



Kyoto Prefecture Financial Profile and Fiscal Reforms

京都府



October 2017

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Kyoto Prefecture: Introduction



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Overview of Kyoto Prefecture

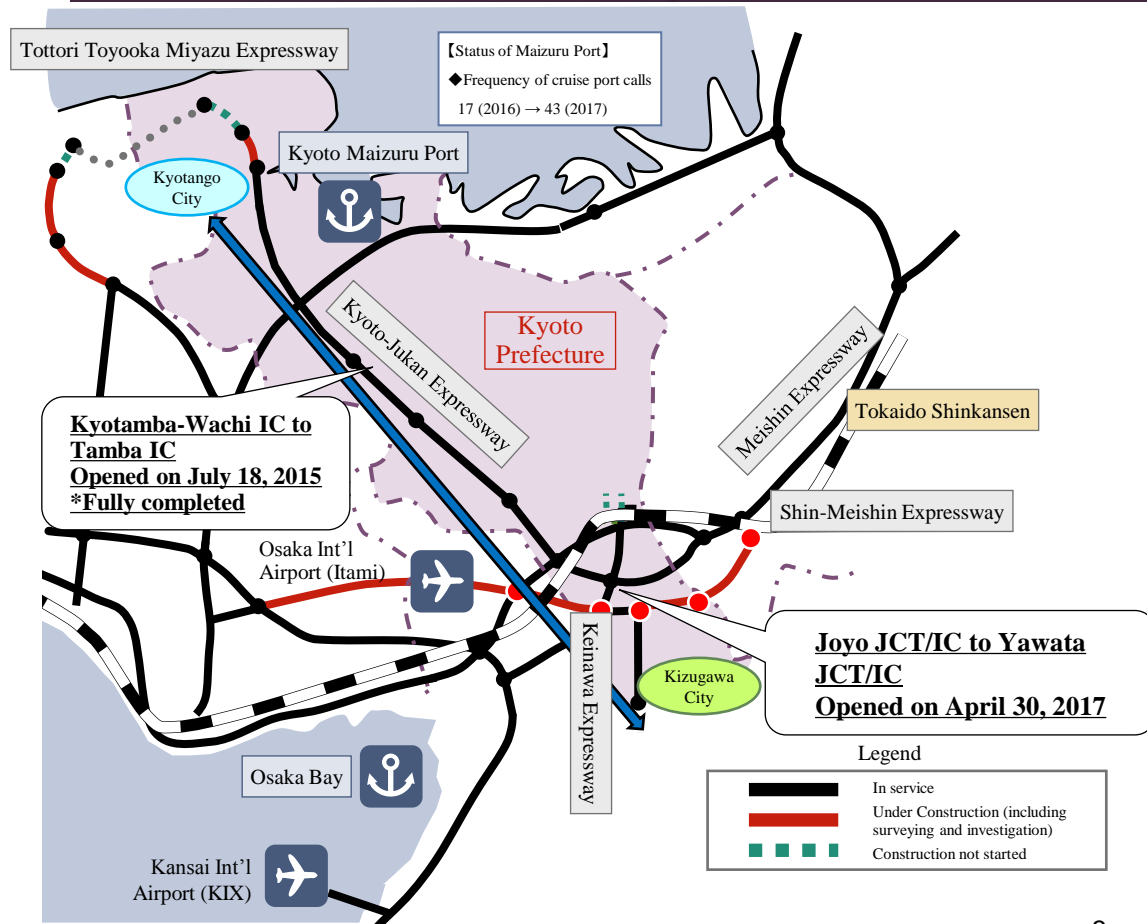


- Kyoto is one of the biggest prefectures in Japan with a population and economy ranked between the 10th and 15th in the nation.
- It has an arterial transportation network stretching from east to west, including the Meishin Expressway, Shin-Meishin Expressway, and Tokaido Shinkansen, as well as excellent accessibility from major airports—about 55 min. from Osaka International Airport and about 75 min. from Kansai International Airport—making it a sightseeing destination for an increasing number of foreign tourists.
- That plus the expressway has stretched from Kyotango City in the north to Kizugawa City in the south with the opening of the route between Joyo JCT/IC and Yawata JCT/IT on the Shin-Meishin Expressway. Further development is therefore expected in Kyoto's economy.

Basic Facts about Kyoto Prefecture

Area	4,612 km ²	31 st in Japan	2016
Population	2.61 million	13 th in Japan	2016
Prefectural GDP	10,053.8 billion yen	13 th in Japan	FY2014
Prefectural Income per Capita	3.03 million yen	12 nd in Japan	FY2014
Manufacturing Value Added <small>*Businesses with 10 or more employees</small>	1,811.8 billion yen	17 th in Japan	2014
Annual Retail Sales	2,553.7 billion yen	13 th in Japan	2014

