A scenic view of Mount Fuji with pink azaleas and white cherry blossoms in the foreground. The mountain is covered in snow and set against a clear blue sky. The foreground is filled with vibrant pink azaleas on the left and white cherry blossoms on the right, framing the mountain.

# Fiscal Status of Shizuoka Prefecture

October  
2015

# Presentation Highlights

1. Shizuoka has active industries and strong economic fundamentals

⇒ [Overview of Shizuoka \(P4 - P10\)](#)

2. Shizuoka constantly performs administrative reform and sustains a healthy budget

⇒ [Fiscal Position of Shizuoka \(P11 - P15\)](#)

3. Shizuoka prefectural bonds have received high credit ratings from two credit rating companies (A1 from Moody's and AA+ from R&I)

⇒ [Bond Management of Shizuoka \(P16 - P18\)](#)

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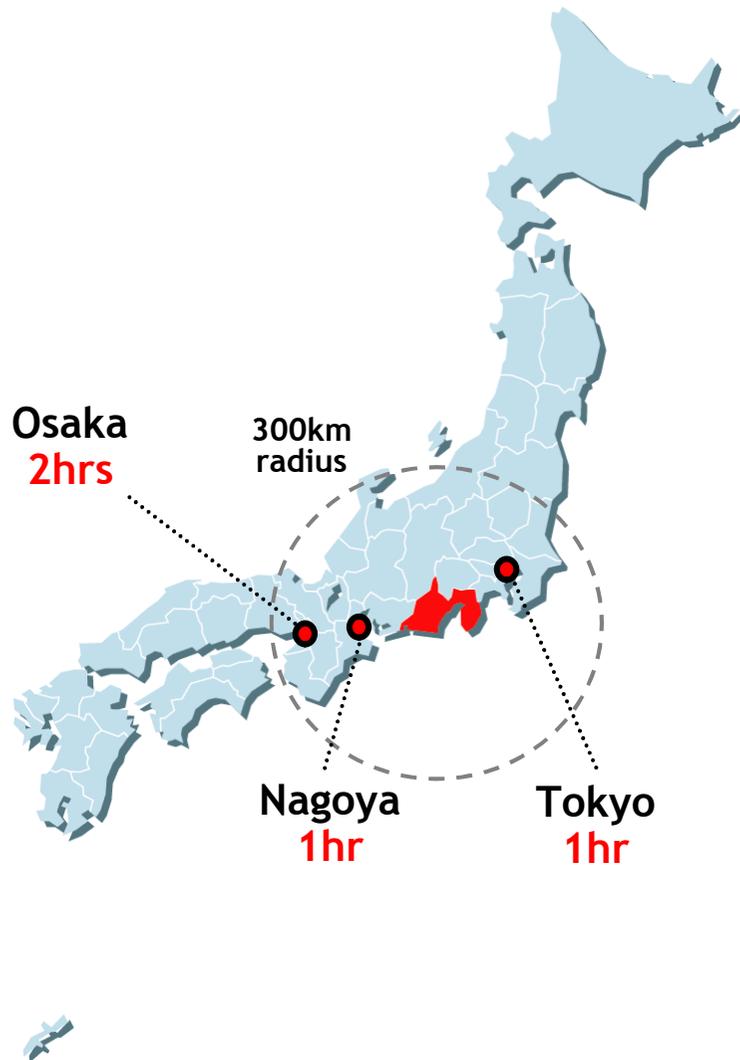
# 1 Overview of Shizuoka

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## Located at the center of Japan

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- Situated between Tokyo and Nagoya (Travel time by Shinkansen)  
Tokyo, Nagoya: 1hr, Osaka: 2hrs
- Economic activity within 300km radius of Shizuoka accounts for 70% of national GDP

## Per capita income ranked 3rd (out of 47 prefectures)

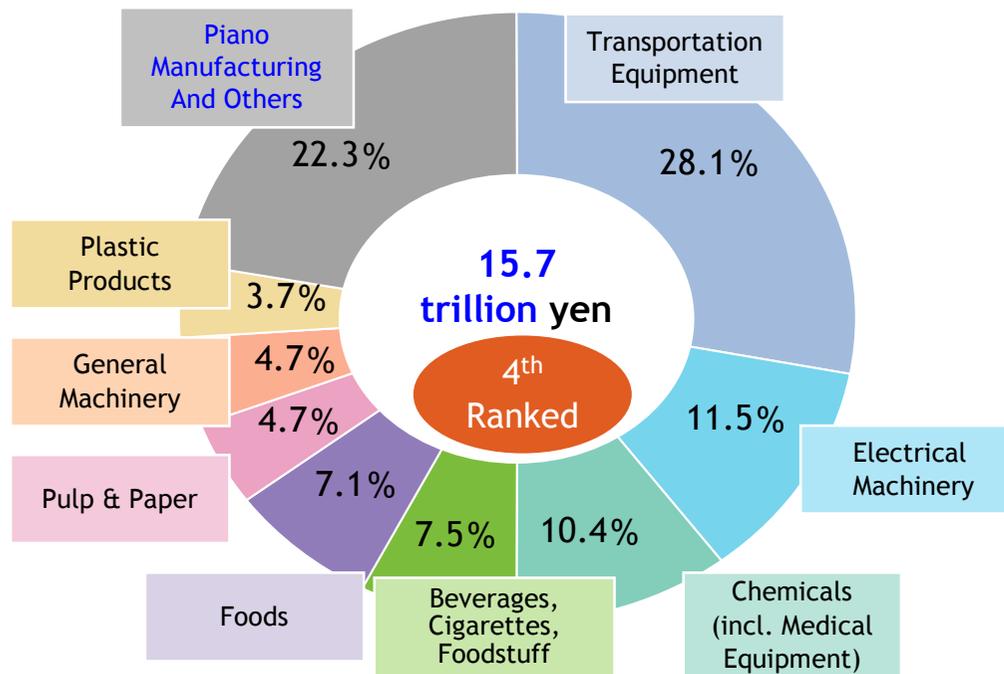
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- Population: 3.7 mm (Ranked 10<sup>th</sup> largest)
- Area: 7,780 km<sup>2</sup> (Ranked 13<sup>th</sup> largest)
- Per capita income: approx. JPY 3.2 mm (Ranked 3<sup>rd</sup> highest)

# Overview of Shizuoka - Stable Economic Foundation

## Balanced Industrial Structure

Total revenue from manufactured products (2013)



## Leading domestic "Land of Manufacturers"

- Revenue from manufactured products (Ranked 4<sup>th</sup> in Japan)  
Ranked 1<sup>st</sup>  
Medical Equipment, Pulp & Paper  
Ranked 2<sup>nd</sup>  
Transportation Equipment, Electrical Machinery
- The global brand name companies, HONDA, SUZUKI, and YAMAHA, were all founded in Shizuoka
- The founders of HONDA, TOYOTA and YAMAHA are Shizuoka natives

