billion



* The numbers in white bar charts after 2009 are the municipal bond issue amount excluding the increase in bonds for extraordinary fiscal measures

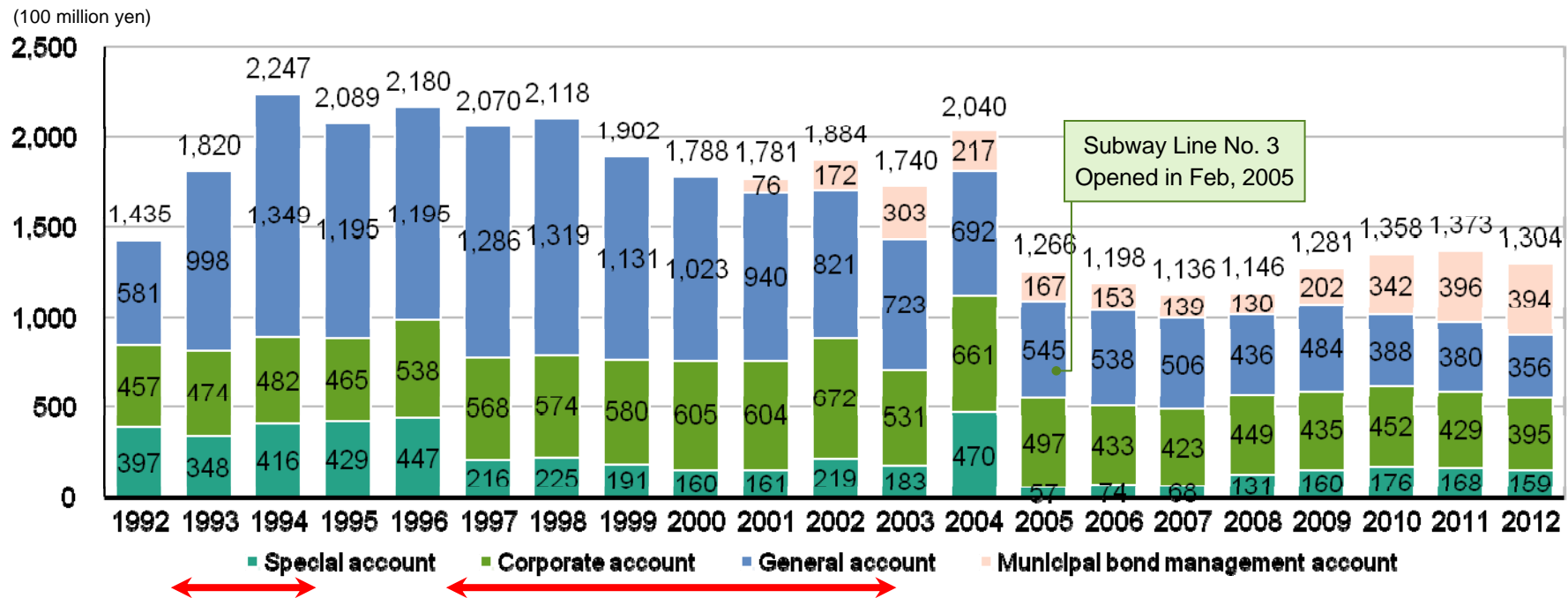
Reliance on Municipal Bonds (Initial Budget for General Account)



15. Municipal Bond Issues

- While the issue amount of municipal bonds has been restrained to almost half of the peak on all accounts base, the total issue amount has increased moderately since the fiscal year 2009 due to substantial increase in issuance of extraordinary fiscal measure bond.

Municipal Bond Issues (All Accounts)



Building up facilities for the "Universiade Fukuoka"