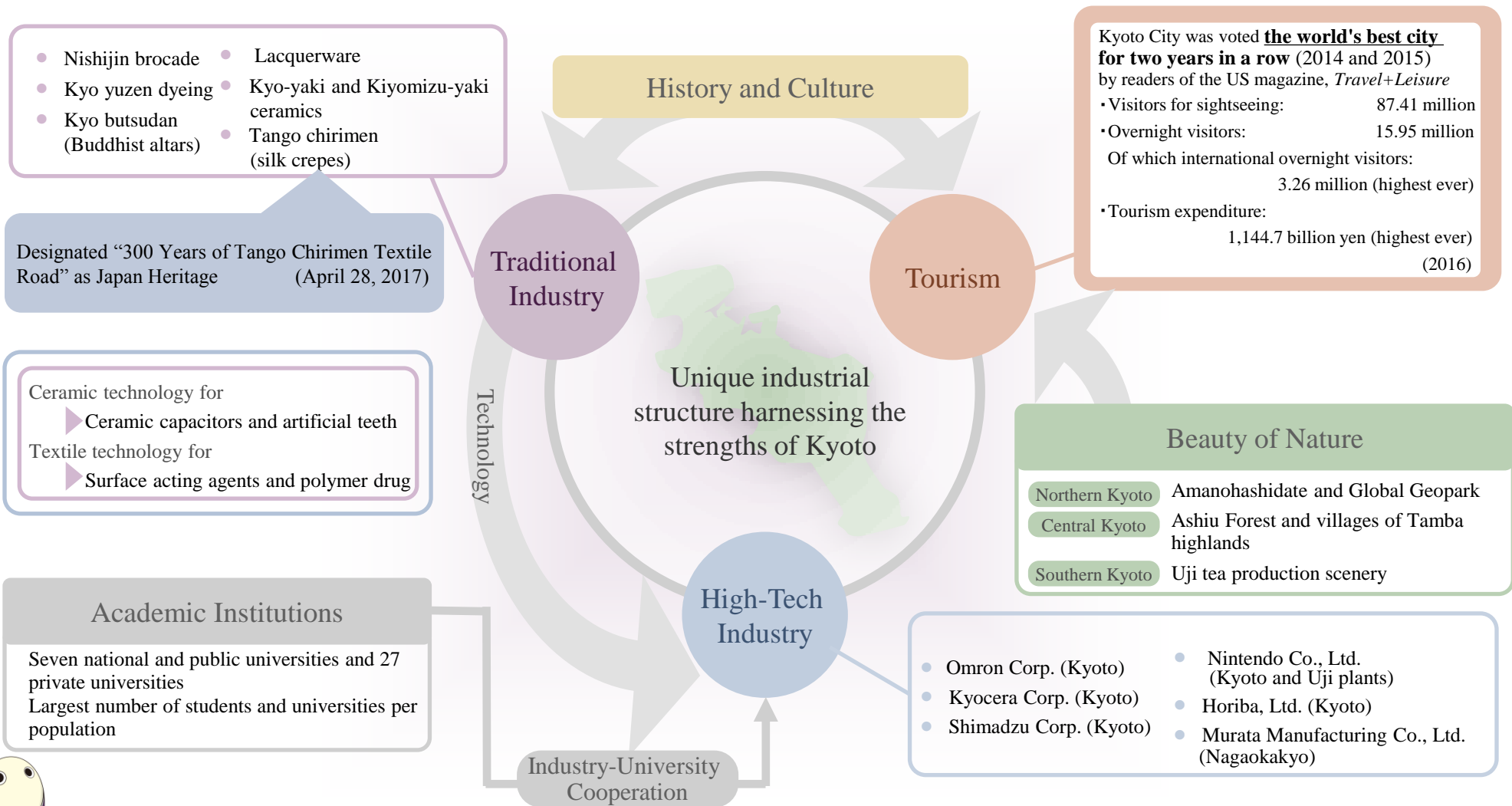
Kyoto Prefecture Transportation Network



Kyoto's Unique Industries



- Kyoto's economy is supported by industries that create value that is unique to Kyoto, such as the tourism and traditional industries supported by 1,200 years of history and culture, as well as high-technology industries that combine the technological excellence of Kyoto's traditional industries with innovative ideas.



Kyoto Firms Creating High Added Value



- Supported by Kyoto's unique strengths in technologies, the Kyoto-based manufacturing industry holds significant shares of Japan's high-technology product markets and others.
- Home to many companies operating profitable businesses that employ their own home-grown technologies, Kyoto boasts the 11th highest corporate taxable income in Japan.

Kyoto's Major Products

Industry	Products	Shipments	Rank
Advanced Technology & Research Equipment	Pollution measuring instruments	15.4 billion yen (54%)	1
	Spectral photometers	10.7 billion yen (47%)	1
	Other analysis equipment	45.8 billion yen (50%)	1
	Physical, chemical machinery and appliances	18.9 billion yen (20%)	1
	Medical X-ray equipment	20.5 billion yen (11%)	1
	Semiconductors and IC testers	17.1 billion yen (13%)	3
Traditional Crafts	Ready-made kimono and obi	6.2 billion yen (37%)	1
	Chirimen textile	2.9 billion yen (73%)	1
	Paper fans and folding fans	1.6 billion yen (32%)	2
Food & Beverages	Sake	57.6 billion yen (13%)	2
	Japanese confectionery	39.3 billion yen (7%)	1
	Green tea (refined tea)	29.9 billion yen (13%)	2

Source: METI: 2014 industry statistics (domestic market share in %)

Corporate Taxable Income by Prefecture

Rank	Prefecture	Taxable Income (Million yen)	Number of Firms	
			Number of Firms	Rank
1	Tokyo	21,137,483	551,894	1
2	Osaka	4,601,022	225,286	2
3	Aichi	2,783,246	155,654	4
4	Kanagawa	1,424,234	174,167	3
5	Hyogo	946,422	97,537	8
6	Fukuoka	942,865	93,661	9
7	Chiba	808,874	102,480	7
8	Saitama	803,120	127,799	5
9	Hokkaido	756,151	112,493	6
10	Shizuoka	643,639	73,920	10
11	Kyoto	612,427	55,668	12
12	Hiroshima	610,175	59,619	11
13	Niigata	376,677	42,136	15
14	Miyagi	365,465	40,763	18
15	Okayama	351,776	38,498	20

#11 in Taxable Income
↑
#12 in Number of Firms

Source: National Tax Agency (avg. of FY2011-FY2015)



Tourism Industry Supporting the Prefectural Economy



- Kyoto has an abundance of tourism resources, including cultural assets, such as the ancient capital and Amanohashidate, one of Japan's top three scenic wonders. Its history, culture, natural environment, and scenic beauty are magnets for visitors from around the world, and tourism plays an important role in Kyoto's economy.



