

Fukuoka Prefecture Fiscal Outline

December, 2008



Fukuoka Prefecture

1 FY07 Ordinary accounts

- **Real balance** Approx 1.8bn yen surplus in FY07. 32nd straight year of real balance surplus.
- **Revenue** Increase, through slight, in dual corporate taxes. Big increase in individual residence tax due to transfer of tax source. Fourth straight year of increased tax revenue (highest level ever).
- **Expenditures** Despite cost increase regarding social insurance and retirements, the increase rate of Expenditures was controlled under New Fiscal Structure Plan by cutting employees, reviewing work procedures, and controlling construction costs.

(Unit: Mn yen)

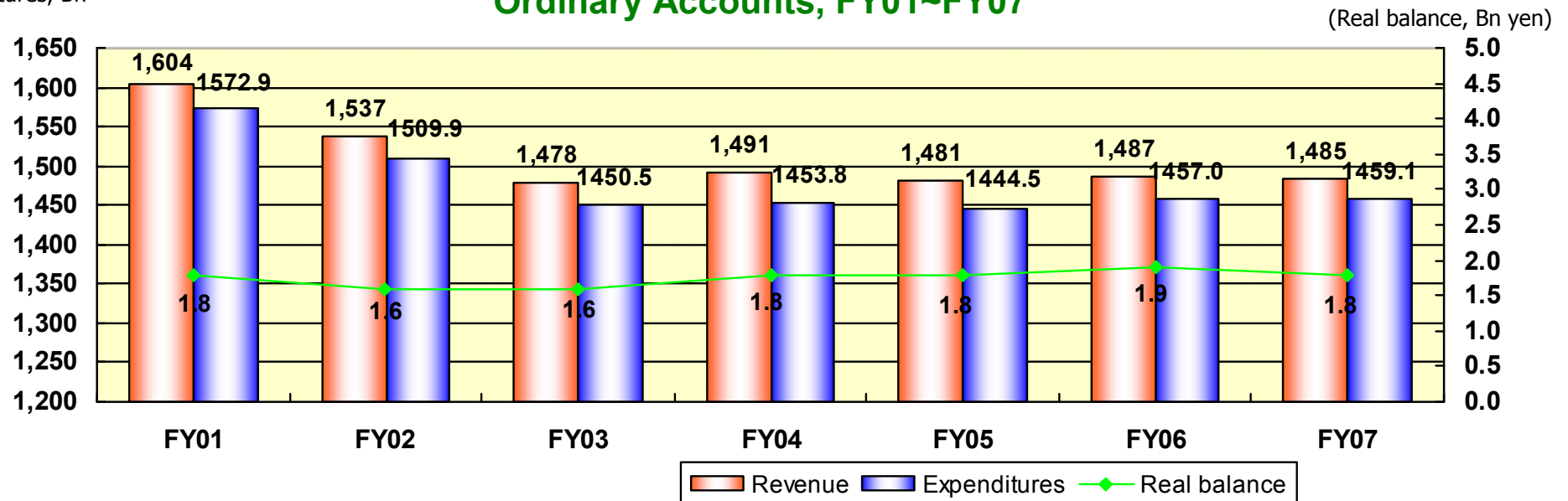
FY07 Budget settlement

Item	Amount
Total revenue (a)	1,484,701
Total expenditures (b)	1,459,061
To be rolled over to FY08 (c)	23,805
Real balance (a) - (b) - (c)	1,835

※Real balance = Difference between revenue and expenditures minus resources to be rolled over to next fiscal year

(Revenue, expenditures, Bn yen)

Ordinary Accounts, FY01~FY07



○ FY06, FY07 Ordinary accounts

(Unit: Bn yen, %)

