

Finance and Municipal Bonds of Fukuoka City

Jan, 2014



Finance Bureau of Fukuoka City

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Fukuoka City's Trees



Camphor Laurel



Round Leaf Holly

Fukuoka City's Flowers

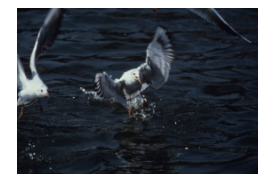


Cotton Rosemallow



Sasanqua

Fukuoka City's Birds

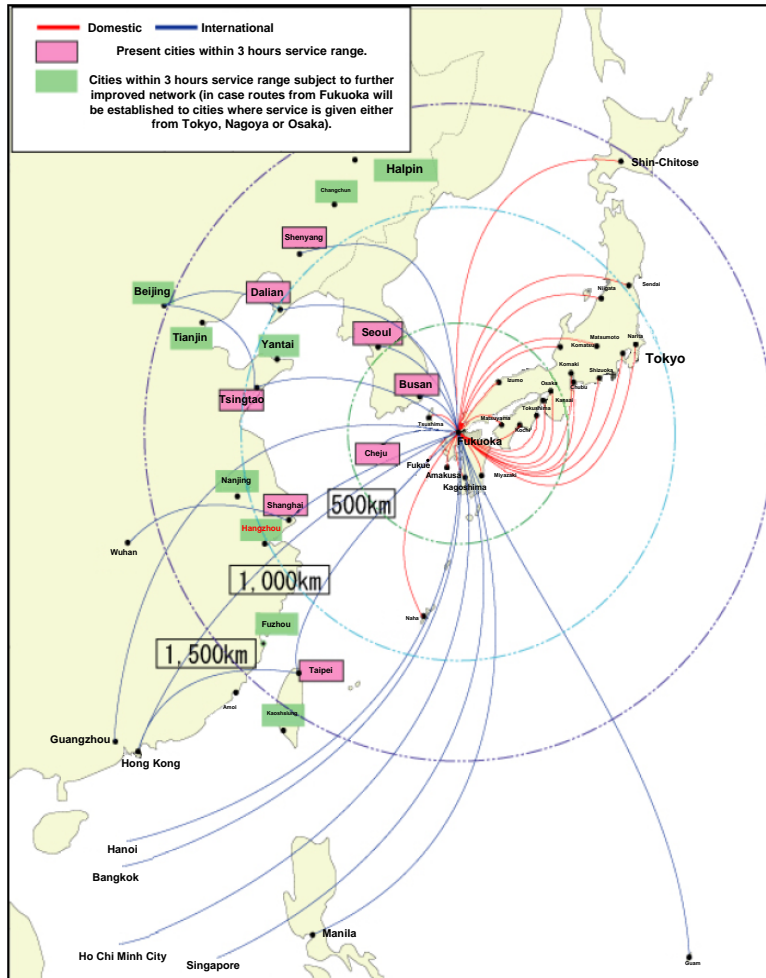


Black-headed Gull



Meadow Bunting

1. Profile of Fukuoka City



- Population of Fukuoka City is approximately 1.51 million (6th largest among the cabinet order designated cities). The number of households is approximately 740,000.
- Geographically, within 1,500 km radius of Fukuoka City, there are major Japanese cities (Osaka, Tokyo, Sapporo) and major East Asian cities (Busan, Shanghai, Beijing, Taipei, etc.).
- It is the best location for interchange with Asian countries such as Korea and China.



2. Economy of Fukuoka City

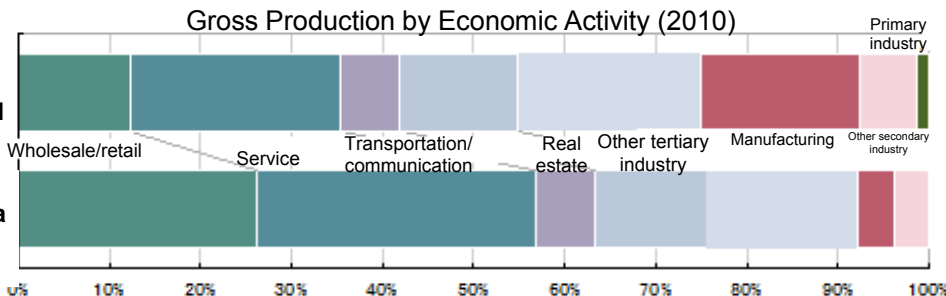
- Fukuoka City developed as the center of commerce, business and culture of "Kyushu/Yamaguchi economic bloc with 15 million people." In terms of gross production of the city, it is the fourth largest among the cabinet order designated cities, following Osaka, Nagoya and Yokohama.
- There are clusters of branch offices of the national government (e.g. local branch offices), branch offices of large corporations, and corporations in finance and service industries in Fukuoka City. Because of its historic background as a "commercial city" since the 12th century, approximately 90% of its industrial structure is composed of the tertiary industry such as wholesale/retail industry and service industry.



Gross Production	¥6,565,600 million	No.4 /12 cabinet order designated cities Organizations announced as of Oct. 1, 2013
Income per Capita	¥3.068 million	No.4/12 cabinet order designated cities Organizations announced as of Oct. 1, 2013
Day/Night Population	111.9%	No.3/19 cabinet order designated cities
% of Employees in Tertiary Industries	87.4 %	No.3/19 cabinet order designated cities
Sale of Goods	¥13,912,500 million	No.3/17 cabinet order designated cities

* The figures of "gross production" and "income per capita" are for FY2010; "Day/Night Population" for FY2010; "% of Employees in Tertiary Industries" for FY2009; and "Sale of Goods" for FY2007.

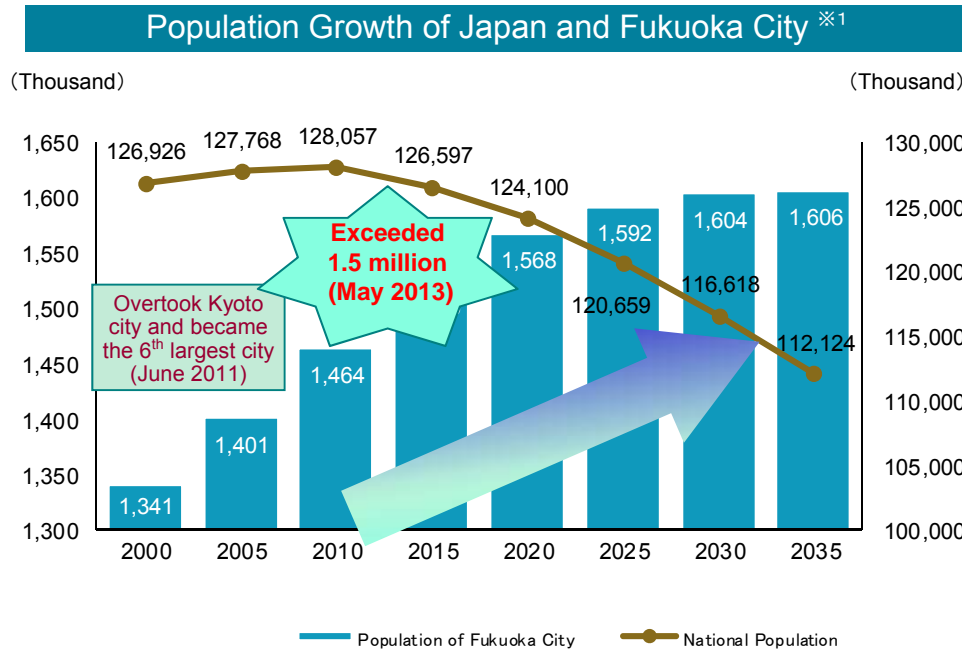
Kobe	5.6%
Chiba	5.0%
Kitakyushu	3.1%
Yokohama	2.7%
Kyoto	1.3%
Kawasaki	1.3%
Okayama	1.2%
Sendai	1.1%
FUKUOKA	0.7%
Nagoya	0.7%
Osaka	0.3%
Hiroshima	0.1%
Saitama	(Before announcement)
Sapporo	(Before announcement)



※ Niigata city, Sagami-hara city, Sakai city, Shizuoka city, Hamamatsu city, and Kumamoto city do not calculate the gross city production.
※ Actual growth rate

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

- The population of Fukuoka City has been increasing at the rate of more than 10,000 every year. The population is expected to continue growing in the next 20 years.
- ※Fukuoka has the largest population growth rate and increase in number among the cabinet order designated cities after the national census in 2010 (Growth rates: 1) Fukuoka, 2) Saitama, 3) Sendai. Increase in number: 1) Fukuoka, 2) Saitama, 3) Kawasaki)
- The demographic mix is young population (age 0 to 14) of 13.1%, productive population (age 15 to 64) of 66.7%, and old age (age 65+) of 18.9%. The average age of 42.6 years old is the youngest and most active age composition among designated cities. (As of September 1, 2013)
- 21 universities and junior colleges are located within Fukuoka City. The ratio of students is 5.2%, which is third highest next to Kyoto City and Tokyo 23 Wards in Japan.



