

Japan Finance Corporation for Municipal Enterprises

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1. Summary of operations implemented using FILP funds

Funds with a low interest rate are supplied in a stable manner for projects undertaken by local governments are indispensable to the lives of inhabitants, such as projects for water supply, sewerage system, and traffic systems. Lending is composed of general loans to local government, public corporation loans to regional road corporations and real estate development corporations, and commissioned loans made upon the request of the Agriculture, Forestry, and Fisheries Finance Corporation of Japan.

Note: Consigned loans, which are provided upon consignment from the Japan Finance Corporation for Municipal Enterprises, are excluded from the FILP.

2. Amount of lending under FY 2005 FILP

(Unit: billion yen)

FY 2005 FILP	Estimated outstanding amount of FILP lending at the end of FY 2004
1,170.0	16,998.1

3. Outcome and social and economic benefits of operations

1) Financing

- Financing from FY 1957 to FY 2003 (aggregate amount)
 - General loans: 278,643 cases ¥39,495.6 billion
 - Public corporation loans: 1,813 cases ¥494.7 billion
 - Commissioned loans: 54,071 cases ¥618.5 billion
- Financing in FY 2003
 - General loans: 13,912 cases ¥1,694.8 billion
 - Public corporation loans: 22 cases ¥16.3 billion
 - Commissioned loans: 1,803 cases ¥27.9 billion
- Outstanding balance of financing at the end of FY 2003
 - General loans: 212,811 cases ¥24,650.1 billion
 - Public corporation loans: 815 cases ¥238.3 billion
 - Commissioned loans: 33,443 cases ¥414.6 billion

2) Effects of loans from Japan Finance Corporation for Municipal Enterprises (JFCME)

In municipal bond programs, JFCME funds are deemed to be public funds as in the case of government funds. Funds are procured in domestic and overseas markets through the issuance of bonds. Long-term funds with low interest rates are provided to local governments. Thus, JFCME funds have been contributing to the development of public corporations and the stabilization of their business management, playing an important role in improving the welfare of the inhabitants, reducing financial burdens, and limiting the burdening of inhabitants with public utility charges.

- JFCME funds in FY 2005 municipal bond programs

(Unit: billion yen)

	Government funds	JFCME funds	Private funds	Total
Amount of municipal bond programs	4,720.0 (30.4%)	1,533.0 (9.9%)	9,283.6 (59.8%)	15,536.6 (100.0%)
Amount of funds raised by public corporation bond	1,221.0 (38.0%)	973.8 (30.3%)	1,022.2 (31.8%)	3,217.0 (100.0%)

- Conditions of low-interest loans

The amount of loans provided with special interest rates that are lower than standard interest rates corresponding to procurement costs accounts for 86.7% (FY 2005 budget) of all of the JFCME funds (commissioned loans are excluded).

- Conditions of funding

The JFCME procures most of the resources for lending through the issue of public corporation bonds. Thus, the JFCME is serving to procure funds from markets on behalf of local governments, working to diversify funding that includes the issuance of foreign-currency-denominated bonds and reducing procurement costs.

3) Conditions of main projects for which funds are provided (FY 1970–FY 2003)

- Rate of diffusion of water supply systems: 78.0% → 95.9%
- Rate of diffusion of sewerage systems: 15.6% → 77.7%
- Number of passengers transported by public subway systems: 1,022 mil. → 2,738 mil.

4. Estimated policy (subsidy) cost analysis of the project

Policy (subsidy) cost

(Unit: billion yen)

Category	FY2004	FY2005	Increase/Decrease
1. Subsidies from the Government	–	–	–
2. Money transfer to the Government	–	–	–
Subtotal (1+2)	–	–	–
3. Opportunity cost of capital investment from the Government	7.9	8.7	+ 0.9
Subtotal (1+2+3)	7.9	8.7	+ 0.9
4. Decrease in losses	–	–	–
Total (1+2+3+4=policy cost(A))	7.9	8.7	+ 0.9
Analysis period (years)	30	30	–

Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2004	FY2005	Increase/Decrease
(A) Policy cost (previously cited)	7.9	8.7	+ 0.9
1) Opportunity cost such as capital investment made before the beginning of the analysis period	7.9	8.7	+ 0.9
2) Policy cost expected to newly accrue during the analysis period	–	–	–
Subsidies from the Government	–	–	–
Money transfer to the Government	–	–	–
Policy cost in connection with increase/decrease in surplus	–	–	–
Opportunity cost such as capital investment	–	–	–