Item	FY07	FY06	Change	Rate of change
	Settlement (a)	Settlement (b)	(a) - (b)	(a)/(b)
Total revenue	1,484.7	1,487.3	-0.3	99.8
(1) Prefectural tax	622.5	553.2	6.9	112.5
Individual residence tax	150.2	81.8	6.8	183.6
Dual corporate taxes	199.8	195.7	0.4	102.1
Other	272.5	275.6	-0.3	98.9
(2) Local transfer tax	4.8	85.4	-8.1	5.6
(3) Local special allocations	4.7	2.5	0.2	186.7
(4) Local allocation taxes, etc.	325.5	319.7	0.6	101.8
Local allocation tax	264.1	273.1	-0.9	96.7
Temporary fiscal measures bonds	42.1	46.6	-0.5	90.5
Revenue shortfall bonds	19.3	0.0	1.9	Higher
(5) From national coffers	181.8	186.7	-0.5	97.4
(6) Prefectural bonds (excl temporary fiscal measures bonds)	141.3	141.9	-0.1	99.6
Of this, retirement allowance bonds	15.4	7.6	0.8	202.6
(7) Other	204.1	198.0	0.6	103.1
Total expenditures	1,459.1	1,457.0	0.2	100.1
(1) Mandatory costs	750.5	743.1	0.7	101.0
Personnel expenses	525.8	517.7	0.8	101.6
Of this, retirement allowances	46.0	40.9	0.5	112.5
Welfare costs (welfare benefits)	53.3	55.9	-0.3	95.3
Public debt expenses	171.4	169.5	0.2	101.1
(2) Investment-related expenses	243.0	252.6	-1.0	96.2
Regular construction project costs	241.3	246.2	-0.5	98.0
Other	1.6	6.3	-0.5	25.2
(3) Other	465.6	461.3	0.4	100.9
Assistance for handicapped	10.3	2.9	0.7	354.5
Elderly medical care, etc.	80.8	78.6	0.2	102.9
Childcare allowances	10.0	9.0	0.1	111.1
National health insurance-related	37.0	36.2	0.1	102.3
Tax-related allocations	81.2	83.4	-0.2	97.3
Other	246.2	251.2	-0.5	98.0

Prefectural tax

Fourth straight year of rise (highest ever), as residence tax up 68.4 bn yen due to tax resource transfer and dual corp taxes* up 4.1 bn yen.

Local transfer tax

Fell because income transfer taxes, a tentative resource while tax resources were transferred from income to residence tax following Tripartite Reforms.

Local allocation tax, etc.

Local allocation taxes and temporary fiscal measure bonds dropped because local general expenditures controlled and substantial corporate tax revenue projected under Local Fiscal Plan. Prefectural tax shortfall covered by issuing reduced revenue coverage bonds to cover local tax allocations, so overall sum rose.

Prefectural bonds (excl temporary fiscal measures)

Trying to limit issuances despite higher retirement allowance payments by controlling prefecture share of construction project costs.

Personnel expenses

Up because retirement allowances rose with more retirements as employees are cut.

Investment expenses (regular construction project expenses)

Down nine straight years from reducing public investment-related expenses.

