

Finance and Municipal Bond of Fukuoka City

August, 2010
福岡市財政局



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Fukuoka's Trees



クスノキ



クロガネモチ

Fukuoka's Flowers



フヨウ



サザンカ

Fukuoka's Birds



ユリカモメ



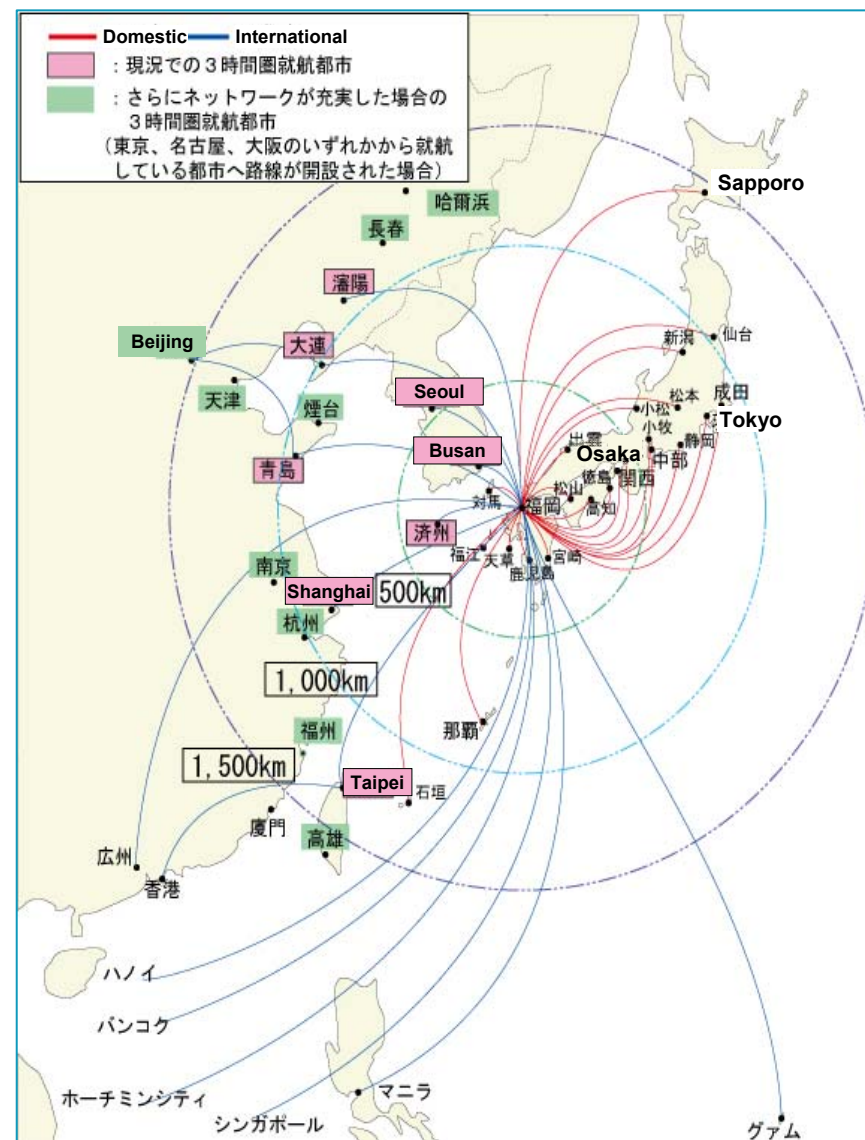
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1. Profile of Fukuoka City

- The population is approximately 1.45million and there are 700 thousand households in Fukuoka
- The city is about the same distance from major cities in Japan (Osaka, Tokyo, Sapporo) and in eastern Asia (Busan, Shanghai, Beijing, Taipei), giving Fukuoka an excellent location as a transportation hub for serving Korea, China and other countries in eastern Asia

Area	341.32Km ²	
Avg. Temperature	17.3°C	
Population	1,454,062	No.7 / 19 cabinet order designated cities
Number of Households	699,440	No.5 / 19 cabinet order designated cities

※As of April 1, 2010 for population and the number of households



2. Economy of Fukuoka City

- The service sector accounts for a large share of industrial activity in Fukuoka City. Wholesale/retail and general services account for 70% of business sites in the city. Fukuoka has been developed as the center of Kyushu and Western Japan area with the concentration of governmental organizations, branches of large corporations and financial/service institutions
- At about 11,500 billion yen (March 31, 2009), total loans outstanding accounted for about 40% of all loans outstanding in the seven Kyushu prefectures
- Fiscal 2007 gross production was about 6.9 trillion yen, income per capita was 3.17 million yen, both rank highly in the cabinet order designated cities
- The growth rate of gross production over last 10 years was No.2 in the cabinet order designated cities, which means Fukuoka is one of the highest growth cities

Gross Production	6.9 trillion yen	No.4 / 12 cabinet order designated cities
Income per Capita	3.17 million yen	No.6 / 12 cabinet order designated cities
Day/Night Population	113.4%	No.3 / 17 cabinet order designated cities
% of Employees in Service Sector	88.3%	No.1 / 17 cabinet order designated cities
Sale of Goods	13.9 trillion yen	No.3 / 17 cabinet order designated cities

Growth Rate of Gross Production	
Chiba	105.1
Fukuoka	102.5
Yokohama	101.6
Kawasaki	101.3
Nagoya	100.0
Hiroshima	99.8
Kyoto	98.7
Sendai	96.1
Kobe	93.8
Sapporo	93.4
Osaka	93.1
Kitakyushu	92.9

※FY19 Gross Production/FY9
Gross Production

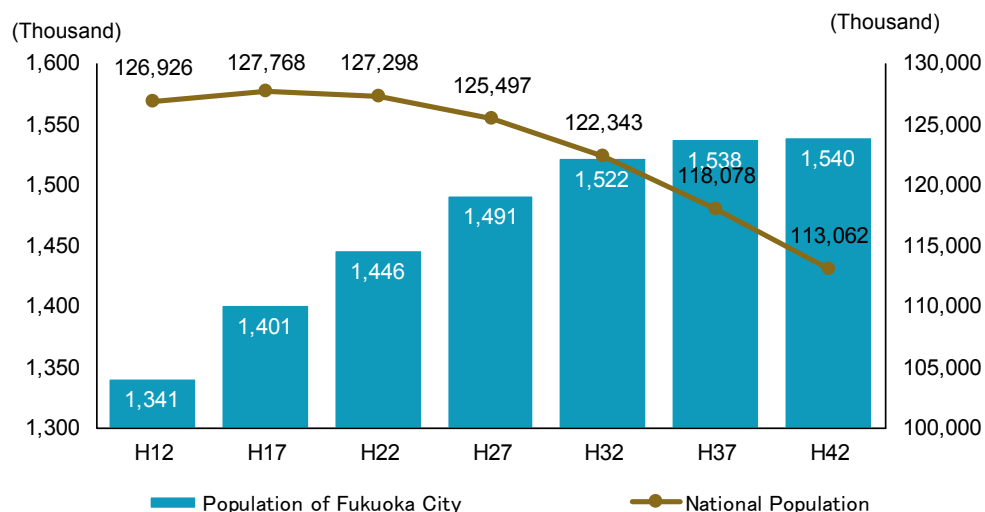
*The figures of "gross production" and "income per capita" are for FY2007; "Day/Night Population" for FY2005; "% of Employees in Service Sector" for FY2006; and "Sale of Goods" for FY2006.



3. Strengths of Fukuoka City -Population Growth-

- The population of Fukuoka City has been increasing at the rate of about 10,000 every year. The growth rate is high and the population is expected to continue growing
- The demographic mix is young population (age 0-14) of 13.4%, productive population (age 15-64) of 70.2%, old age (age 65+) of 15.2%. The average age of 40.3 old years is the youngest and active age composition
- Especially, Fukuoka is a "student city" with 19 universities and junior colleges. The ratio of students (5.3%) is the third highest next to Kyoto City and Tokyo 23 Wards in Japan

Population Growth of Japan and Fukuoka City^{※1}



※1. Source: Japan's Falling Population and Regional Economies, Kyushu Economic Research Center, 2007

※2. The "population growth rate" represents the figure for the past year as of April 1, 2010

※3. The figures of the "ratio of productive population" and "average age" are based on the National Census for 2005

Population growth rate (%) ※2		Ration of productive population (%) ^{※3}		Average age (years old) ^{※3}	
Kawasaki	1.05	Kawasaki	72.2	Fukuoka	40.3
Fukuoka	0.92	Fukuoka	70.2	Kawasaki	40.3
Saitama	0.88	Sapporo	70.1	Sendai	40.5
Chiba	0.76	Sendai	70.1	Saitama	41.2
Yokohama	0.38	Saitama	69.3	Hiroshima	41.6
Sendai	0.37	Chiba	69.2	Chiba	41.7
Sapporo	0.35	Yokohama	68.7	Yokohama	41.9
Sagamihara	0.32	Hiroshima	67.6	Okayama	42.1
Osaka	0.32	Nagoya	67.4	Sapporo	42.3
Hiroshima	0.31	Kyoto	67.2	Nagoya	42.4
Okayama	0.28	Sakai	66.6	Sakai	42.8
Sakai	0.25	Kobe	66.6	Hamamatsu	43.0
Kobe	0.22	Osaka	66.6	Kyoto	43.0
Nagoya	0.18	Okayama	66.3	Kobe	43.4
Niigata	0.03	Niigata	65.7	Niigata	43.5
Kyoto	▲ 0.12	Shizuoka	65.6	Osaka	43.6
Kitakyushu	▲ 0.18	Hamamatsu	65.3	Shizuoka	44.1
Shizuoka	▲ 0.18	Kitakyushu	64.4	Kitakyushu	44.5
Hamamatsu	▲ 0.45				

3. Strengths of Fukuoka City –Transportation-

- A major reason that Fukuoka became the most important city in Kyushu is the compact layout of the city's airport, harbor, rail lines (conventional and Shinkansen), expressways and other transportation networks.
- Fukuoka Airport ranks fourth (fiscal 2009) in Japan in terms of the number of passengers (about 15.9 million) and trade (825.6 billion yen). The airport has flights to 18 overseas cities, mainly in Asia.
- The Port of Hakata serves about 640,000 international passengers in 2009, ranking first in Japan every year since 1993
- The entire Kyushu Shinkansen line will become available in the spring of 2011 for further expansion of urban network



International Terminal at Port of Hakata



Fukuoka Airport



JR Hakata Station



4. Recognition from Overseas

Ranked 16th among the world's 25 most livable cities UK Monocle magazine, July and August 2009



Recognition

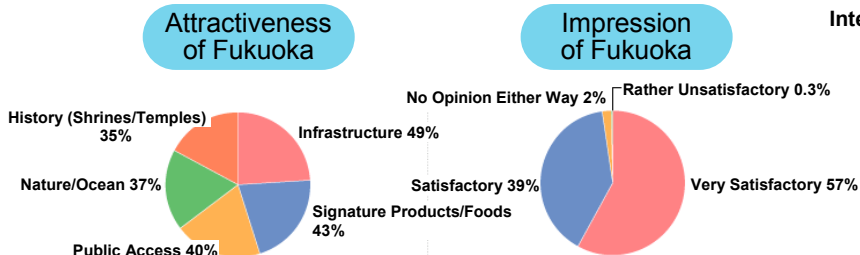
- 1) Open culture and enjoyable, comfortable lifestyle
- 2) Combines the convenience of the city with "outward energy" which keeps an eye out for overseas trends
- 3) Long history of interactions with neighboring countries and a city full of greenery which is also located by the sea
- 4) Connected to various locations nationwide through an outstanding transportation infrastructure

Up from number 17 in 2008!