Large-economic package by national government

* Actual through 2011, initial budget for 2012

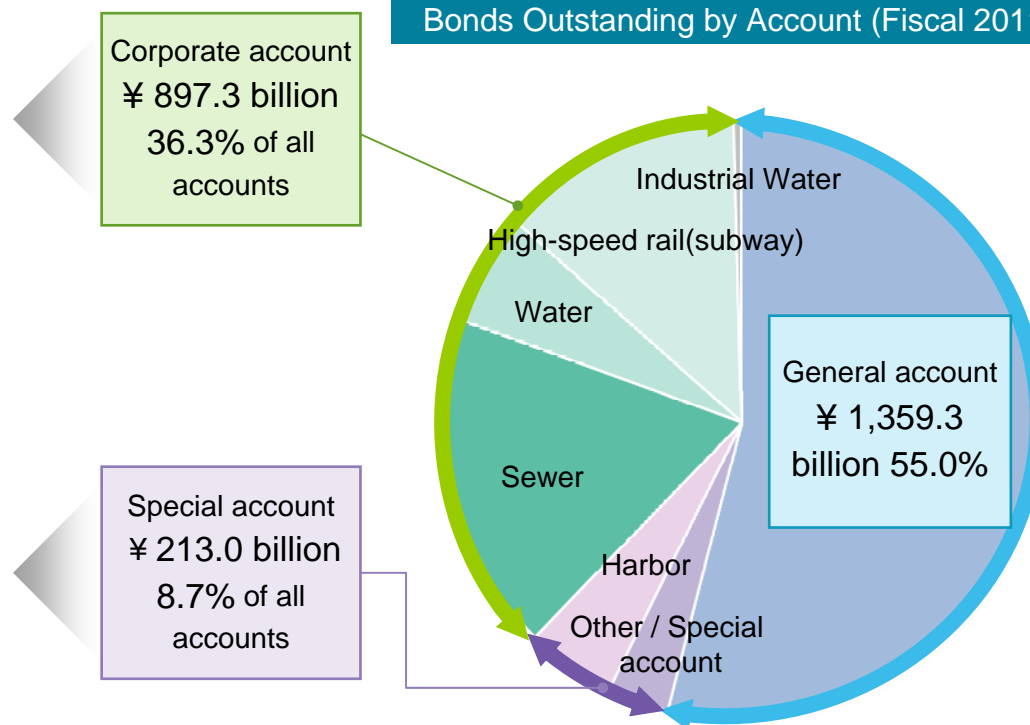
16. Municipal Bonds Outstanding by Account

- The general account represents about 55% of Fukuoka City's bonds outstanding and the corporate account represents about 36%.
- Harbor facilities account more than half of outstanding bonds in the special account.
- Sewer and High-speed rail (subway) have high percentage in the corporate account.

Municipal Bonds Outstanding by Account	Bonds outstanding (100 million yen)	Pct. for all accounts (%)
Sewer	4,434	18.0
Water	1,450	5.8
Industrial water	4	0.0
High-speed rail (subway)	3,085	12.5
Total	8,973	36.3

Special account	Bonds outstanding (100 million yen)	Pct. for all accounts (%)
Mother-infant/Widow Welfare Loans	52	0.2
Community Sewage	19	0.1
Central Wholesale market	353	1.4
Port Maintenance	1,141	4.6
City-run Ferry	3	0.0
Hakozaki Land Readjustment	111	0.5
Ito Land Readjustment	137	0.6
Kashii Station Land Readjustment	93	0.4
Advanced Purchase of Public Lands	97	0.4
Parking Lots	28	0.1
City-run Boat Racing	6	0.0
Special Account for City Hospital Institute Business Debt Management	90	0.4
Total	2,130	8.7

Bonds Outstanding by Account (Fiscal 2011)