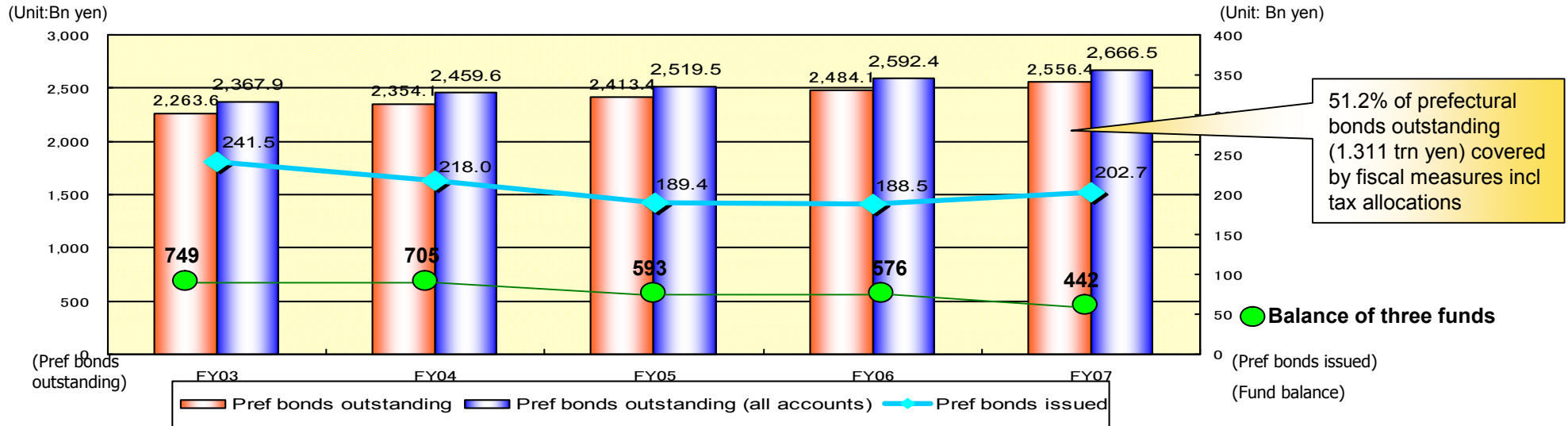
Other

Up (11.4bn yen) due to rising social welfare costs from Self-Reliance for Disabled Law related expenses and prefecture-borne share of medical services for elderly.

* dual corporate taxes collectively means residential and income tax.

2 Bond issuances, bonds outstanding, and fund balance

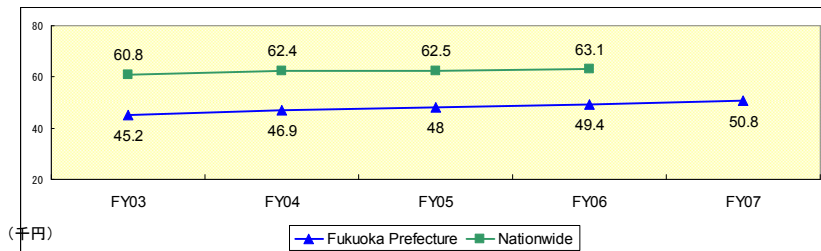
- Prefectural bond issuances increased for first time in 4 years. Fukuoka Prefecture, as many other local govts, was forced to issue 19.3bn yen of bonds to cover revenue shortfall (substitute for local tax allocations), despite reduced issuance of prefectural bonds by controlling Fukuoka's construction project costs.
- Balance of three funds (incl Fiscal Adjustment Fund) is 44.2 bn yen, or 5.3 bn yen more than the estimated balance(38.9bn yen) in New Fiscal Structure Plan, and rollover from other funds reduced due to efforts to cut expenses.



※Three funds: Fiscal Adjustment Fund, Debt Service Fund (excl bullet redemptions), and Public Facilities Fund

Prefectural bonds outstanding per capita

Prefectural bonds outstanding per capita remain below national average. (Sixth lowest in Japan)

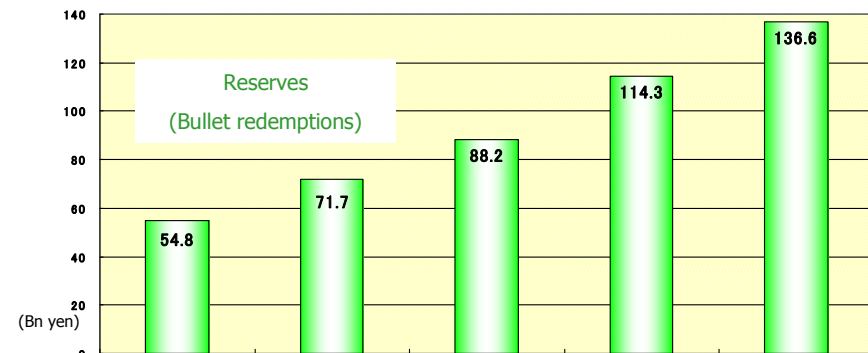


※ Nationwide (excl Tokyo)

Prefectural bond redemption scheme (bullet bonds)

Established Public Bond Management Special Account and clearly accumulating reserves for bullet redemptions.

These reserves are not used for resource adjustments or loans.



3 Public corporation accounts

○ FY07 results

All public enterprise accounts are sound, with positive balances (net income/loss)

(Unit: Mn yen)

Corporation	Total revenue (revenue)	Total costs (expenditures)	Net income/loss (balance)
Hospital project account	4,940	4,096	844
Electricity project account	459	422	37
Industrial water project account	1,560	1,307	253
Industrial land development project account	149	143	6
Port facilities management project account	8,848	7,872	976
River basin sewerage project account	25,304	21,939	3,365

○ Prefectural hospital reform

Hospital projects receive 4.0bn yen in allotments every fiscal year and had been a big drain on the general account. In FY03, **all prefectural hospitals were privatized** under the Transfer and Privatization Plan in a unprecedented reform effort.