Population growth rate (%) ※2	
FUKUOKA	2.1
Saitama	1.3
Sendai	1.2
Kawasaki	1.0
Osaka	0.5
Hiroshima	0.5
Kumamoto	0.4
Okayama	0.3
Chiba	0.1
Yokohama	0.1
Sagamihara	0.1
Nagoya	-0.1
Sakai	-0.1
Kobe	-0.4
Kyoto	-0.4
Niigata	-0.5
Hamamatsu	-0.9
Shizuoka	-0.9
Kitakyushu	-1.0

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

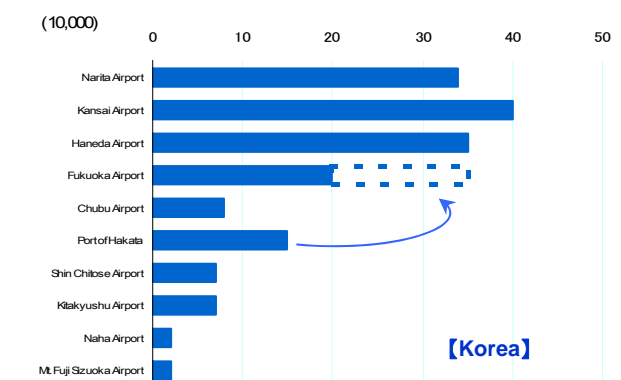
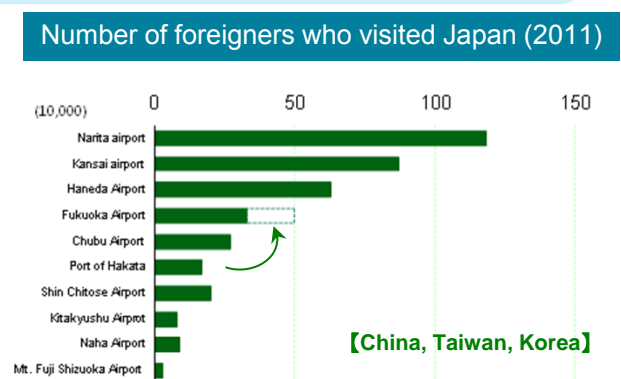
※1. Fukuoka City's estimation based on "Population Projection for Japan" (January 2012, National Institute of Population and Social Security Research)

※2. The "Population growth rate" represents growth rate of 2013 National Census from 2010 National Census .

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

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

- Fukuoka City has the compact layout of the airport, harbor, rail lines (conventional and Shinkansen), expressways, and other transportation networks.
- Since the opening of entire lines of Kyushu Shinkansen (Kagoshima route) (in March 2011) and completion of the Fukuoka City Express Circle Route (July 2012), the network is even better.
- Fukuoka Airport ranks fourth in Japan in terms of the number of passengers (about ¥17.44 million) and trade (¥898 billion). The airport has flights to 20 overseas cities, mainly in Asia.
- The Port of Hakata serves about 850,000 in 2012 (660,000 in 2011) international passengers, ranking the first in Japan every year since 1993.

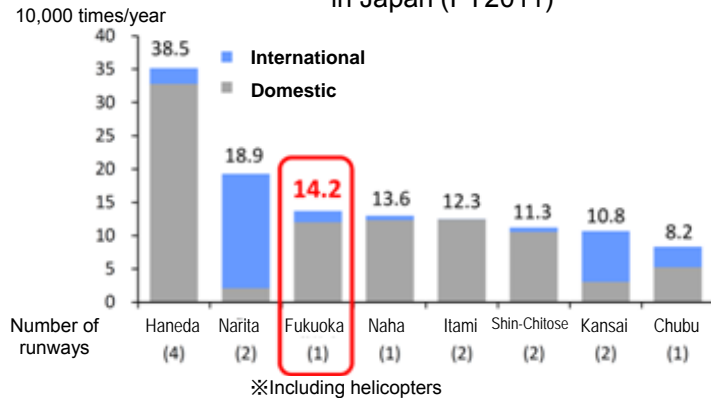


4. Improved functionality of Fukuoka Airport

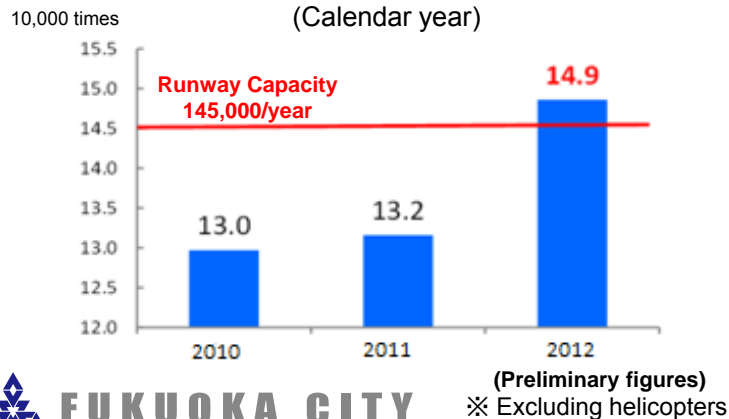
- The annual number of takeoffs and landings at Fukuoka Airport is the third largest in Japan (Number one among the airports that have only one runway).
- The number of takeoffs and landings in 2012 were approximately 149,000, and it is becoming very crowded. In order to respond to the future air traffic demand, it is necessary to strengthen its function.
- The Japanese government is planning to increase the number of runways, and the environmental impact assessment (environmental assessment) process began in 2012. The estimated cost is ¥180 billion, out of which, Fukuoka City is expected to cover approximately ¥20 billion, based on the estimates from the cost sharing in the past.

Current Status of Fukuoka Airport

Annual Number of Takeoffs and Landings in the Major Airport in Japan (FY2011)



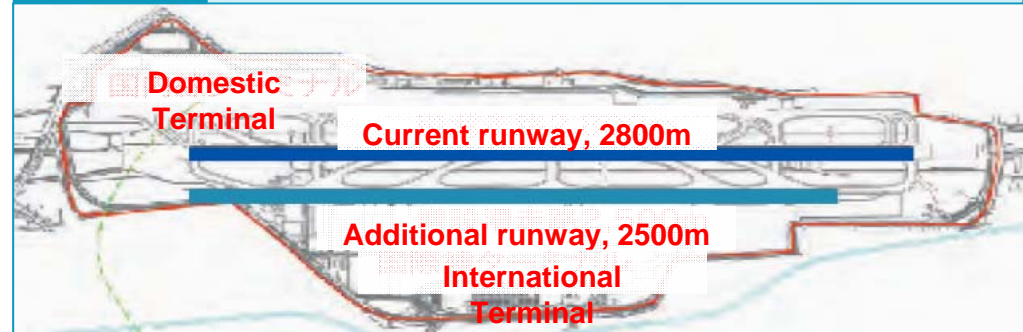
Trends of number of takeoffs and landings at Fukuoka Airport (Calendar year)



Initiatives to improve the functionality of Fukuoka Airport

Current Vision

Add a 2,500-meter runway to the existing airport.
Capacity: 183,000 flights per year (1.26 times more than current)



Project Cost

¥180 billion (Estimate)

Business Plan

Present: In the process of Environmental Impact Assessment (from 2012)
Timing of adoption and beginning of the business: To be determined (Construction period will be 7 years.)

5. Recognition from Overseas

Ranked 12th among the world's 25 most livable cities (2013)

UK MONOCLE magazine 2013 "Quality of Life: the Most Livable Cities in the World Ranking"

TOP 25 Most Livable Cities



Fukuoka City was chosen for consecutive 6 years in the "Quality of Life: The Most Livable Cities in the World Ranking" which is annually announced by UK global information magazine, "MONOCLE."

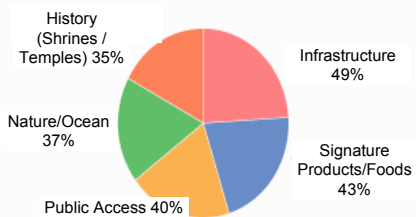
【 Fukuoka city 】 Article (Excerpt from "MONOCLE")

1.5 million residents are enjoying lives in a city that is smaller, greener and more relaxed version of what bigger urban cities offer. Because it has the same distance to Tokyo, Shanghai and Seoul, it is the best location for the corporations intending to expand their businesses in Asia.

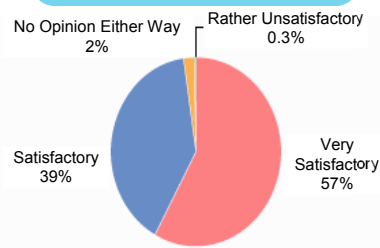
1	Copenhagen
2	Melbourne
3	Helsinki
4	Tokyo
5	Vienna
6	Zurich
7	Stockholm
8	Munich
9	Sydney
10	Auckland (NZ)
11	Hong Kong
12	FUKUOKA
13	Kyoto

Number one in the number of international convention held among the cabinet order designated cities