1	Zurich
2	Copenhagen
3	Tokyo
4	Munich
5	Helsinki
8	Paris
10	Berlin
12	Madrid
16	FUKUOKA
21	Amsterdam
22	Kyoto
25	Lisbon

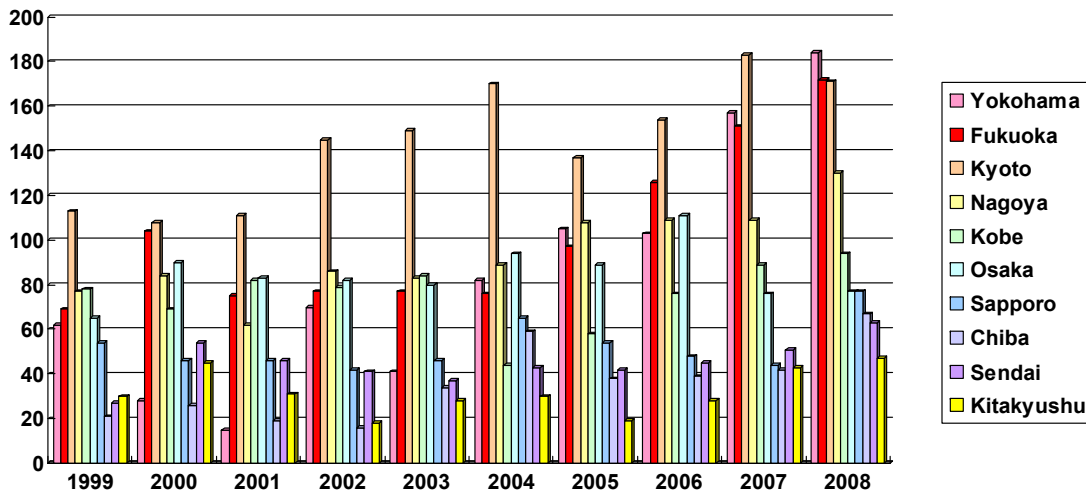
2nd largest number of international conventions held among the 12 cabinet order designated cities



Reputation among (Foreign) Convention Participants



International Conventions Held in Major Cities



5. FY2010 Initial Budget

- The FY2010 initial budget was formulated based on the following premises:
 - Even under difficult fiscal conditions, **we will create new value in Fukuoka City to build a promising future through aggressive business initiatives where opportunities arise, in addition to heightening the comfort of residents' lifestyles**
 - In particular, in light of the harsh economic and employment conditions, **we will place economic/employment countermeasures as a top priority and engage in aggressive efforts towards improvement**
 - We will **maintain the city's fiscal health by steadily reducing municipal bond balances** in addition to **creating necessary funds through committed administrative/fiscal reforms** (such as headcount reductions) **and a stronger focus on particular initiatives and operations**

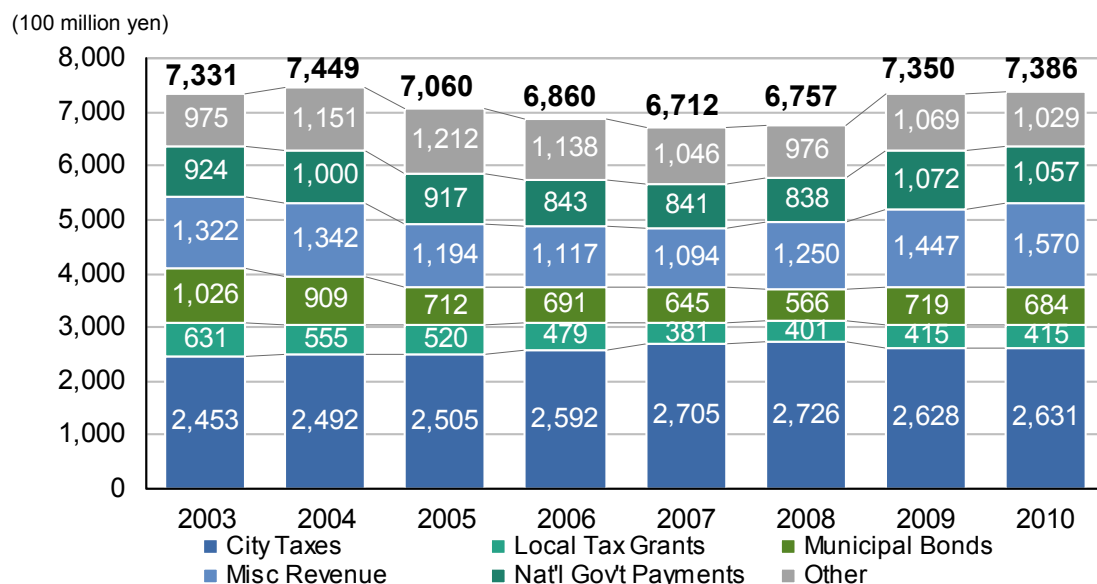
Category	FY2010 Initial Budget (A)	FY2009 Initial Budget (B)	YoY Change (C) = (A) - (B)	YoY Growth (C) / (B)
General Account	¥738.6 billion	¥692.2 billion	+ ¥46.4 billion	6.7 %
Special Account	¥842.0 billion	¥892.8 billion	- ¥50.9 billion	- 5.7
Corporate Account	¥244.7 billion	¥268.5 billion	- ¥23.8 billion	- 8.9
Total	¥1,825.3 billion	¥1,853.6 billion	- ¥28.2 billion	- 1.5

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

6. Revenue (General Account)

- The service sector accounts 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 share of independent revenue sources, mainly city taxes.
- While municipal bond issuances have been declining steadily due to efforts towards sound fiscal conditions, factors such as the increase in "emergency fiscal measure bonds," which are effectively local tax grants, have led to an increase in recent years
- With respect to the FY2010 revenue budget, while no growth in city taxes and other general sources of revenue could be expected due to the difficult economic environment, the city engaged in efforts to diversify its revenue sources, such as improving the share of revenue from city taxes, promoting sales of idle assets, and expanding its advertising operations

Revenue Breakdown*



* Actual through 2008, final budget for 2009, initial budget for 2010

Major Revenue Sources for Cabinet Order Designated Cities (2008)

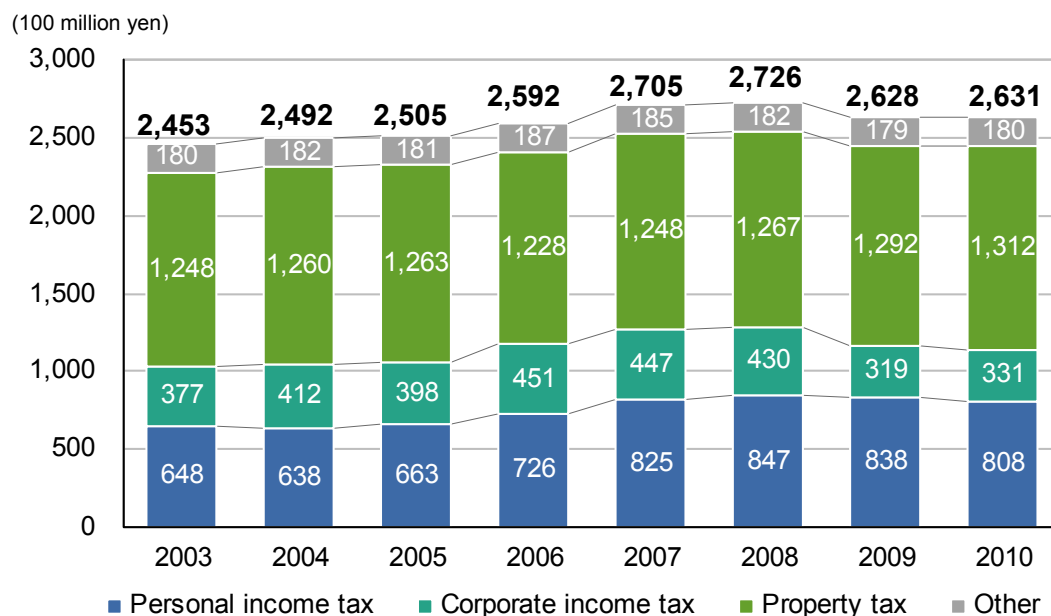
Independent revenue pct. (%)	Local allocation tax (%)	Municipal bonds (%)
Nagoya 70.0	Nagoya 0.1	Sapporo 6.4
Kawasaki 69.9	Yokohama 0.1	Kobe 6.5
Yokohama 68.2	Kawasaki 0.1	Saitama 7.8
Saitama 68.2	Chiba 0.2	Sakai 8.2
Chiba 67.8	Saitama 0.7	Okayama 8.4
Osaka 65.8	Osaka 1.1	Hamamatsu 8.4
Fukuoka 64.9	Shizuoka 3.8	Yokohama 9.0
Sendai 63.1	Fukuoka 5.9	Fukuoka 9.1
Hamamatsu 61.1	Sendai 6.2	Osaka 9.3
Kyoto 60.4	Hamamatsu 6.6	Kitakyushu 9.6
Kobe 59.7	Sakai 8.2	Hiroshima 10.8
Okayama 58.4	Hiroshima 8.3	Nagoya 10.8
Kitakyushu 58.1	Kyoto 9.0	Kyoto 11.1
Shizuoka 57.1	Kobe 11.2	Kawasaki 11.6
Hiroshima 57.1	Kitakyushu 11.9	Sendai 11.7
Sapporo 56.3	Okayama 12.4	Chiba 12.8
Sakai 54.7	Sapporo 13.0	Niigata 13.1
Niigata 51.9	Niigata 14.1	Shizuoka 15.9

* Based on ordinary accounts to facilitate comparison

7. Tax Revenue

- The tax revenue base is relatively stable due to the steady annual population increase. Further, Fukuoka City ranks highly among the cabinet order designated cities with respect to tax revenue per capita
- While corporate tax revenue in FY2010 is expected to increase in line with improved corporate performance, personal tax revenue is expected to decrease due to delays in the recovery of the employment market and compensation levels
- Property tax income is expected to increase going forward, in part due to progress in the Hakata Station redevelopment project, etc.