Year –to–Year comparison analysis

(Unit: billion yen)

Category	FY2004	FY2005	Increase/Decrease
(A) Policy cost (previously cited)	7.9	8.7	+ 0.9
(A') Policy cost when the discount rates are used in the policy cost analysis of FY2004	7.9	7.9	–
(B) Policy cost of (A') generated in FY2005 or later	7.9	7.9	+ 0

The FY2005 total policy cost is ¥8.7 billion. Abstracting the impact of the change in the assumed interest rate for FY2004 and FY2005 and comparing to policy cost to accrue after FY2005, year on year, the policy cost is virtually the same as that of FY2004.

Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2005	8.7
1) Prepayments	0
2) Defaults	–
3) Other (spread, etc.)	8.7

The case if assumption is changed

(Unit: billion yen)

Changed assumption and extent of change	Increase / decrease in policy cost
Interest and funds raised +1%	8.7 (–)

(Reference)

Budgeted amount of subsidies and capital investment in FY 2005

No applicable data

5. Outline of estimation and project prospect employed in the analysis

- 1) All activities but trust loan that are implemented by Japan Finance Corporation for Municipal Enterprises (JFCME) are estimated.
- 2) The estimation is based on the assumption that JFCME will loan ¥1,606.4 billion in FY2005 and ¥939.9 billion in FY2006 in addition to existing loan balance ¥24,972.6 billion (estimated as of the end of FY2004) following the FY2005 municipal bonds program, however, no further loan will be made.
- 3) The analysis period is supposed to be 30 years, during which existing loan as well as the loan made based on the FY2005 municipal bond program will be fully paid back.
- 4) Fund shortage is financed by the issuance of municipal enterprise bonds.
- 5) Subsidies from the Government is not expected. Additional investment from the Government is not expected, either (¥16.6 billion as of the end of FY2004). In addition, it should be noted that, in order to address renewal loss, the entire amount of the difference between income and expenditure is included in the liabilities column as "loss reserves for renewal of bonds."
- 6) Based on the above assumption, the cost necessary to implement the activities is computed as follows.

(Unit: %, billion yen)

	Result				Estimated	Planned	Assumptions for calculation				
FY	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Loan balance index (Preceding FY level: 100)	103.7	102.9	102.0	101.5	100.3	99.8	97.8	93.6	93.2	92.6	91.8
Advanced redemption	157.5	71.1	89.4	76.2	114.3	215.0	14.7	13.7	12.8	11.9	10.9
Advanced redeemable compensation	—	0.1	1.2	0.7	0.2	—	Same as left	Same as left	Same as left	Same as left	Same as left
Contributions from proceeds of public races	22.4	12.3	14.9	10.9	9.0	9.0	Same as left	Same as left	Same as left	Same as left	Same as left
Subsidies from the Government	1.4	—	—	—	—	—	Same as left	Same as left	Same as left	Same as left	Same as left
Capital investment from the national treasury	—	—	—	—	—	—	Same as left	Same as left	Same as left	Same as left	Same as left

	Assumptions for calculation										
FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Loan balance index (Preceding FY level: 100)	91.1	90.5	89.9	89.5	88.9	88.3	87.7	86.9	86.0	85.0	83.7
Advanced redemption	9.9	9.0	8.1	7.2	6.4	5.7	5.0	4.3	3.7	3.2	2.7

	Assumptions for calculation										
FY	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Loan balance index (Preceding FY level: 100)	82.5	81.2	80.1	78.9	77.6	75.5	72.4	67.9	62.1	53.2	39.1
Advanced redemption	2.2	1.8	1.4	1.1	0.9	0.7	0.5	0.3	0.2	0.1	0

	Assumptions for calculation	
FY	2033	2034
Loan balance index (Preceding FY level: 100)	14.4	0.0
Advanced redemption	0	0