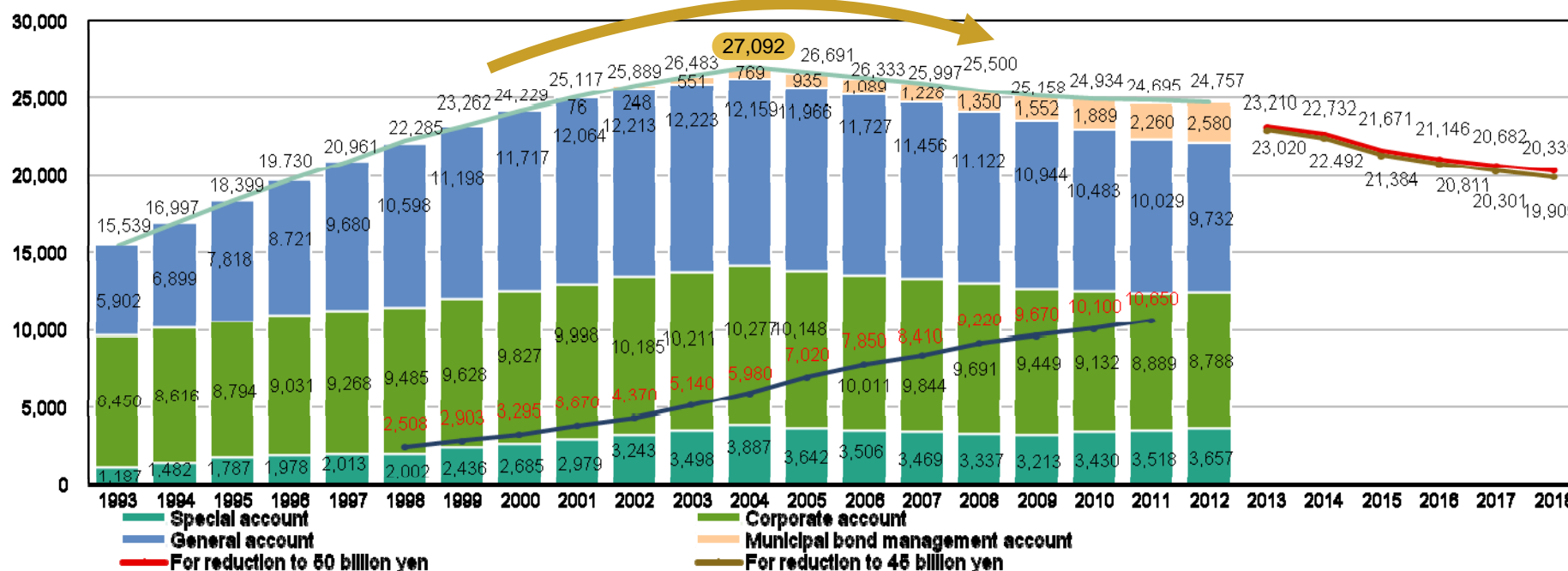
* Municipal bonds outstanding include an amount equivalent to the value of the sinking fund.

17. Municipal Bonds Outstanding

- As a result of consistent efforts to restrain the issue amount of municipal bonds, the amount of bonds outstanding that peaked out in FY 2004 is expected to decline for seven consecutive years for all accounts; general, special and corporate account.
- On the other hand, due to promotion to raise funds in the bond market, outstanding public offering bonds in the market have increased every year to exceed 1 trillion yen.
- On the assumption that the issue amount of general account bond will be restrained to 45~50 billion yen along with the fiscal soundness target of the Fiscal Renewal Plan, bonds outstanding in all accounts is likely to be reduced to more or less 2 trillion yen in FY 2018.

Municipal Bonds Outstanding (All Accounts)

(100 million yen)



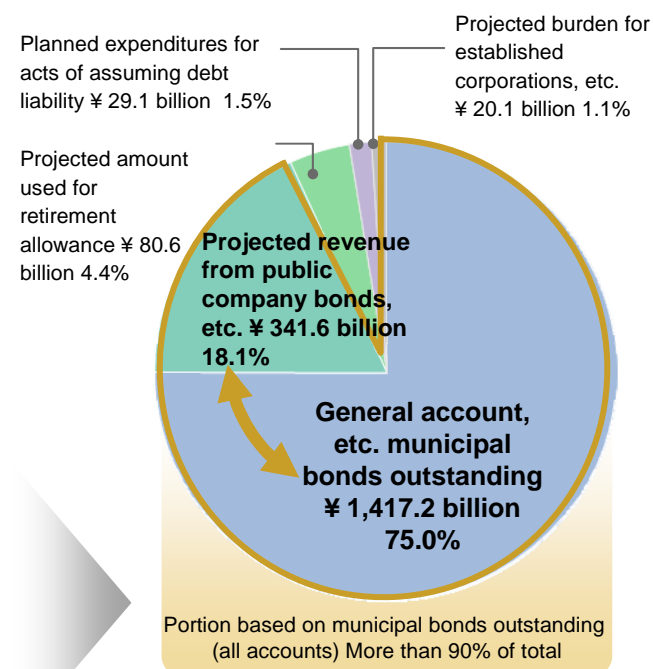
* Actual through 2011 and initial budget for 2012. Fiscal Renewal Plan estimates for following years