Attractiveness of Fukuoka



Impression of Fukuoka



Reputation among (Foreign) Convention Participants

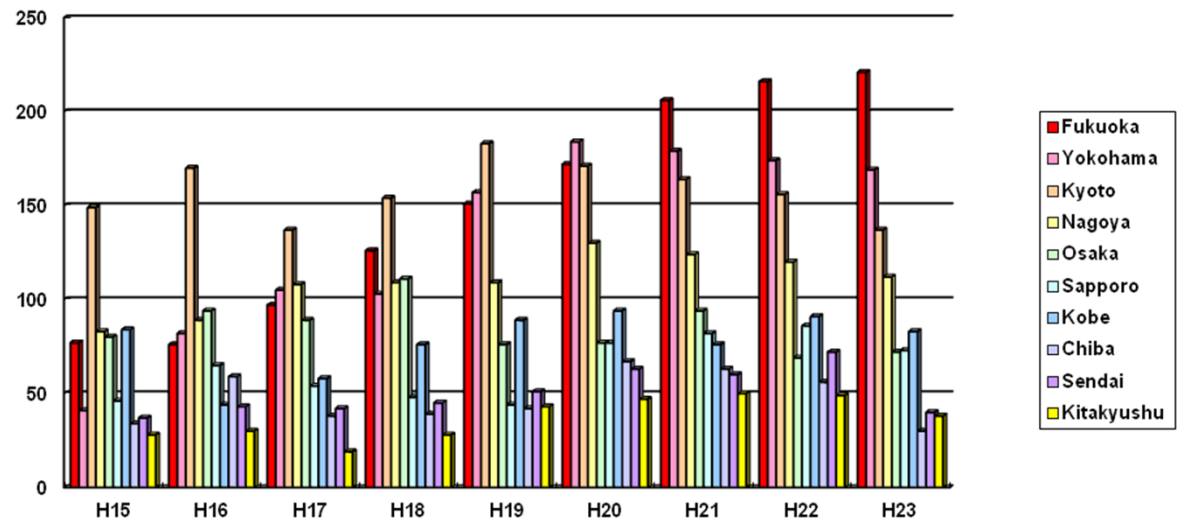


Fukuoka Int'l Congress Center

Fukuoka Marine Messe

Fukuoka Kokusai Center

International Convention Held in Major Cities



6. FY2012 Results

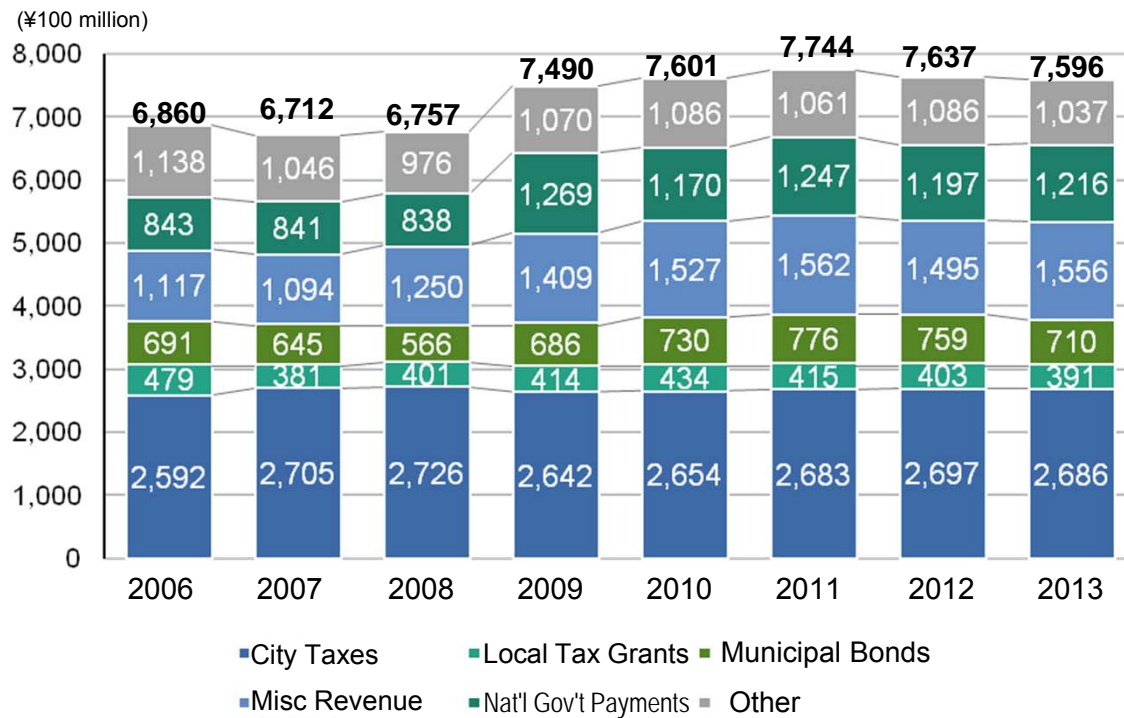
Category		FY 2012 Results (A)	FY 2011 Results (B)	YoY Change (C) = (A) - (B)
General Account	Revenue	¥763.7 billion	¥774.4 billion	– ¥10.7 billion
	Expense	¥752.3 billion	¥763.8 billion	– ¥11.5 billion
Special Account	Revenue	¥817.0 billion	¥915.7 billion	– ¥98.7 billion
	Expense	¥812.2 billion	¥912.1 billion	– ¥99.9 billion
Corporate Account	Revenue	¥190.1 billion	¥206.5 billion	– ¥16.4 billion
	Expense	¥224.2 billion	¥242.1 billion	– ¥17.9 billion
Total	Revenue	¥1,770.8 billion	¥1,896.6 billion	– ¥125.8 billion
	Expense	¥1,788.7 billion	¥1,918.0 billion	– ¥129.3 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.
- The issue amount of municipal bonds has increased in recent years mainly due to effect of rapid increase in "Bonds for the extraordinary financial measures."
- In the FY2013 budget, local tax grand declined mainly as a result of reduced funds for local government employees' salary. The issue amount of municipal bonds also declined as a result of terminating issuance of retirement allowance bonds, etc.

Revenue Breakdown*



※ Actual through FY2012, initial budget for FY2013.

Major Revenue Sources for Cabinet Order Designated Cities (2012)

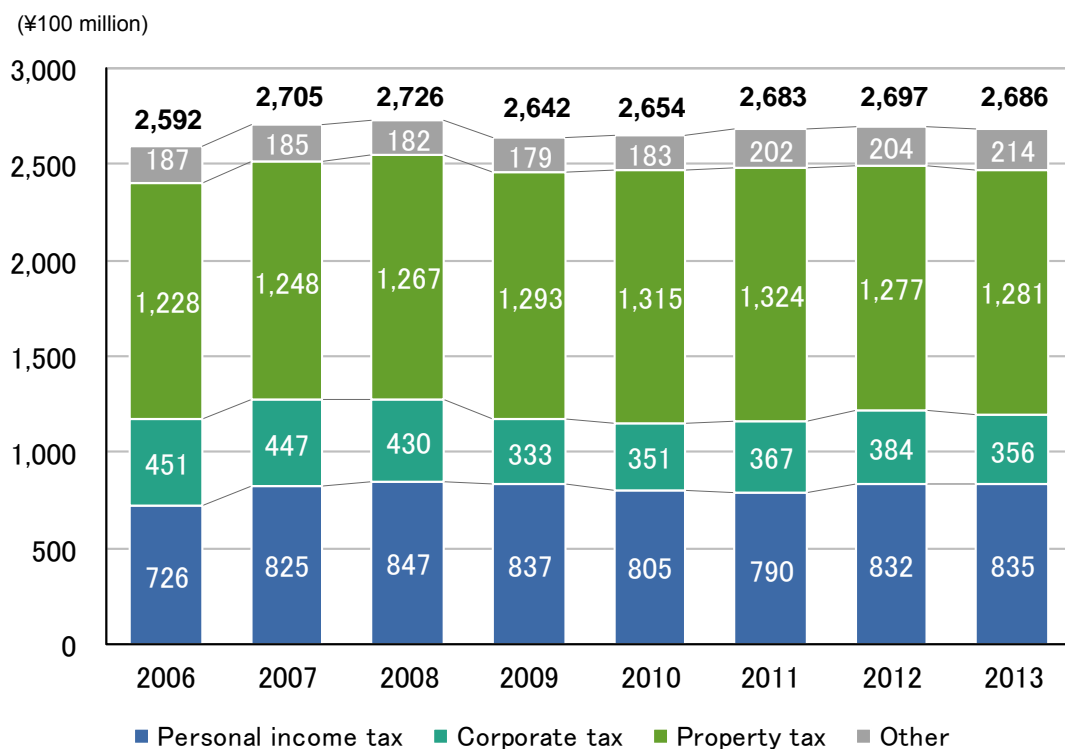
Independent revenue pct.(%)		Local allocation tax (%)		Municipal bonds (%)	
Nagoya	67.1%	Kawasaki	0.3%	Osaka	7.6%
Kawasaki	65.6%	Nagoya	0.8%	Nagoya	8.4%
Yokohama	64.8%	Yokohama	1.7%	Sapporo	9.6%
Chiba	64.5%	Saitama	2.1%	Kawasaki	9.7%
Saitama	62.2%	Chiba	2.3%	Hamamatsu	9.7%
FUKUOKA	61.4%	Osaka	2.9%	FUKUOKA	10.1%
Osaka	60.2%	Sagamihara	3.0%	Yokohama	10.3%
Kyoto	56.6%	FUKUOKA	5.2%	Chiba	11.0%
Hamamatsu	56.5%	Shizuoka	5.3%	Saitama	11.3%
Kobe	56.4%	Hiroshima	7.1%	Kobe	11.6%
Sagamihara	55.5%	Sakai	7.9%	Okayama	11.8%
Shizuoka	54.0%	Kyoto	8.2%	Sendai	12.3%
Kitakyushu	51.2%	Sendai	8.3%	Kyoto	12.6%
Hiroshima	49.8%	Hamamatsu	8.3%	Kitakyushu	13.2%
Okayama	49.3%	Kobe	8.9%	Sakai	13.5%
Sapporo	49.0%	Kitakyushu	11.1%	Kumamoto	14.5%
Niigata	48.3%	Okayama	11.6%	Sagamihara	15.1%
Sakai	45.8%	Sapporo	12.5%	Hiroshima	16.1%
Kumamoto	43.9%	Niigata	12.7%	Shizuoka	16.5%
Sendai	42.7%	Kumamoto	13.9%	Niigata	17.2%

※ To compare with the other cities, the figures are calculated on the general account basis.
The numbers are preliminary.

8. Tax Revenue

- The tax revenue base is relatively stable due to the steady annual population increase. Furthermore, Fukuoka City ranks highly among the cabinet order designated cities with respect to tax revenue per capita.
- As for FY2012 budget, although we experienced fall of property tax, the total revenue increased by approximately ¥1.4 billion year-on-year due to increase in personal income tax as a result of abolishing tax breaks for families with children under the age of 16.
- For FY 2013 budget, although we expect reduced corporate tax revenue by approximately ¥2.8 billion (7.3%) year-on-year due to decline of corporate tax rate (from September 2012), the estimated total revenue will decrease only by ¥1.1 billion year-on-year as a result of increase of personal income tax and property tax due to increase in the number of tax payers, etc.

Fukuoka City Tax Revenue *



※ Actual through FY2012, initial budget for FY2013.