Fukuoka City Tax Revenue *



* Actual through 2008, final budget for 2009, initial budget for 2010

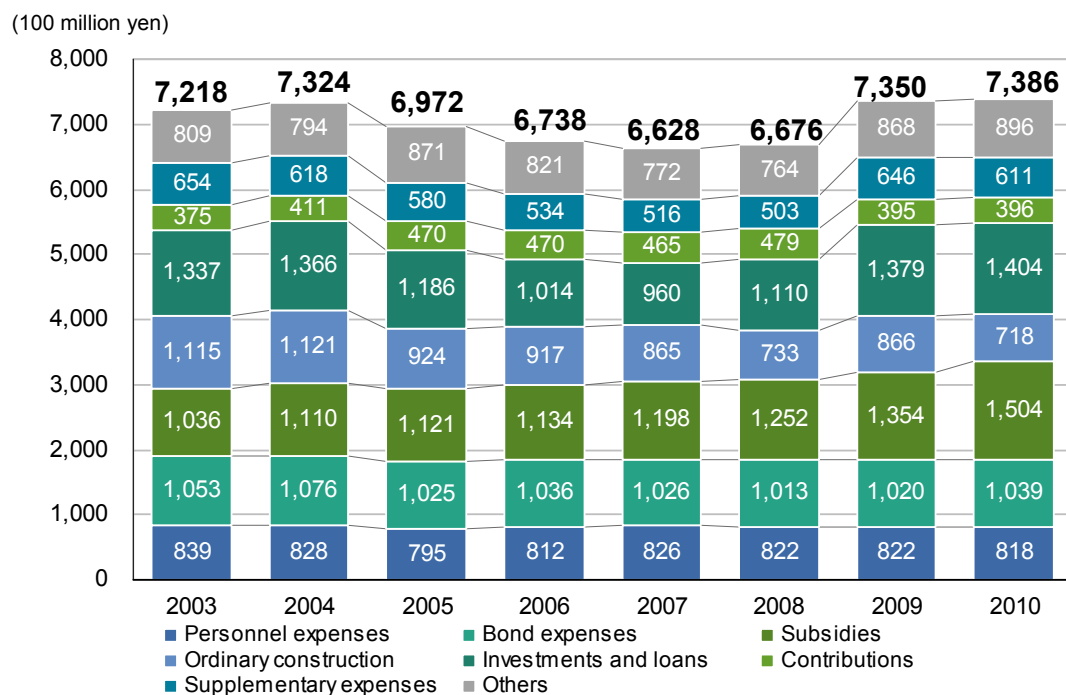
Tax Revenue at Cabinet Order Designated Cities (FY2008)

City	Tax revenue (Million yen)	3/31/2009 Population	Tax per capita (Thousand yen)	
Osaka	670,787	2,525,153	(1)	266
Nagoya	516,306	2,173,945	(2)	237
Kawasaki	293,779	1,359,063	(3)	216
Yokohama	729,457	3,605,951	(4)	202
Fukuoka	272,646	1,384,820	(5)	197
Chiba	178,214	925,951	(6)	192
Kyoto	266,407	1,386,899	(7)	192
Saitama	221,502	1,198,996	(8)	185
Hiroshima	212,605	1,151,266	(9)	185
Kobe	277,912	1,508,200	(10)	184
Shizuoka	130,003	718,623	(11)	181
Sendai	180,961	1,006,522	(12)	180
Hamamatsu	136,913	792,104	(13)	173
Kitakyushu	167,491	981,016	(14)	171
Okayama	113,411	687,136	(15)	165
Sakai	132,441	835,492	(16)	159
Niigata	121,384	803,273	(17)	151
Sapporo	282,150	1,884,939	(18)	150

8. Expenditures (General Account)

- Personnel expenses make up an extremely small percentage of expenditures as Fukuoka City took early action in outsourcing trash collection, privatizing nursery schools, etc.
- Bond expenses remain at a high level, despite a steady reduction in the municipal bond balance
- Subsidies are increasing due to a continued decline in the birthrate and a continued aging of the population, and particularly in FY2010 due to the establishment of the “child allowance.” Further, social welfare expenditures show a major year-on-year increase of 17.1% due to deterioration of the employment environment
- In the FY2010 expenditure budget, Fukuoka City is offsetting increases in subsidies (expenses associated with social insurance), regional economic initiatives and other expenditures by reducing headcount (by 104) to suppress personnel expense, operating facilities more efficiently, and reviewing clerical operations, among other efforts.

Expenditure Breakdown*



* Actual through 2008, final budget for 2009, initial budget for 2010

Mandatory Expenses as a % of Total Expenditures at cabinet orderdesignated Cities (2008 Ordinary Account)

Personnel expenses (%)	Bond expenses (%)	Subsidies (%)
Fukuoka 11.8	Kyoto 10.6	Shizuoka 12.3
Kitakyushu 14.5	Saitama 10.7	Hamamatsu 12.7
Sapporo 14.5	Sakai 10.8	Sendai 13.7
Yokohama 15.2	Niigata 11.0	Niigata 14.0
Hiroshima 15.9	Sapporo 13.2	Saitama 14.3
Sendai 16.2	Hiroshima 13.2	Kawasaki 16.3
Osaka 16.5	Shizuoka 13.5	Chiba 16.5
Niigata 17.5	Osaka 13.8	Nagoya 16.6
Kobe 17.7	Yokohama 13.8	Kitakyushu 17.4
Hamamatsu 17.8	Hamamatsu 14.0	Yokohama 17.7
Kyoto 17.8	Kitakyushu 14.7	Fukuoka 18.2
Shizuoka 18.2	Nagoya 15.0	Kobe 18.3
Kawasaki 18.4	Chiba 15.8	Kyoto 19.6
Saitama 18.9	Fukuoka 16.2	Okayama 20.0
Nagoya 19.2	Sendai 16.4	Hiroshima 20.8
Chiba 19.6	Okayama 17.2	Sapporo 22.6
Sakai 19.9	Kobe 18.2	Osaka 24.8
Okayama 21.1	Kawasaki 18.2	Sakai 26.1

9. Special Accounts Summary

- Net income from special accounts improved by approximately ¥4.5 billion, from a loss of approximately ¥7.0 billion in the previous fiscal year to a loss of approximately ¥2.5 billion
- Inflow from general account (excluding municipal bond management special account) also improved by approximately ¥6.2 billion, decreasing from approximately ¥46.2 billion in the previous fiscal year to approximately ¥40.0 billion

Yen millions

Account Category	Revenue	Expenditure	Difference	Carry-forwards	Effective Income	Inflow from General Account	Outflow to General Account
Latter-stage Elderly Healthcare	12,005	11,827	178	—	178	2,312	—
National Health Insurance	131,987	138,899	(6,912)	—	(6,912)	16,713	—
Elderly Healthcare	11,521	11,648	(127)	—	(127)	772	—
Nursing Care Insurance	64,961	63,625	1,336	—	1,336	9,395	—
Mother-infant/Widow Welfare Loans	929	618	311	—	311	71	—
Community Sewage	387	387	—	—	—	306	—
Central Wholesale Market	6,972	6,960	12	12	—	3,317	—
Port Maintenance	15,581	15,579	2	1	1	—	—
City-run Ferry	1,698	1,698	0	—	0	1,071	—
Meinohama Land Readjustment	1,374	1,374	—	—	—	1,369	—
Miyazaki Land Readjustment	1,724	1,612	112	112	—	1,701	—
Ito Land Readjustment	4,893	4,373	520	520	—	1,005	—
Kashii Station Land Readjustment	3,709	3,448	261	261	—	1,233	—
Urban Redevelopment	724	724	—	—	—	528	—
Advanced Purchase of Public Lands	5,137	5,137	—	—	—	—	—
Parking Lots	513	513	—	—	—	219	—
Property Ward	179	179	—	—	—	—	—
City-run Boat Racing	68,694	67,965	729	—	729	—	1,300
City Bond Management	587,825	587,825	—	—	—	101,548	56,633
Total	920,813	924,391	(3,578)	906	(4,484)	(40,012) 141,560	57,933
FY2007 Balance	958,545	965,076	(6,531)	451	(6,982)	(46,247) 149,088	66,165

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

10. Major Financial Indicators (Fiscal 2008)

- Fukuoka City has a low percentage of mandatory expenditures due to measures to cut personnel expenses. As a result, the ordinary revenue/expenditure ratio, an indicator of fiscal flexibility, is in the top half of all cabinet order designated cities.
- One issue for Fukuoka City is the relatively high amount of debt.