18. Ratios to Judge Financial Soundness (Four indicators)

- All the indicators have improved over years, that continued in FY 2011 settlement and the indicators fell below the early fiscal soundness standards.
- Since the effective bond expense ratio went under 18%, Fukuoka City has been reclassified as a “consultative entity” that does not require the state authorization for bond issuance starting from the FY 2009.
- Regarding the future burden ratio, more than 90% of the inclusion belongs to municipal bonds outstanding, and we expect it to decline steadily by future initiatives to reduce balance of municipal bonds.

Indicator	Fukuoka City			Early fiscal soundness standards	Fiscal revitalization standards
	2009 settlement	2010 settlement	2011 settlement		
Effective deficit ratio (Deficit of general account)	—	—	—	11.25%	20%
Effective consolidated deficit ratio (Deficit of all accounts)	—	—	—	16.25%	30%
Effective bond expense ratio (Burden for repayment of debt)	↓ 16.8%	16.4% ↓	15.7% ↓	25%	35%
Future burden ratio (Amount of outstanding debt that may become a future burden for the general account, including extra-governmental organizations)	↓ 237.7%	219.8% ↓	202.9% ↓	400%	

Composition of Future Burden* of ¥ 1,888.6 Billion



* Amount of future burden: Amount of effective debt that will become a future burden on the general account, etc.

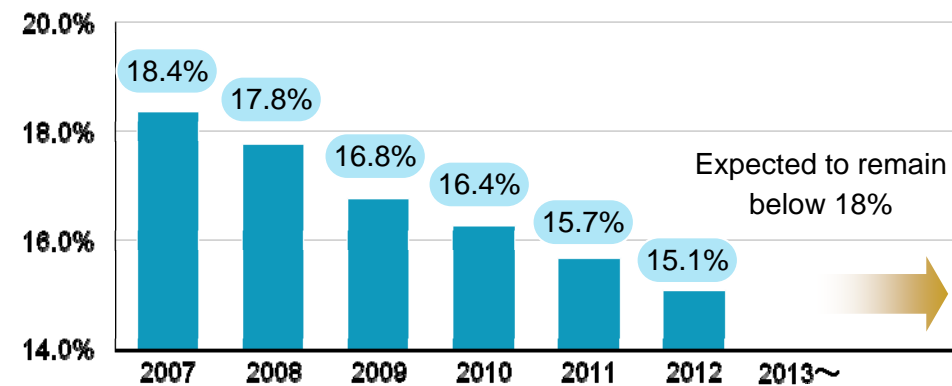
19. Ratios to Judge Financial Soundness (Outlook for effective bond expense ratio)

- Through progressive restraint of municipal bond issuance under the Fiscal Renewal Plan, we expect reduced burden of bond expense in future with the effective bond expense ratio below 18%.

Initiatives in FY2012 Initial Budget (General Account)

Reduce bond issuance (excl. increase in extraordinary fiscal measure bonds)	Approx. ¥ 35.6 billion (-¥ 0.9 billion vs. FY2011) *1
Redemptions of principal	Approx. ¥ 81.6 billion (-¥ 0.3 billion vs. FY2011) *2
Reduction in interest with early redemptions based on the public fund indemnity payment exemption	Approx. ¥ 1.0 billion (-¥ 0.1 billion vs. FY2011)
Interest from bond reduction fund appropriated for bond redemptions	Approx. ¥ 1.9 billion (-¥ 0.2 billion vs. FY2011)

Projections for Effective Bond Expense Ratio *3



- *1 Year-on-year increase of ¥3.0billion when factoring in the extraordinary fiscal measure bond, a local fiscal measure of the national government
- *2 Redemptions of principal exceed municipal bond issuance by approximately ¥ 6.6 billion.
- *3 Actual through 2011, initial budget for 2012.