- 7) JFCME's outstanding loan will be paid back over the period of 28 years in respect of both ¥1,606.4 billion in FY2005 and ¥939.9 billion in FY2006 based on FY2005 municipal bonds program.
- 8) Bad debt has never been recorded, because borrowers have been public institutions such as municipal corporations, therefore no bad debt is expected in the future. Likewise, the FY2003 administrative cost statement does not record the bad debt allowance associating to the loan receivables to municipal corporations.
- 9) Advanced redemption is reported when borrowers spent debt for purposes other than original one, and it could vary year by year making the estimation difficult. Given this factor, with FY2005 budget figure that takes previous results (Excluding municipal enterprise renewal bonds) into consideration as a benchmark, loan will be reduced progressively in line with outstanding balance beyond FY2006. The compensation for advanced redemption was not recorded in FY2005 budget; likewise no recording will be made in FY2006 and onwards.
- 10) As for treasury payment from public sport events, ¥9 billion is recorded for FY2006 and onwards. This is the same amount as FY2005 budget figure, which takes previous results into consideration.
- 11) No balance of risk-monitored loans is reported for the end of FY2003.

6. Reasons for granting of subsidies, mechanism and underlying laws

- Subsidies had provided from the general account in order to provide financial resource for interest rate differential compensation. Since FY 2001, however, JFCME has not been receiving such subsidies.
- For the purpose of reinforcing the management infrastructure of JFCME, the government had provided subsidies, from the Industrial Investment Special Account to JFCME, if necessary. Since FY 1989, however, JFCME has not been receiving such subsidies. (As of the end of FY 2004, the outstanding amount was ¥16.6 billion.)

(Underlying laws and regulations)

Japan Finance Corporation for Municipal Enterprises Law

Article 5. JFCME is established with the capital of ¥2.4 billion, fully financed from the Industrial Investment Special Account by the government.

2. The Government may, when deemed necessary, add to JFCME, and invest within the limits of the budget.

3. JFCME shall, when such investment is made by the government as mentioned above, increase its capital fund based on the amount of investment.

- Payment to the national treasury is stipulated in the Japan Finance Corporation for Municipal Enterprises Law.

(Underlying laws and regulations)

Clause 1 in Article 29 of the Japan Finance Corporation for Municipal Enterprises Law:

In the case where profit is generated in income in an accounting year, JFCME shall pay such profit to the national treasury by the 31st of May of the following accounting year.

7. Special remarks

- 1) No subsidies from the national treasury for FY 2001 and afterwards are received because these subsidies will be gradually abolished over a period of three years according to a Cabinet decision of September 24, 1997 ("Consolidation of Government Corporations")
- 2) A reduction in loan size, reduction of loan fields, expansion in the issuance of FILP agency bonds and a reduction of the share of government guarantees were promoted in the FY2005 budget based on the Reorganization and Rationalization Plan for Special Public Corporations. The present policy cost analysis prepared taking the FY2005 budget into account reflects the intent of the Reorganization and Rationalization Plan for Special Public Corporations.
- 3) Transitions in policy cost to date are as indicated below.

FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
¥11.2 billion	¥9.3 billion	¥9.1 billion	¥7.0 billion	¥7.9 billion	¥8.7 billion

(Reference) Financial Statements**Balance Sheet**

(Unit : million yen)

Item	End of FY 2003 (Result)	End of FY 2004 (Estimated)	End of FY 2005 (Planned)	Item	End of FY 2003 (Result)	End of FY 2004 (Estimated)	End of FY 2005 (Planned)
(Assets)				(Liabilities and capital)			
Long-term loans	24,888,435	24,972,643	24,921,349	Bonds outstanding	22,614,091	22,377,379	21,974,878
Entrusted loans	414,616	404,944	398,012	Funds for entrusted loans	414,616	404,944	398,012
Cash and deposits	586,073	715,253	710,993	Accrued expenses payable	12,880	12,898	15,718
Securities	129,999	—	—	Other liabilities	6,850	5,207	3,749
Accrued earnings receivable	24,799	23,617	22,729	Fund for the improvement of operations of municipal enterprises	860,607	866,008	872,856
Fixed assets	2,581	2,571	2,546	Reserves under special laws	2,120,860	2,435,992	2,773,817
				Reserves for interest losses	120,872	157,207	210,145
				Loss reserves for renewal of bonds	1,999,988	2,278,785	2,563,672
				(Total liabilities)	26,029,903	26,102,429	26,039,029
				Industrial investments	16,600	16,600	16,600
				(Total capital)	16,600	16,600	16,600
Total assets	26,046,503	26,119,029	26,055,629	Total liabilities and capital	26,046,503	26,119,029	26,055,629