Tax Revenue at Cabinet Order Designated Cities (FY2012)

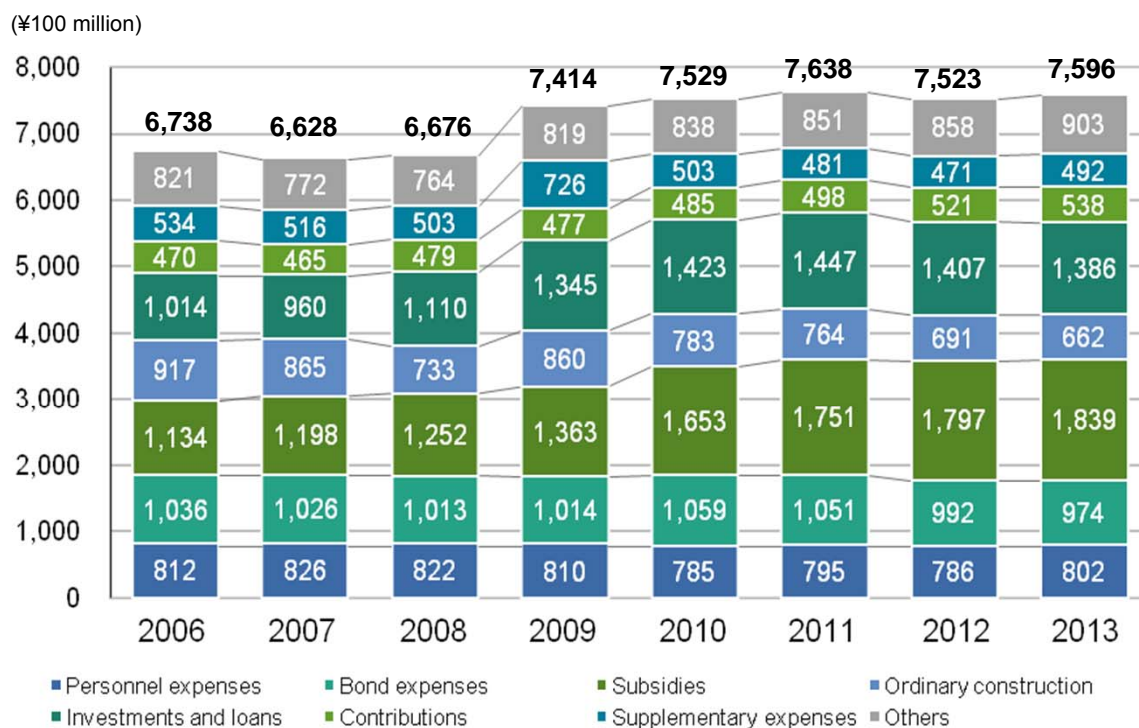
City	Tax revenue (Million yen)	Population	Tax per capita (Thousand yen)
Osaka	627,006	2,678,051	234,128 (1)
Nagoya	487,285	2,262,176	215,405 (2)
Kawasaki	285,254	1,440,474	198,028 (3)
Yokohama	701,226	3,693,788	189,839 (4)
FUKUOKA	269,697	1,494,978	180,402 (5)
Chiba	168,968	962,424	175,565 (6)
Shizuoka	124,449	709,561	175,388 (7)
Saitama	218,384	1,246,180	175,242 (8)
Kobe	266,520	1,538,047	173,285 (9)
Hiroshima	199,722	1,182,403	168,912 (10)
Kyoto	242,658	1,468,639	165,227 (11)
Kitakyushu	155,521	966,976	160,832 (12)
Sendai	170,074	1,058,939	160,608 (13)
Hamamatsu	124,509	793,311	156,949 (14)
Sakai	130,988	841,253	155,706 (15)
Okayama	108,088	701,923	153,988 (16)
Sagamihara	108,338	718,602	150,762 (17)
Niigata	118,175	806,163	146,589 (18)
Sapporo	273,833	1,927,371	142,076 (19)
Kumamoto	94,595	737,294	128,300 (20)

※Estimated population as of April 1, 2013.

9. Expenditure (General Account)

- Among mandatory expenses, personnel expenses make up an extremely small portion as Fukuoka City has engaged for long in outsourcing trash collection, privatizing of day-care centers, etc.
- On the other hand, bond expenses continued to stay at a high level in spite of a steady reduction in municipal bond outstanding. Subsidies such as public assistance, welfare for people with disability and operational cost for day-care centers are also on a rise.
- In the FY2013 budget, subsidies increased by 2.3% year-on-year as a result of increase of welfare for people with disability, public assistance and operational cost for day-care centers. The ordinary construction cost is estimated to decrease by 4.2% year-on year as a result of moving up the budget to FY 2012 as a national emergency economic package.

Expenditure Breakdown*



※ Actual through FY2012, initial budget for FY2013.

Mandatory Expenses as a % of Total Expenditures at Cabinet Order Designated Cities

Personnel expenses (%)		Bond expenses (%)		Subsidies (%)	
FUKUOKA	10.3%	Sagamihara	8.7%	Sendai	14.0%
Sendai	10.6%	Sakai	9.6%	Niigata	18.2%
Sapporo	11.7%	Sapporo	10.3%	Shizuoka	18.4%
Kitakyushu	13.1%	Sendai	10.5%	Hamamatsu	20.5%
Osaka	13.7%	Niigata	10.7%	Chiba	21.8%
Yokohama	14.0%	Saitama	11.1%	Kitakyushu	22.4%
Hiroshima	14.2%	Kyoto	11.4%	Saitama	23.0%
Sakai	14.4%	Kumamoto	11.9%	Kobe	23.1%
Niigata	15.0%	Hiroshima	12.4%	FUKUOKA	23.4%
Chiba	15.4%	Kawasaki	12.5%	Nagoya	24.4%
Kyoto	15.7%	Kitakyushu	12.8%	Kawasaki	24.8%
Kobe	16.0%	Yokohama	13.0%	Kyoto	24.9%
Shizuoka	16.1%	FUKUOKA	13.9%	Yokohama	25.2%
Hamamatsu	16.2%	Shizuoka	14.2%	Sagamihara	25.2%
Kawasaki	16.3%	Hamamatsu	14.2%	Hiroshima	25.9%
Nagoya	16.4%	Okayama	14.5%	Okayama	26.1%
Sagamihara	16.9%	Nagoya	14.6%	Kumamoto	28.3%
Saitama	17.1%	Kobe	14.9%	Osaka	29.3%
Okayama	17.1%	Osaka	15.3%	Sapporo	29.6%
Kumamoto	17.2%	Chiba	15.7%	Sakai	31.0%

※ To compare with the other cities, the figures are calculated on the general account basis. The numbers are preliminary.

10. Special Accounts Summary (FY2012)

- For the FY2012, actual balance of special accounts was approximately ¥4.4 billion surplus, an improvement by approximately ¥1.0 billion from the previous fiscal year (approximately ¥3.4 billion).
- Transfer from general account (excluding municipal bond management special account) was approximately ¥39.5 billion, an increase of approximately ¥0.9 billion from the previous fiscal year.

Unit: ¥Million

Account Category	Revenue	Expenditure	Difference	Carry-forwards	Effective Income	Inflow from General Account	Outflow to General Account
Latter-stage Elderly Healthcare	14,872	14,770	101	—	101	2,885	—
National Health Insurance	144,045	142,376	1,670	—	1,670	16,538	—
Nursing Care Insurance	79,647	78,758	889	—	889	11,458	—
Mother-infant Welfare Loans	1,185	535	651	—	651	16	—
Community Sewage	401	401	—	—	—	268	—
Central Wholesale Market	13,043	13,032	11	—	11	3,426	—
Port Maintenance	20,121	19,893	228	37	191	—	—
City-run Ferry	1,322	1,322	—	—	—	742	—
Hakozaki Land Readjustment	1,280	1,280	—	—	—	1,277	—
Ito Land Readjustment	3,370	3,350	19	19	—	885	—
Kashii Station Land Readjustment	4,541	4,147	394	394	—	1,826	—
Advanced Purchase of Public Lands	1,135	1,135	—	—	—	—	—
Parking Lots	476	476	—	—	—	198	—
Property Ward	267	236	31	—	31	—	—
City-run Boat Racing Arena	80,350	79,514	836	—	836	—	1,100
Special Account for City Hospital Institute Business Debt Management	1,677	1,677	—	—	—	—	—
City Bond Management	449,277	449,277	—	—	—	99,745	75,919
Total	817,010	812,180	4,830	450	4,380	(39,519) 139,264	77,019
FY 2011 Balance	915,721	912,055	3,666	257	3,410	(38,639) 144,242	78,429

※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.
 ※ For National Health Insurance, there were about ¥1.7 billion excess issuance of "Medical Care Benefits Contribution" by the national government. Fukuoka City returned them at the end of FY 2012.
 ※Totals may not match sums of individual figures due to rounding.

11. Profit and Loss for Corporate Account (FY2012)

Corporate Account Name		Sewer	Water	Industrial Water	High-speed Rail (subway)
Income Statement	Operating Revenue	43,017	31,192	193	24,723
	Operating Expense	31,272	27,194	154	21,362
	Operating Income	11,746	3,998	39	3,361
	Non-operating Income	2,170	1,714	0	2,694
	Non-operating Expense	10,014	3,006	11	5,458
	Ordinary Income	3,902	2,706	29	596
	Extraordinary Income	20	43	-	-
	Extraordinary Loss	52	46	-	-
	Net Income	3,869	2,703	29	596
Earnings Surplus		5,149	8,762	343	-139,189

Of which, Additions from General Account	17,600	311	-	2,689
Subsidies	-	224	-	2,689
Contributions	17,600	87	-	-

Other	Capital Inadequacy	-	-	-	-
	Future Burden on General Account	197,452	3,551	-	100,076

Unit: ¥Million

Corporate Account Name		Sewer	Water	Industrial Water	High-speed Rail (subway)	
Balance Sheet	Assets	Fixed	930,014	334,936	1,366	460,561
		Current	25,414	14,122	145	1,189
		Total	955,428	349,058	1,511	461,750
	Liabilities	Fixed	52,236	4,639	21	110,114
		Current	17,227	5,614	19	30,505
		Total	69,463	10,253	40	140,619
	Equity	Paid-in Capital	(382,698) 478,779	(142,054) 227,883	(503) 767	(188,622) 307,142
		Retained Earnings	407,186	110,922	704	13,989
		Total	885,965	338,805	1,471	321,131
	Liabilities + Equity		955,428	349,058	1,511	461,750