Major Prefectural Companies

**HONDA**  
The Power of Dreams

  
**SUZUKI**

 **YAMAHA**

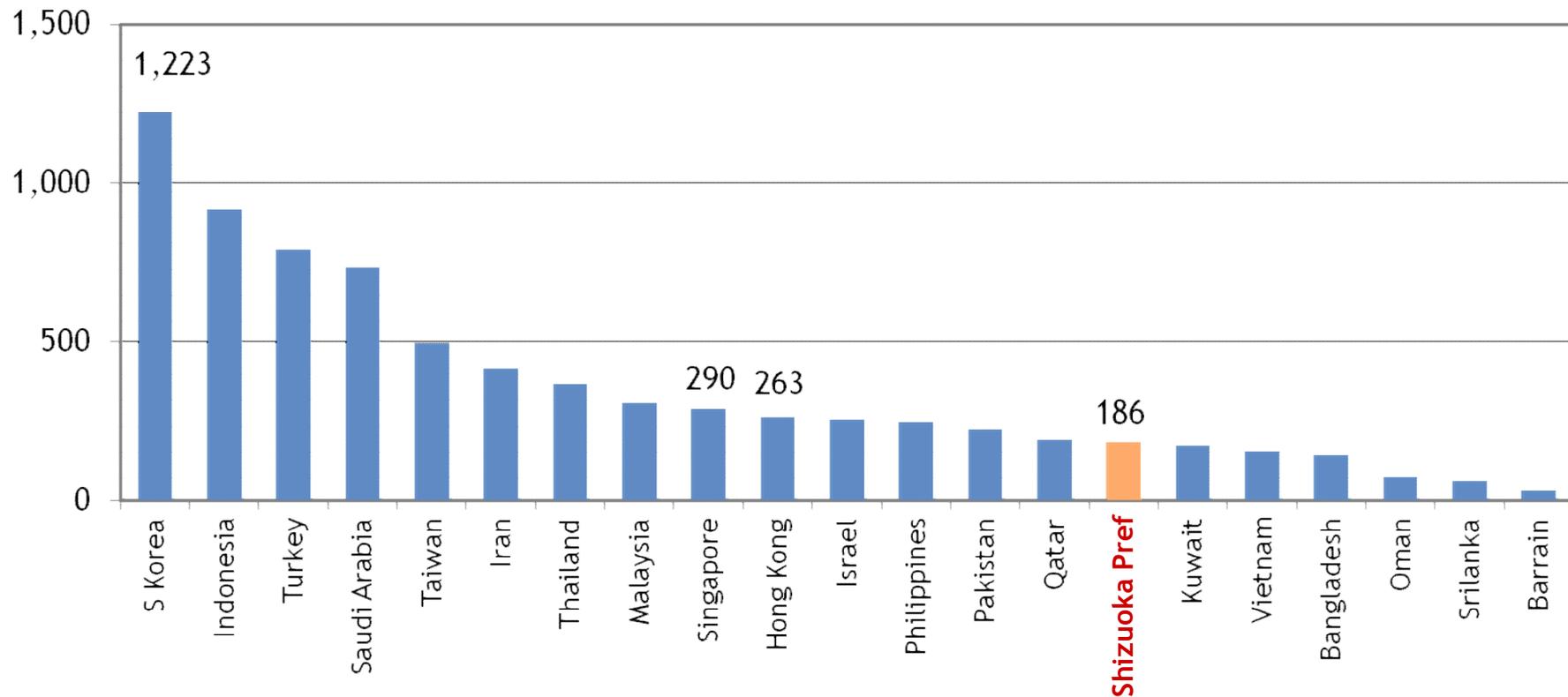
# Overview of Shizuoka - Economic Scale

## GDP about the same as that of Qatar

- GDP: USD 186.4 billion
- Ranked 10<sup>th</sup> in Japan (out of 47 prefectures)

GDP of Shizuoka in relation to other countries (2012)

Unit: USD bn



# Overview of Shizuoka - Transportation Infrastructure

**Mt.Fuji Shizuoka Airport**  
富士山静岡空港  
Mt.Fuji Shizuoka Airport

- Domestic Routes 4 routes  
49 round-trips per week
- International Routes 16 routes  
53 round-trips per week

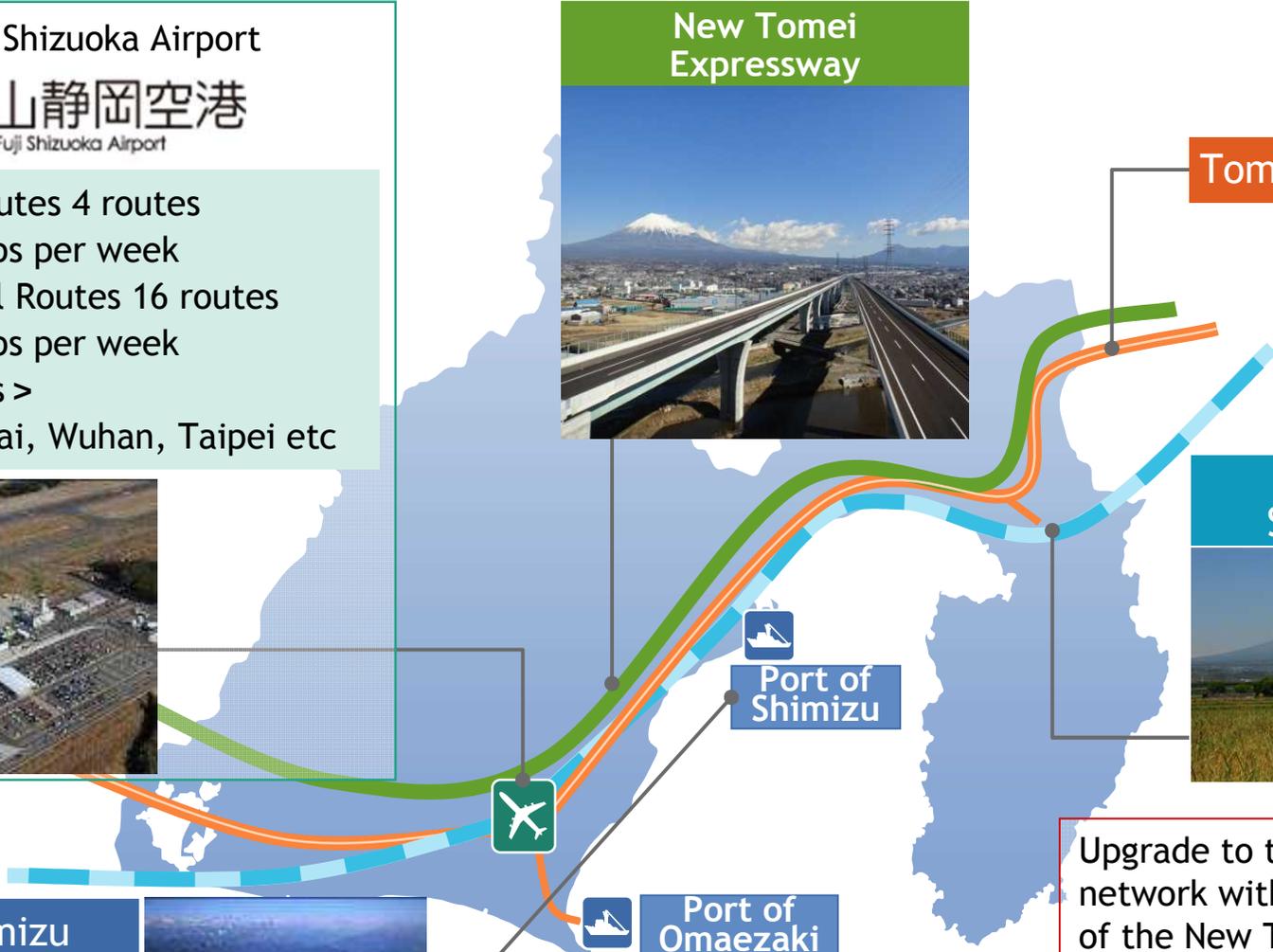
< Destinations >  
Seoul, Shanghai, Wuhan, Taipei etc



**New Tomei Expressway**

**Tomei Expressway**

**Tokaido Shinkansen**



**Port of Shimizu**

24.5 trips per week to China, South East Asia, North America, etc.



**Port of Omaezaki**

Upgrade to the road traffic network with the opening of the New Tomei Expressway in April 2012 running parallel to the Tomei Expressway, a major artery of Japan.