20. Profit and Loss for Corporate Account (FY2011)

Units: million yen

Corporate Account Name		Sewer	Water	Industrial Water	High-speed Rail (subway)	
Income Statement	Ordinary Income/Loss	Operating Revenue	43,200	31,076	194	23,998
		Operating Expense	31,503	27,058	144	21,338
		Operating Income	11,697	4,018	50	2,660
		Non-operating Income	2,100	2,024	1	3,978
		Non-operating Expense	10,826	3,125	12	5,859
		Ordinary Income	2,971	2,918	40	778
Net Income/Loss	Extraordinary Income	57	11	-	1	
	Extraordinary Loss	102	60	-	4	
	Net Income	2,926	2,869	40	775	
Earnings Surplus		4,079	8,919	327	-139,785	

Of which, Additions from General Account		17,754	325	-	3,971
	Subsidies	-	288	-	3,971
	Contributions	17,754	37	-	-

Other	Capital Inadequacy	-	-	-	-
	Future Burden on General Account	195,541	3,543	-	115,372

*Each number is round-off, so totals may not match sums of individual figures due to rounding.

Corporate Account Name		Sewer	Water	Industrial Water	High-speed Rail (subway)	
Balance Sheet	Assets	Fixed	925,110	331,339	1,266	466,330
		Current	25,183	13,882	169	879
		Total	950,293	345,221	1,435	467,208
	Liabilities	Fixed	46,667	5,593	20	105,972
		Current	18,783	5,635	73	30,310
		Total	65,450	11,228	93	136,282
	Equity	Paid-in Capital	(396,764)	(144,974)	(404)	(202,508)
			488,792	226,220	653	320,308
		Retained Earnings	396,051	107,774	689	10,618
		Total	884,843	333,993	1,342	330,926
Liabilities + Equity		950,293	345,221	1,435	467,208	

* Upper row under paid-in capital (in parentheses) indicates borrowed capital.

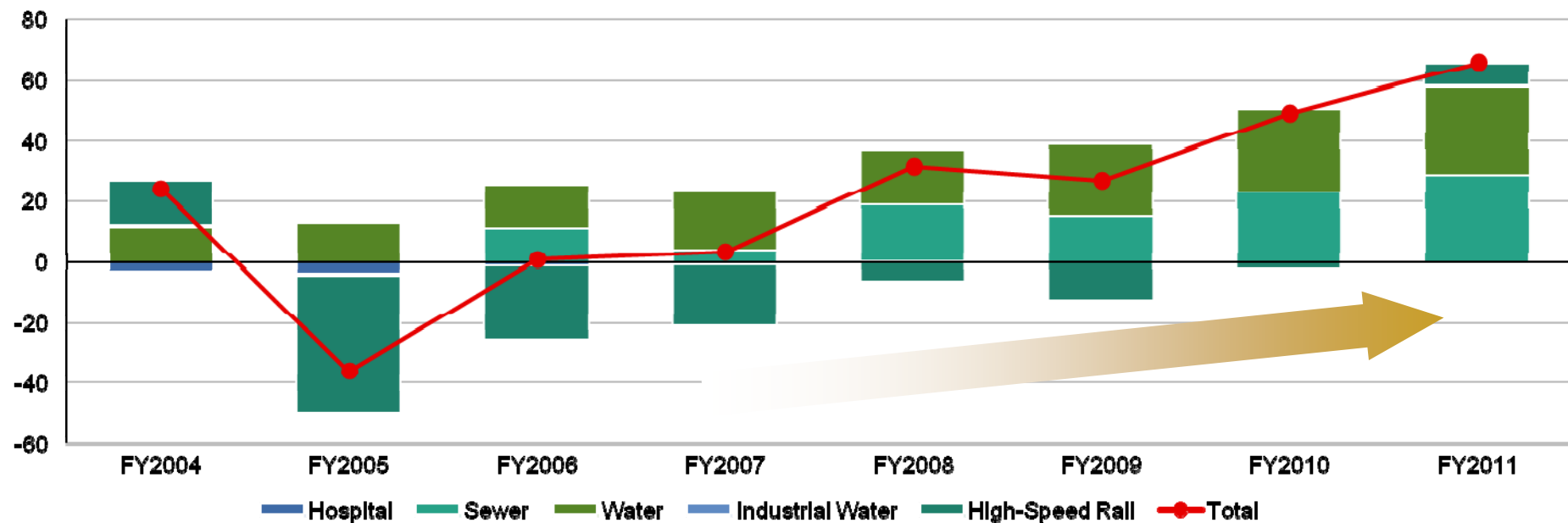
- A unique concept called “borrowed capital” is used in public corporation accounting. Accounts such as corporate bonds and long-term borrowings which are generally classified as fixed liabilities in ordinary corporate accounting are treated as “capital” in light of the importance of corporate bonds as a source of funds for construction improvements