National Heritage Sites	2,170	#2 in Japan (16.5%)	2017
Protected Historical Areas	8,513 ha	#1 in Japan (42.4%)	2016

Sources: Agency for Cultural Affairs, Ministry of Land, Infrastructure, Transport and Tourism

“Kyoto by the Sea”

- No. of visitors to northern Kyoto tops 10 million.



海の京都

Completion of the Kyoto-Jukan Expressway has paved the way for various projects highlighting the attractive features of northern Kyoto. By using “Umi no Kyoto (Kyoto by the Sea) DMO” and offering hospitality to increasing cruise ship passengers, we aim to make this area one of the top tourist destinations in Japan.

“Kyoto in forests”

- Inheritance of legacy of “Kyoto in forests Expo”



森の京都

Central Kyoto is home to the Ashiu Forest and Miyama Kayabukino-Sato. We will take over rich nature and culture promoted across the nation through “Kyoto in forests Expo,” including the 40th National Tree-care Festival, to posterity.

“Kyoto infused with tea” - Target Year



お茶の京都

Discover
Premium
Green



The oldest tea producing region in Japan, southern Kyoto takes pride in an idyllic landscape steeped in history. We are working to promote the tea industry, popularize tea culture, etc.

- Attract one million tourists as the target to “Tea Kyoto Exhibition” -

Main event “Uji-cha tea Expo @ culture” (Uji City on October 21 and 22, 2017)

Hold various events including “Great tea party of 10,000 people,” “Premium great tea party” and “One tsubo tea-ceremony room”



Vision for Kyoto Prefecture



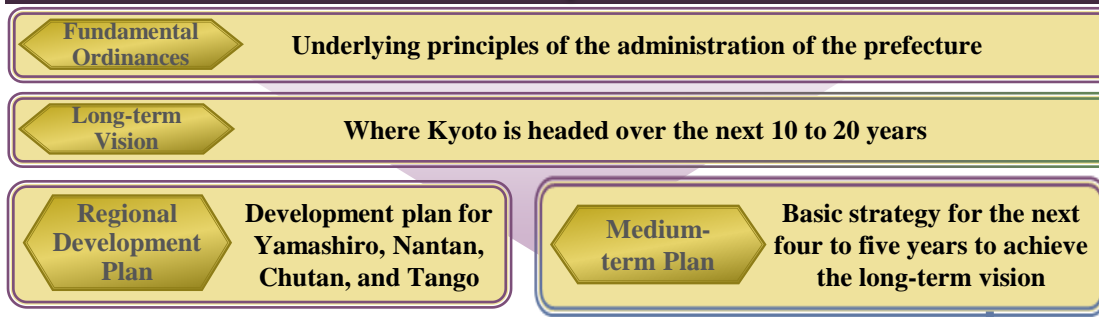
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Long-term Vision and Medium-term Plan of “The Kyoto of Tomorrow”



- “The Kyoto of Tomorrow,” new guidelines for the administration of Kyoto Prefecture, was initiated in January 2011.
- The long-term vision specifies where Kyoto is headed in the next 10 to 20 years, while the medium-term plan outlines a basic strategy for the next four to five years.
- We are implementing ongoing initiatives to leverage the strengths of Kyoto and meet other objectives (i.e. benchmarks) set under the medium-term plan. (The periods of the medium-term plan and the regional promotion plan ended in March 2015, and a new plan for April 2015 to March 2019 has begun.)

Structure of “The Kyoto of Tomorrow”



Three Paths to Achieving the Long-term Vision

- **Make communities safer**
→ Build a Kyoto where everyone can live with peace of mind
- **Achieve regional co-existence and cooperation**
→ Build a Kyoto in which society is held together by bonds of trust, relationships, and cooperation
- **Leverage the Strengths of Kyoto**
→ Build a Kyoto where lifestyles, industry, and regional growth are a reality

Outline of the New “Medium-term Plan”

- The long-term vision focuses on a vision for the future, while the medium-term plan spells out specific goals and how to attain them.

Focus of revision	New policy directions	Excerpts from the medium-term plan	
(1) Ensuring safety/security • Respond to frequent wind and flood damage, as well as a declining population (2) Growth • Invigorate all of Kyoto by taking advantage of national growth strategies and recovery of Japan’s economy	I. Make Communities Safer (1) Measures for preventing and mitigating disasters (2) Measures against the declining birthrate (3) Employment measures (4) Measures for the elderly	No worries about childrearing	• Implement comprehensive measures against a declining birthrate—covering marriage, pregnancy, and childbirth, in addition to existing support for childrearing (Support for spouse hunting, financial aid for fertility treatment, reduction of economic burdens facing child-rearing families, and development of a childcare environment) [No. of births per year] 2013: 20,106 → 2018: 22,000 (+2,000)
	II. Achieve regional co-existence and cooperation	Job security	• Promote full-time employment opportunities for young people and secure the kinds of personnel required by industry (Support for employment, vocational training, and promoting diverse working styles) [Total of newly employed full-time workers] 2013: 7,806 → 2014-2017: 30,000
	III. Leverage the Strengths of Kyoto (1) Promotion of culture and sports (2) Measures for local industries (3) Measures for regional development (4) Energy policies	Industrial innovation and development of small- to medium-sized firms	• Promote industrial innovation that will pave the way to the future (Developing industries that incorporate features of Kyoto, such as environmental, life sciences, film, and content industries; promoting the Kyoto Innovation Belt Scheme to develop new industries through industry-academia collaboration by leveraging the largest number of colleges per capita in Japan; creating an international hub for innovation in health care and life sciences under the National Strategic Special Zones program; and promoting tourism across Kyoto) [Number of research institutes in Kansai Science City] End of 2013: 66 → End of 2018: 80 (up 20%) [Number of tourists per year] 2008: 77.99 million (record high) → 2018: 80 million (record high)



Kyoto-style Regional Revitalization: Creating New Cultures for a New Life



- Working with the aim of creating unique regional cultures, we are implementing the "Kyoto Style Regional Revitalization" strategy across the prefecture to bring out the best of its outstanding resources and assets, which no other prefectures have, such as its long history and traditions, world-class universities and research institutions, small- to medium-sized companies with excellent technological capabilities, and rich natural environment.