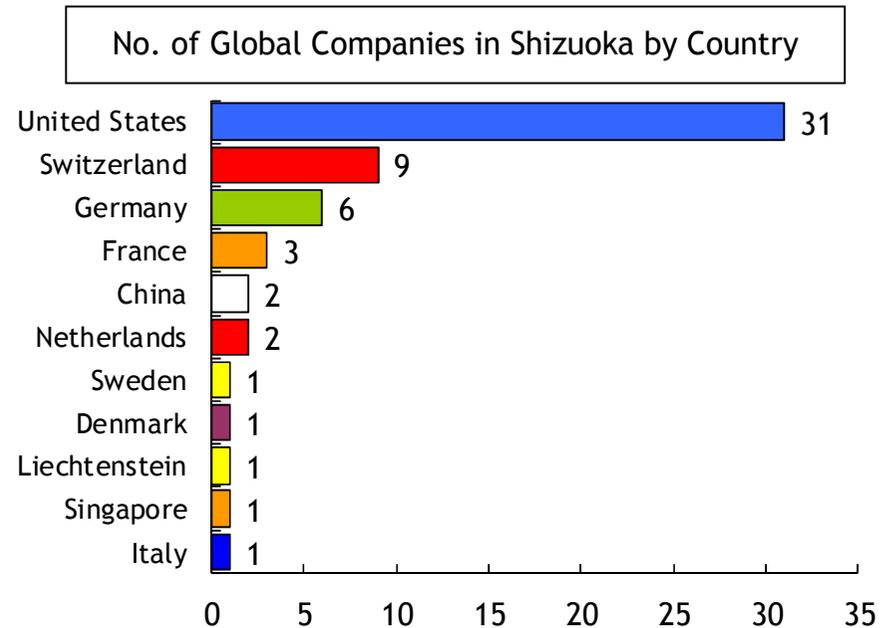
# Overview of Shizuoka - A Vibrant Industrial District

## High Level of Industrial Locations

2008: Ranked 1<sup>st</sup> (144)  
 2009: Ranked 5<sup>th</sup> (44)  
 2010: Ranked 4<sup>th</sup> (41)  
 2011: Ranked 3<sup>rd</sup> (37)  
 2012: Ranked 2<sup>nd</sup> (73)  
 2013: Ranked 6<sup>th</sup> (77)  
 2014: Ranked 4<sup>th</sup> (119)

58 global companies with bases of operations established in Shizuoka

## Attracting global companies



### Global Company Examples

Germany	Switzerland	France	Netherlands	Liechtenstein	Singapore
					
Mahle Hightech metal	ABB Schindler Elevator	Cosmeroll Air Liquide	New Tritec Unilever	Triumph	Böhler-Uddeholm

# Overview of Shizuoka - Abundant Tourism Resources



Asagiri Food Court and Mt. Fuji



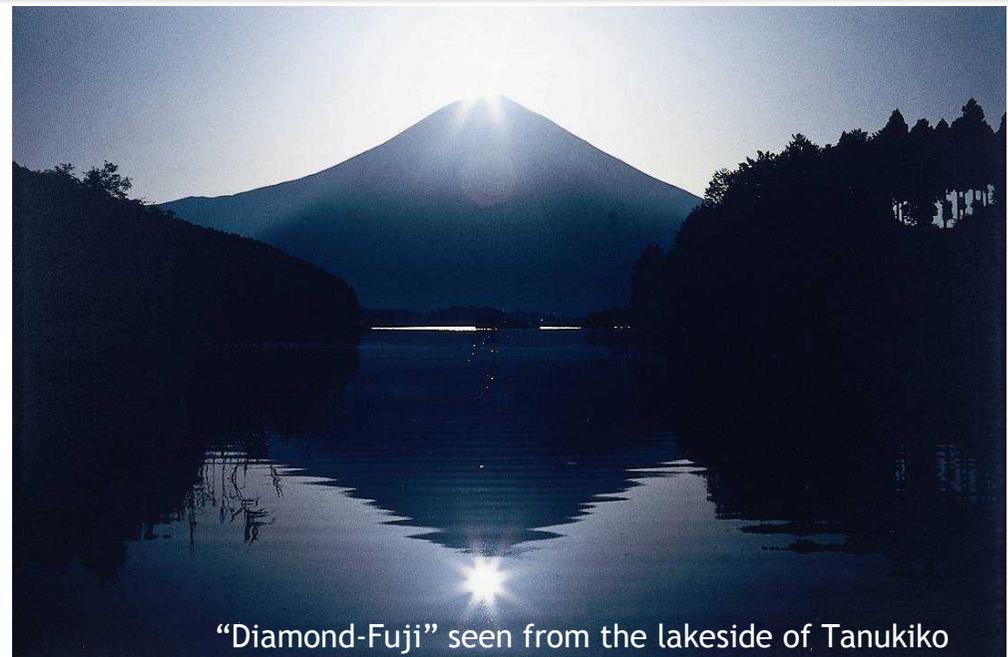
Hot springs  
Shirakabe-soh



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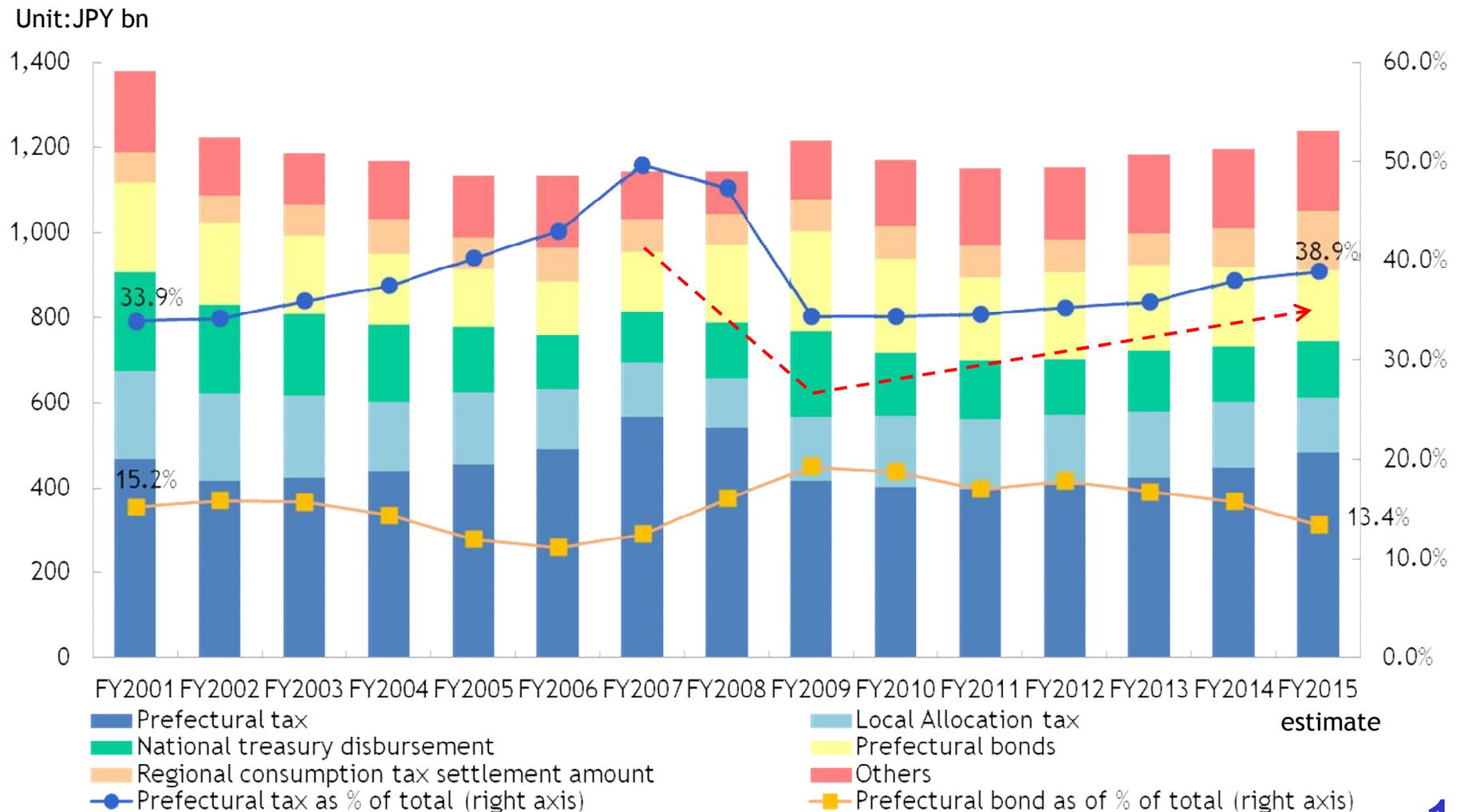
## 2 Fiscal Position of Shizuoka