Under the Plan, the Asakura Hospital Gastroenterological Treatment Center and Onga Hospital were handed over to private operators, and the Dazaifu Hospital Psychiatric Treatment Center was privatized in April 2005. Yanagikawa Hospital and Kaho Hospital were transferred to private operators in April 2007.

Fukuoka Prefecture has completed the privatization of all five prefectural hospitals.

4 Main affiliate bodies

○ Main public enterprises (FY07)

All public enterprises in which Fukuoka Prefecture has a stake are soundly managed. The Land Development Corporation has adopted the Management Improvement Plan to reduce surplus debt.

(Unit: Mn yen)

Item		Fukuoka Land Development Corp	Fukuoka Roads Corp	Fukuoka-KitaKyushu Highway Corp	Fukuoka Housing Supply Corp
Share conditions	Capital stake	30.0	29,747.0	209,615.0	5.0
	Of this, from pref	30.0	22,357.0	104,807.5	3.8
	Controlling share	100.0	75.2	50.0	76.0
	Shareholders	1.0	2.0	3.0	7.0
Balance sheet	Assets	30,476.0	106,360.0	1,206,994.0	72,384.0
	Debts	30,585.0	76,613.0	996,755.0	57,275.0
	Capital stake	-109.0	29,747.0	210,239.0	15,109.0
	Total debt, assets	30,476.0	106,360.0	1,206,994.0	72,384.0
PL statement	Current income	23.0	0.0	46.0	978.0
	Balance brought fo	-162.0	0.0	577.0	5,038.0
	Unappropriated inc	-139.0	0.0	623.0	6,016.0

○ Semi-public sector※ (FY07)

Conditions of the 43 bodies with 25%+ capital stakes by Fukuoka Prefecture are outlined below. Only one with negative capital or net assets, and it is planning to improve management and eliminate debt.

(unit: Mn yen)

※business enterprises jointly capitalized by both a local government and a private owner

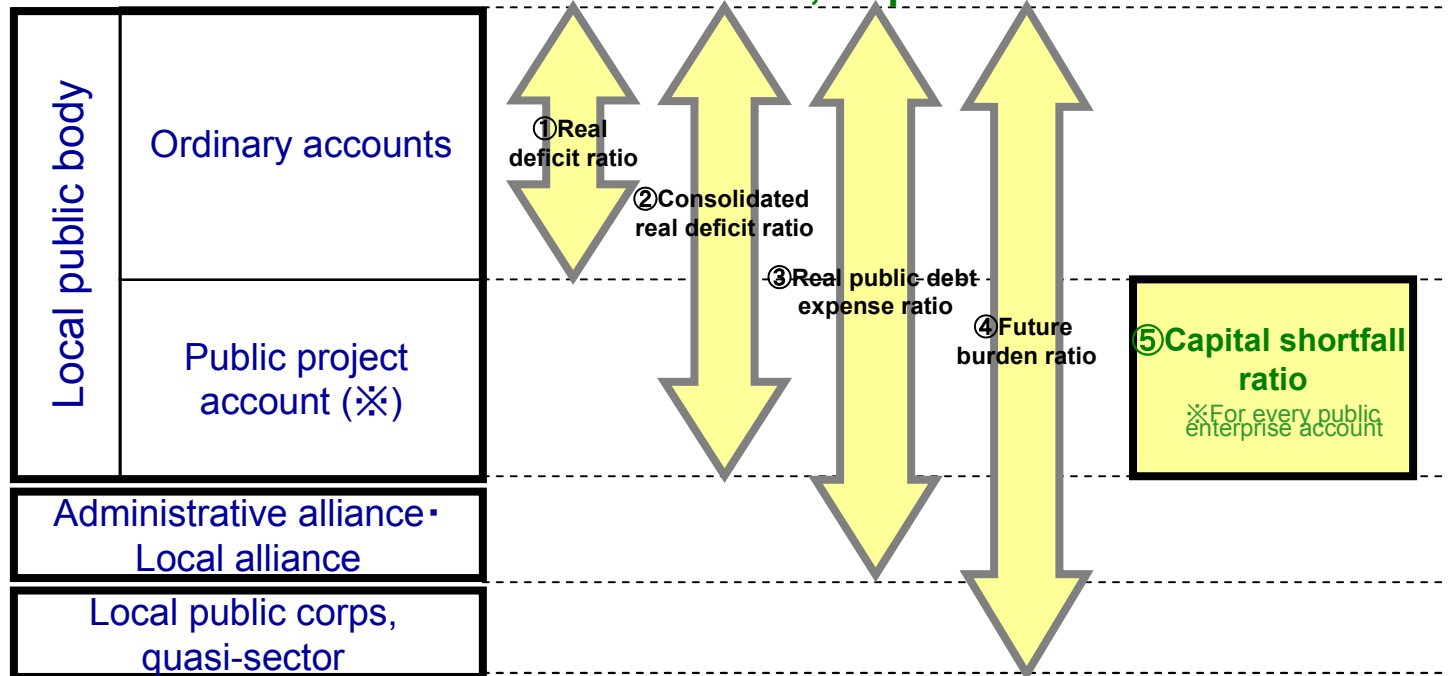
Capital/net worth	Prefectural equity stake	Prefectural subsidies	Prefectural loans
10,349.0	5,410.5	626.2	2,243.9
-161.0	280.0		
10,332.9	5,438.5	626.2	2,243.9