Kyoto Prefecture Regional Revitalization Strategy Basic Objectives



1. Create a culture of human development (Basic objective: Create people who open a new future for Kyoto)

Introduce loan system, housing support system, etc. to support childrearing, improve the environment to promote telecommuting, etc.

2. Create a culture of industry (Basic objective: Create jobs by revitalizing the local economy)

Evolve shopping streets by utilizing ICT, logistics system and others, build and popularize smart-agri, etc.

3. Create a culture of living in Kyoto (Basic objective: Create flow of people to Kyoto)

Promote the improvement of public transportation system, set up Kyoto Prefecture version of "small bases of operation" in mountainous areas, etc.

4. Create a culture of community development (Basic objective: Create sustainable, attractive and vibrant communities)

Create "Kyoto by the Sea," "Kyoto in the Forests" and "Kyoto Infused with Tea," offer vacant houses as a weekend house to city residents, etc.



Cultural Affairs Agency to Move to Kyoto

- As part of its strategy for overcoming population decline and invigorating local economies, the national government has decided to relocate all functions of the Agency for Cultural Affairs to Kyoto. In FY2017, "Headquarters for Vitalizing Regional Cultures Agency for Cultural Affairs" was established within the Agency and preparations for relocation are underway.
- The Council on Relocation of the Agency for Cultural Affairs determined on July 25, 2017 to relocate the Agency to the current main building of Kyoto Prefectural Police Headquarters.



Prefectural Governor Yamada made a speech at "Memorial ceremony for establishment of Headquarters for Vitalizing Regional Cultures Agency for Cultural Affairs" (April 9, 2017)





Current Financial Profile and Fiscal Reforms



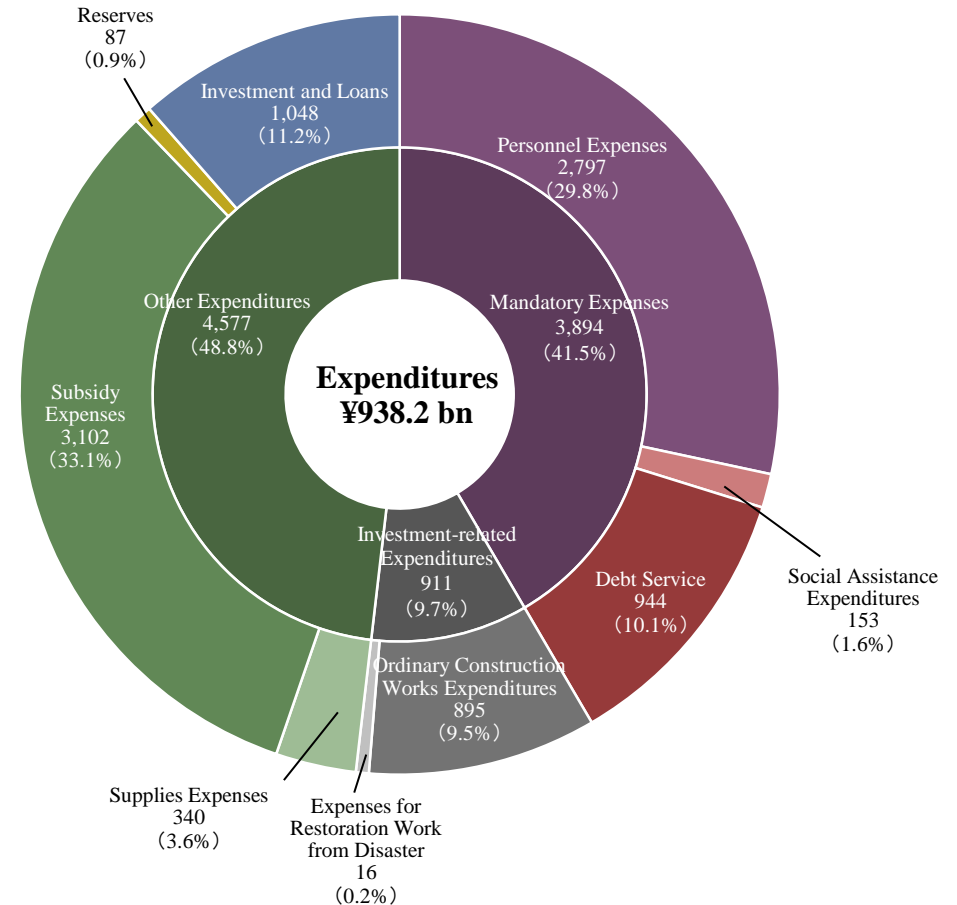
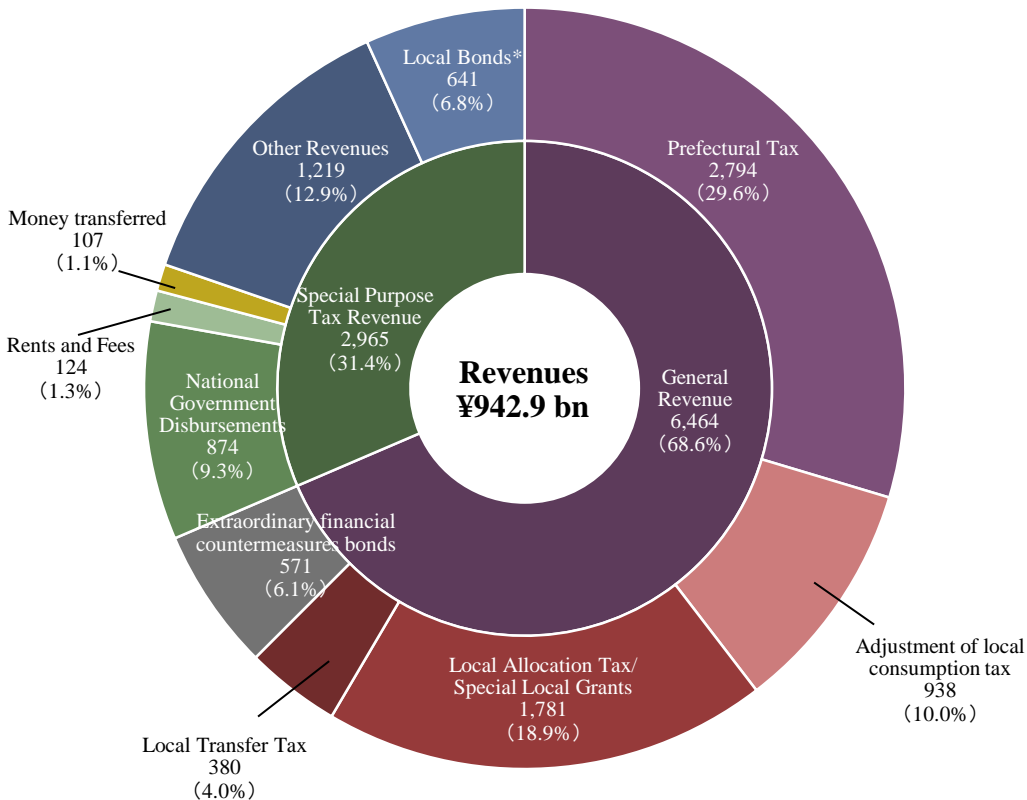
General Account: Annual Revenues and Expenditures Structure