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# Fiscal Position of Shizuoka-Change in Revenue Accounts

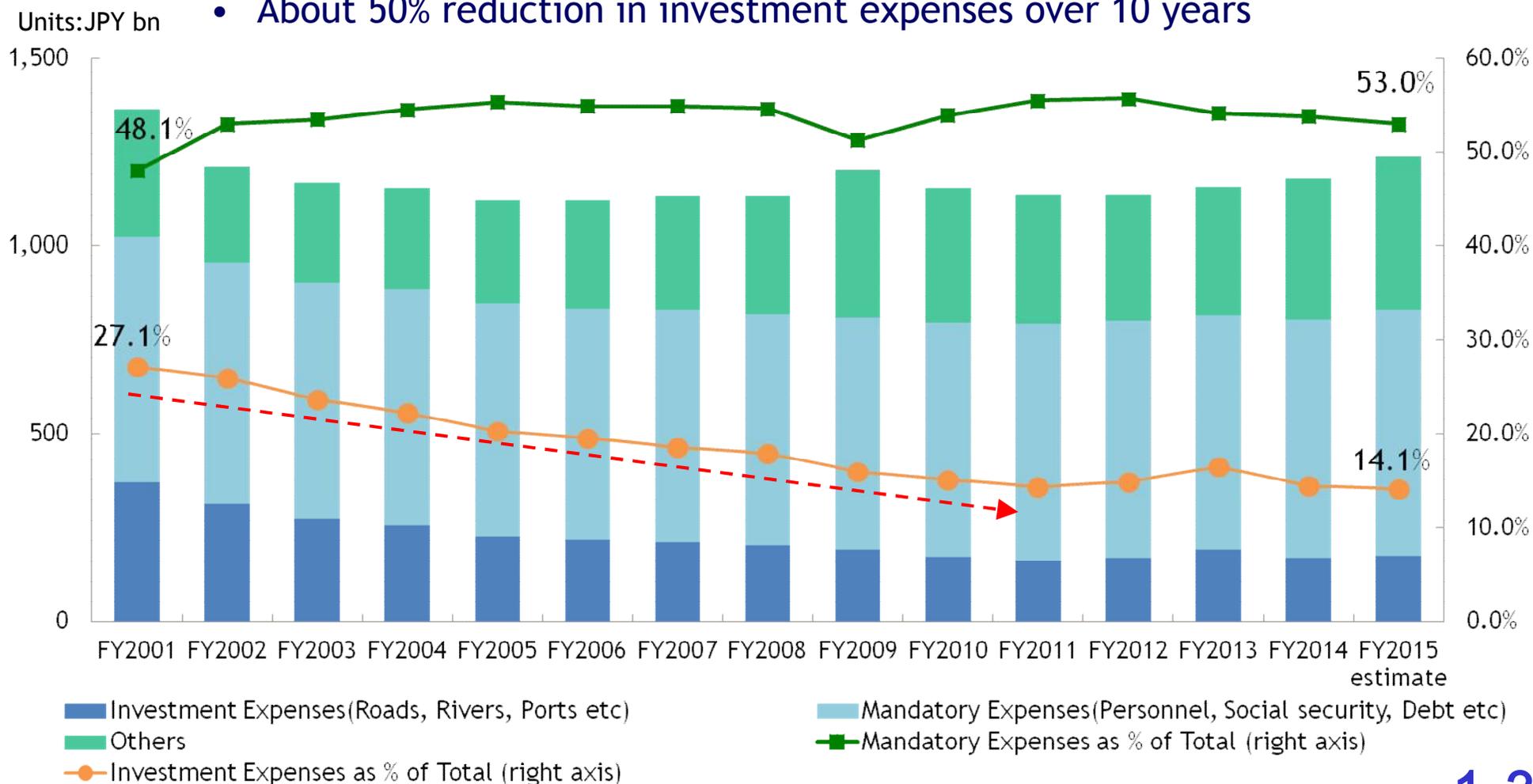
## Tax revenue has been recovering in the recent years



# Fiscal Position of Shizuoka-Change in Expenditure Accounts

## Reduction in investment expenses through administrative reform

- 20% reduction in staff over 10 years
- About 50% reduction in investment expenses over 10 years



# Fiscal Position of Shizuoka-Status of Debts and PB

## Surplus maintained for primary balance

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Category	End of FY2014 (JPY bn)	Status
Prefectural bond balance (General Account)	2,709	Proportion of GDP (2012): approx. 17% (Note: National figure approx. 149%)

Category	End of FY2014 (JPY bn)	Status
Primary balance	122	Surplus maintained

# Fiscal Position of Shizuoka - Current Conditions

All four indicators are performing better than the nationally established standards

4 Indicators*	Description	Fiscal 2014	National Standard	
			Early warning limit	Reconstruction limit
Real deficit ratio	Amount of general account deficit as a proportion of fiscal scale	(Surplus)	3.75%	5.0%
Consolidated real deficit ratio	Amount of all account deficits as a proportion of fiscal scale	(Surplus)	8.75%	15.0%
Real debt payment ratio	Public debt expenses as a proportion of fiscal scale	14.5%	25.0%	35.0%
Future burden ratio	Prefectural bond balance as a proportion of fiscal scale	229.8%	400.0%	-

\* With the exception of the Future burden ratio, if national standards are exceeded, national government authorization and additional national government involvement is required to issue bonds

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## 3 Bond Management of Shizuoka

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# Bond Management of Shizuoka - Prefectural Bond Summary

## Issuance Policy

- **Format:** Japanese domestic municipal bond
- **Maturity :** 5y, 10y, 15y, 20y and 30y
- **BIS Risk Weight :** 0%

## Shizuoka Issued Bond Ratings - Same as JGB ratings

Moody's

**A1** Stable

### Rating Company Comment (Mar 2015)

- Reflect a slowly improving fiscal performance, a stable and strong regional economy and its prudent fiscal and operational management

Rating and Investment Information, Inc.

**AA+** Stable

### Rating Company Comment (Dec 2014)

- Sound prefectural administration through well-balanced fiscal consolidation policy

## Local Government bond (LGB) creditworthiness

### and Safety of Japanese LGB

- There are strong financial support system and check system for LGs by NG (National Government).
- LGs (Local Governments) and debt discharge of LGB cannot default under current Japanese legal system.
- Therefore, payment failure has NOT occurred to date.
- From these facts, Japanese financial authority assigned 0 % riskweight to LGB in the standardized approach of BIS regulations (Basel II).