Pct. of mandatory expenditures (%)	
Niigata	42.4
Saitama	43.8
Shizuoka	44.0
Hamamatsu	44.5
Fukuoka	46.2
Sendai	46.3
Kitakyusyu	46.6
Yokohama	46.7
Kyoto	48.1
Hiroshima	49.9
Sapporo	50.3
Nagoya	50.8
Chiba	51.9
Kawasaki	53.0
Kobe	54.2
Sakai	56.8
Osaka	55.1
Okayama	58.3

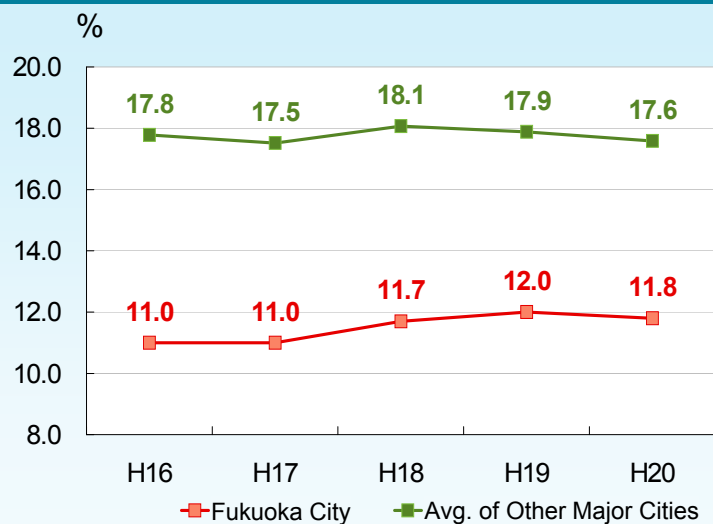
Ordinary revenue/expenditure ratio (%)	
Hamamatsu	86.1
Niigata	88.0
Saitama	88.3
Shizuoka	90.9
Fukuoka	93.1
Okayama	93.6
Kawasaki	94.2
Sakai	94.6
Yokohama	94.7
Hiroshima	96.2
Chiba	96.3
Sendai	96.7
Nagoya	96.8
Kyoto	97.0
Kobe	97.3
Sapporo	99.0
Osaka	99.2
Kitakyusyu	99.5

Effective bond expense ratio (%)	
Sakai	6.9
Saitama	7.9
Kitakyusyu	8.0
Osaka	10.7
Sapporo	10.9
Niigata	11.2
Kyoto	12.0
Sendai	12.2
Shizuoka	12.2
Hamamatsu	12.8
Nagoya	13.5
Kobe	15.1
Kawasaki	15.6
Hiroshima	15.6
Okayama	17.6
Fukuoka	17.8
Chiba	20.1
Yokohama	20.2

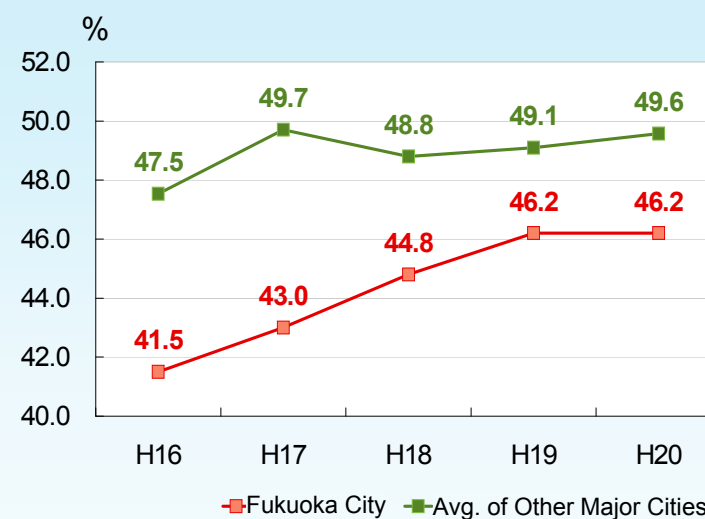
- Mandatory expense ratio = Personnel expenses + Subsidies + Bond expenses / Total expenditures
- Ordinary revenue/expenditure ratio = General revenue sources for ordinary expenditures / Total general revenue sources
- Effective bond expense ratio = [Bond expenses (interest and redemptions of municipal 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.

(Ref) Historical Major Financial Indicators

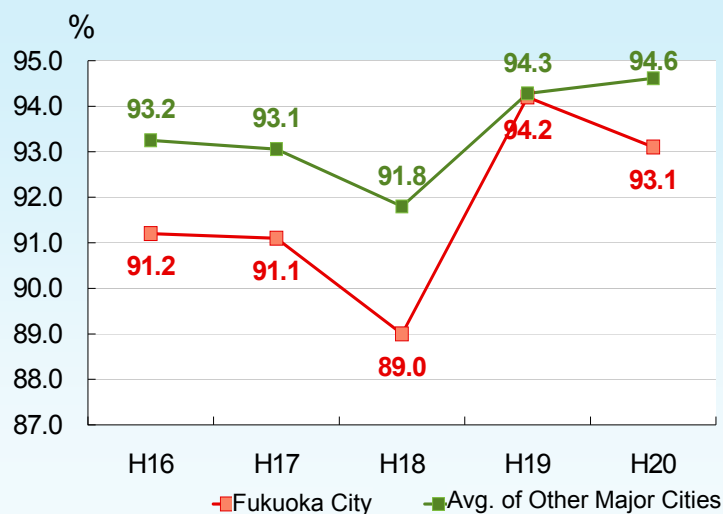
Historical Personnel Expenses



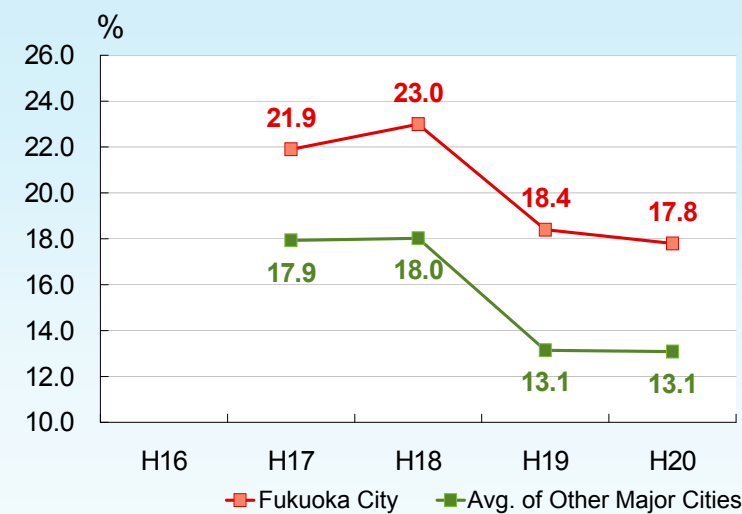
Historical Mandatory Expense Ratios



Historical Ordinary Revenues/Expenditure Ratios



Historical Effective Bond Expense Ratios



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

- Fukuoka City created a **Fiscal Soundness Plan** in 2004. Since then, the city has produced benefits from numerous initiatives aimed at improving soundness with regard to revenue and expenditures.
- Fukuoka City plans to enact more reforms based on the **Fiscal Renewal Plan**, which provides fiscal management guidelines through the 2011 fiscal year.

Fiscal Soundness Plan

Fiscal Soundness Plan 2004 – 2007

Three reforms

- ① Actions for securing revenue sources for the efficient and effective procurement of funds
- ② A major shift to systems and methods that reflect current changes in the social environment
- ③ Greater efficiency and suitability of city's fiscal operations

Fiscal soundness goals and progress

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

Fiscal Renewal Plan

Fiscal Renewal Plan 2008 – 2011

Fundamental Stance

- ① Enact more reforms to move quickly toward fiscal soundness
- ② Switch to fiscal management that matches Fukuoka's resources
- ③ Take many actions to make easily understand fiscal information readily accessible

Objectives

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

Fiscal soundness goals

- Hold municipal bond issues in the fiscal 2011 general account to between 45 billion and 50 billion yen.
 - Reduce municipal bonds outstanding to about 2,000 billion yen over the next decade (was 2,600 billion yen in fiscal 2008), bringing bonds per capita to less than 1.5 million yen.
- Eliminate the revenue shortfall of 56.6 billion yen that is expected between now and fiscal 2011.

12. Progress in Achieving Fiscal Soundness

~Status of Fiscal Renewal Plan~

Reduce Municipal Bond Issuance

Fiscal Soundness Goal

Stepwise reduction to reduce municipal bond issuance for general account to **¥45~50 billion** in FY2011

FY2010 Total Expected Issuance	¥48~51 billion
--------------------------------	----------------

Target Range

FY2010 Issuance	¥68.4 billion
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Excluding increase in emergency fiscal measure bond, a local fiscal measure of the national government	¥50.9 billion
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Within Target

Eliminate Revenue Shortfall

Fiscal Soundness Goal

Eliminate the expected **revenue shortfall of ¥56.6 billion** by FY2011 through the following:

- | | |
|-----------------------------|---------------|
| 1. Review ordinary expenses | ¥28.6 billion |
| 2. Prioritize investments | ¥11.0 billion |
| 3. Fiscal Measures | ¥17.0 billion |

Expected FY 2010 Shortfall	¥20.2 billion
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↓	Increase in local tax grants, etc.	- ¥4.1 billion
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Expected Shortfall at Budget Formulation	¥16.1 billion
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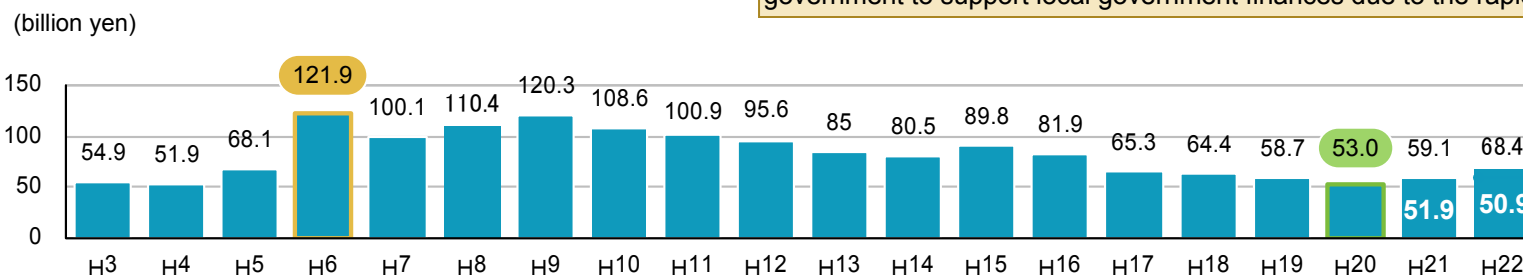
↓	1. Review ordinary expenses	} ¥10.8 billion
	2. Prioritize investments	
	3. Fiscal measures	

Remaining Shortfall	None
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13. Municipal Bond Issues and Reliance on Bonds (Initial Budget for General Account)

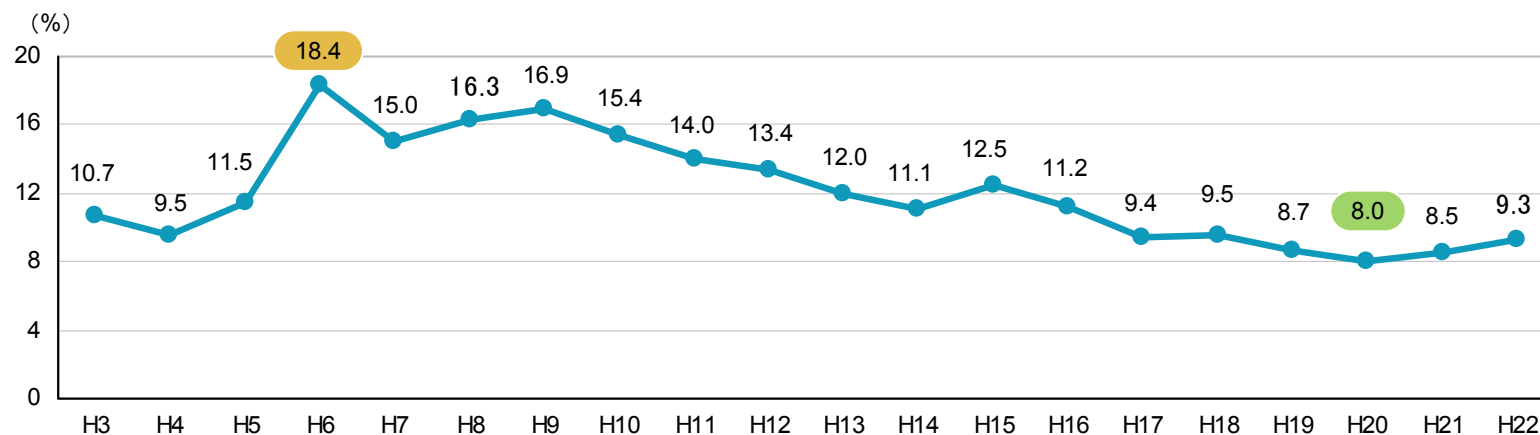
Municipal Bond Issues (Initial Budget for General Account)

Bond issues decreased to 50.9 billion yen after excluding the 17.5 billion yen increase in bonds for extraordinary financial measures, an action taken by the national government to support local government finances due to the rapid economic downturn.