21. Historical Profit/Loss for Corporate Account

- Total corporate accounts continue to record profits. The high-speed rail (subway) business also achieved profitability in FY2011 after reporting annual losses since the launch of Subway Line No.3 in 2005.
- Hospital business has been separated from the municipal accounting since FY 2010 when it became an independent administrative agency.

Trends of Profitability of Business Accounting (Balance)

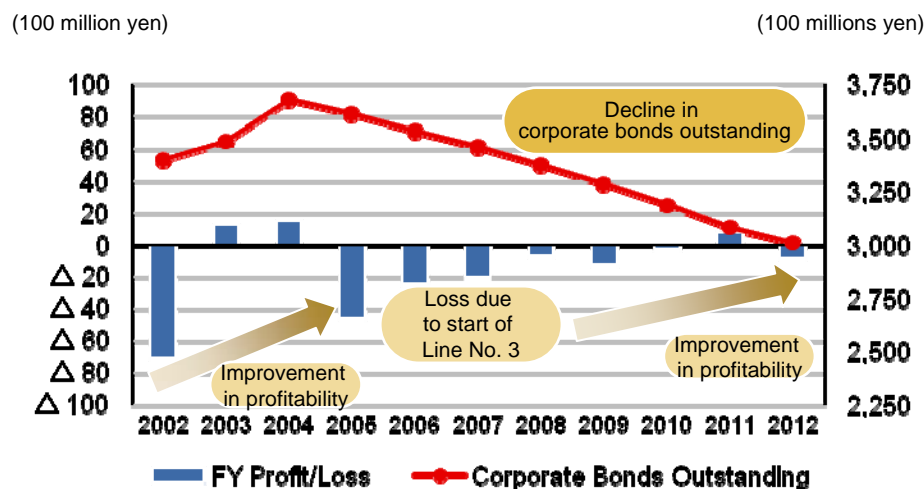
(100 million yen)



22. Fukuoka Municipal Subway

- The subway business requires significant initial capital for construction, which is also accompanied by associated interest and depreciation expenses. Long-term profit and loss forecasts are being formulated as a future indicator for sound operations in order to achieve a long-term balance between income and expenditures.
- Earnings have been improving gradually due to reduced capital expenditures after the increased capital burden from opening of the Nanakuma Line led to continued losses since FY2005. As a result, profitability was achieved in FY2011 due to increased earnings arising from the operation of all lines of the Kyushu Shinkansen as well as the opening of major commercial complexes, etc. The city currently expects to achieve **profitability on a single fiscal year basis by FY2018 and on a cumulative basis by FY2040**. Further, the corporate bond balance has been decreasing annually after peaking out at approximately JPY 368 billion in FY2004, and a continued decrease is expected going forward.
- The extension of the subway Nanakuma Line from Tenjin-minami Station to Hakata Station has achieved an acceptance for subsidies from the national government and approvals for road and railroad operations in FY2012. Fukuoka City Subway will continue to make necessary adjustments with various related organizations to engage in environmental assessment and urban planning and to undergo required procedures such as the achievement of a construction approval in order to commence construction as early as possible.

Subway System Profitability



* Actual through 2011, initial budget for 2012

Outline of Nanakuma Line Extension Plan (Tenjin-Minami~Hakata Station)

1. Construction km
Approx. 1.4 km
(Operating km Approx. 1.6 km)
2. Project expense
Approx. ¥ 45 billion
3. Number of users
Extended section: Approx. 68 thousand persons
(Fresh users: Approx. 21 thousand persons/day)
4. Will be opened in FY2020



23. Operations of Extra-governmental Organizations

- Fukuoka City currently has 35 extra-governmental organizations (organizations to which the city provided 25% or more of total capital).
- Nine of 43 organizations excluding Across Fukuoka Foundation (for which Fukuoka Prefecture is the main investor) were eliminated since FY2004, and the Second Extra-government Organization Reform Execution Plan was formulated aimed at a further 10% reduction by the end of FY2011. As a result of consolidation efforts, the Fukuoka City Sewage Resources Center was dissolved in FY2011. Fukuoka City Healthy Living Foundation and Fukuoka City Ocean Park Management Association are expected to be terminated in FY2012, and another extra-government organization reform execution plan is currently being formulated.

