



# Fiscal Status of Shizuoka Prefecture

October  
2014



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# 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 (Aa3 from Moody's and AA+ from R&I)

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

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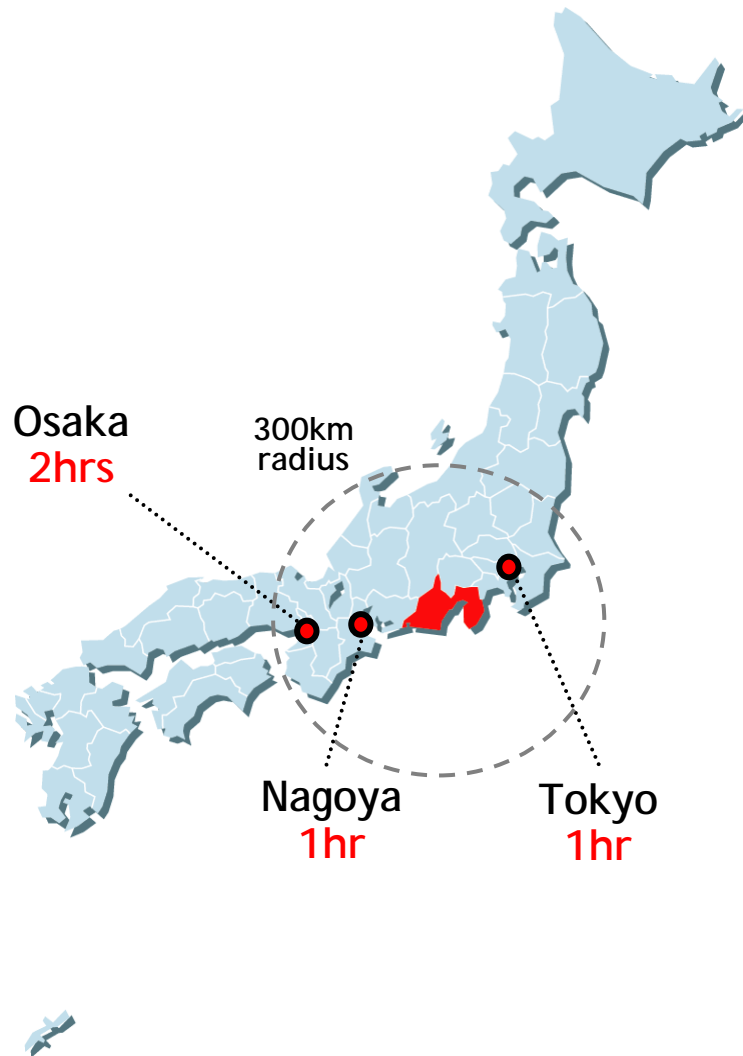
# 1 Overview of Shizuoka

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## Located in 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 a 300km radius of Shizuoka accounts for 70% of the Japanese GDP

## Per capita income ranked 2nd (out of 47 prefectures)

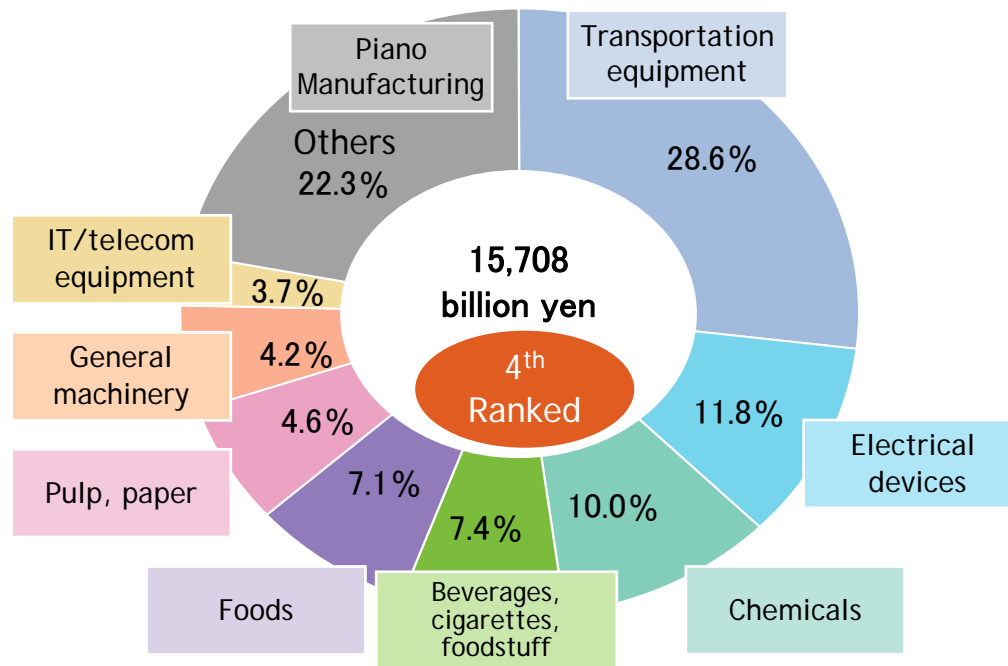
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- Population: 3.7 mm (Ranked 10<sup>th</sup> largest)
- Area: 7,780 km<sup>2</sup> (Ranked 13<sup>th</sup> largest)
- Per Capita Income: approx. JPY 3.16 mm (Ranked 2<sup>nd</sup> highest)

# Overview of Shizuoka - Stable Economic Foundation

## Balanced Industrial Structure

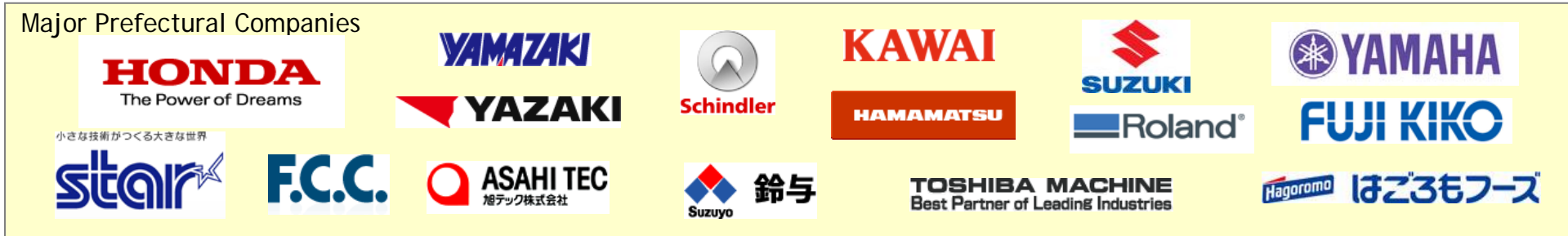
Total revenue from manufactured products (2012)