Note: The numbers in white bar charts after H21 are the municipal bond issue amount excluding the increase in bonds for extraordinary financial measures

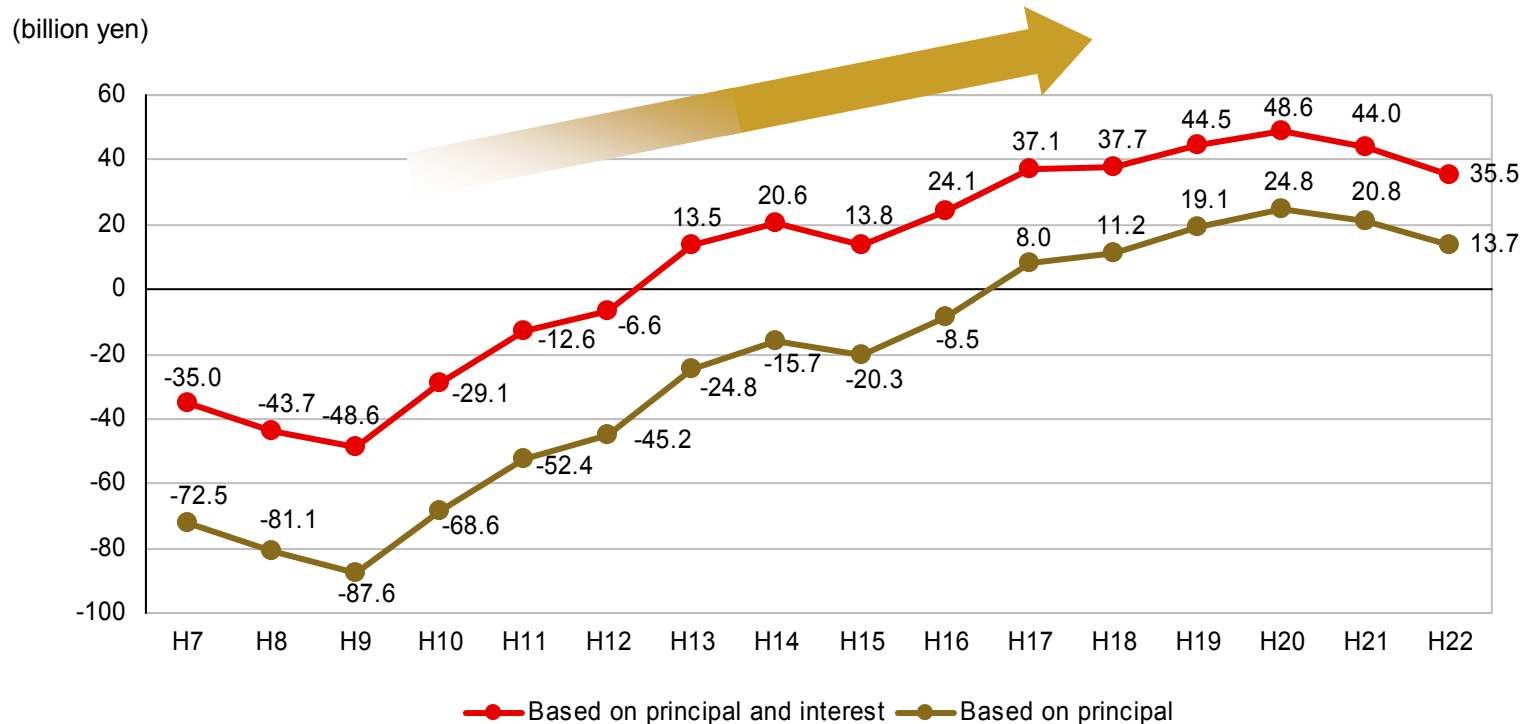
Reliance on Municipal Bonds (Initial Budget for General Account)



14. Primary Balance (Initial Budget for General Account)

- The primary balance is the difference between expenditures, excluding bond expenses, and revenue, excluding revenue from bonds. This is a widely used indicator of fiscal soundness. Fukuoka City has had a positive primary balance for ten consecutive years based on principal and interest and six consecutive years based on principal alone.

Trend of Primary Balance

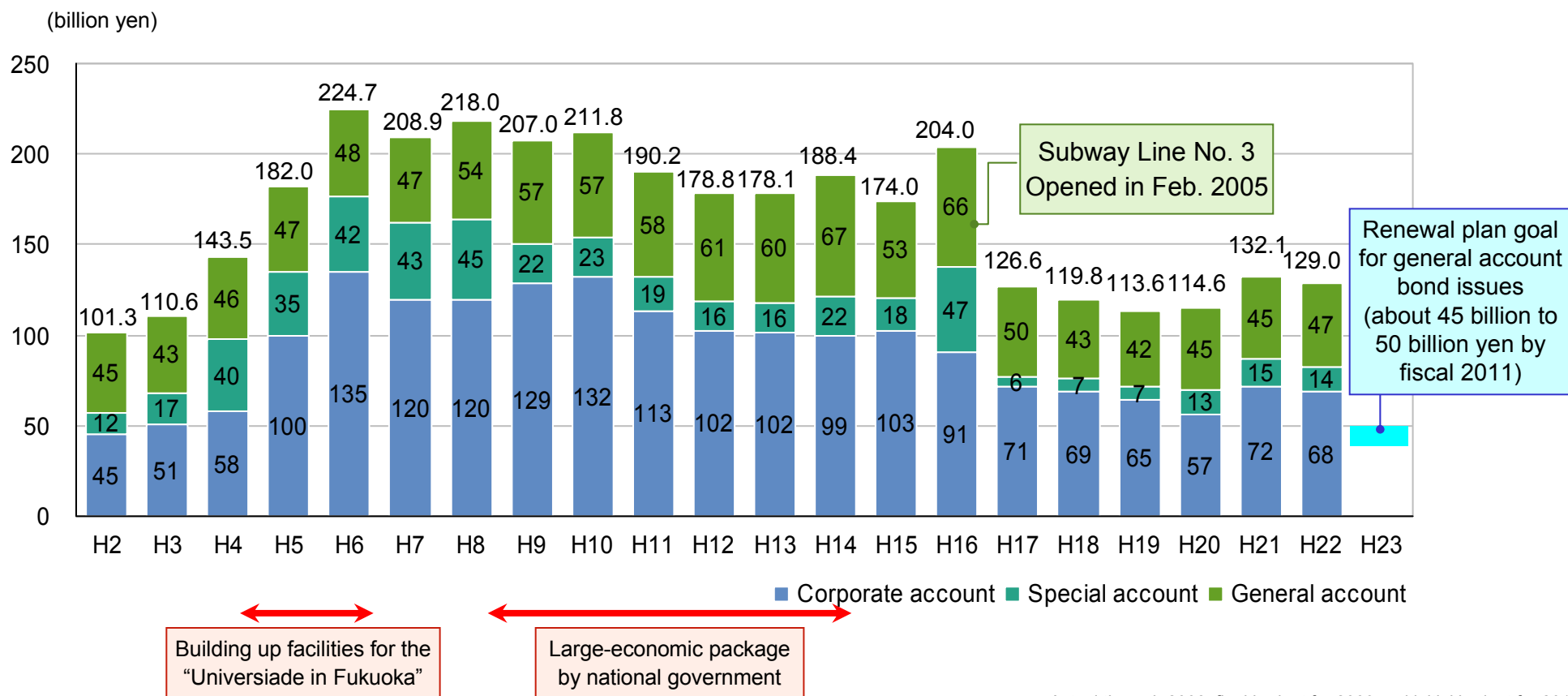


	H13	H14	H15	H16	H17	H18	H19	H20	H21	H22
Bond Balance (bn yen) ①	85.0	80.5	89.8	81.9	65.3	64.4	58.7	53.0	59.1	68.4
Principal Redemption (bn yen) ②	60.2	64.8	69.5	73.4	73.3	75.6	77.8	77.8	79.9	82.1
Net (bn yen) ①-②	24.8	15.7	20.3	8.5	▲ 8.0	▲ 11.2	▲ 19.1	▲ 24.8	▲ 20.8	▲ 13.7

15. Municipal Bond Issues (All Accounts)

- Municipal bond issues have declined to about half of the peak level even for all accounts.
- The Fiscal Renewal Plan calls for progressive reductions in general account municipal bond issues to between 45 billion and 50 billion yen by fiscal 2011.