5 Fiscal Health Assessment and Capital Shortfall Ratios

The Local Government Financial Soundness Law stipulates that the following ratios are used to gauge the fiscal health of local issuers: (1) real deficit ratio, (2) consolidated real deficit ratio, (3) real public debt expense ratio, and (4) future burden ratio. Also, the (5) capital shortfall ratio was established for assessing fiscal health of public enterprises.

The local government must draft a financial health improvement plan if any ratios exceed Early Financial Stabilizing Body Standards and a financial recovery plan must be drafted if any ratios exceed Financial Rebuilding Body Standards.

Fiscal Health Assessment Ratio, Capital Shortfall Ratio Accounting



※Public enterprise accounts refer to accounts including for-profit business accounts, transport mutual business accounts, and public university-affiliated hospital accounts. Fukuoka Prefecture does not have these 3 accounts, so no distinction between public enterprise and public project accounts.

Fukuoka Prefecture does not have any real deficits in ordinary or public project accounts. Fiscal conditions are sound, as it is within Financial Rebuilding Body standards under real public debt expense ratio and future burden ratio, and well within Early Financial Stabilizing Body standards.

① Real deficit ratio

- The ratio of ordinary account real deficit to standard fiscal size in ordinary account

$$\text{※Real deficit ratio} = \frac{\text{Real deficit in ordinary accounts}}{\text{Standard fiscal size amount}}$$

Early financial stabilizing standard	3.75%
Financial rebuilding standard	5.00%

Standard fiscal size amount・・・Standard projected revenue (projected total of prefectural tax, local transfer tax, ordinary allocation tax, temporary fiscal measure bonds, local special allocation, traffic safety measure allocations)
※FY07: 877.6bn yen

Does not apply, as Fukuoka Prefecture has a 1.8bn yen surplus

② Consolidated real deficit ratio

○ The ratio of standard fiscal size of real deficit in all accounts (ordinary accounts and public project accounts)

$$\text{※Consolidated real deficit ratio} = \frac{\text{Real deficit in ordinary accounts} + \text{Real deficit in public project account}}{\text{Standard fiscal size}}$$

Early financial stabilizing standard 8.75%
Financial rebuilding standard 15.00%

→ Ordinary account real deficit: Ordinary account real deficit (1.8bn yen)

→ Public enterprise account real deficit: As detailed on slide 11, no capital shortfalls in public enterprise accounts.

Does not apply, as Fukuoka Prefecture has ordinary account real balance surplus. Also, no fund shortfalls in any public project account.

③ Real debt servicing expense ratio

○ Ratio of real public debt expenses in ordinary accounts to standard fiscal size (average of last three years)

※Real public debt servicing ratio =
$$\frac{(A+B) - (C+D)}{E-D} \quad \text{3-year average}$$

Early financial stabilizing standard 25%
Financial rebuilding standard 35%

- A: Redemption funds for local government bonds (excl pre-maturity redemption)
- B: Based on local bond redemption funds (expenditures from general account for public enterprise redemption funds, construction costs redemption funds for mutual aid association, etc.)
- C: Special resources for principal, interest repayment source
- D: Special resources for repayment of principal, interest
- E: Standard fiscal size

Real debt servicing expense ratio is 13.7%, well below early financial remediation standard of 25%, and 0.1% decline YoY.