## Leading domestic "Land of Manufacturers"

- Revenue from manufactured products (Ranked 4<sup>th</sup> in Japan)  
Ranked 1<sup>st</sup>  
Beverages, Cigarettes, Foodstuffs, Electrical devices, Pulp, Paper
- Ranked 2<sup>nd</sup>  
Transportation equipment manufacturing
- SUZUKI, HONDA, YAMAHA, all now global brand name companies, were founded in Shizuoka
- The founders of TOYOTA, HONDA, and YAMAHA were born in Shizuoka

### Major Prefectural Companies



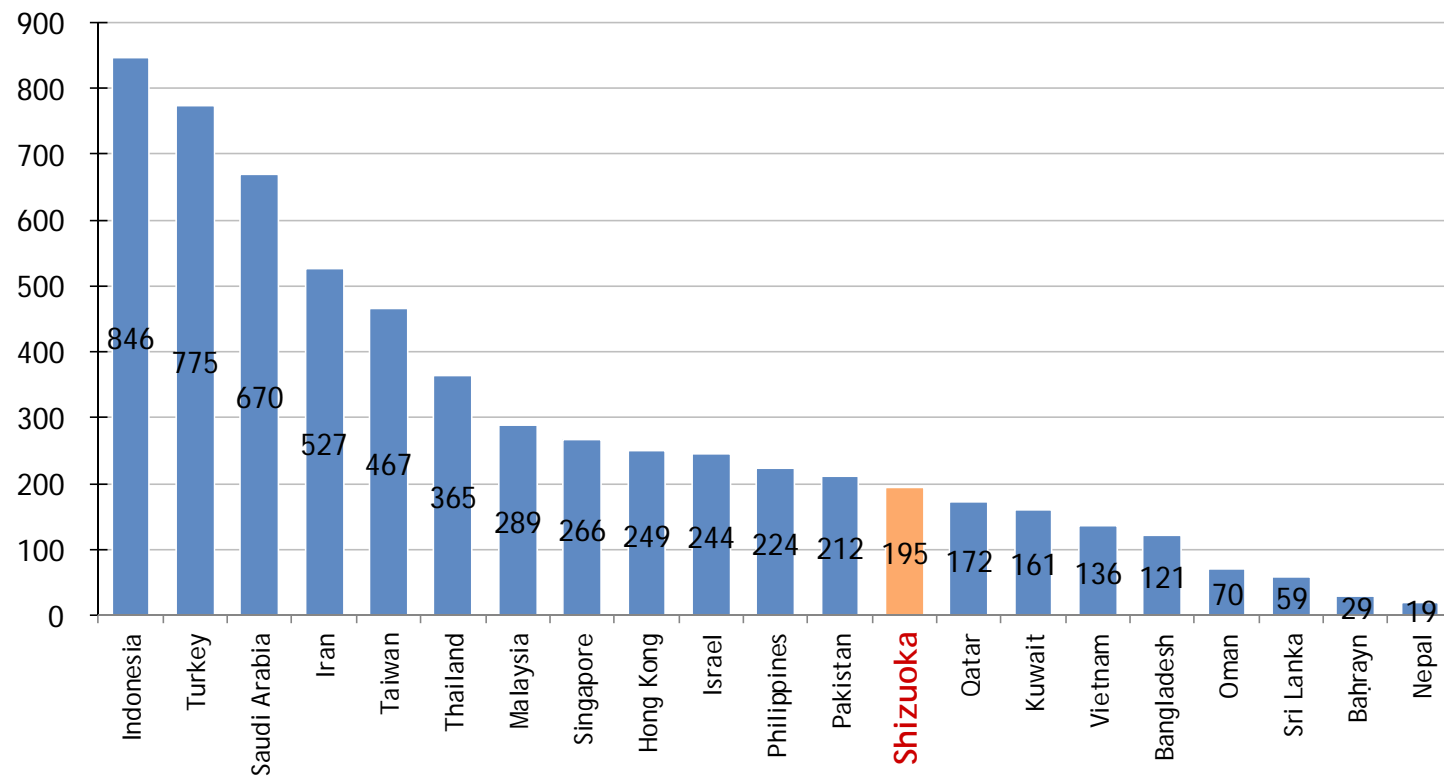
# Overview of Shizuoka - Economic Scale

## GDP comparable to the Pakistan

- GDP: US\$ 195.0 billion
- Ranked 10<sup>th</sup> in Japan (out of 47 prefectures)

Unit: USD bn

GDP of Shizuoka and Other Countries (2011)



# Overview of Shizuoka - Transportation Infrastructure

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

- Domestic Routes 4 routes  
42 round-trips per week
  - International Routes 4 routes  
13 round-trips per week
- < Destinations >
- Seoul, Shanghai, Wuhan, Taipei



New Tomei Expressway

Tomei Expressway

Tokaido Shinkansen

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.

Suruga Bay Port

Port of Shimizu: 24.5 trips per week to China, South East Asia, North America, etc...