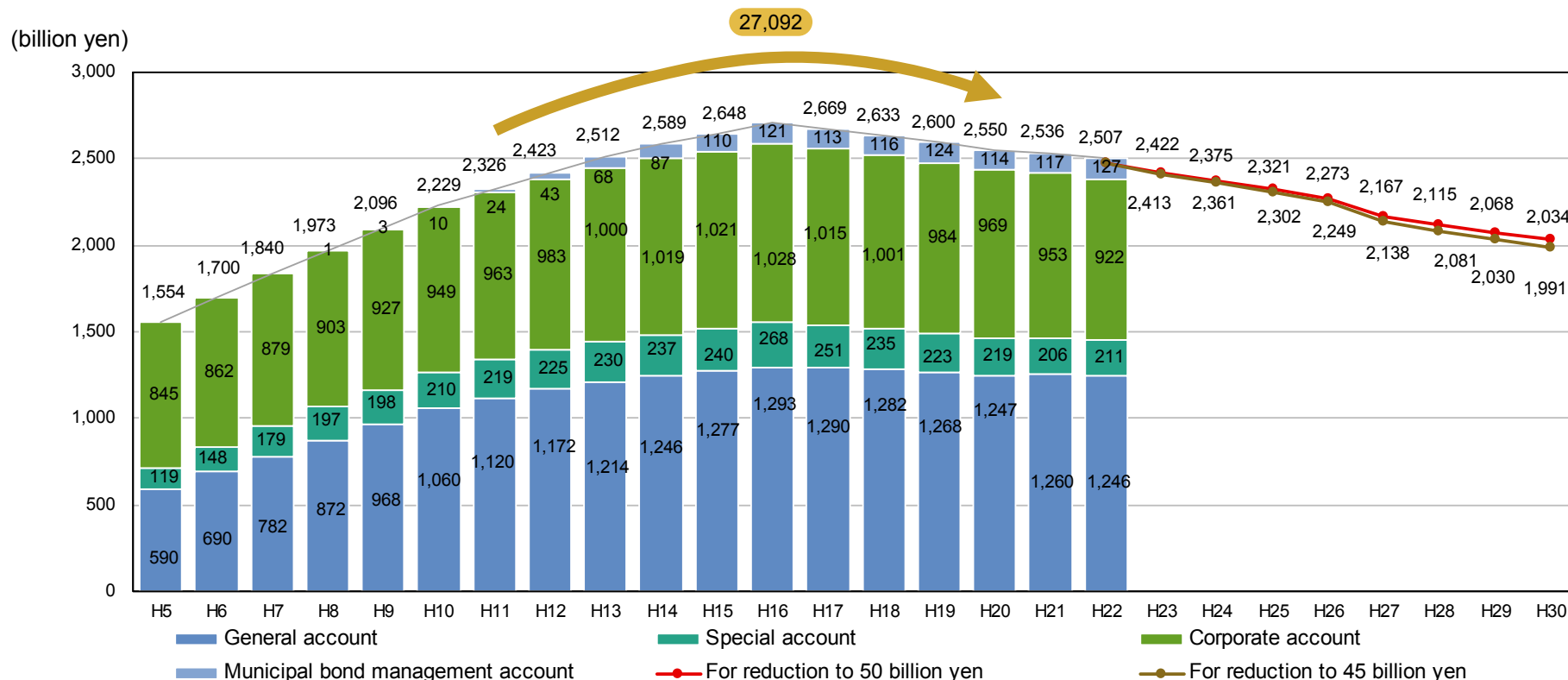
Municipal Bond Issues (All Accounts)



※ Actual through 2008, final budget for 2009 and initial budget for 2010

16. Municipal Bonds Outstanding (All Accounts)

- Due to the steady reduction in municipal bond issues, the amount of bonds outstanding peaked out in fiscal 2004 and has decreased for six consecutive years in all accounts: general, special and corporate.
- If general account bond issues decline to between 45 billion and 50 billion yen in line with the Fiscal Renewal Plan target, bonds outstanding in all accounts will probably decrease to about 2 trillion billion yen by fiscal 2018.



※ Actual through 2008, budget for 2009 and initial budget for 2010. Fiscal Renewal Plan estimates for following years

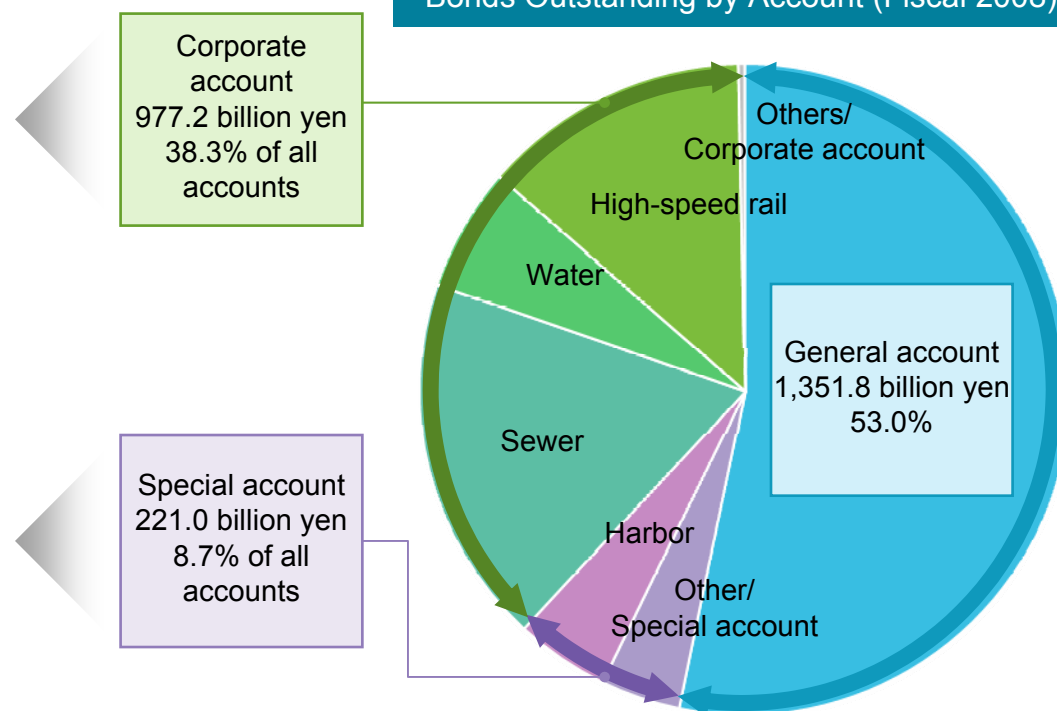
17. Municipal Bonds Outstanding by Account

- The general account represents about half of Fukuoka City's bonds outstanding and the corporate account represents about 40%.
- Harbor facilities account more than half of outstanding bonds in the special account.
- Sewer and High-speed rail have high percentage in the corporate account.

Municipal Bonds Outstanding by Account	Bonds outstanding (bn yen)	Pct. for all accounts (%)
Hospitals	11.1	0.4
Sewer	473.3	18.6
Water	154.2	6.0
Industrial water	0.5	0.0
High-speed rail (subway)	338.1	13.3
Total	977.2	38.3

Special account	Bonds outstanding (bn yen)	Pct. for all accounts (%)
Mother-child welfare fund	5.2	0.2
Village waste water	2.2	0.1
Central wholesale market	32.4	1.3
Harbor facilities	121.6	4.8
Municipal ferries	0.8	0.0
Meinohama district	10.4	0.4
Hakozaki district	14.8	0.6
Ito district	9.1	0.3
Kashii district	6.3	0.2
Urban redevelopment	4.0	0.2
Purchase of land for future use	8.6	0.3
Parking areas	3.9	0.2
Municipal boat racing arena	1.7	0.1
Total	221.0	8.7

Bonds Outstanding by Account (Fiscal 2008)



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

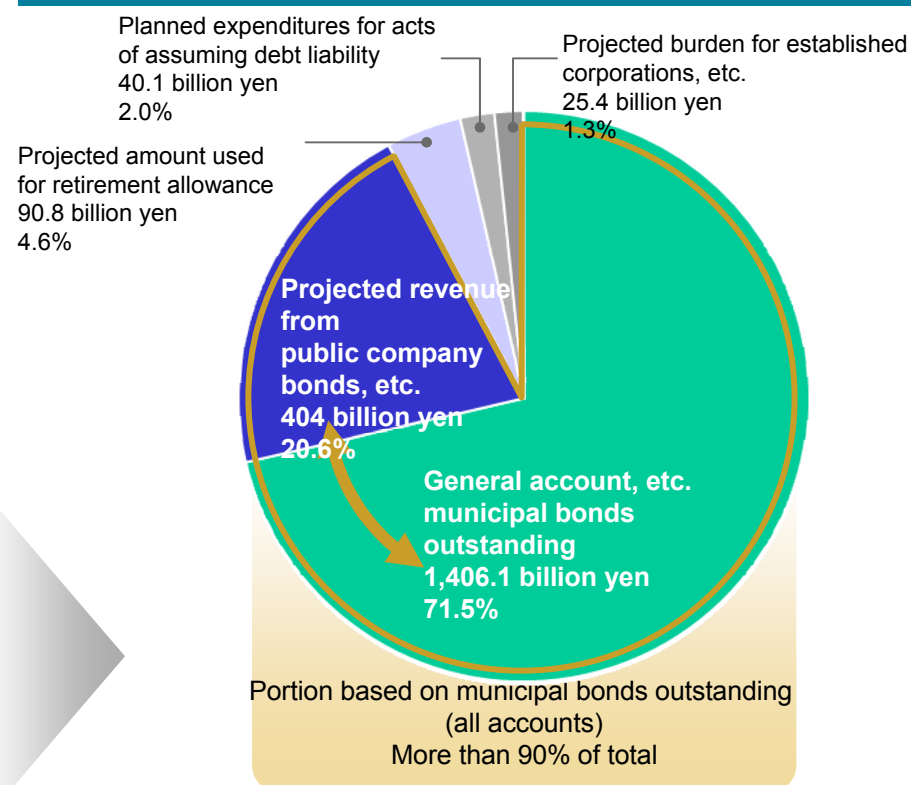
18. Ratios to Judge Financial Soundness (Four indicators)

- In fiscal 2008, all indicators were below the standards.
- Since the effective bond expense ratio is under 18%, Fukuoka City has been reclassified as a “consultative entity” starting in fiscal 2009, which eliminates the need for national government permission to issue bonds.
- Regarding the future burden ratio, municipal bonds outstanding will account for more than 90% of revenue. However, this percentage is expected to decline steadily due to upcoming measures to reduce the amount of bonds outstanding.