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

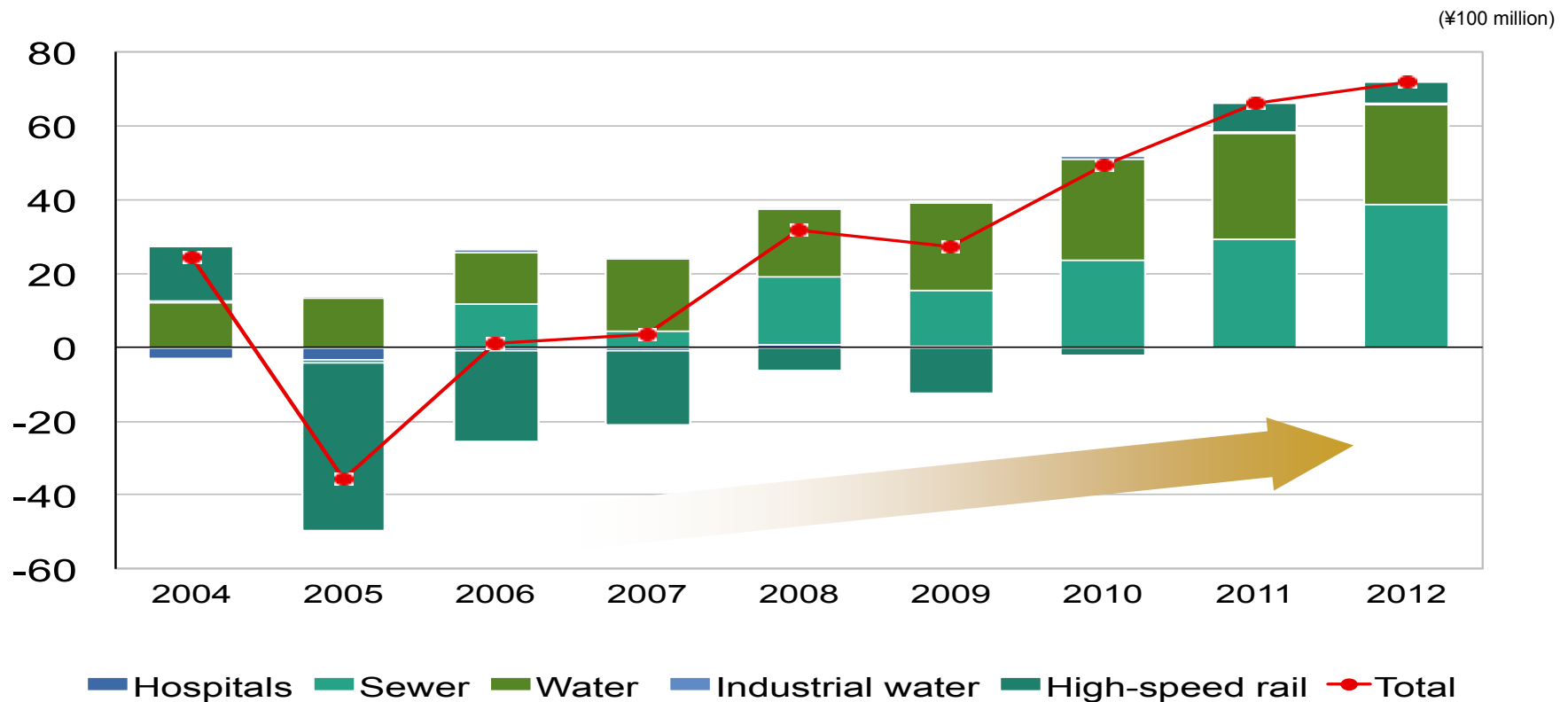
- A unique concept called “borrowed capital” is used in public corporation accounting. Accounts such as corporate bonds and long-term borrowings which are generally classified as fixed liabilities in ordinary corporate accounting are treated as “capital” in light of the importance of corporate bonds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

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

12. Trends of Profit/Loss for Corporate Account

- As a whole, Fukuoka City has maintained surplus for the corporate account. Although high-speed rail business had been having negative earnings since subway Line No. 3 opened in 2005, the balance became positive in 2011 and remains in surplus since then.
- Hospital business has been separated from the municipal accounting since 2010 when it became an independent administrative institution.

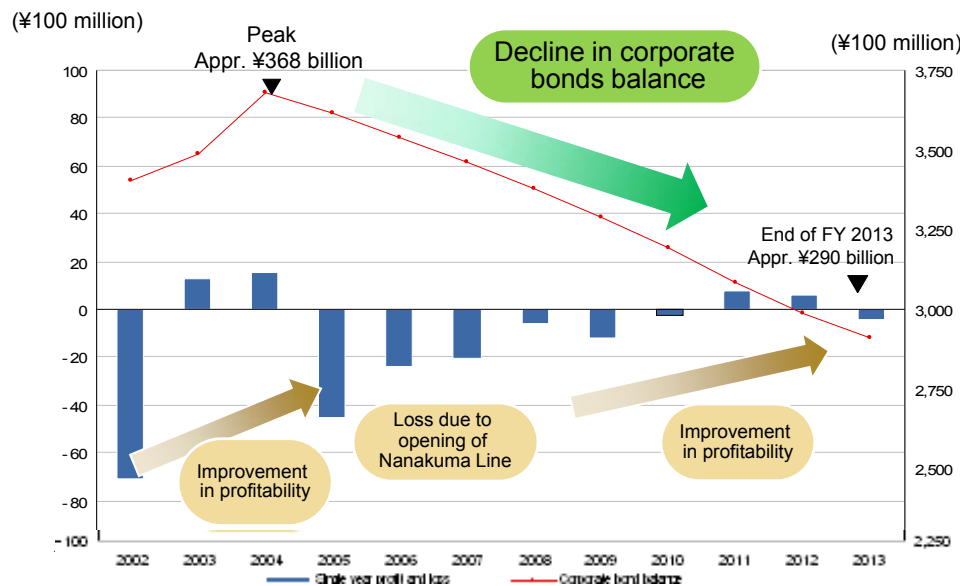
Trends of Profit and Loss for Corporate Account (Settlement)



13. Status of Fukuoka Municipal Subway

- Although the revenue has reported deficit since 2005 mainly due to increased capital cost by opening of the Nanakuma Line (February 2005), the performance has improved gradually as defrayment of capital cost decreases. In FY2011, the revenue balance became surplus after the entire route of the Kyushu Shinkansen Line was opened and large-scale commercial facility was opened. The current long-term estimates are that the **single year profit and loss will become surplus in FY2018** and **accumulative profit and loss will become surplus in FY2040**.
- The corporate bond outstanding has been decreasing annually after an all-time high of approximately ¥368 billion at the end of FY2004. At the end of FY2013, it will be approximately ¥290 billion, and it is anticipated to continue decreasing in the future.
- With respect to extension of the subway Nanakuma Line between Tenjin-Minami and Hakata, the national government approved provision of subsidy in FY2012 and Fukuoka City obtained the permission for rail business, etc. In FY2013, we carry forward the procedures required for commencement of work such as construction work approval, etc. and designing and begin construction.

Trends of Profitability (single year profit and loss)



※ Actual through FY2012, initial budget for FY2013.

Overview of the Nanakuma Line Extension Project (Tenjin-Minami and Hakata)

1. Construction distance 1.4 km
(Operating distance: about 1.6 km)
2. Project cost
Approx. ¥45 billion
3. Number of users
Extended section:
Approx. 68,000 persons
(Fresh users:
Approx. 21,000 persons/day)
4. Planned opening year
FY2020



14. Operations of Extra-governmental Organizations

- At present, the number of extra-governmental organizations of Fukuoka City to which the city has contributed to 25% or more of the total capital/funds, etc. is 33.
- Between FY 2004 and the end of FY 2011, the city has cut back 11 out of 43 organizations except for Across Fukuoka whose major investor is Fukuoka Prefecture based on the First and Second Extra-governmental Organization Act Plan.
- In FY2013, Fukuoka City developed the Third Extra-governmental Organization Act Plan (FY2013 to FY2016). We will continue cutting back extra-governmental organizations.

Fukuoka City Extra-governmental Organizations <FY2012 Financial Results>

Organization	Ownership	Change in net assets or net profit (Million yen)	Out of which, general net assets or earning surplus (Million yen)	Liabilities associated with debt guarantees and loss indemnity contracts (100 million yen)	Organization	Ownership	Change in net assets or net profit (Million yen)	Out of which, general net assets or earning surplus (Million yen)	Liabilities associated with debt guarantees and loss indemnity contracts (100 million yen)
1 Fukuoka City Land Development Public Corp.	100%	2,045	2,005	133	17 Fukuoka City Facilities Public Corp. (foundation)	100%	210	10	37
2 Fukuoka-Kitakyushu Expressway Public Corp.	37%	222,121	823	233	18 Hakata Kaiin Kaikan	40%	222	190	-
3 Fukuoka City Housing Public Corp.	100%	3,112	1,244	-	19 Fukuoka City Disaster Prevention Association (foundation)	100%	85	75	-
4 Fukuoka Asia Urban Research Center (foundation)	100%	33	33	-	20 Fukuoka City Water Services Public Corp. (foundation)	67%	16	1	-
5 Fukuoka International Exchange Association (foundation)	99%	851	1	-	21 Fukuoka City Transportation Promotion Association (foundation)	100%	222	212	-
6 Fukuoka City Culture and Arts Promotion Foundation	100%	653	87	-	22 Fukuoka City School Meals Public Corp. (foundation)	50%	57	47	-
7 Fukuoka City Sports Association (former Sports Promotion Organization) (Public interest incorporated foundation)	73%	244	25	-	23 Fukuoka Clean Energy Co., Ltd.	51%	7,169	2,397	-
8 Fukuoka City Social Welfare Foundation	100%	196	73	-	24 Hakata Harbor Development Co., Ltd.	51%	11,399	4,999	-
9 Fukuoka Environmental Foundation	100%	2,335	2,315	38	25 Hakata Harbor Wharf Co., Ltd.	51%	4,122	3,422	-
10 Kyushu Advanced Scientific Technology Research Center (foundation)	83%	483	183	-	26 Fukuoka City Education Promotion Association (foundation)	47%	1,172	849	-
11 Fukuoka City SME Employee Welfare Association (foundation)	100%	223	213	-	27 Hakataza Theater Co., Ltd.	27%	23	-880	-
12 Fukuoka Tourism and Convention Bureau (foundation)	95%	827	31	-	28 Fukuoka Soft Research Park Co., Ltd.	47%	5,062	-1,865	-
13 Fukuoka Convention Center (foundation)	93%	6,103	5,602	69	29 Fukuoka Tower Co., Ltd.	33%	3,568	568	-
14 Fukuoka City Marine Processing Public Corp. (foundation)	100%	8	-2	11	30 Fukuoka Underground Shopping Center Development Co., Ltd.	49%	10,411	3,004	-
15 Fukuoka City Forest and Greenery Association (foundation)	100%	1,414	238	-	31 Sun Selco Building Management Co., Ltd.	30%	168	118	-
16 Hakata Station District Development Commemorative Hall (foundation)	100%	608	113	-	32 Fukuoka City Hospital Organization (Local incorporated administrative agency)	100%	4,604	3,941	-
					33 Across Fukuoka (Public interest incorporated foundation)※Extra-governmental organization of Fukuoka Prefecture	33%	949	93	-

※Abolished or integrated organizations (Second Extra-governmental Organization Act Plan)

FY2010 Fukuoka City Sports Promotion Foundation was integrated with Fukuoka City Sport Association.