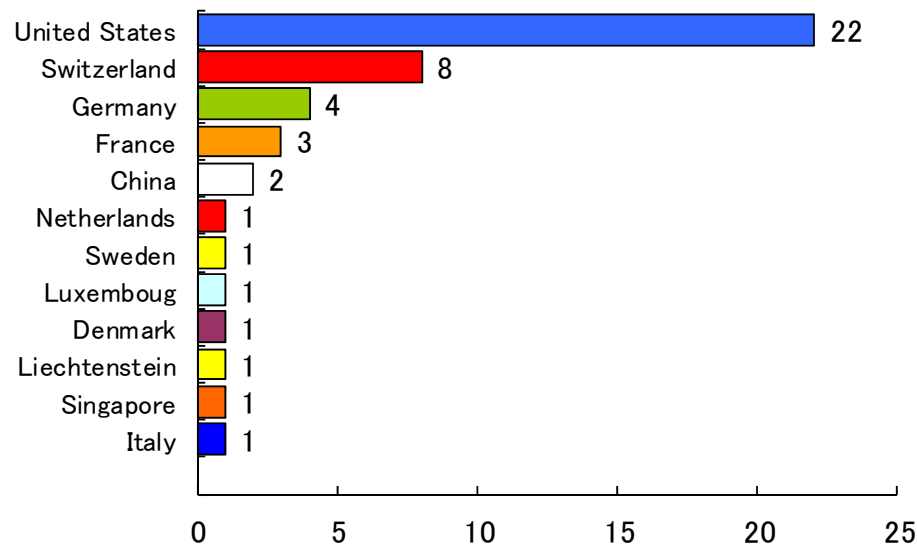


Port of Shimizu



# Overview of Shizuoka - Active Industrial Location

No. of Global Companies in Shizuoka by Country



## 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)

## Attracting global companies

46 global companies with bases of operations established in Shizuoka

Germany



Eaton Electric  
hightech metal

Switzerland



ABB  
Schindler Elevator

France



Cosmeroll  
Imerys Minerals

Netherlands



New Tritec

Liechtenstein



Triumph

Singapore



Böhler-Uddeholm

# Overview of Shizuoka - Abundant Tourism Resources



Mt. Fuji Shizuoka Airport



Asagiri Food Court and Mt. Fuji



Including Mt. Fuji, recently registered as a World Heritage Site, Shizuoka is also the location of the renowned tourist spot, Izu Peninsula.

Largest number of Japanese style inns (*ryokan*) and hot spring facilities in Japan.



Hot springs  
Shirakabe-soh

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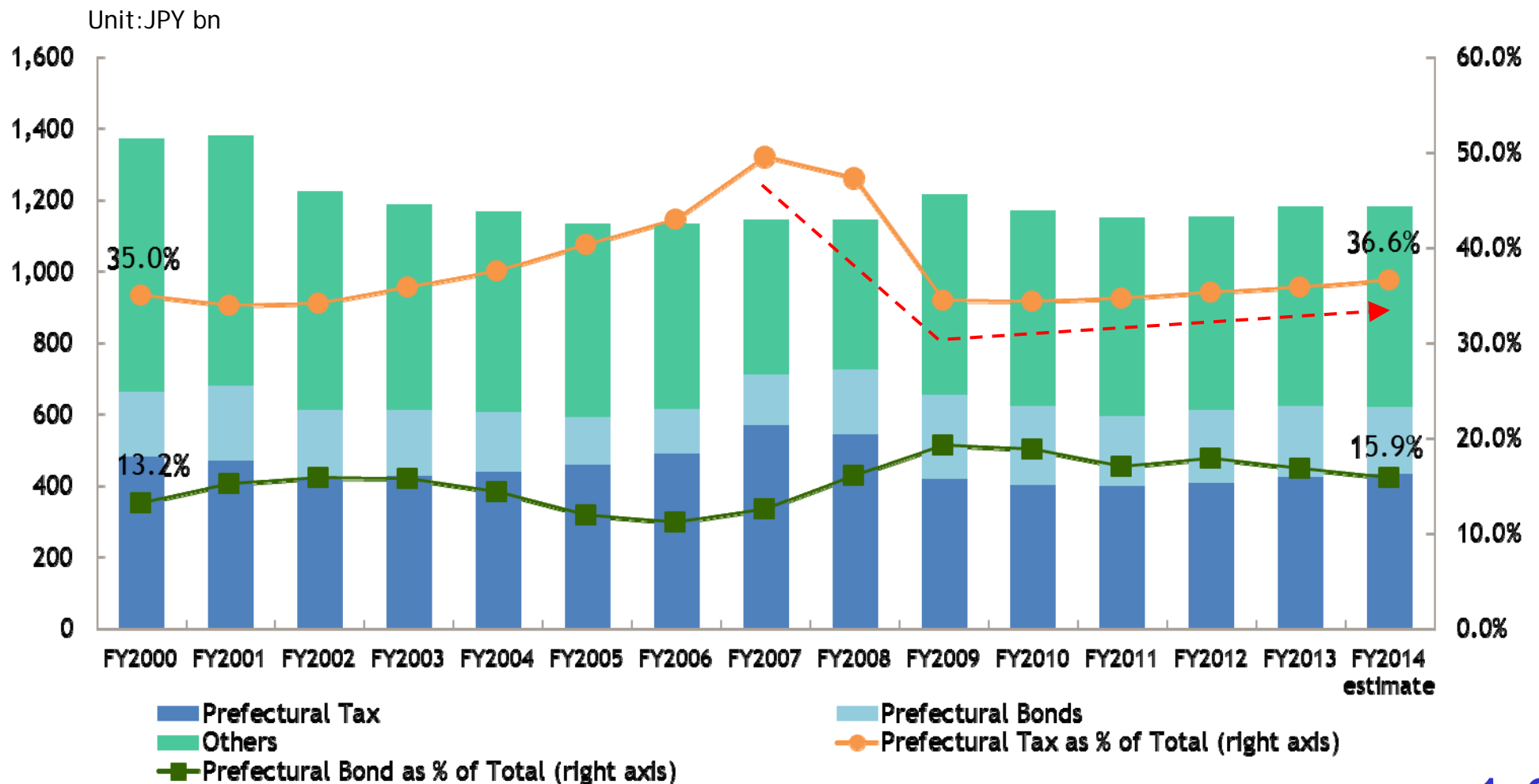
## 2 Fiscal Position of Shizuoka

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# Fiscal Position of Shizuoka-Change in Revenue Accounts