- General revenue sources accounted for approximately 70% of total revenue in FY2016, despite severe economic conditions.
- Mandatory expenses (e.g. personnel expenses, debt service) accounted for 40% of total expenditures. The Kyoto government intends to cut such expenses further.

FY2016 General Account

*Excluding extraordinary financial countermeasures bonds

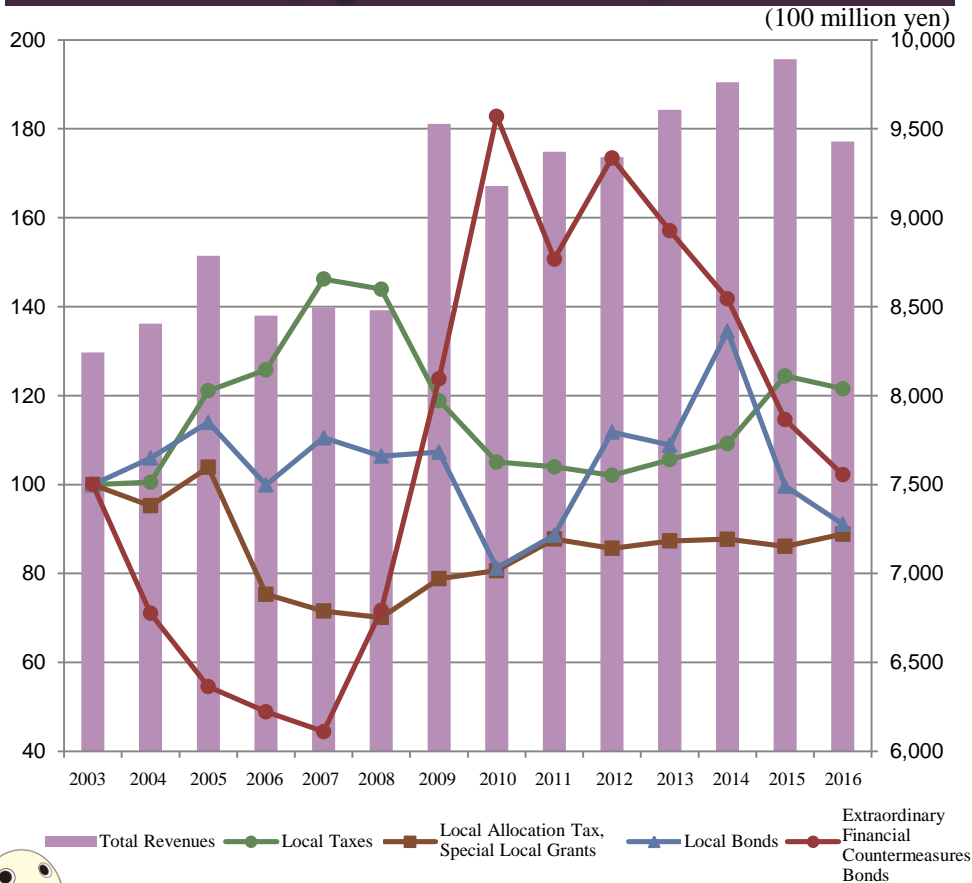


General Account: Changes in Expenditures and Revenues

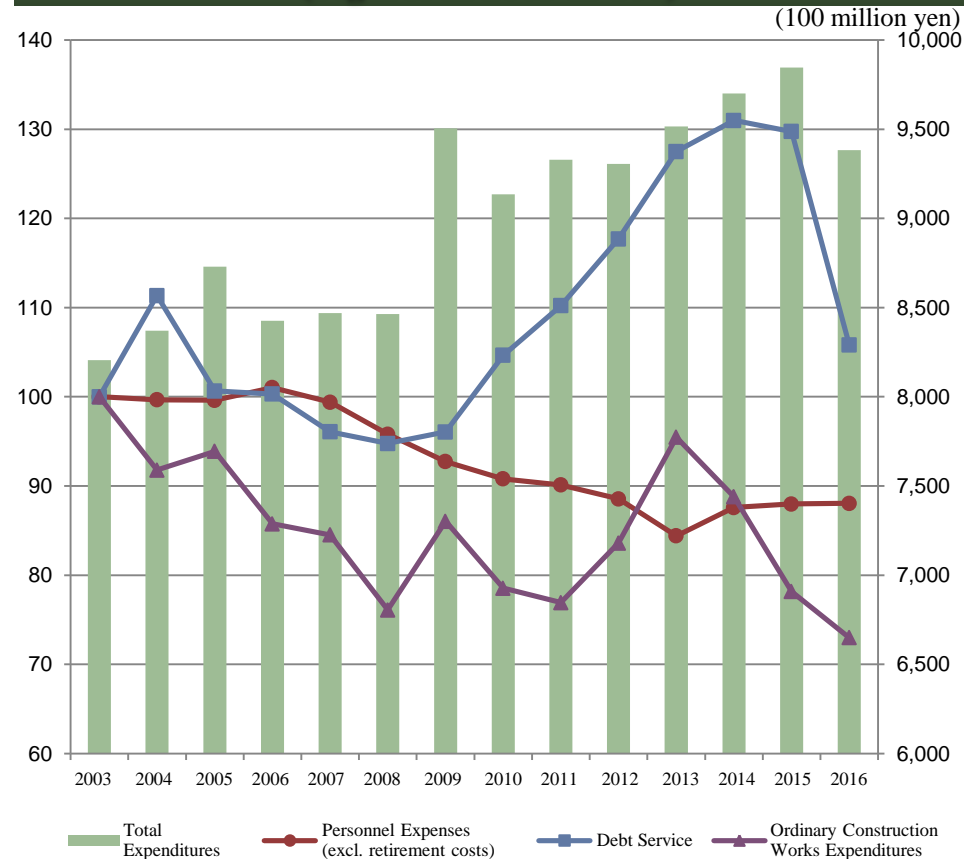


- While extraordinary financial countermeasure bonds increased, total redemptions of principal and interest are covered by the local allocation tax.
- The increase in local bonds in FY2014 is due to the issuance of a bond to promote third-sector reforms, etc. (18 billion yen).
- When making investments in social capital, we ensure that an optimal balance is maintained between outstanding prefectural debt and funds for repayment, such as tax revenues.
- Although personnel expenses increased in FY2014 due to the discontinuation of the temporary salary reduction measure, they are declining overall.

Changes in Revenues and Major Revenue Sources (Figures in 2003 as 100)



Changes in Expenditures and Major Expenditure Items (Figures in 2003 as 100)