FY2011 Fukuoka City Sewage Research Center was abolished.

FY2012 Fukuoka City Fukuoka City Healthy Living Foundation and Fukuoka City Umizuri-Park Management Foundation were abolished.

15. Operations of Three Fukuoka Public Corporations (FY2012)

- All of the three public corporations of Fukuoka City continues stable operation, having substantial retained earnings.
- Fukuoka City Housing maintains stable operation centering on rental housing business and municipal housing management business. [Number of managed housing as of the end of FY2012: rented housing 931, municipal housing 31,462]
- Fukuoka-Kitakyushu Expressway has redeemed 22.3% of the roads under its management (as of the end of FY2012). It has also sets aside “allowance for losses from road business” of approximately ¥19.3 billion in preparation for money-losing risk in future. (Road extension as of the end of FY2012: 106.3 km (out of which, Fukuoka Expressway 56.8 km).
- Fukuoka City Land Development is engaged in acquisition of sites, etc. related to the state projects other than city business. However, as of the end of FY2012, we only hold lands for the city projects. (Land owned as of the end of FY2012: Approx. ¥14.1 billion for city projects)

Public Corporation Name		Fukuoka City Housing	Fukuoka-Kitakyushu Expressway	Fukuoka City Land	
Investments	Capital	10	221,298	40	
	Of which, investment by Fukuoka City	10	81,901	40	
	(% of total)	100	37	100	
	Number of investors	1	3	1	
Balance Sheet	Assets	Fixed assets	3,946	1,246,685	537
		Current assets	3,021	4,650	15,331
		Deferred assets	0	917	0
		Total assets	6,967	1,252,252	15,868
	Liabilities	Current Liabilities	1,163	74,535	169
		Fixed Liabilities	2,692	659,948	13,654
		Allowances based on special laws (special reserves)	0	295,648	0
		Total liabilities	3,855	1,030,131	13,823
	Equity	Capital	10	221,298	40
		Retained earnings	3,102	823	15
		Legal reserves	0	0	1,990
		Total equity	3,112	222,121	2,045
	Total Liabilities and Equity		6,967	1,252,252	15,868

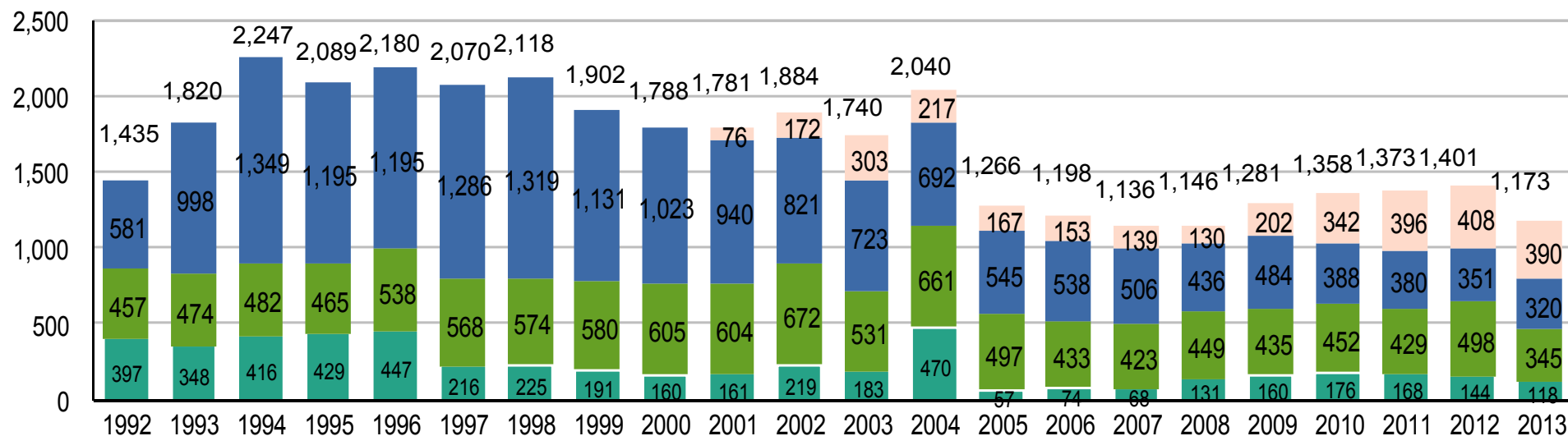
Public Corporation Name		Fukuoka City Housing	Fukuoka-Kitakyushu Expressway	Fukuoka City Land	
Income Statement	Ordinary Income/Expense	Operating revenue (a)	5,947	53,417	9,022
		Operating expenses (b)	5,815	42,428	8,937
		General and administrative expenses (c)	98	1,202	79
		Operating income (d=a-b-c)	35	9,787	6
		Non-operating income (e)	51	97	9
		Non-operating expenses (f)	49	9,852	0
		Ordinary income (g=d+e-f)	37	32	15
Income Statement	Extraordinary Items	Extraordinary gain (h)	0	0	0
		Extraordinary loss (i)	-31	0	0
		Income before legal reserves (j=g+h-i)	6	32	15
		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)	—	32	15
Net income – Housing Public Corp. (n=j+k-l-m)		6			

16. Trends of Municipal Bond Issues

- While the issue amount of municipal bonds has been restrained to almost half of the peak (FY1994) on all accounts base, since FY2009, the total issue amount has increased moderately due to drastic increase in issuance of bonds for the extraordinary financial measures.
- In FY2012, the issue amount of municipal bonds increased because we moved up implementation of additional public projects in accordance with the national government's emergency economic measures and the municipal bonds were added to the FY2012 budget as the financial resources. However, in FY2013, the issue amount decreased because we terminated issuance of retirement allowance bonds as well as moved up the recording of the municipal bonds for additional public projects to the supplementary budget of FY2012. For FY2013, we will make further efforts to restrain the issue of municipal bonds by using temporary subsidies from the national government, etc.

Trends of Municipal Bond Issues (All Accounts)

(¥100 million)



Building up facilities for the "Universiade in Fukuoka"

Large-economic package by national government

Subway Line No.3 Opened, February 2005

■ Special account
■ Corporate account
■ General account
■ Bonds for the extraordinary financial measures

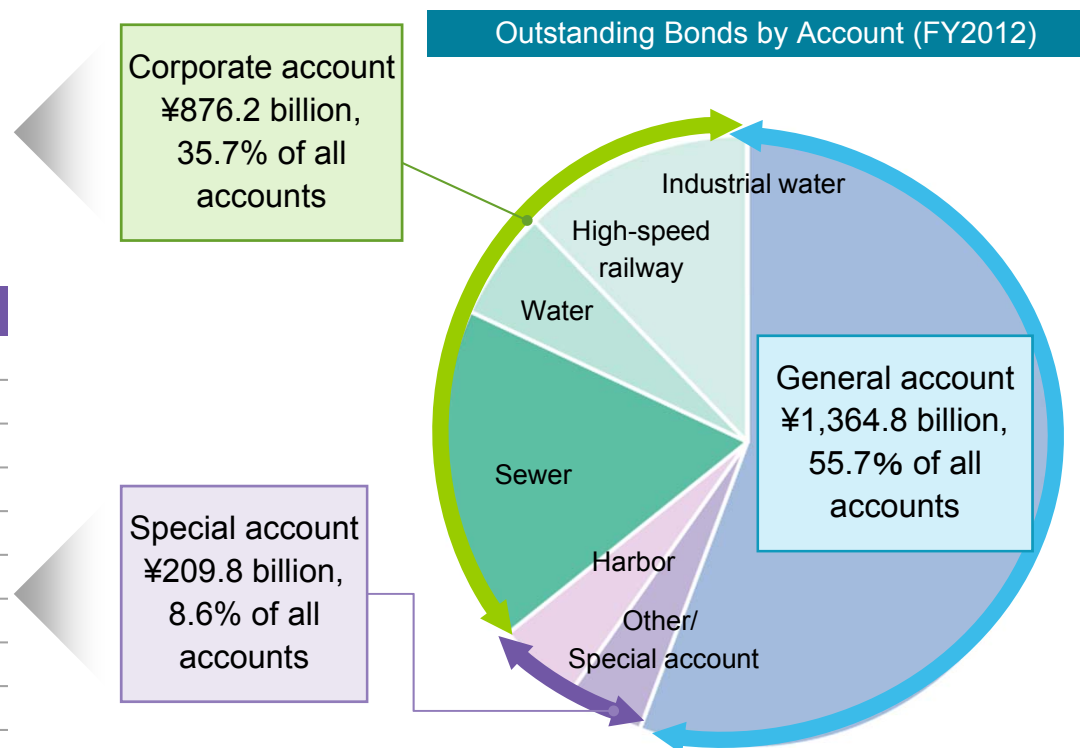
※ Actual through FY2012, initial budget for FY2013.

17. Outstanding Municipal Bonds by Account

- The general account represents about 56% of Fukuoka City's outstanding bonds and the corporate account represents about 36%.
- Sewer and High-speed railway (subway) business have high percentage in the corporate account.