Indicator	Fukuoka City	Early fiscal soundness standards	Fiscal revitalization standards
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)	(18.4%) 17.8%	25%	35%
Future burden ratio (Amount of outstanding debt that may become a future burden for the general account, including extra-governmental organizations)	(259.6%) 254.0%	400%	

※ Figures in parentheses are for fiscal 2007

Composition of Future Burden* of 1,967.1 Billion Yen



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

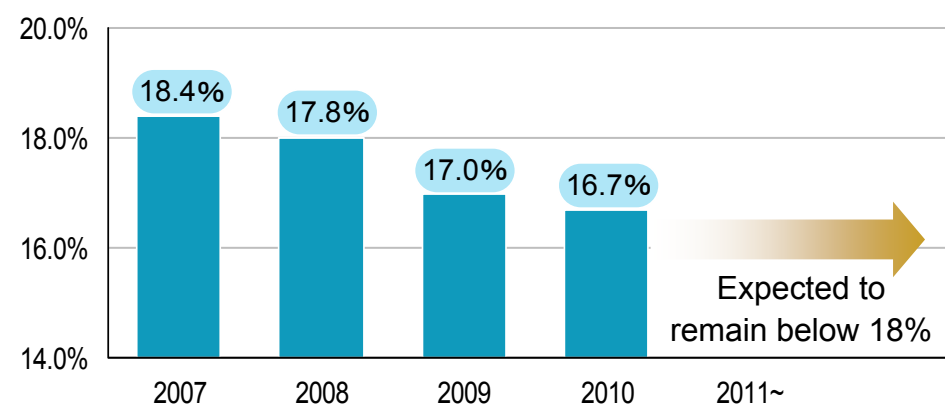
18. Ratios to Judge Financial Soundness (Outlook for effective bond expense ratio)

- By reducing in stages the amount of municipal bonds issued in accordance with the Fiscal Renewal Plan, the bond expense ratio will decline. This is expected to hold the effective bond expense ratio below 18%

Initiatives in FY2010 Initial Budget (General Account)

Reduce bond issuance (excl. increase in emergency fiscal measure bonds)	Approx. ¥50.9 billion (- ¥1 billion vs. FY2009) *1
Redemptions of principal	Approx. ¥82.1 billion (+¥2.2 billion vs. FY2009)*2
Reduction in interest with early redemptions based on the public fund indemnity payment exemption	Approx. ¥0.5 billion (+¥0.2 billion vs. FY2009)
Interest from bond reduction fund appropriated for bond redemptions	Approx. ¥2.1 billion (+¥0.5 billion vs. FY2009)

Projections for Effective Bond Expense Ratio *3



- *1. Year-on-year increase of ¥9.3 billion when factoring in the ¥17.5 billion increase in the emergency fiscal measure bond, a local fiscal measure of the national government
- *2. Redemptions of principal exceed municipal bond issuance by approximately ¥13.7 billion.
- *3. Actual through 2008, final budget for 2009, initial budget for 2010.

19. Profit and Loss for Corporate Account (FY2008)

Units: Yen millions

Corporate Account Name		Hospital	Sewer	Water	Industrial Water	High-speed Rail
Income Statement	Operating Revenue	9,275	45,142	31,641	213	23,182
	Operating Expense	9,937	30,698	28,152	143	21,961
	Operating Income	(661)	14,444	3,489	69	1,220
	Non-operating Income	1,074	1,118	2,466	3	5,832
	Non-operating Expense	338	13,648	4,050	17	7,667
	Ordinary Income	74	1,913	1,904	55	(615)
	Extraordinary Income	8	7	9	-	-
	Extraordinary Loss	25	82	66	-	-
	Net Income	58	1,838	1,847	55	(615)
	Earnings Surplus	(4,706)	3,282	7,869	248	(139,108)

Of which, Additions from General Account	918	18,360	440	-	5,799
Subsidies	-	-	335	-	5,799
Contributions	918	18,360	105	-	-

Other	Capital Inadequacy	-	-	-	-	-
	Future Burden on General Account	4,838	224,837	3,855	-	140,631

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

Corporate Account Name		Hospital	Sewer	Water	Industrial Water	High-speed Rail	
Balance Sheet	Assets	Fixed	14,909	911,205	320,845	1,217	487,813
		Current	1,660	18,731	13,025	213	1,080
		Total	16,570	929,936	333,870	1,430	488,893
	Liabilities	Fixed	-	27,595	7,376	39	78,389
		Current	1,568	15,198	5,099	35	31,056
		Total	1,568	42,794	12,475	74	109,445
	Equity	Paid-in Capital	(11,070) 15,475	(445,814) 523,826	(154,216) 222,822	(551) 748	(259,666) 375,863
		Retained Earnings	(473)	363,316	98,573	609	3,584
		Total	15,002	887,142	321,395	1,356	379,448
Liabilities + Equity	16,570	929,936	333,870	1,430	488,893		

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

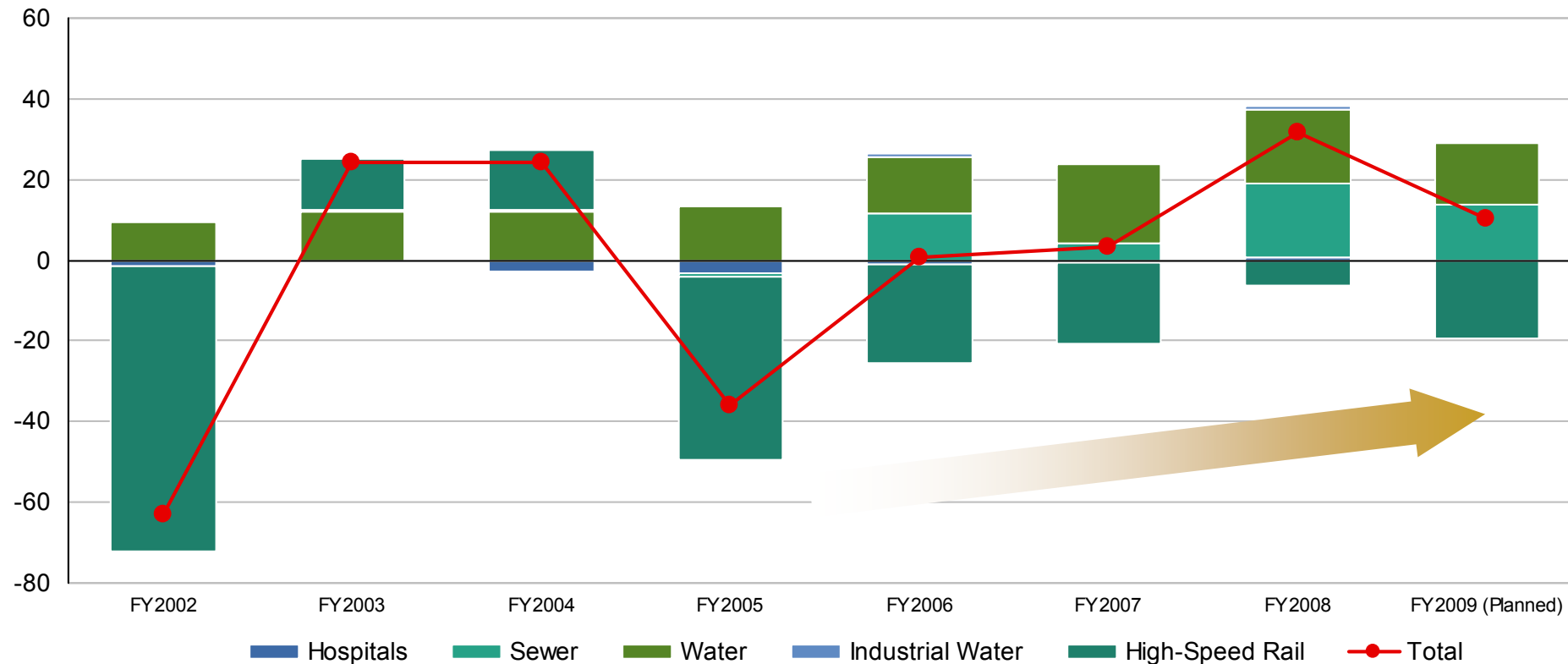
- A unique concept called “borrowed capital” is used in public corporation accounting. Accounts such as corporate bonds and long-term borrowings which are generally classified as fixed liabilities in ordinary corporate accounting are treated as “capital” in light of the importance of corporate bonds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

20. Historical Profit/Loss for Corporate Account

- Hospital business has been separated from the municipal accounting after being turned into an independent administrative agency in FY2010
- The profitability of high-speed rail is significantly negative and variable on a single-year basis

Historical Profitability of Business Accounting (Balance)

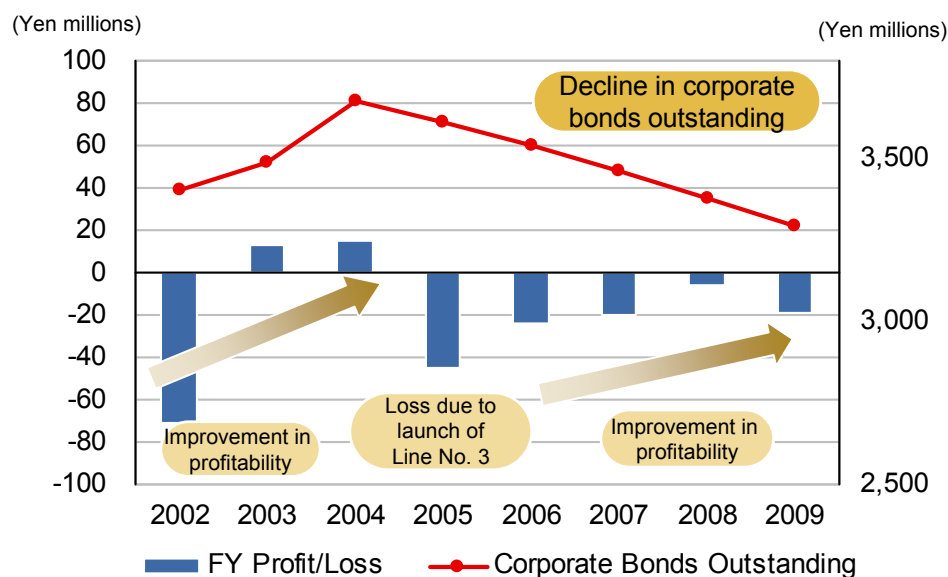
(100 mil. Yen)