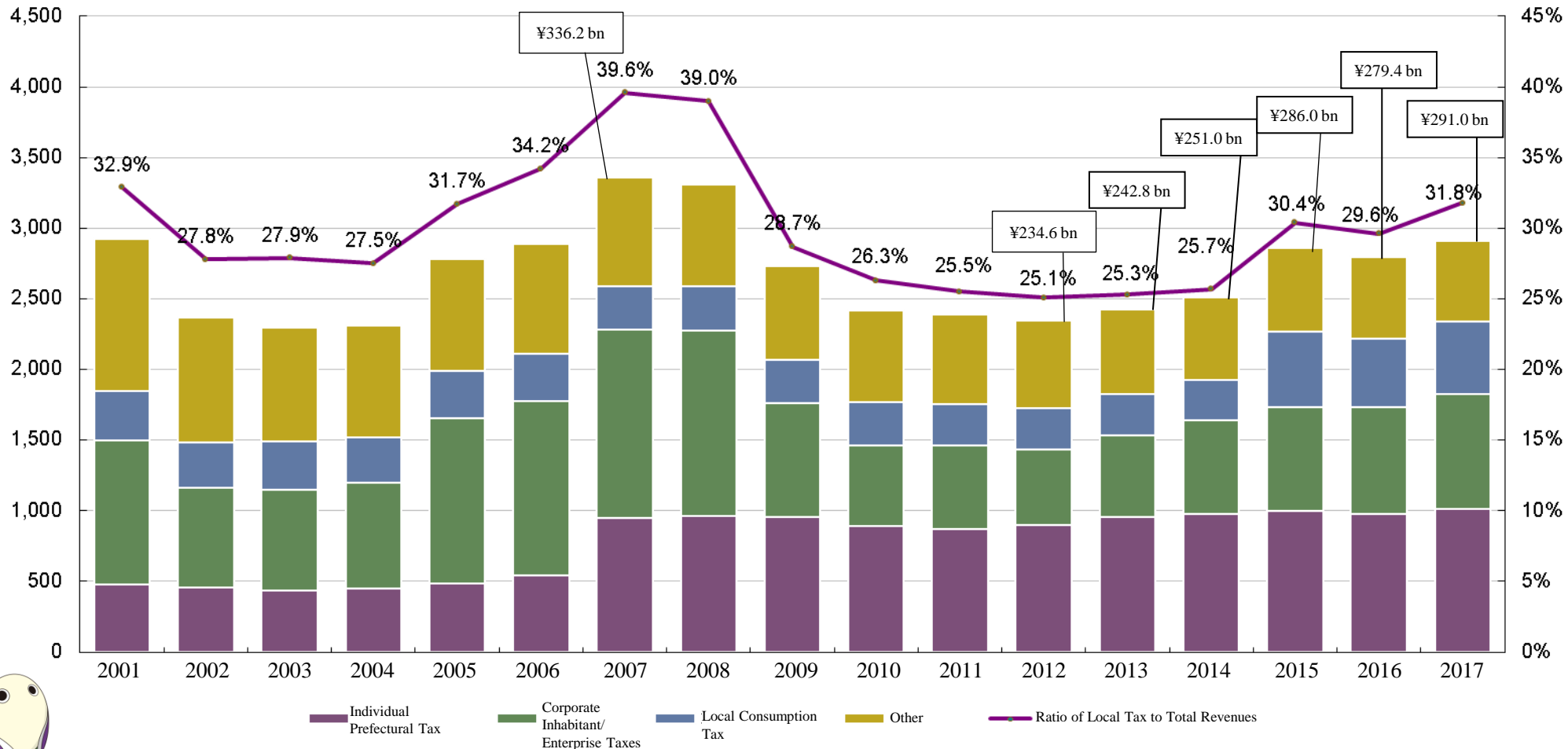
Prefectural Tax Revenues



- Tax revenues, which had continued to decline due to the economic downturn, bottomed out in FY2013 and have been increasing for the last three years.
- Tax revenues for FY2016 decreased mainly due to decline in local consumption tax resulting from sluggish growth in consumption nationwide and other factors.
- Despite uncertainty, corporate inhabitant/enterprise taxes for FY2017 are expected to increase owing to earnings recovery due to yen depreciation from last autumn.

Prefectural Tax

(100 million yen)



Fiscal Reforms



Sound Public Finance
Guideline (FY1999 - FY2003)

Earned 67.7 billion yen, topping the 65 yen billion target

Management Reform Plan
(FY2004 - FY2008)

Earned 59.7 billion yen, topping the 50 billion yen target

Citizen
Satisfaction
Maximization Plan
(FY2009 - FY2013)

Earned 78.1 billion yen, topping the 60 billion yen target

- ◆ Concentrated limited human, financial, and infrastructure resources on maximizing the satisfaction of residents, despite a bleak financial outlook
- ◆ Streamlined programs and enhanced regional cooperation based on the needs of residents
- ◆ Simplified work processes, enhanced training to maximize the strengths of human resources, and maintained the Government Debt Program, which was launched in 2006 to bring down overall public debt and ordinary construction works expenditures, all of which led to meeting the goal of cutting outstanding prefectural debt (excluding emergency financial countermeasures bonds, etc.) by the end of FY2013

Plan to Maximize
Citizen Satisfaction
and Gather Strength
in Kyoto
(FY2014 - FY2018)

- ◆ Expand public-private cooperation by fostering collaboration among citizens, companies, NPOs, and other stakeholders to combine the strengths of Kyoto as a whole, and further expand comprehensive services for citizens
- ◆ Eliminate unnecessary work and have each employee strive to develop superior services for citizens throughout the prefectural government
- ◆ Cut costs through strategic maintenance and management of public facilities to optimize the issuance of prefectural bonds, while ensuring new investment resources
- ◆ Stimulate local economies by making the necessary investments in social capital to increase tax revenue and achieve an optimal balance between outstanding prefectural debt and funds for repayment (such as tax revenue), which make up the stock of social capital, all with the aim of building a sustainable financial structure