Corporate Account	Bonds outstanding (100 million yen)	Pct. for all accounts (%)
Sewer	4,349	17.7
Water	1,421	5.8
Industrial water	5	0.0
High-speed rail (subway)	2,987	12.2
Total	8,762	35.7

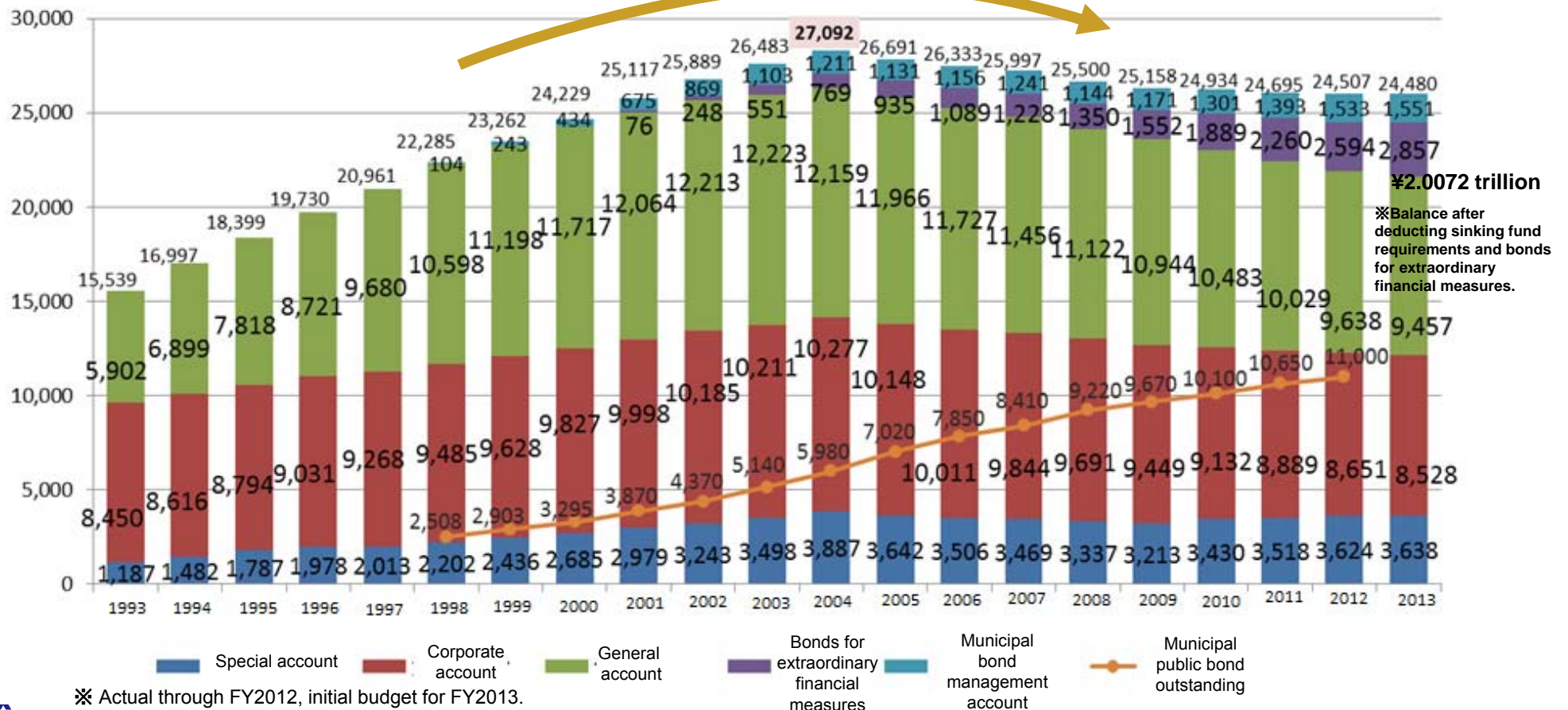
Special account	Bonds outstanding (100 million yen)	Pct. for all accounts (%)
Mother-infant Welfare fund	52	0.2
Community Sewage	18	0.1
Central Wholesale Market	381	1.5
Port Maintenance	1,094	4.5
City-run Ferry	2	0.0
Hakozaki Land Readjustment	99	0.4
Ito Land Readjustment	145	0.6
Kashii Station Land Readjustment	104	0.4
Advanced Purchase of Public Lands	86	0.4
Parking Lots	25	0.1
City-run Boat Racing Arena	3	0.0
Special Account for City Hospital Institute Business Debt Management	89	0.4
Total	2,098	8.6



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

18. Trends of Outstanding Municipal Bond

- As a result of consistent efforts to restrain the issue amount of municipal bonds, the amount of outstanding bonds that peaked out in FY2004 is declining in total.
- 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. It was approximately ¥1.1 trillion as of the end of FY2012.
- We will continue making efforts to restrain the issue amount of municipal bond, the outstanding municipal bond in all accounts is likely to be approximately ¥2.0 trillion as of the end of FY2013, excluding sinking fund requirements as redemption resource of municipal bond and bonds for the extraordinary financial measures.



19. Major Financial Indicators (FY2012)

- Fukuoka City has one of the lowest percentages of mandatory expenditures among cabinet order designated cities 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 these cities.

Pct. of mandatory expenditures (%)	
Sendai	35.1%
Niigata	43.9%
FUKUOKA	47.6%
Kikakyushu	48.3%
Shizuoka	48.7%
Sagamihara	50.8%
Hamamatsu	50.9%
Saitama	51.2%
Sapporo	51.6%
Kyoto	52.0%
Yokohama	52.2%
Hiroshima	52.5%
Chiba	52.9%
Kawasaki	53.6%
Kobe	54.0%
Sakai	55.0%
Nagoya	55.4%
Kumamoto	57.4%
Okayama	57.7%
Osaka	58.3%

Ordinary revenue/expenditure ratio (%)	
Okayama	88.2%
Kumamoto	89.1%
Hamamatsu	89.6%
Niigata	91.2%
Shizuoka	91.5%
Kobe	91.5%
FUKUOKA	91.7%
Saitama	92.8%
Sapporo	94.3%
Sagamihara	95.4%
Yokohama	95.6%
Sendai	96.5%
Sakai	96.7%
Hiroshima	96.8%
Chiba	97.5%
Kitakyushu	97.7%
Kawasaki	99.4%
Nagoya	99.8%
Kyoto	100.3%
Osaka	101.9%

Financial capacity index	
Kawasaki	0.999
Nagoya	0.985
Saitama	0.973
Yokohama	0.960
Sagamihara	0.955
Chiba	0.951
Osaka	0.904
Shizuoka	0.892
Hamamatsu	0.851
Sendai	0.843
FUKUOKA	0.836
Sakai	0.833
Hiroshima	0.800
Kyoto	0.755
Okayama	0.745
Kobe	0.744
Niigata	0.703
Kitakyushu	0.688
Sapporo	0.687
Kumamoto	0.660

Effective bond expense ratio (%)	
Sagamihara	3.8
Sakai	4.9
Saitama	5.4
Sapporo	7.6
Osaka	9.4
Kawasaki	10.1
Kitakyushu	10.8
Kobe	10.9
Kumamoto	11.1
Sendai	11.3
Niigata	11.3
Shizuoka	11.5
Hamamatsu	11.5
Nagoya	12.1
Okayama	13.5
Kyoto	13.8
FUKUOKA	14.6
Yokohama	15.4
Hiroshima	15.9
Chiba	19.5

※The figures in each indicator is preliminary.

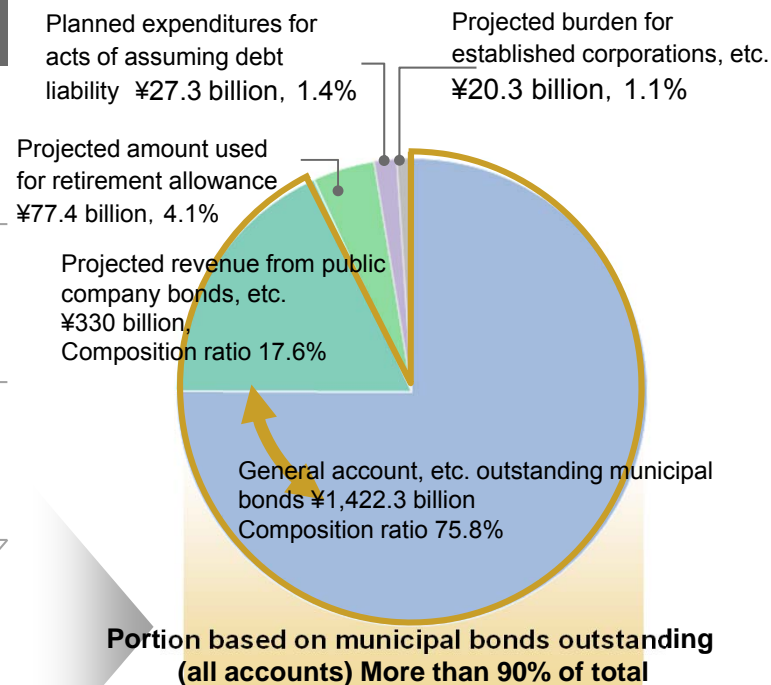
- Mandatory expense ratio = Personnel expenses + Subsidies + Bond expenses / Total expenditures
- Ordinary revenue/expenditure ratio = General revenue sources for ordinary expenditures / Total general revenue sources
- Financial capacity index = Past 3 years average of standard fiscal revenue/standard 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.