## Accumulation rule for Sinking Fund

Accumulation of 3.7% (1/27th) of total prefectural bond issuance after 3 year deferral period (Lump sum payment at maturity)

# Bond Management of Shizuoka - Prefectural Bonds Issuance Plan

## ● Shizuoka Prefectural Bonds Issuance Plan - Fiscal 2015 (Unit: JPY bn)

		Issue Amount
Shizuoka Prefectural Bond	5-year	40
	10-year	120
	15-year	20
	20-year	50
	30-year	30
	Sub-Total	<b>260</b>
Joint Issuarnces (10-year)		30
Total Public Offering		<b>290</b>
Others		41.5
Total		<b>331.5</b>

## Expected Issuance from November

- 5-year: JPY 10bn (Mar: JPY 10bn)
- 10-year: JPY 20bn (Nov: JPY 10bn, Mar: JPY 10bn)
- 20-year: JPY 10bn (TBD)
- Total: JPY 40bn

※Non-residents and non-domestic entities are exempted from paying taxes on the interest of transfer local government bonds. The procedures have been simplified from June 2010.

## Recent New Issues

	Coupon (%)	Spreads (JGB+bp)	Issue amount (JPY bn)	Launch
5yr	0.142	4.0	10	2015/4
	0.157	5.0	10	2015/6
	0.101	5.0	10	2015/10
10yr	0.425	7.0	10	2015/4
	0.544	10.0	20	2015/5
	0.578	9.0	20	2015/7
	0.494	9.0	20	2015/8
	0.515	12.0	10	2015/9
15yr	0.481	15.0	20	2015/10
	1.062	3.0	20	2014/6
	0.966	2.5	10	2014/10
20yr	0.828	2.5	10	2015/5
	1.473	4.5	10	2014/6
	1.253	3.5	20	2015/7
30yr	1.129	3.0	20	2015/10
	1.862	15.0	30	2014/6
	1.539	14.0	30	2015/8

# Shizuoka Prefecture

Address: Finance Division, Management Department  
9-6 Otemachi, Aoi-ku, Shizuoka-City,  
Shizuoka Prefecture 420-8601, JAPAN

TEL: +81-54-221-2036

Email: [zaisei@pref.shizuoka.lg.jp](mailto:zaisei@pref.shizuoka.lg.jp)

URL: [http://www.pref.shizuoka.jp/a\\_foreign/english/index.html](http://www.pref.shizuoka.jp/a_foreign/english/index.html)

Bloomberg: SHIZUP Govt <GO>

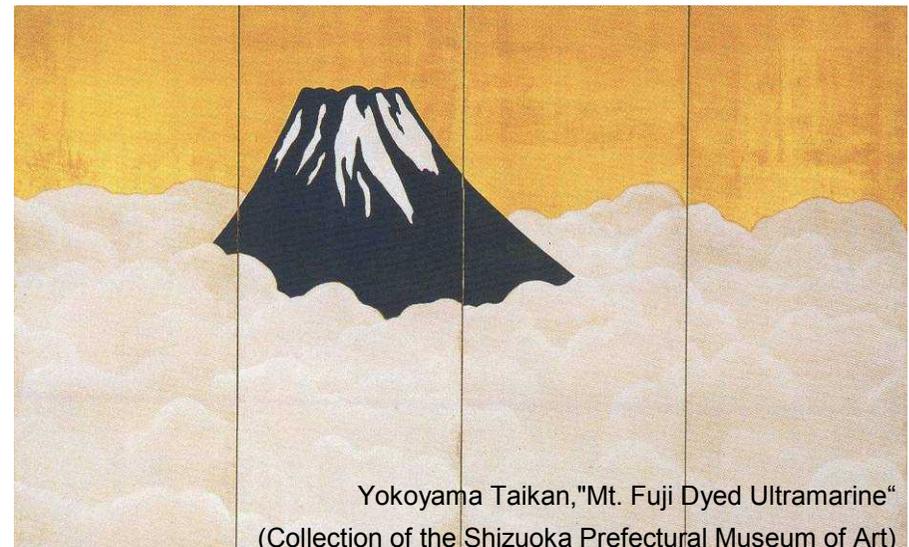


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## 4 Reference Materials

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- Japanese Local Government Bonds
- Fiscal Health Indicators
- General Accounts - Change in Revenues
- General Accounts - Change in Expenditures
- Change in Prefectural Bond Balance
- Change in Primary Balance
- Status of Sinking Fund Reserves
- Financial Statements (Fiscal 2013)



# (Reference) Japanese Local Government Bonds

Japanese local government bonds have a risk weight of zero as a result of powerful national fiscal backing, a tax system designed to prevent failure and other measures as described below.

## 1 . Local Issue Tax System

- When determining budgets for each fiscal year, the national government sets forth an estimate of revenues and expenditures for all local governments, and guarantees revenue shortfalls.
- As part of this system, the national government provides backing for the redemption of the principal and interest of local government bonds, thereby strengthening the repayment capacity of local government bonds by local governments.

## 2 . Bond issuance approval system as an early correction measure

- Local governments must discuss with the national government before issuing bonds, and receive confirmation that the new bond issuance is reasonable and will not negatively affect the local governments' future ability to repay principal and interest of local government bonds.

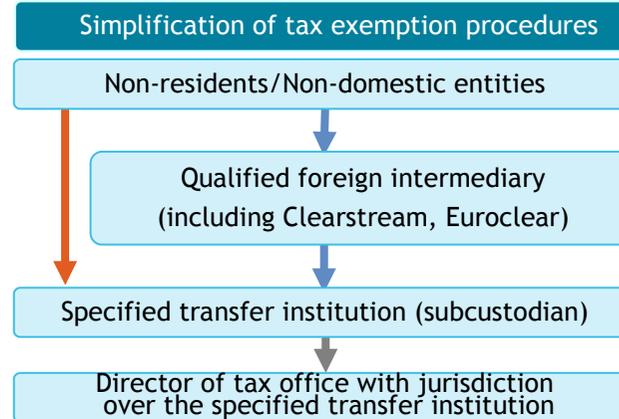
From January 1, 2008, tax exemption measures apply with respect to the interest on transfer local government bonds for non-residents and non-domestic entities which satisfy the prescribed conditions outlined below. Prior to this date, a 15% source deduction was deducted from interest earned on Japanese local government bonds by non-residents etc.

- Cases settled through the Japan Securities Depository Center, Inc.
- In cases of non-residents, non-residents who hold the bonds through a qualified foreign intermediary or qualified account management institution etc.
- Cases where appropriate tax exemption form is submitted

Effective June 2010, the following has been implemented to simplify the tax exemption procedures related to interest earned on transfer local government bonds by non-residents and expand those qualified for tax exemption status.

Furthermore, it is now possible to settle with Euroclear.