21. Fukuoka Municipal Subway

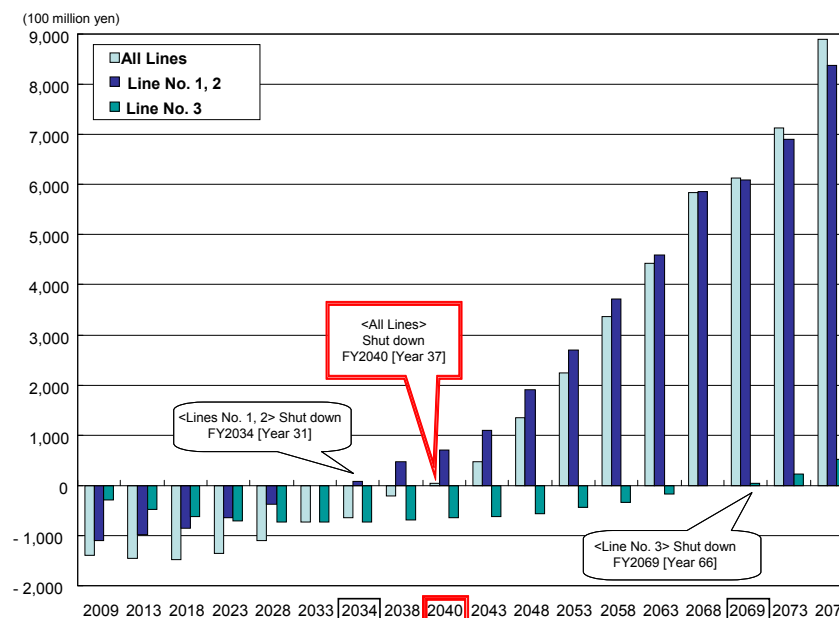
- Due to the massive investment to build the subway system, interest and depreciation expenses associated with construction expenses are exerting enormous pressure on the subway system's capital. Consequently, Fukuoka City is establishing a long-term outlook for profitability and aiming to achieve a long-term balance between income and expenditures in order to ensure the soundness of subway system operations in the future
- Fukuoka City achieved profitability of the subway system in FY2003 mainly by enhancing operational efficiency and by lowering the cost of capital for Lines No. 1 and 2. While the subway system reported losses in FY2005 due to the increase in cost of capital as a result of the launch of Line No. 3 (Nanakuma Line), performance has since gradually improved, and the subway system is expected to achieve **profitability on a single-year basis in FY2018 and on an accumulated basis in FY2040**. In addition, the total balance of corporate bonds outstanding has decreased for four consecutive years after peaking out in FY2004, and is expected to continue to decrease going forward
- The subway system will continue to engage in efforts aimed at increasing customers and revenues such as promoting the use of its Hayakaken IC card for which e-money services and mutual use services commenced in March 2010, promoting the sales of the Eco-chika ticket, and promoting SUBWAY DIET as well as at enhancing operational efficiency in order to achieve long-term stability and operational health

Subway System Profitability



*Actual through 2008, budget for 2009

Long-term Projection for Profitability



*1 Forecasts based on "Fukuoka Subway Long-term Profit Forecasts" formulated in February 2009.

*2 [] refers to the number of years after the launch of Line No. 3 in FY2004.

22. Operations of Extra-governmental Organizations

- There are currently 36 extra-governmental organizations (organizations towards which Fukuoka City invests or contributes at least 25% of total capital or total funds) in Fukuoka City
- 8 of 43 organizations excluding Across Fukuoka for which Fukuoka Prefecture is the largest investor have been eliminated since FY2004. The Second Extra-governmental Organization Action Plan has been formulated to promote further consolidation efforts aimed at another 10% reduction in extra-governmental organizations by the end of FY2011
- FY2010 saw the reduction of one organization due to the merger of Fukuoka City Sports Promotion Foundation and Fukuoka City Physical Fitness Association effective April 1

Fukuoka City Extra-governmental Organizations <FY2008 Financial Results>

Organization	Ownership	Change in net assets or net profit (Million yen)	City subsidy (Million yen)	Liabilities associated with debt guarantees and loss indemnity contracts (100 million yen)
Fukuoka City Land Development Public Corp.	100%	54	-	515
Fukuoka-Kitakyushu Expressway Public Corp.	37%	47	-	1,965
Fukuoka City Housing Public Corp.	100%	33	-	-
Fukuoka Asia Urban Research Center (foundation)	100%	(1)	21	-
Fukuoka International Exchange Association (foundation)	100%	(10)	242	-
Fukuoka City Culture and Arts Promotion Foundation	100%	(13)	298	-
Fukuoka City Sports Promotion Foundation	100%	0	299	-
Fukuoka City Physical Fitness Association	51%	1	51	-
Fukuoka City Healthy Living Foundation	74%	4	-	-
Fukuoka City Social Welfare Foundation	100%	15	288	-
Fukuoka Environmental Foundation	100%	(138)	50	46
Kyushu Advanced Scientific Technology Research Center (foundation)	83%	(20)	329	-
Fukuoka City SME Employee Welfare Association (foundation)	100%	(8)	-	-
Fukuoka Tourism and Convention Bureau (foundation)	95%	(10)	-	-
Fukuoka Convention Center (foundation)	93%	738	970	100
Fukuoka City Ocean Park Management Association (foundation)	80%	0	-	-
Fukuoka City Marine Processing Public Corp. (foundation)	100%	(247)	298	16
Fukuoka City Forest and Greenery Association (foundation)	100%	25	58	-

Organization	Ownership	Change in net assets or net profit (Million yen)	City subsidy (Million yen)	Liabilities associated with debt guarantees and loss indemnity contracts (100 million yen)
Hakata Station District Development Commemorative Hall (foundation)	100%	(3)	-	-
Fukuoka City Sewer Resources Center (foundation)	100%	(1)	-	-
Fukuoka City Facilities Public Corp. (foundation)	100%	(0)	302	45
Fukuoka City Disaster Prevention Association (foundation)	100%	4	-	-
Fukuoka City Water Services Public Corp. (foundation)	67%	(0)	-	-
Fukuoka City Transportation Promotion Association (foundation)	100%	14	-	-
Fukuoka City School Meals Public Corp. (foundation)	50%	(6)	-	-
Fukuoka Clean Energy Co., Ltd.	51%	491	-	-
Hakata Harbor Development Co., Ltd.	51%	1,421	-	-
Hakata Harbor Wharf Co., Ltd.	51%	113	-	-
Fukuoka City Education Promotion Association (foundation)	47%	(19)	52	-
Hakataza Theater Co., Ltd.	27%	(575)	-	-
Fukuoka Soft Research Park Co., Ltd.	47%	3	-	-
Fukuoka Tower Co., Ltd.	33%	62	-	-
Fukuoka Underground Shopping Center Development Co., Ltd.	49%	222	-	-
Sun Selco Building Management Co., Ltd.	30%	16	2	-
Fukuoka City Hospital Organization (established 4/2010)	100%	-	-	-
Across Fukuoka (foundation)	33%	39	-	-

23. Operations of Three Fukuoka Public Corporations (FY2008)

- Each of the 3 public corporations of Fukuoka City continue to engage in stable operations and have significant retained earnings
- Fukuoka City Housing does not engage in condominium housing projects on its own; its engages in stable operations focused on residential leases and municipal housing management projects (Managed rooms as of the end of FY2008: 932 leased residences, 31,756 municipal residences)
- Fukuoka-Kitakyushu Expressway has redeemed 11.7% of managed roads (as of the end of FY2008), and is the only expressway in designated cities across the country which has set aside an “allowance for losses from road projects” of approximately ¥37.1 billion to protect against future risk of operating losses (Road extension as of the end of FY2008: 101.3 km (of which, Fukuoka Expressway: 51.8 km))
- Fukuoka City Land Development acquires land for national projects in addition to those for city projects. Progress in the relocation of Kyushu University, a national project, is expected to lead to a decrease in the amount of land owned by the public corporation. (Land owned as of the end of FY2008: approx. ¥ 15.7 billion for city projects, approx. ¥ 35.3 billion for national projects)

Units: Yen millions

Public Corporation Name		Fukuoka City Housing	Fukuoka-Kitakyushu Expressway	Fukuoka City Land Development	
Investments	Capital	10	214,882	40	
	Of which, investment by Fukuoka City	10	78,693	40	
	(% of total)	100	37	100	
	Number of investors	1	3	1	
Balance Sheet	Assets	Fixed assets	4,162	1,218,563	4,788
		Current assets	3,024	14,635	52,226
		Deferred assets	0	1,159	0
		Total assets	7,186	1,234,357	57,014
	Liabilities	Current Liabilities	1,396	88,538	393
		Fixed Liabilities	2,761	754,834	54,590
		Allowances based on special laws (special reserves)	0	175,433	0
		Total liabilities	4,157	1,018,805	54,983
	Equity	Capital	10	214,882	40
		Retained earnings	3,019	670	0
		Legal reserves	0	0	1,991
Total equity		3,029	215,552	2,031	
Total Liabilities and Equity		7,186	1,234,357	57,014	

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

Public Corporation Name		Fukuoka City Housing	Fukuoka-Kitakyushu Expressway	Fukuoka City Land Development	
Income Statement	Ordinary Income/Expense	Operating revenue (a)	7,915	51,097	11,142
		Operating expenses (b)	7,526	38,637	11,008
		General and administrative expenses (c)	161	1,088	101
		Operating income (d=a-b-c)	228	11,372	33
		Non-operating income (e)	57	304	28
		Non-operating expenses (f)	111	11,629	7
	Extraordinary Items	Ordinary income (g=d+e-f)	174	47	54
		Extraordinary gain (h)	0	0	0
		Extraordinary loss (i)	141	0	0
		Income before legal reserves (j=g+h-i)	33	47	54
		Reversal of legal reserve (k)	70	0	0
Provisions for legal reserves (l)		0	0	0	
Income Statement	Income taxes (m)	0	0	0	
	Net income (n=g+h-i-m)	0	47	54	
	Housing Public Corp. (n=j+k-l-m)	103			

24. Credit Rating of Fukuoka City

- Fukuoka City obtained credit ratings for enhancing evaluation in the market on April 8, 2008

Rating Agency: Moody's Investors Service

Debt denominated in yen	Aa2/(Outlook: Stable)
Credit standing as local government	BCA (Base Line Credit): 4

※ As of April 1, 2010

Ratings of Other Municipalities

	Domestic Currency bond rating	BCA
Fukuoka City	Aa2	4
Fukuoka Prefecture	Aa2	4
Shizuoka Prefecture	Aa2	4
Hiroshima Prefecture	Aa2	4
Sapporo City	Aa2	4
Shizuoka City	Aa2	4
Hamamatsu City	Aa2	4
Nagoya City	Aa2	4
Sakai City	Aa2	4
Niigata Prefecture	Aa2	5
Osaka City	Aa2	5
Kyoto City	Aa2	5



For BCA, Fukuoka City is the 4th rank at 21-grade evaluation. This is a higher rank among domestic municipalities.

Evaluation By Rating Agency

- Fiscal conditions have steadily improved. 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
- Potential growth of local economy (e.g. population growth, enterprise attraction)

25. Fiscal 2010 Fukuoka City Plan for Municipal Bond Public Offerings

Amount to be issued 160 billion yen

Maturities/Types	Billion yen												Total
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
10-year (nationwide)							15					15	30
5-year (nationwide)			10		10					20			40
5-year (spot)													10
3-year (resident participation)						5							5
10-year (joint issue)	7			7				7		7	7		35
Total	7		10	7	10	5	15	7	20	7	7	15	120
Longer-term bonds (spot)	10 (20Y)						10 (30Y)						20
Flex													20
Total	First half 49 + α						Second half 81 + α						160

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

Contact

Please feel free to contact the following with any queries.

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