Decline in tax revenue has stopped and stabilized after bottoming out

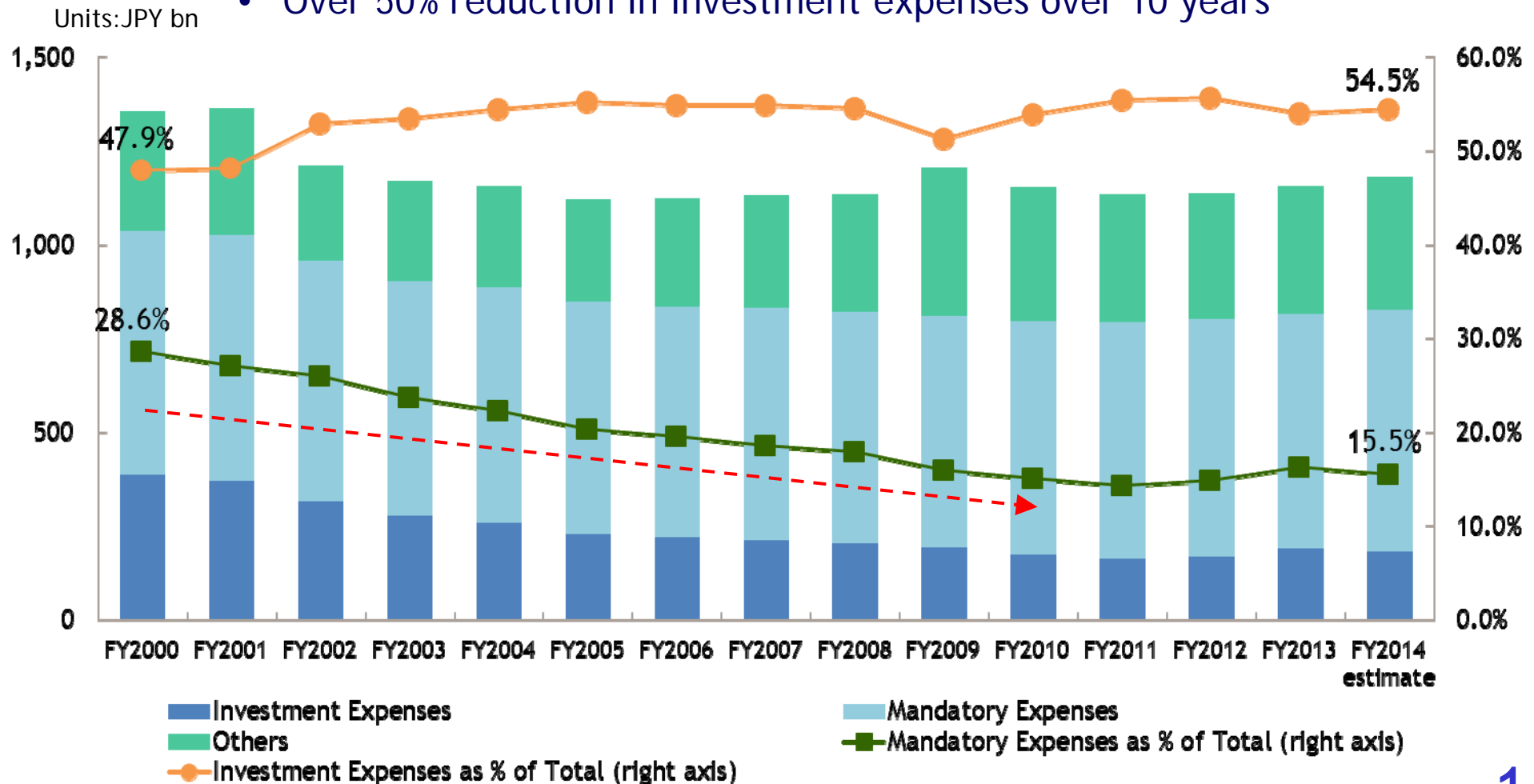




# Fiscal Position of Shizuoka-Change in Expenditure Accounts

## Reduction in expenditures through administrative reform

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



# Fiscal Position of Shizuoka-Status of Debts and PB

## Surplus maintained for primary balance

Category	End of FY2013 (JPY bn)	Status
Prefectural bond balance	2,665	Proportion of GDP (2011): approx. 17% Note: National figure approx. 158%

Category	End of 2013 (JPY bn)	Status
Primary balance	120	Surplus maintained

# Fiscal Position of Shizuoka - Medium term Fiscal Outlook

All fiscal indicators established by the national government are healthy

All four indicators are lower than the nationally established standards

4 Indicators*	Description	Fiscal 2013	Mid-Term Outlook			National Standard	
			Fiscal 2014	Fiscal 2016	Fiscal 2018	Early warning limit	Reconstruction limit
Real deficit ratio	Amount of general account deficit as a proportion of fiscal scale	(Surplus)	(Surplus)	(Surplus)	(Surplus)	3.75%	5.0%
Consolidated real deficit ratio	Amount of all account deficits as a proportion of fiscal scale	(Surplus)	(Surplus)	(Surplus)	(Surplus)	8.75%	15.0%
Real debt payment ratio	Public debt expenses as a proportion of fiscal scale	14.9%	14.9%	15.0%	14.7%	25.0%	35.0%
Future burden ratio	Prefectural bond balance as a proportion of fiscal scale	239.2%	242.2%	243.1%	235.9%	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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# Management of Prefectural Bonds

## Issuance Policy

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

## Shizuoka Issued Bond Ratings

Rating and Investment Information, Inc.

**AA+ Stable**

Rating Company Comment (Dec 2013)

- Prefectural administration focusing on stimulating the local economy and maintaining a healthy fiscal status

Reference: JGB Rating AA+ Stable

Moody's

**Aa3 Stable**

Rating Company Comment (Feb 2014)

- Relatively low debt burden when compared with other local government organizations
- Excluding supplementary debt, prefectural debt balances have continuously decreased; healthy fiscal management and solid local economic fundamentals

Reference: JGB Rating Aa3 Stable

## 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).
- The bankruptcy of LGs(Local Governments) and debt discharge of LGB is NOT allowed under current Japanese legal system.
- Therefore, payment failure has NOT happened up to now.
- 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)

# Prefectural Bond Issuance Plan

## ● Shizuoka Prefectural Bond Issuance Plan - Fiscal 2014 (Unit: JPY bn)

		Issue Amount
Shizuoka Prefectural Bond	5-year	40
	10-year	130
	15-year	30
	20-year	10
	30-year	30
	Others	30
	Sub-Total	270
Joint Issuances (10-year)		60
Total Public Offering		330
Others		42.8
Total		372.8

### Expected Issuance from November

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

※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.