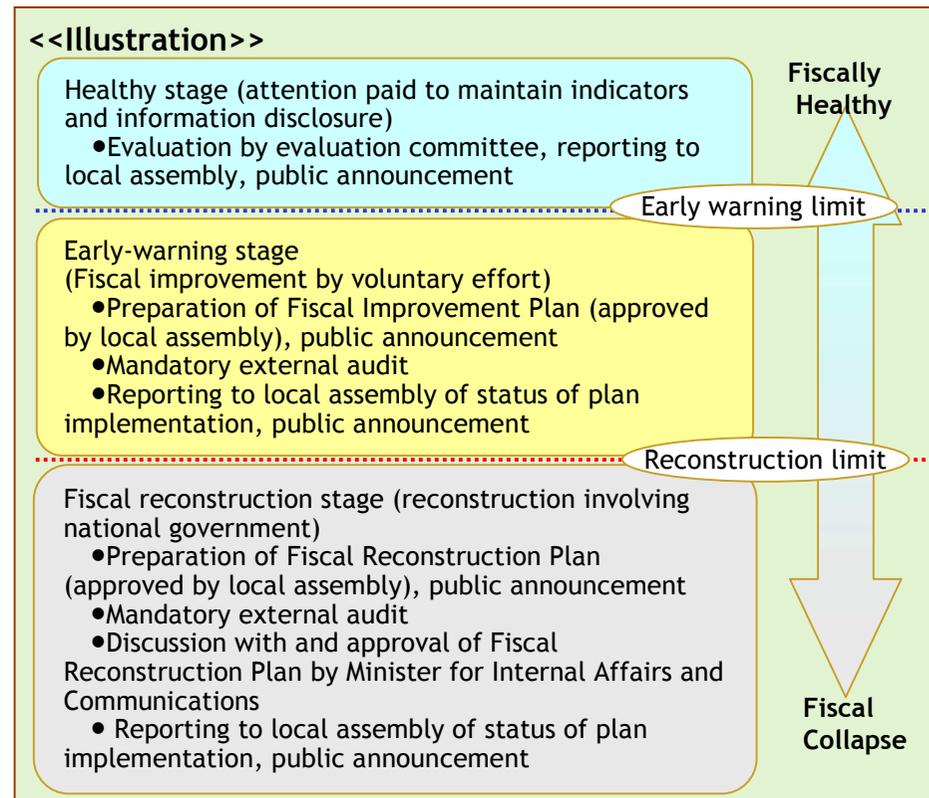
- Simplification of procedures by the elimination of separate individual bookkeeping under certain prescribed conditions, and a change from having to perform tax exemption procedures for each issuer (several) to just each transfer institution.
- Expansion of the range of qualified foreign securities investment trusts, and tax exemption status for redemption profit and loss



# (Reference) Fiscal Health Indicators

- With the implementation in April 2008 of the "Act on Assurance of Sound Financial Status of Local Governments," the fiscal status of local governments are objectively represented, and as a measure to evaluate the fiscal health or need for restructuring, the following four fiscal indicators have been set forth as Fiscal Health Evaluation Ratios, and accordingly, all local governments are required each fiscal year to have their Fiscal Health Evaluation Ratios as based on figures for the previous fiscal year, examined by an evaluation committee, and then report those results to the local assembly and local residents.
- If even one of the Fiscal Health Evaluation Ratios exceeds the early warning limit standard, in addition to an external audit, a Fiscal Improvement Plan must be prepared and improvement efforts will be encouraged; if the 3 indicators excluding the Future Burden Ratio worsens and any one of the indicators exceeds the reconstruction limit, additional national government involvement including the partial limitation on the issuance of bonds may be effected.

Real deficit ratio	Amount of general account based real deficit as a proportion of standard fiscal scale, serving as an indicator of the deficit level, and the extent of deterioration of fiscal management.
Consolidated real deficit ratio	Amount of all account (including public corporation accounts) based real deficit or amount of fund shortage as a proportion of standard fiscal scale, serving as an indicator of the deficit level and the extent of deterioration of fiscal management by combining the deficits and surpluses of all accounts.
Real debt payment ratio	Amount of redemption of principal and interest covered by general accounts as a proportion of fiscal scale, serving as an indicator of the amount payable for local government bonds and cash flow levels.
Future burden ratio	Real debt, including investment entities engaging in local public corporations and loss compensation, to be covered by general accounts as a proportion of fiscal scale, serving as an indicator of the current balance of local government bonds and bonds likely to be paid in the future by general accounts, and the extent of pressure on future finances.



# (Reference) General Accounts - Change in Revenue

(Units: JPY bn, %)

Categories	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Prefectural Tax	468	418	425	438	457	488	567	541	418	402	398	406	423	448	482
% of Total	33.9	34.1	35.9	37.5	40.3	43.0	49.6	47.3	34.4	34.4	34.6	35.2	35.9	37.4	38.9
Local Allocation Tax	207	205	192	165	169	144	128	116	148	168	164	165	156	156	132
% of Total	15.0	16.7	16.2	14.1	14.9	12.7	11.2	10.1	12.2	14.4	14.3	14.3	13.2	13.0	10.6
National Treasury Disbursements	231	206	190	181	154	127	118	130	202	149	137	131	146	129	132
% of Total	16.8	16.8	16.0	15.5	13.6	11.2	10.3	11.4	16.6	12.8	11.9	11.4	12.3	10.8	10.7
Prefectural Bonds	210	194	186	168	135	125	143	184	234	220	195	205	199	186	166
% of Total	15.2	15.9	15.7	14.4	11.9	11.1	12.5	16.1	19.3	18.8	17.0	17.8	16.8	15.5	13.4
Others	264	201	192	216	218	249	188	172	212	230	256	246	257	278	328
% of Total	19.1	16.5	16.2	18.5	19.3	22.0	16.4	15.1	17.5	19.6	22.2	21.3	21.8	23.3	26.4
Total	1,380	1,224	1,186	1,167	1,133	1,134	1,143	1,144	1,215	1,169	1,150	1,153	1,180	1,197	1,240

- Fiscal 2015 figures are initial budget estimates, actual figures provided up to Fiscal 2014

# (Reference) General Accounts - Change in Expenditures

(Units: JPY bn, %)

Categories	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Mandatory Expenses	656	642	626	629	621	617	622	619	618	623	630	633	626	635	657
% of Total	48.1	53.0	53.5	54.5	55.3	54.9	54.9	54.6	51.3	53.9	55.5	55.7	54.1	53.8	53.0
Personnel Expenses	410	404	390	390	391	392	393	386	377	373	372	368	356	358	363
% of Total	30.1	33.4	33.4	33.8	34.9	34.9	34.8	34.0	31.3	32.3	32.8	32.4	30.8	30.4	29.3
Social Aid Expenses	59	61	54	57	56	63	66	69	72	77	81	85	89	93	101
% of Total	4.3	5.0	4.6	4.9	5.0	5.6	5.8	6.1	6.0	6.7	7.1	7.5	7.7	7.9	8.1
Bond Expenses	179	168	173	174	165	158	159	161	168	170	172	171	178	180	184
% of Total	13.1	13.9	14.7	15.0	14.7	14.1	14.0	14.2	13.9	14.7	15.1	15.1	15.3	15.2	14.8
Disaster Recovery Expenses	8	9	9	9	8	4	4	3	1	3	6	8	4	4	9
% of Total	0.6	0.7	0.8	0.8	0.7	0.3	0.3	0.3	0.1	0.2	0.5	0.7	0.3	0.3	0.8
Investment Expenses	369	315	277	258	228	219	211	203	192	173	163	169	191	171	175
% of Total	27.1	26.0	23.7	22.3	20.3	19.5	18.6	17.9	16.0	14.9	14.1	14.9	16.3	14.5	14.1
Public/Direct	191	175	150	137	120	111	101	90	89	92	90	94	102	88	97
% of Total	14.0	14.5	12.8	11.9	10.7	9.9	8.9	7.9	7.4	8.0	8.0	8.3	8.9	7.5	7.8
Standalone	179	140	128	120	108	107	110	113	103	81	73	75	89	83	78
% of Total	13.1	11.5	10.9	10.4	9.6	9.6	9.7	10.0	8.6	6.8	6.2	6.6	7.5	7.0	6.3
Others	338	254	266	268	273	287	300	312	394	358	342	335	340	374	408
% of Total	24.8	21.0	22.8	23.2	24.4	25.6	26.5	27.5	32.7	31.3	30.4	29.4	29.5	31.7	32.9
<b>Total</b>	<b>1,363</b>	<b>1,211</b>	<b>1,169</b>	<b>1,155</b>	<b>1,121</b>	<b>1,122</b>	<b>1,132</b>	<b>1,134</b>	<b>1,204</b>	<b>1,154</b>	<b>1,135</b>	<b>1,136</b>	<b>1,157</b>	<b>1,180</b>	<b>1,240</b>