④ Future burden ratio

○ Ratio of real burden to be borne in future by ordinary accounts (incl public enterprises) to standard fiscal size.

$$\text{※Future payment ratio} = \frac{A - B}{C - D}$$

Early financial stabilizing standard 400%

A... Future burden (3.3588trn yen)

- Current balance of ordinary account local govt bonds
- Planned expenditures based on debt payments (excl joint bonds, etc.)
- Estimated rollover from ordinary account for public enterprise operations
- Necessary retirement funds assuming all workers retire voluntarily
- Funds for public enterprises (roads corp, highway corp, land reclamation corp), local independent administrative corps (3 public university corps)
- Payments for indemnity contract holders

B... Resources that can be used for future burden ratio (1.4467 trn yen)

- Funds that can be used
- Special resources that can be used
- Estimated amount calculated in standard fiscal demand related to local govt bonds outstanding

C... Standard fiscal size (877.6bn yen)

D... Amount calculated in standard fiscal demand amount related to principal, interest redemption (93.5bn yen)

Future burden ratio is 243.8%, well below
Early Financial Stabilizing Standard of 400%

⑤ Fund shortfall ratio

- Ratio of a public enterprise's shortfall in funds to project scale

$$\text{※Fund shortfall ratio} = \frac{\text{Fund shortfall}}{\text{Project scale}}$$

Management stabilizing standard 20%

Fukuoka Prefecture Public Enterprise Accounts

- Hospital project account
- Electricity project account
- Industrial water project account
- Industrial land development project account
- Prefecture port facility management special account
- River basin sewerage project special account

**Does not apply, as no
fund shortfalls in any
public enterprise**

Fukuoka Prefecture's fiscal structure

▪ Controlling expenditures through fiscal structural reform

Controlling rise in expenditures through reducing personnel, reviewing projects, and controlling prefectural share of construction costs based on New Fiscal Structure Reform Plan, despite higher mandatory costs (social welfare-related and retirement allowances)

▪ Maintaining fiscal soundness

Ordinary account real balance surplus, and no capital shortfalls in public enterprise account. Also, real public debt servicing ratio and future burden ratio are well short of **Early Financial Stabilizing Body Standards**. Prefecture is fiscally sound.

▪ Increasing independent revenue sources

Share of independent revenue sources has grown (55.6%, up 5.2% YoY) following shift of tax resources pushing up residence tax and dual corporate taxes. Fiscal base now more stable.

6 Fukuoka Prefecture New Fiscal Structure Reform Plan

Fukuoka Prefecture unveiled the New Fiscal Structure Reform Plan in FY07, outlining strategy to cut projected fiscal deficit and build stable fiscal base for future. Undertaking both fiscal and administrative reform.

1 Reform period

FY07 ~ FY11 (5 years)

2 Reform plan

- (1) Implement Fiscal Structure Reform covering all expenditures, revenue and aiming for 'Decimal Point Precision' detailed in administrative reform outline
- (2) Plan detailed strategy to match new needs for administration and reduce projected fiscal shortfall
- (3) Prioritize, improve efficiency of social capital and limit bond issuance. Start to reduce outstanding bond balance in FY10.

3 Reform measure details

- | | |
|---|---|
| (1) Reduce personnel expenses (~45.0bn) | Cut 2,500 workers, review work allowances, etc. |
| (2) Reassess administrative work (~84.0bn) | Annual review of 5.0bn yen+ projects during reform plan |
| (3) Control share of construction costs (~27.0bn) | Limit construction costs by prioritizing work, boosting efficiency |
| (4) Control increasing welfare costs (~26.0bn) | Control costs from national medical system reform, implement own control measures |
| (5) Capture fiscal revenue (~28.0bn) | Boost measures to capture prefectural taxes, sell/use land holdings |

Estimated balance of 3 funds in New Reform Structure Plan was 38.9bn yen in FY07— 5.3bn yen less than plan (44.2bn yen) due to cutting costs and reducing fiscal shortfall in line with budget.

Plan has met targets smoothly in first year.