Outstanding prefectural debt target

$$\begin{array}{c} \text{Outstanding prefectural debt} \\ \text{(excluding emergency} \\ \text{financial and disaster related} \\ \text{bonds)} \end{array} - \begin{array}{c} \text{Prefectural debt} \\ \text{management} \\ \text{fund} \end{array} \leq (\begin{array}{c} \text{Tax revenue} \\ \text{(including} \\ \text{consumption tax} \\ \text{adjustment)} \end{array} + \begin{array}{c} \text{Local tax} \\ \text{allocation} \end{array} + \begin{array}{c} \text{Emergency} \\ \text{financial} \\ \text{countermeas} \\ \text{ures bonds} \end{array}) \times 2^*$$

*Initially x2.3 (in 2014) > x2.16 (in 2015)

➔ Estimated fiscal effect of 40 billion yen



Community-driven Public Works Projects for Enhancing Resident Satisfaction



- A participatory development program was initiated in FY2009. Under the program, decisions on public works projects are based on proposals solicited from Kyoto Prefecture residents concerning areas they think need improvement on the basis of their daily observations and routine discoveries.
- The program is aimed at increasing citizens' interest in public works projects, fulfilling our accountability to citizens, and enhancing their satisfaction.

Japan's first innovative local community opinion-driven municipal public works projects initiative

Local infrastructure renovation and repair work for enhancing safety and security, as well as improving scenic beauty

- ◆ Eliminate irregular road surfaces
- ◆ Repair paved roads
- ◆ Install guardrails and fall-prevention facilities
- ◆ Install traffic lights
- ◆ Implement rockfall preventive measures
- ◆ Repair river embankments and river walls
- ◆ Replace or repaint safety facilities such as street lightings and guardrails

About 14,000 proposals received over nine years (FY2009 - FY2017)

Example of a specific resident proposal



Gratings were installed on a street with a narrow sidewalk

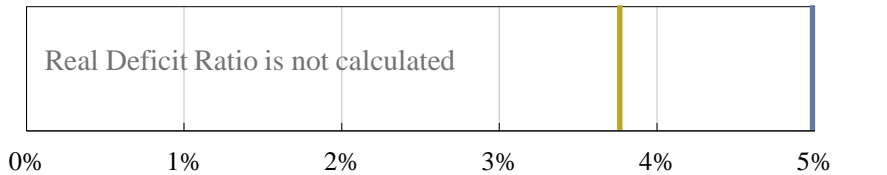


Four Financial Soundness Indicators

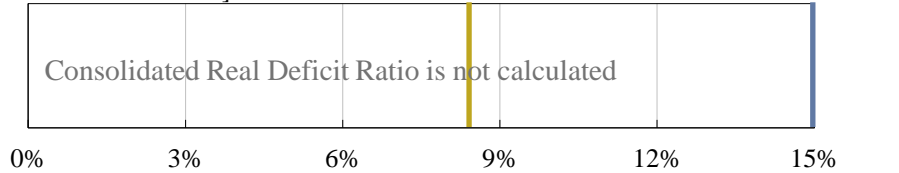


- All four indicators are well below the threshold of fiscal reconstruction and early fiscal consolidation standards set by law.
- Kyoto continues its efforts to ensure appropriate financial management and maintain its fiscal health.