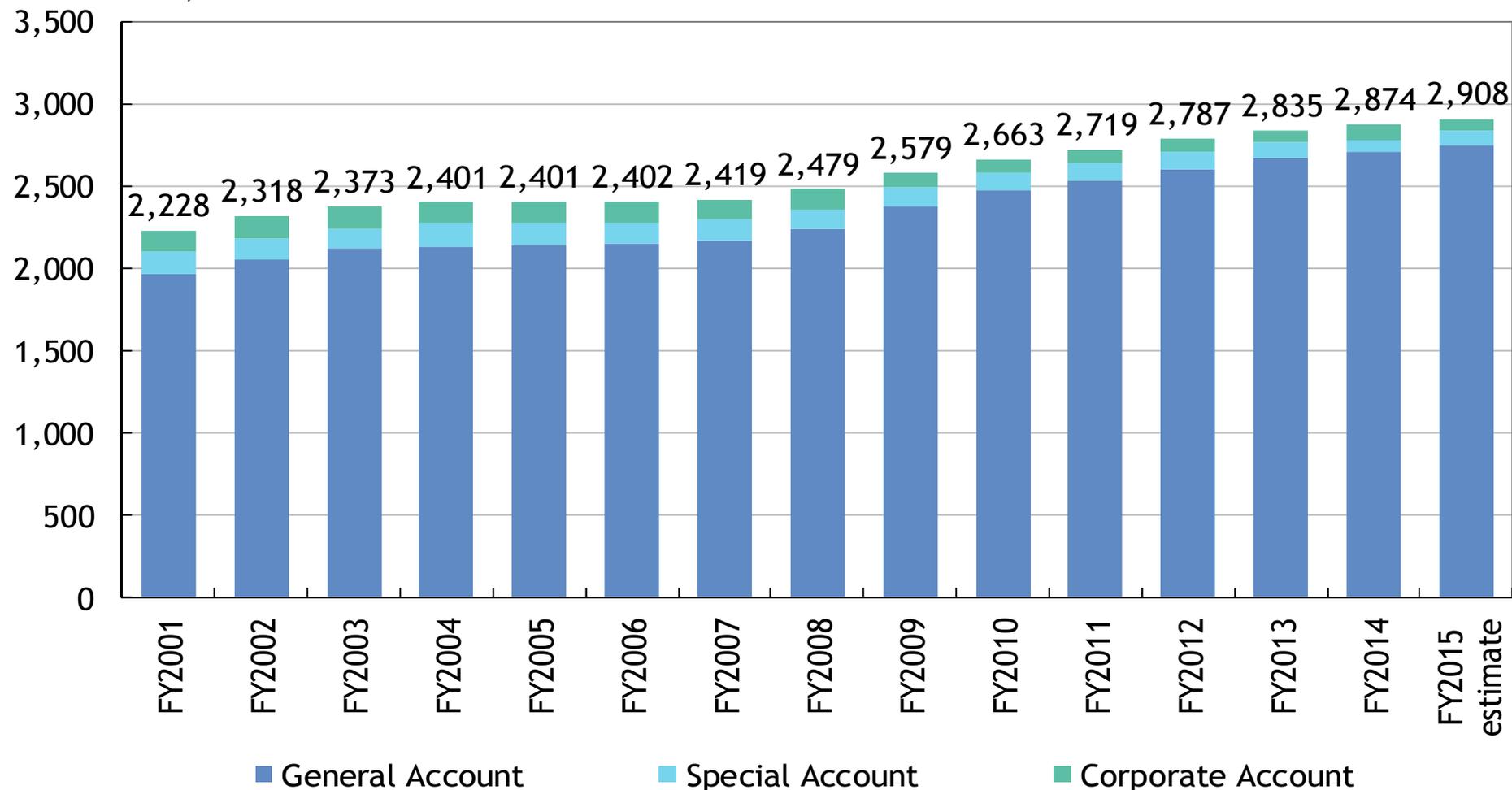
\*Fiscal 2015 figures are initial budget estimates, actual figures provided up to Fiscal 2014

\*Annual figures include carry over from previous year, and does not include carry over to next fiscal year.

\*Real balance is accounting balance less assets to be carried over

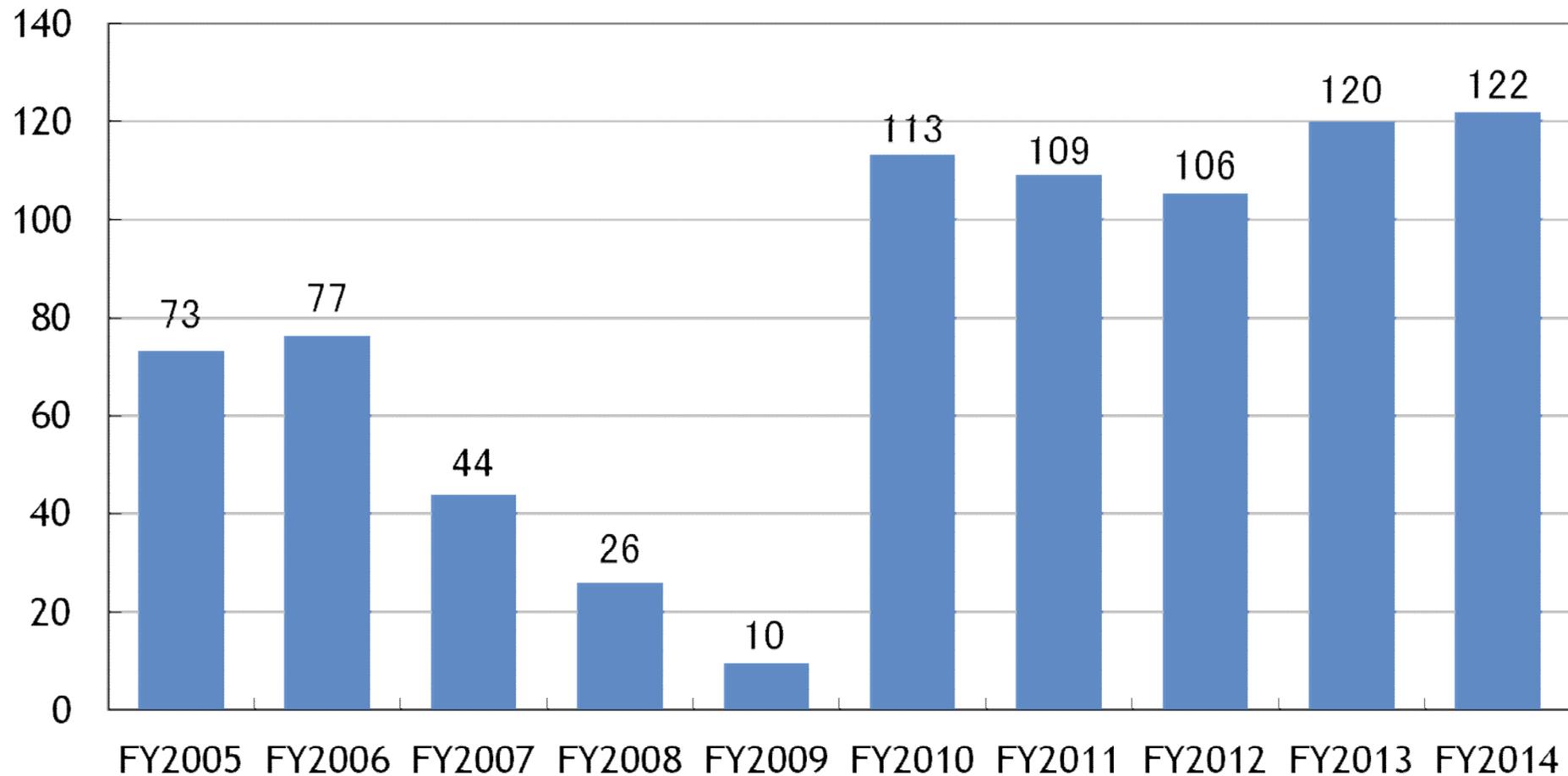
# (Reference) Change in Prefectural Bond Balance