Fukuoka City Extra-governmental Organizations<FY2011 Financial Results>

Organization	Ownership	Net assets or net profit (Million yen)	General Net assets or surplus fund (Million yen)	Liabilities associated with debt guarantees and loss indemnity contracts (100 million yen)
Fukuoka City Land Development Public Corp.	100%	2,029	1,989	179
Fukuoka-Kitakyushu Expressway Public Corp.	37%	221,723	792	1,802
Fukuoka City Housing Public Corp.	100%	3,106	1,238	-
Fukuoka Asia Urban Research Center (foundation)	100%	34	4	-
Fukuoka International Exchange Association (foundation)	99%	859	2	-
Fukuoka City Culture and Arts Promotion Foundation	100%	680	480	-
Fukuoka City Physical Fitness Association	73%	246	27	-
Fukuoka City Healthy Living Foundation	74%	305	26	-
Fukuoka City Social Welfare Foundation	100%	193	66	-
Fukuoka Environmental Foundation	100%	2,426	2,406	43
Kyushu Advanced Scientific Technology Research Center (foundation)	83%	482	182	-
Fukuoka City SME Employee Welfare Association (foundation)	100%	225	215	-
Fukuoka Tourism and Convention Bureau (foundation)	95%	818	22	-
Fukuoka Convention Center (foundation)	93%	5,047	4,546	79
Fukuoka City Ocean Park Management Association (foundation)	80%	18	8	-
Fukuoka City Marine Processing Public Corp. (foundation)	100%	9	-1	12
Fukuoka City Forest and Greenery Association (foundation)	100%	1,415	241	-
Hakata Station District Development Commemorative Hall (foundation)	100%	609	116	-

Organization	Ownership	Net assets or net profit (Million yen)	General Net assets or surplus fund (Million yen)	Liabilities associated with debt guarantees and loss indemnity contracts (100 million yen)
Fukuoka City Sewer Resources Center (foundation)	100%	212	12	-
Fukuoka City Facilities Public Corp. (foundation)	100%	218	18	16
Hakata Kaiin Kaikan	40%	227	195	-
Fukuoka City Disaster Prevention Association (foundation)	100%	84	74	-
Fukuoka City Water Services Public Corp. (foundation)	67%	16	1	-
Fukuoka City Transportation Promotion Association (foundation)	100%	200	190	-
Fukuoka City School Meals Public Corp. (foundation)	50%	59	49	-
Fukuoka Clean Energy Co., Ltd.	51%	6,591	1,837	-
Hakata Harbor Development Co., Ltd.	51%	11,176	4,776	-
Hakata Harbor Wharf Co., Ltd.	51%	3,885	3,185	-
Fukuoka City Education Promotion Association (foundation)	47%	1,195	1,133	-
Hakataza Theater Co., Ltd.	27%	121	-929	-
Fukuoka Soft Research Park Co., Ltd.	47%	5,001	-1,927	-
Fukuoka Tower Co., Ltd.	33%	3,492	420	-
Fukuoka Underground Shopping Center Development Co., Ltd.	49%	10,189	2,795	-
Sun Selco Building Management Co., Ltd.	30%	153	103	-
Fukuoka City Hospital Organization	100%	3,135	2,472	-
Across Fukuoka (foundation)	33%	932	76	-