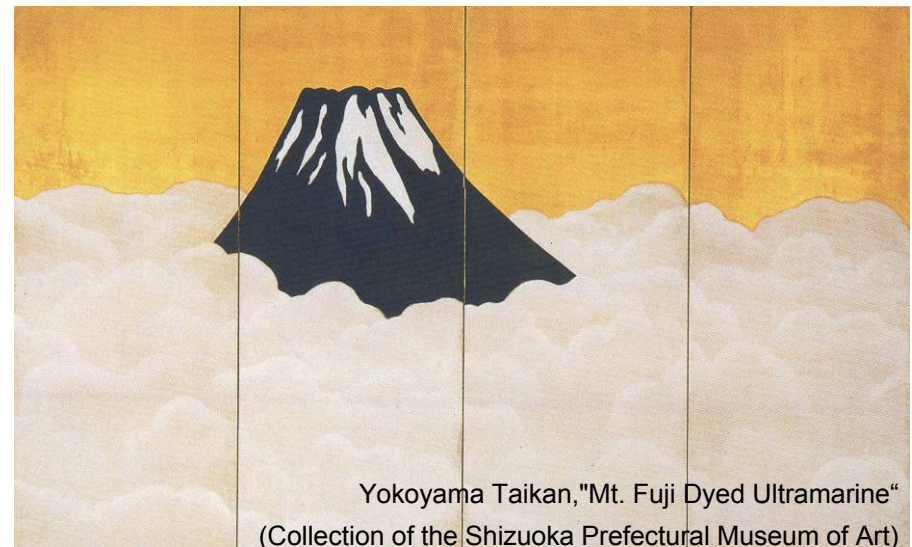
5yr (since FY2013)						
Maturity Date	Coupon	Spread	Issue Amount (JPY bn)	MDY	R&I	Launch Date
2019/8/26	0.163	JGB+2.5bp	10	Aa3	AA+	2013/8/6
2019/6/24	0.209	JGB+2.0bp	10	Aa3	AA+	2014/6/4
2019/4/25	0.224	JGB+3.0bp	10	Aa3	AA+	2014/4/2
2019/3/26	0.204	JGB+2.5bp	10	Aa3	AA+	2014/3/5
2018/8/23	0.342	JGB+3.0bp	10	Aa3	AA+	2013/8/2
2018/4/19	0.163	JGB+3.0bp	10	Aa3	AA+	2013/4/3
10yr (since FY2013)						
Maturity Date	Coupon	Spread	Issue Amount (JPY bn)	MDY	R&I	Launch Date
2024/9/25	0.564	JGB+2.5bp	10	Aa3	AA+	2014/9/3
2024/8/26	0.566	JGB+3.0bp	10	Aa3	AA+	2014/8/6
2024/7/25	0.610	JGB+2.0bp	20	Aa3	AA+	2014/7/4
2024/5/27	0.679	JGB+3.5bp	10	Aa3	AA+	2014/5/9
2024/4/25	0.694	JGB+4.0bp	20	Aa3	AA+	2014/4/2
2024/3/26	0.669	JGB+4.5bp	10	Aa3	AA+	2014/3/5
2023/11/22	0.679	JGB+7.0bp	20	Aa3	AA+	2013/11/7
2023/10/24	0.699	JGB+4.5bp	10	Aa3	AA+	2013/10/2
2023/9/20	0.801	JGB+4.0bp	10	Aa3	AA+	2013/9/4
2023/7/25	0.926	JGB+3.5bp	10	Aa3	AA+	2013/7/3
2023/6/21	0.882	JGB+2.0bp	20	Aa3	AA+	2013/6/5
2023/5/17	0.600	JGB+3.0bp	20	Aa3	AA+	2013/5/2
2023/4/19	0.581	JGB+2.5bp	20	Aa3	AA+	2013/4/3
15yr (since FY2013)						
Maturity Date	Coupon	Spread	Issue Amount (JPY bn)	MDY	R&I	Launch Date
2029/6/25	1.062	JGB+3.0bp	20	Aa3	AA+	2014/6/27
2028/11/20	1.087	JGB+5.5bp	10	Aa3	AA+	2013/10/2
2028/6/23	1.338	JGB+1.5bp	10	Aa3	AA+	2013/6/14
20yr (since FY2013)						
Maturity Date	Coupon	Spread	Issue Amount (JPY bn)	MDY	R&I	Launch Date
2034/7/10	1.473	JGB+4.5bp	10	Aa3	AA+	2014/6/27
2033/10/11	1.604	JGB+6.5bp	10	Aa3	AA+	2013/10/2
2033/6/14	1.720	JGB+5.0bp	10	Aa3	AA+	2013/6/5
30yr (since FY2013)						
Maturity Date	Coupon	Spread	Issue Amount (JPY bn)	MDY	R&I	Launch Date
2044/6/20	1.862	JGB+15.0bp	30	Aa3	AA+	2014/6/20
2043/6/19	1.988	JGB+16.0bp	30	Aa3	AA+	2013/6/14

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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 2011)



# (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 a 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 the local governments' future ability to repay principal and interest of local government bonds.

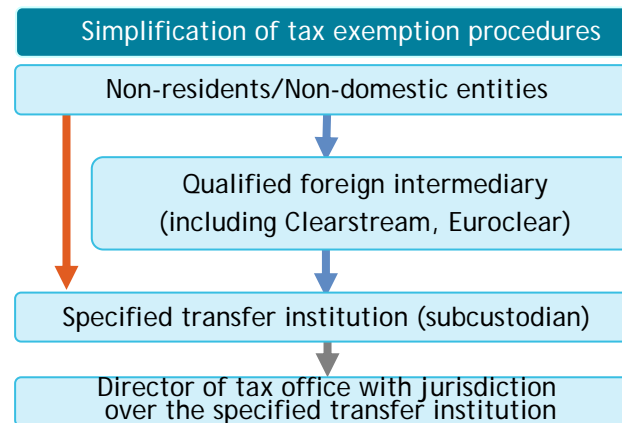
From January 1, 2008, tax exemption measures apply with respect to the interest on transfer local government bonds for non-residents and non-domestic entities which satisfy the following prescribed conditions. Prior to that, a 15% source deduction was deducted from interest earned on Japanese local government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

- Settled through the Japan Securities Depository Center, Inc.      ■ Non-resident holds the bonds through a qualified foreign intermediary or qualified account management institution etc
- Submits the appropriate tax exemption form