(Units: JPY bn)



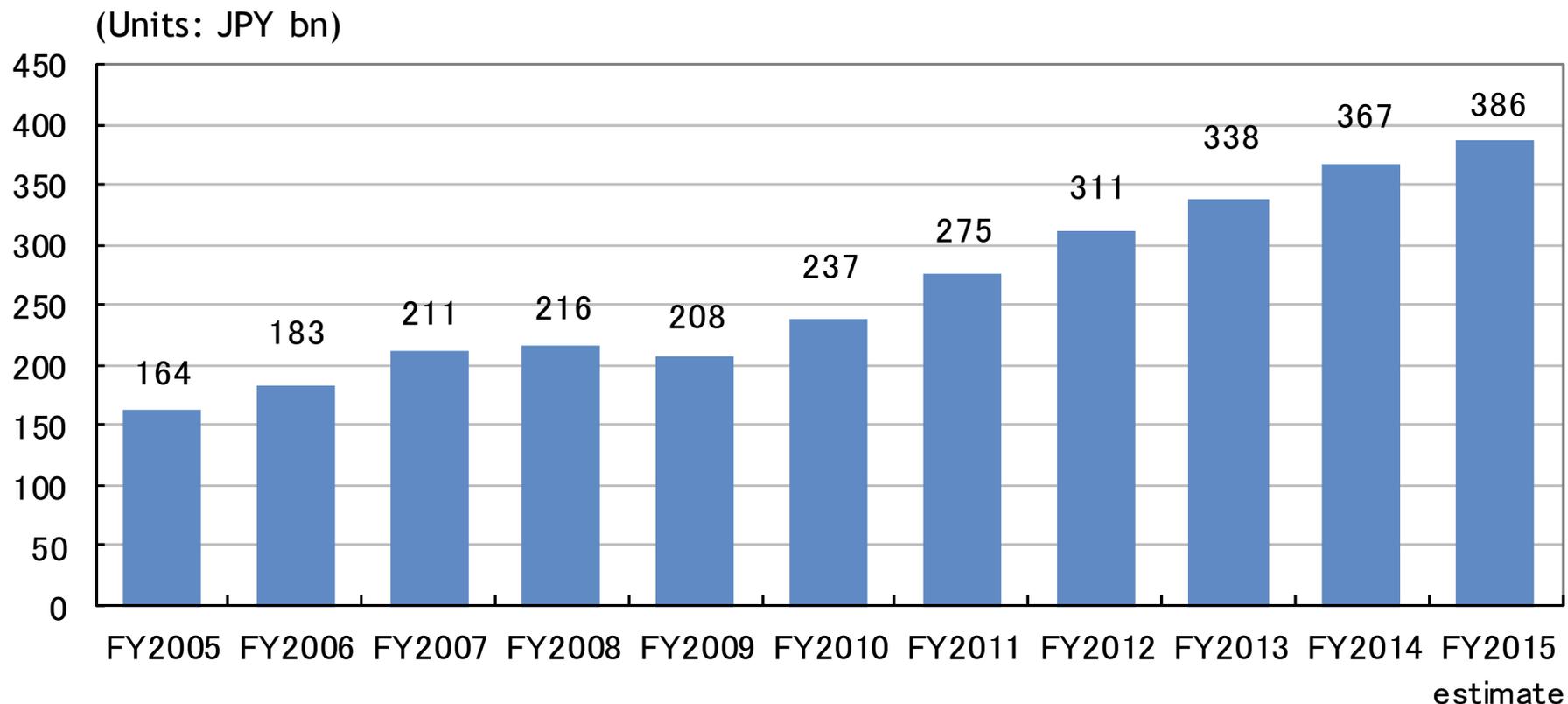
# (Reference) Change in Primary Balance

(Units: JPY bn)



## (Reference) Status of Sinking Fund Reserves

Accumulation of 3.7% (1/27th) of total prefectural bond issuance after 3 year deferral period



# (Reference) Financial Statements (Fiscal 2013)

## ● Balance Sheet

(Units: JPY bn)

Assets		Liabilities	
	Amount		Amount
1 Financial Assets	733.8	1 Current Liabilities	202.3
(1) Cash	94.9	(1) Accrued expenses	11.2
(2) Credits	71.0	(2) Advances received and deferred income	0.3
Taxes receivable	12.8	(3) Bonus provisions	21.6
Accounts receivable	20.6	(4) Expected LGB redemption next fiscal year	154.5
Loans, Others	42.8	(5) Others	14.7
Bad debt reserve	-5.2	2 Non-Current Liabilities	3,474.8
(3) Financial securities	27.0	(1) Local government bonds	3,060.2
(4) Investments	540.9	(2) Loans	13.4
Investment capital	24.8	(3) Retirement benefit reserves	354.4
Funds	486.3	(4) Other reserves	12.9
Others	29.8	(5) Others	33.9
2 Non-Financial Assets	4,082.8		
(1) Business Assets	1,313.8		
Tangible fixed assets	1,301.8		
Non-tangible fixed assets, inventory assets	12.0		
(2) Infrastructure Assets	2,769.0		
Public use land assets	871.9		
Public use facility assets	1,818.9		
Others	78.2		
		<b>TOTAL LIABILITIES</b>	<b>3,677.1</b>
		<b>NET ASSETS</b>	<b>Amount</b>
		Total Net Assets	1,139.5
<b>TOTAL ASSETS</b>	<b>4,816.6</b>	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>4,816.6</b>

## ● Statement of Administrative Costs

	Amount
1 Ordinary Business Expenses	634.2
(1) Personnel expenses	376.7
Employee wages	268.0
Bonus reserves carried over	20.7
Retirement benefit expenses	9.6
Others	78.4
(2) Building expenses	105.3
Supply expenses	14.9
Maintenance expenses	22.7
Depreciation expenses	36.1
Others	31.6
(3) Expenses	50.1
Business expenses	4.2
Outsourcing expenses	32.2
Bad debt reserves carried over	0.3
Others	13.4
(4) Business related expenses	102.1
Public bond expenses (interest payable)	45.6
Interest on loans, Others	56.5
2 Moving expenses	323.7
Ordinary Expenses A	957.9
Business income	108.9
Business related income	28.4
Ordinary Income B	137.3
Net Ordinary Expenses A-B	820.6

## ● Statement of Changes in Net Assets

	Amount
Balance at end of previous period	1,178.6
I Change in revenue source	-74.1
II Revenue sources appropriated for asset formation	119.8
III Other changes in net assets	-84.8
Balance at end of current period	1,139.5

## ● Statement of Cash Flow

	Amount
1 Ordinary income and expenditure	136.2
2 Capital income and expenditure	-154.8
3 Financial income and expenditure	27.4
Current period income and expenditure	8.8
Opening funds balance	86.1
Closing funds balance	94.9