20. Ratios to Judge Financial Soundness (Four indicators)

- All the indicators have improved every year. The trend continued in FY2012 settlement and the indicators fell below the early fiscal soundness standards.
- Since the effective bond expense ratio went under 18% in FY2008 settlement, Fukuoka City has been reclassified from “authorized entity” to “consultative entity” for bond issuance starting from the FY2009.
- Regarding the future burden ratio, more than 90% of the inclusion belongs to outstanding municipal bonds, 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
	2010 settlement	2011 settlement	2012 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)	16.4% ↓	15.7% ↓	14.6% ↓	25%	35%
Future burden ratio (Amount of outstanding debt that may become a future burden for the general account, including extra-governmental organizations)	219.8% ↓	202.9% ↓	191.9% ↓	400%	

Composition of Future Burden* of ¥1,877.3 Billion ※



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

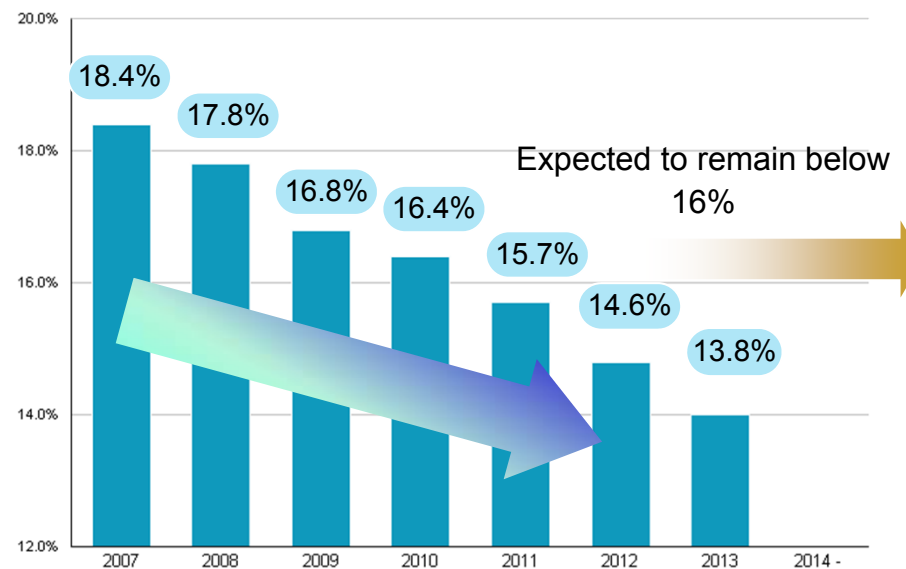
21. Ratios to Judge Financial Soundness (Outlook for effective bond expense ratio)

- Through progressive restraint of municipal bond issuance below the capital redemption amount, we expect reduced outstanding municipal bond and reduced burden of bond expense in the future with the effective bond expense ratio below 16% (for financing arrangement of the private sector financing bond, there is no need for consultation if request is submitted in advance).

Initiatives in FY2013 Initial Budget (General Account)

Restrain bond issuance (excl. increase in extraordinary fiscal measure bonds)	Approximately ¥32 billion (— ¥ 3.6 billion vs. FY2012) ※1
Redemptions of principal	Approximately ¥79.8 billion (— ¥ 1.8 billion vs. FY2012) ※2
Interest from bond reduction fund appropriated for bond redemptions	Approximately ¥2.7 billion (+ ¥ 0.8 billion vs. FY2012)

Projections for Effective Bond Expense Ratio *3



- *1 Year-on-year decrease of ¥4.0 billion 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 ¥8.8 billion.
- *3 Actual through FY2012. Initial budget for FY2013.

22. Measures to Improve Financial Soundness and Progress

- From FY2008 to FY2011, based on the “Fiscal Renewal Plan”, Fukuoka City has produced a certain achievement by promoting proactive initiatives in restoring soundness both in terms of revenue and expenditure.
- Continuously, we will be engaged in further reforms for administrative and financial soundness based on the new “Administrative and Fiscal Reform Plan” (from FY2013 to FY2016).

Fiscal Renewal Plan

Plan period

FY2008 – FY2011

Fundamental Stance

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

Objectives

- 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**.
- 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 FY2011 general account to **between ¥45 billion and ¥50 billion**.
 - Reduce municipal bonds outstanding to **about ¥2 trillion** over the next decade (was ¥2.6 trillion in FY 2008), bringing bonds per capita to less than ¥1.5 million.
- Eliminate the revenue shortfall of **¥56.6 billion** that is expected between now and FY2011.

Progress

Restraining Municipal Bond Issuance

- Gradual restraining of municipal bond issuance
-¥5.6 billion
FY2008 ¥56.6 billion → FY2011 ¥51.0 billion
(Excluding the increased amount for bonds for the extraordinary financial measures)
- Outstanding municipal bond (all accounts)
-¥80.5 billion
End of FY2008 ¥2.55 trillion → End of FY2011 ¥2.4695 trillion
- Actual public bond ratio
FY2008 17.8% → FY2011 15.7%

Dissolving Revenue Shortfalls

- Review of revenue/spending
¥ 10.6 billion
 - Compression of assets/debt
¥9.3 billion
 - Reform of system/methods
¥9.0 billion
- } Review
¥28.9 billion
- ✕ Furthermore, dissolve revenue shortfalls by adding increase in extra ordinary financial measures, local grant tax, etc.

23. “Administrative and Fiscal Renewal Plan”

- Actions for “Sound Financial Management”

Administrative and Fiscal Renewal Plan Period: 4 years from FY2013 to FY2016

- ◆ To achieve “Sound financial management”, we “optimize the priorities” of our projects within the limited financial resources, and while securing administrative services needed for civic life, we secure financial resources needed to promote important measures and respond to new challenges.

Numerical target (1) Secure financial resources for policy expenses

- To set the goal to build our resources to promote important measures and to respond to new issues with “**build and scrap**” spirit, instead of responding to declining resources.

Build

- Steady implementation of “Policy Promotion Plan.”
 - Responding to new challenges
- General revenue to be secured: **Over ¥7.5 billion**
(Total of FY2014 to 2016)

General resources that can be used for policy expenses
※Total of FY2014 to 2016

【Present】 Secure approx. ¥30 billion.

+Over ¥45 billion

【Target】 Secure over ¥75 billion.

Scrap

Generate additional ¥45 billion financial resources. (Total of FY2014 to 2016)

- **Review of ordinary expenses** **Over ¥25.5 billion**
(Streamlining public administration operation, review of roles and responsibilities, Review of administrative services)
- **Secure revenue** **Over ¥19.5 billion**
(Enhancing income and tax collection rates, effective utilization of city owned assets, etc.)

Numerical target (2) Restrain municipal bond issuance

- To maintain our path of reducing municipal bond issuance and will reduce outstanding municipal bond in medium and long term.
- To restrain the amount of municipal bond issuance in general account below **¥160 billion** as a total of FY2013 to 2016. (excluding bonds for the extraordinary financial measures)

- ◎ **Municipal bond issuance in the general account**
(excluding bonds for the extraordinary financial measures)

★**Financial Renewal Plan (FY2013 to 2016)**
【Target】 **Restrain under ¥160 billion.**
※**Total of FY 2013 to 2016.**

Financial Renewal Plan (FY2008 to 2011)
○ Issuance results during the plan period
【Present】**¥168.9 billion**

- ◎ **Bonds for the extraordinary financial measures**

We ask the national government to abolish it. We also restrain issuance against maximum issuance of the bond as much as possible.

- ◎ **Entire municipal bond issuance amount**

We keep the issue amount of the entire municipal bond below the principle redemption amount and will not increase the outstanding amount.

24. Industrial Clusters for City Development (Attraction of domestic and international enterprises)

【Actions to attract enterprises to Fukuoka City】

- Using Fukuoka City's attractive character and potential as a city to begin new businesses including its great business environment (Fukuoka City has the top rate to open new businesses) and abundant human resources as the higher educational institutions are concentrated in the City, we attract corporations.
- We carry out strategic actions to attract enterprises in the growing industries such as creative industry (e.g. music, digital contents) and environmental energy industry (e.g. energy-saving power device, IT control).

<Target> We aim to create 3,000 new jobs by establishing 50 new companies every year.

★Results of 2013 (April to September): 34 new companies, creating approximately 2,500 new jobs.

※Including expression of intentions to establish new companies.

Site Location Support System

Max. ¥3 billion for site location subsidy

This is the largest site location subsidy among the cabinet order-designated cities.

※Number of applications: FY2012: 18, FY 2013 (April to September): 4

«Target industries»

- Knowledge creating industry
- Health, medicine, welfare related industry
- Environment/energy related industry
- Business in Asia
- Logistics related businesses
- Urban-oriented industry
- Function of head office etc.
- Large-scale facilities to collect customers



Examples of New Companies

<Knowledge creating industry (Creative) >

❖Name of corporation: LINE Co., Ltd.

(Contents) Development laboratory, Overseas sites, etc.

Expected No. of employees: 1,000

(Characteristics) Construction of the company's first building as the second domestic site, following Tokyo head office. (Completion of construction in FY2015 (plan))

<Health, medicine, welfare related industry>

❖Name of corporation: Kenko.com Co., Ltd. (FY 2011)

(Contents) Head office, Call center

(Characteristics) Partial function of head office is moved from Tokyo.

<Business in Asia>

❖Name of corporation: Alliance Bernstein Co., Ltd. (FY2010)

(Contents) Asset management for institutional investors and wealthy individuals

(Characteristics) Strategic location for the businesses in Asia, Support location in case of disaster.

<Logistics related industry>

❖Name of corporation: Collaboration between Inui Warehouse Co., Ltd. and LaSalle Investment Management

(Contents) Logistics facility (Completion of construction: 2014 (plan))

(Characteristics) Multi-tenants style logistics warehouse

25. Credit Ratings 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 Japan K.K.

Debt denominated in yen	Aa3/ (Outlook: Stable)
Credit standing as a local government	BCA (Base Line Credit): a1

※ As of June, 2013

Ratings of Other Municipalities

	Domestic currency bond rating	BCA
Fukuoka City	Aa3	a1
Fukuoka Pref.	Aa3	a1
Shizuoka Pref.	Aa3	a1
Hiroshima Pref.	Aa3	a1
Sapporo City	Aa3	a1
Shizuoka City	Aa3	a1
Hamamatsu City	Aa3	a1
Nagoya City	Aa3	a2
Sakai City	Aa3	a2
Niigata Pref.	Aa3	a2
Osaka City	Aa3	a2
Kyoto City	Aa3	a2

For BCA, Fukuoka City receives high evaluation.

※ a1 Higher ranking
a2 Lower ranking

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.

26. FY2013 Fukuoka City Plan for Municipal Bond Public Offerings

Amount to be issued

¥130 billion

(100 million yen)

Maturities/Types	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total	
10-year (nationwide)							100					100	200	
5-year (nationwide)				100		100			100				300	
5-year (spot)							←—————→						100	
10-year (joint issue)	40		60		80			60		60			300	
Total	40	0	60	100	80	100	100	60	100	60	0	100	900	
Ultralong-term bonds (spot)	100 (20-year bond) (Issued in July)						100 (20-year or 30-year bond)						200	
Flex	←—————→												200	
Total	First half					Second half								1,300
	480 + α					620 + α								

*There may be changes to both the amounts to be issued and the months for bond issues.

Contact

Please feel free to contact for any inquiry.

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