24. Operations of Three Fukuoka Public Corporations (FY2011)

- Fukuoka City's three municipal corporations all possess significant retained earnings, etc. and continue to engage in stable operations.
- Fukuoka City Housing Corporation does not engage in subdivided housing operations on a standalone basis; it has stable housing lease and city-managed housing management operations. 【Managed rooms as of the end of FY2011 : 932 leased rooms, 31,503 city-managed rooms】
- Fukuoka-Kitakyushu Expressway Public Corporation has recovered 19.3% of its investments in currently operating roads (as of the end of FY2011) and has set aside an allowance for losses from road operations of approximately JPY 26.9 billion to cover future earnings risk 【Extended distance of shared roads as of the end of FY2011: 105.4 km (of which Fukuoka Expressway: 55.9 km)】
- In addition to city operations, Fukuoka City Land Development Corporation engages in land acquisition relating to national operations. 【Land owned as of the end of FY2011: approximately JPY 15.9 billion (city) + JPY 3.1 billion (national)】

Units: million yen

Public Corporation Name		Fukuoka City Housing	Fukuoka-Kitakyushu Expressway	Fukuoka City Land	
Investments	Capital	10	220,932	40	
	Of which, investment by Fukuoka City	10	81,381	40	
	(% of total)	100	37	100	
	Number of investors	1	3	1	
Balance Sheet	Assets	Fixed assets	4,012	1,244,430	537
		Current assets	3,392	5,043	20,112
		Deferred assets	0	1,067	0
		Total assets	7,404	1,250,541	20,649
	Liabilities	Current Liabilities	1,634	70,012	763
		Fixed Liabilities	2,663	695,406	17,857
		Allowances based on special laws (special reserves)	0	263,399	0
		Total liabilities	4,298	1,028,817	18,620
	Equity	Capital	10	220,932	40
		Retained earnings	3,096	792	0
		Legal reserves	0	0	1,989
		Total equity	3,106	221,723	2,029
	Total Liabilities and Equity		7,404	1,250,541	20,649

Public Corporation Name		Fukuoka City Housing	Fukuoka-Kitakyushu Expressway	Fukuoka City Land	
Income Statement	Ordinary Income/Expense	Operating revenue (a)	6,934	51,966	8,598
		Operating expenses (b)	6,802	40,307	8,529
		General and administrative expenses (c)	115	1,214	72
		Operating income (d=a-b-c)	17	10,445	-4
		Non-operating income (e)	46	51	10
		Non-operating expenses (f)	68	10,469	0
	Extraordinary Items	Ordinary income (g=d+e-f)	-5	27	6
		Extraordinary gain (h)	0	0	0
		Extraordinary loss (i)	0	0	0
		Income before legal reserves (j=g+h-i)	-5	27	6
		Reversal of legal reserve (k)	0	0	0
		Provisions for legal reserves (l)	0	0	0
		Income taxes (m)	0	0	0
Net income (n=g+h-i-m)	-	27	6		
Housing Public Corp. (n=j+k-l-m)		- 5			

*Totals may not match sums of individual figures due to rounding.

25. Credit Rating of Fukuoka City

- Fukuoka City obtained credit ratings on April 8, 2008 with an aim to enhance assessment of the city in the market.

Rating Agency: Moody's Investors Service

Debt denominated in yen	Aa3/(Outlook: Stable)
Credit standing as local government	BCA (Base Line Credit): 5

* As of October 1, 2012

Ratings of Other Municipalities

	Domestic currency bond rating	BCA
Fukuoka City	Aa3	5
Fukuoka Pref.	Aa3	5
Shizuoka Pref.	Aa3	5
Hiroshima Pref.	Aa3	5
Sapporo City	Aa3	5
Shizuoka City	Aa3	5
Hamamatsu City	Aa3	5
Nagoya City	Aa3	6
Sakai City	Aa3	5
Niigata Pref.	Aa3	6
Osaka City	Aa3	6
Kyoto City	Aa3	6

For BCA, Fukuoka City is the 5th rank at 21-grade evaluation. This is a higher rank among domestic municipalities

Evaluation By Rating Agency

- Fiscal conditions have improved steadily. The financial reform has further accelerated under the “**Fiscal Renewal Plan**”.
- Municipal bonds outstanding (all accounts) have decreased; the trend will continue over the medium term
- Fukuoka City is a cornerstone of Kyushu economy.
- Growth potentiality of local economy (e.g. population growth, attraction of enterprises)

* Municipalities that have obtained credit ratings from Moody's Japan are given.

Contact

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