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

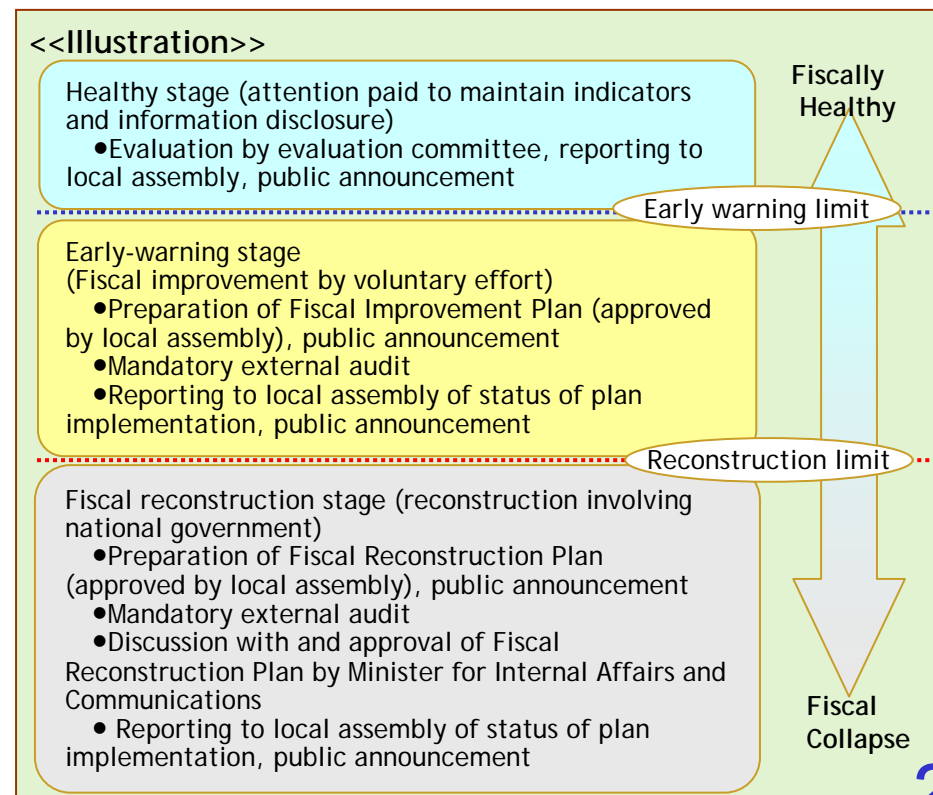




# (Reference) Fiscal Health Indicators

- 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 2000	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
Prefectural Tax	480	468	418	425	438	457	488	567	541	418	402	398	406	423	432
% of Total	35.0	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	36.6
Local Allocation Tax	214	207	205	192	165	169	144	128	116	148	168	164	165	156	145
% of Total	15.6	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	12.2
National Treasury Disbursements	223	231	206	190	181	154	127	118	130	202	149	137	131	146	134
% of Total	16.2	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	11.3
Prefectural Bonds	180	210	194	186	168	135	125	143	184	234	220	195	205	199	187
% of Total	13.2	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	15.9
Others	274	264	201	192	216	218	249	188	172	212	230	256	246	257	283
% of Total	20.0	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	24.0
Total	1,371	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	1,180

\* Fiscal 2014 figures are initial budget estimates, actual figures provided up to Fiscal 2013

# (Reference) General Accounts - Change in Expenditures

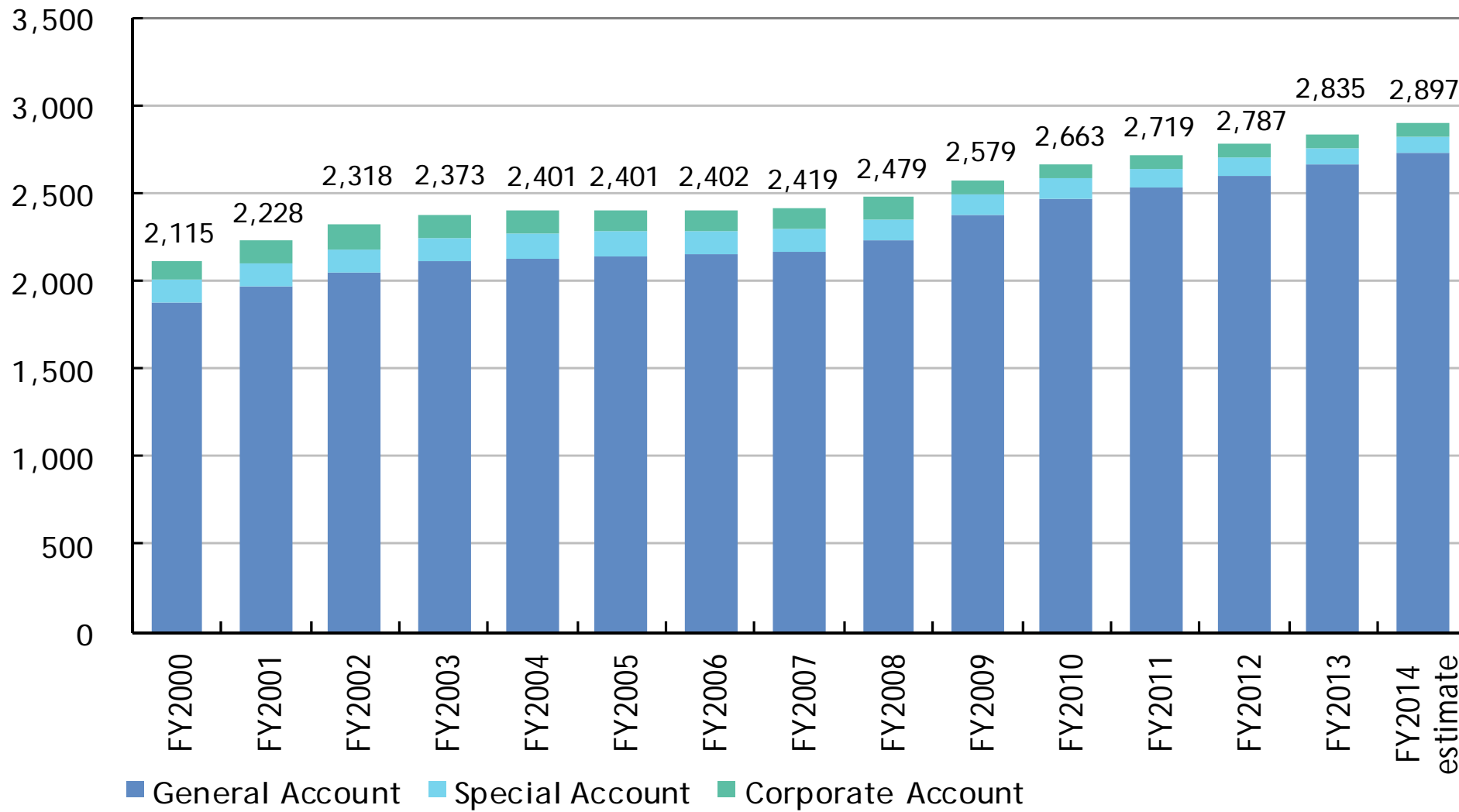
(Units: JPY bn, %)