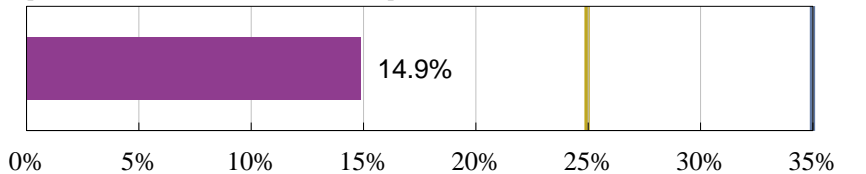
[FY2016 Real Deficit Ratio]



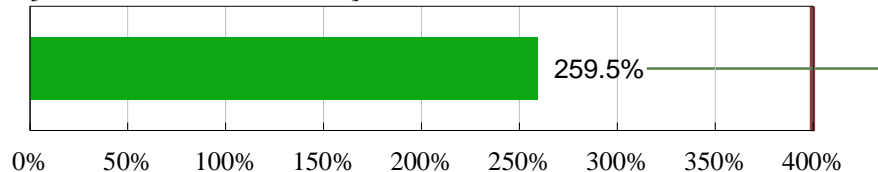
[FY2016 Consolidated Real Deficit Ratio]



[FY2016 Real Debt Service Ratio]



[FY2016 Future Burden Ratio]



▲ Early fiscal consolidation standard ● Fiscal reconstruction standard

*The threshold for future burden ratio (▲) is set only for the early fiscal consolidation standard.

Calculation of Future Burden Ratio

Item	Amount (Million yen)	Notes
Outstanding local government bonds	2,175,273	Current balance of local government bonds including bonds to be redeemed in full at maturity
Planned expenditures for debt burden	4,412	Part of budget to be allocated to public debt service as debt burden
Est. transfer from public corp. bonds	28,627	Estimated funds to be transferred for redemptions of local government bonds related to special accounts (non-general account)
Est. share for unions	18	Estimated share of principal and interest redemption costs for labor unions, local development agencies, etc.
Est. retirement bonus burden	203,964	Estimated retirement allowances assuming voluntary retirement by all employees at the end of the previous fiscal year
Est. share of established corporations' liabilities	1,152	
Local Roads Public Corp.	0	Estimated burden of Roads Public Corp. loan balance debt
Land Development Corp.	0	Estimated burden of Land Development Corp. debt
Third sector, etc.	1,152	Estimated share of indemnities for third-sector entities, etc.
Consolidated real deficit	0	Real deficit on a total accounting basis
Est. unions' consolidated real deficit burdens	N/A	
Future Burden (A)	2,413,446	
Allocable funds	162,319	Allocable funds to local government bond redemption from balance of all funds
Allocable special revenue	29,369	Special revenue (e.g. publicly-managed housing fees) allocable to redemption resources for local government bonds
Est. standard fiscal demand	1,007,912	Estimated funds obtained by multiplying the prefectural bond balance by the ratio of regular local allocation tax
Allocable fiscal sources (B)	1,199,600	
Numerator (A-B)	1,213,846	



Prefectural Bond Issuance Operation



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Characteristics of Issuance Operation



- Kyoto Prefecture issues bonds in response to the opinions and needs of investors and through dialogs with markets.

Public bonds to be underwritten by syndicates are basically issued in June, September, December, and March

- 5-yr and 10-yr bonds are issued in fixed months to facilitate annual financial planning.
- The frequency of issuing bonds has been increased in response to investors' requests for more purchase opportunities.

Until FY2010: 3 issues/year

Beginning FY2011: 4 issues/year

Kyoto holds separate meetings with each investors

- Individual meetings are held for investors to facilitate a better understanding of Kyoto's fiscal situation.

FY2009: 8 meetings

FY2010: 24 meetings

From FY2011: 50 per year on average

Kyoto steps up efforts to improve products

- Kyoto has been stepping up efforts to meet investors' needs for new issuance conditions.

- Since the launch of the flexible issuance facility in FY2013, we have managed bond issues flexibly according to the opinions and requests of investors, as well as market conditions.
- We will continue to place emphasis on communicating with investors in managing bond issues.

Bonds issued via a negotiated sale from 2015 onwards

(100 million yen)	FY2015		FY2016	
	First half	Second half	First half	Second half
20-year	200		200	
30-year			100	
5-year	100			
10-year			100	
15-year	100	100	100	100
20-year scheduled redemption	Flexible issuance facility	100		100



Past Results and Future Plans



- In FY2017, Kyoto Prefecture plans to issue 30-year irredeemable bonds, in addition to conventional 5-year, 10-year, and 20-year municipal bonds in a nationwide public offering.
- In FY2016, we used the flexible issuance facility to issue 10-year and 15-year bonds in April and 15-year bonds and 20-year irredeemable bonds in October through negotiated sales. We also issued Kyoto Prefecture's first 30-year municipal bonds.

(100 million yen)

<FY2016>	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	Total
5-year			100			100			100			100	400
10-year	100		100			100			100			100	500
15-year	100						100						200
20-year					200		100 (Fixed-term redemption)						300
30-year						100							100
Joint Local Government Bonds	50	50	50	100	50	50			50	50		50	500
Total	250	50	250	100	250	350	200		250	50		250	2,000

<FY2017>	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	Total
5-year	100		100			100			100			100	500
10-year			100			100			100			100	400
15-year	100												100
20-year					100		100 (Fixed-term redemption)						200
30-year							100 (Fixed-term redemption)						100
Joint Local Government Bonds	100	100	50	90	50	50			60		50	50	600
Total	300	100	250	90	150	250	200		260		50	250	1,900



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