Categories	FY 2000	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
Mandatory Expenses	649	656	642	626	629	621	617	622	619	618	623	630	633	626	643
% of Total	47.9	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	54.5
Personnel Expenses	405	410	404	390	390	391	392	393	386	377	373	372	368	356	359
% of Total	29.9	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
Social Aid Expenses	55	59	61	54	57	56	63	66	69	72	77	81	85	89	94
% of Total	4.0	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	8.0
Bond Expenses	185	179	168	173	174	165	158	159	161	168	170	172	171	178	182
% of Total	13.6	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	15.4
Disaster Recovery Expenses	6	8	9	9	9	8	4	4	3	1	3	6	8	4	9
% of Total	0.4	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	0.7
Investment Expenses	387	369	315	277	258	228	219	211	203	192	171	160	169	189	183
% of Total	28.6	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	15.5
Public/Direct	199	191	175	150	137	120	111	101	90	89	92	90	94	102	94
% of Total	14.7	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	8.0
Standalone	188	179	140	128	120	108	107	110	113	103	79	70	75	87	89
% of Total	13.9	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	7.5
Others	318	338	254	266	268	273	287	300	312	394	361	345	335	342	354
% of Total	23.5	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	30.0
Total	1,354	1,363	1,211	1,169	1,155	1,121	1,122	1,132	1,134	1,204	1,154	1,135	1,136	1,157	1,180

\* Fiscal 2014 figures are initial budget estimates, actual figures provided up to Fiscal 2013

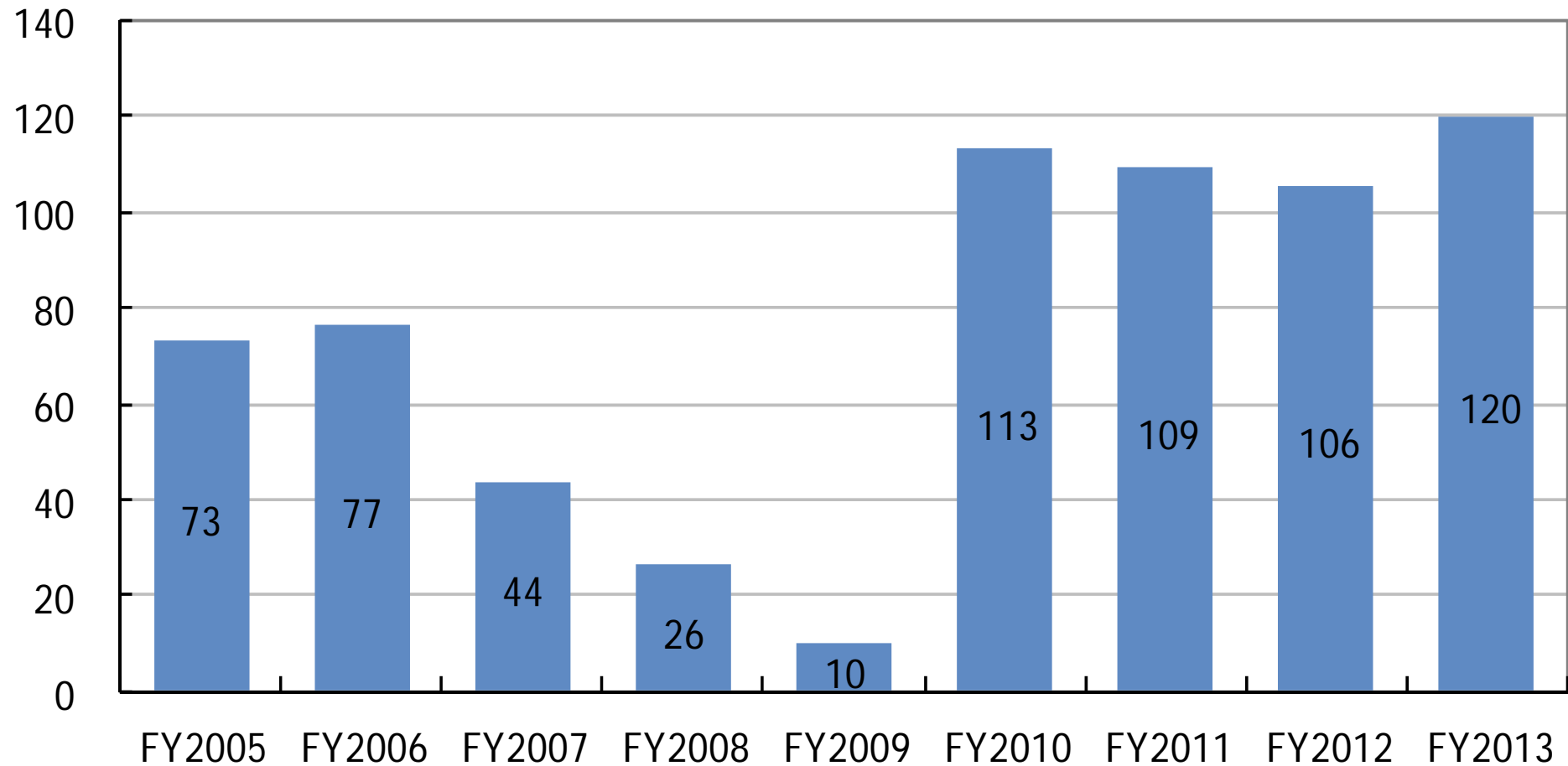
# (Reference) Change in Prefectural Bond Balance

(Units: JPY bn)



# (Reference) Change in Primary Balance

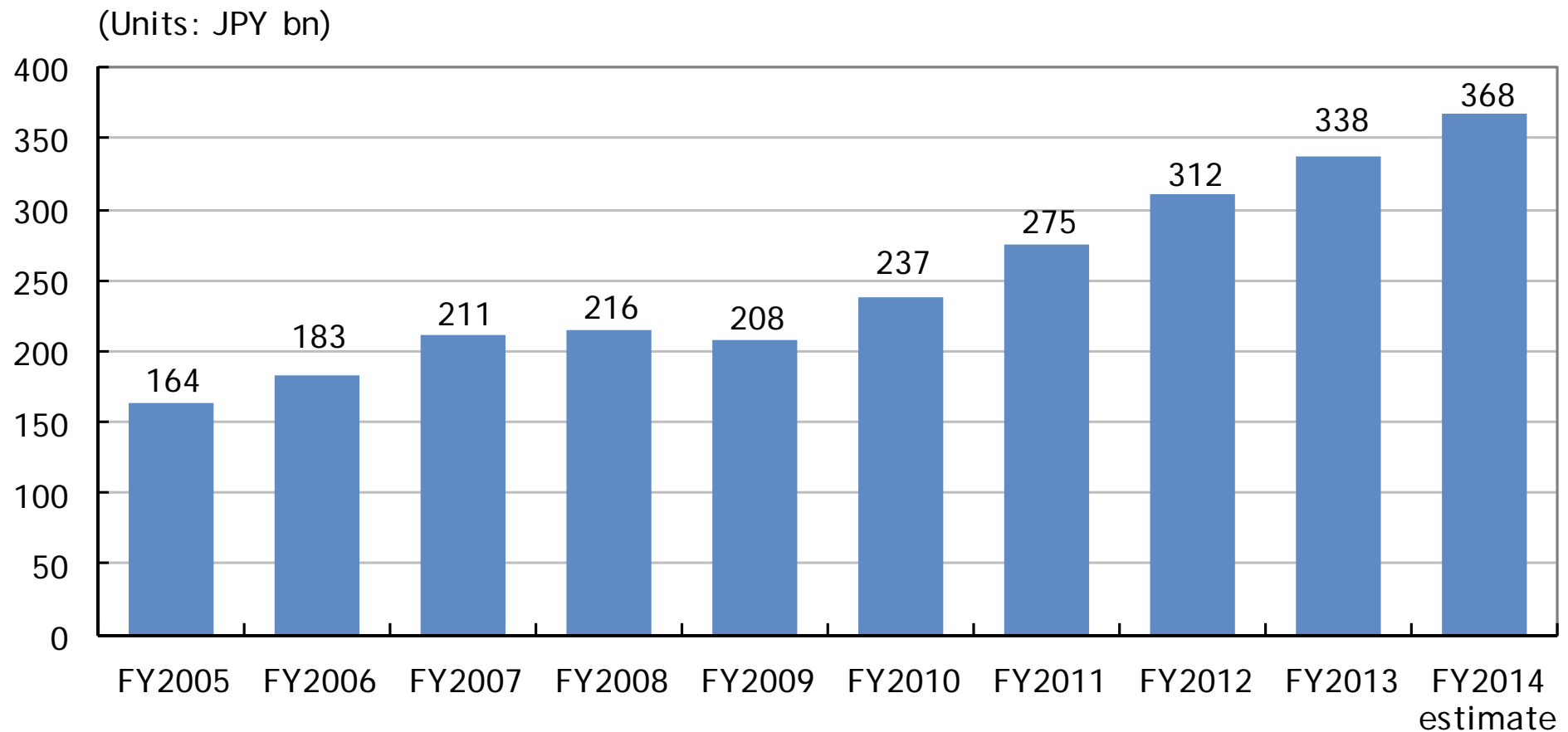
(Units: JPY bn)





# (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 2012)

## ● Balance Sheet

(Units: JPY bn)

Assets		Liabilities	
	Amount		Amount
1 Financial Assets	730.5	1 Current Liabilities	181.7
(1) Cash	86.1	(1) Accrued expenses	11.6
(2) Credits	76.1	(2) Advances received and deferred income	0.4
Taxes receivable	15.1	(3) Bonus provisions	21.9
Accounts receivable	16.3	(4) Expected LGB redemption next fiscal year	133.3
Loans, Others	49.9	(5) Others	14.5
Bad debt reserve	-5.2	2 Non-Current Liabilities	3,456.2
(3) Financial securities	28.1	(1) Local government bonds	3,012.1
(4) Investments	540.2	(2) Loans	17.2
Investment capital	43.5	(3) Retirement benefit reserves	377.8
Funds	466.6	(4) Other reserves	12.2
Others	30.1	(5) Others	36.9
2 Non-Financial Assets	4,086.0		
(1) Business Assets	1,321.5		
Tangible fixed assets	1,306.3		
Non-tangible fixed assets, inventory assets	15.2		
(2) Infrastructure Assets	2,764.5		
Public use land assets	865.7		
Public use facility assets	1,822.0		
Others	76.8		
		<b>TOTAL LIABILITIES</b>	<b>3,637.9</b>
		<b>NET ASSETS</b>	<b>Amount</b>
		Total Net Assets	1,178.6
<b>TOTAL ASSETS</b>	<b>4,816.5</b>	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>4,816.5</b>

## ● Statement of Administrative Costs

	Amount
1 Ordinary Business Expenses	656.5
(1) Personnel expenses	399.5
Employee wages	273.9
Bonus reserves carried over	21.0
Retirement benefit expenses	23.7
Others	80.9
(2) Building expenses	109.6
Supply expenses	14.0
Maintenance expenses	25.3
Depreciation expenses	37.4
Others	32.9
(3) Expenses	46.8
Business expenses	3.7
Outsourcing expenses	26.9
Bad debt reserves carried over	0.4
Others	15.8
(4) Business related expenses	100.6
Public bond expenses (interest payable)	47.4
Interest on loans, Others	53.2
2 Moving expenses	319.7
Ordinary Expenses A	976.2
Business income	108.8
Business related income	24.5
Ordinary Income B	133.3
Net Ordinary Expenses A-B	842.9

## ● Statement of Changes in Net Assets

	Amount
Balance at end of previous period	1,474.1
I Change in revenue source	-109.2
II Revenue sources appropriated for asset formation	-89.9
III Other changes in net assets	-96.4
Balance at end of current period	1,178.6

## ● Statement of Cash Flow

	Amount
1 Ordinary income and expenditure	82.2
2 Capital income and expenditure	-140.5
3 Financial income and expenditure	47.7
Current period income and expenditure	-10.6
Opening funds balance	96.7
Closing funds balance	86.1

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