Income Statement

(Unit : million yen)

Item	FY 2003 (Result)	FY 2004 (Estimated)	FY 2005 (Planned)	Item	FY 2003 (Result)	FY 2004 (Estimated)	FY 2005 (Planned)
(Losses)				(Profits)			
Ordinary expenses	562,085	496,758	448,746	Ordinary profits	869,140	826,555	789,822
Interest on bonds	542,452	478,344	433,903	Interest on loans	861,938	822,406	787,417
Interest on borrowed funds	0	—	—	Fees for entrusted loans	276	248	181
Miscellaneous interest	347	347	347	Interest on deposits	58	30	25
Office expenses	1,674	1,883	1,755	Interest on securities	55	29	24
Bond-issuing expenses	5,456	4,059	3,479	Miscellaneous earnings	713	244	24
Amortization	12,154	12,073	9,211	Transfer from the funds for improvement of public corporations	6,100	3,599	2,152
Miscellaneous losses	2	0	—	Special profits	24,178	23,760	22,506
Reserve funds	—	51	51	Gain from sales of fixed assets	—	302	—
Extraordinary losses	331,233	353,557	363,582	Interest loss reserves refunded	24,178	23,458	22,506
Fixed assets disposal losses	60	36	—				
Loss on redemption of bonds	—	14,932	3,252				
Provision for reserves for interest losses	58,492	59,793	75,443				
Provision for loss reserves for renewal of bonds	272,681	278,797	284,887				
Profits for the term	—	—	—				
Total	893,318	850,316	812,328	Total	893,318	850,316	812,328

Note: Since the numbers of each items are rounded-off, the total may not represent the total of the figures in the table.

(Reference) Postulated Balance Sheet and Postulated Income Statement in the case of Private Enterprise

Postulated balance sheet in the case of private enterprise

(Unit : million yen)

Item	FY 2003
(Assets)	
Cash and deposits	586,073
Securities	129,999
Government bonds	129,999
Loans*1	24,888,435
Entrusted loans	414,616
Other assets	58,240
Accrued revenue	24,804
Discounts on bonds	30,241
Other assets	3,195
Real estate and properties	2,581
Land and buildings	2,645
Accumulated depreciation	- 460
Premium and guarantee fund	396
Reserve for possible loan loss	0
Total assets	26,079,944
(Liabilities and capital)	
Bonds outstanding	22,632,040
Funds for entrusted loans	414,616
Other liabilities	19,389
Amount in arrears	2
Long-term accrued amount payable	2,686
Accrued expenses	12,878
Discounts on bonds	3,822
Reserve for bonuses	64
Reserve for retirement pensions	258
Fund for the improvement of operations of municipal enterprises	860,607
(Total liabilities)	23,926,973
(Capital)	
Capital	16,600
Retained earnings	2,136,371
Reserve fund for interest losses*2	120,872
Fund for interest rate fluctuations*3	1,999,988
Balance to be carried forward	15,511
(Total capital)	2,152,971
Total liabilities and capital	26,079,944

Postulated income statement in the case of private enterprise

(Unit : million yen)

Item	FY 2003
(Ordinary profits)	869,135
Interest received	861,938
Interest on loans	861,938
Revenue from service transactions, etc.	276
Trust fees	276
Other operations revenue	113
Interest on deposits	57
Interest on government securities	55
Other ordinary profits	6,808
Revenue from paring of the fund for the improvement of operations of municipal enterprises	6,100
Other ordinary profits	709
(Ordinary expenses)	562,608
Interest expenses	548,149
Interest on bonds	542,123
Interest on borrowed money	0
Depreciation on margin from bond flotation	6,025
Other operations expense	12,647
Bond issuing costs	12,299
Other interest costs	348
Business expense	1,810
General administrative expense	1,584
Transfer of reserve for bonuses	64
Depreciation cost	162
Other ordinary expense	2
Ordinary income	306,527
(Extraordinary income)	2
Transfer of reserve for retirement pensions	2
(Extraordinary loss)	60
Loss on disposal of property	60
Net profit (or net loss)	306,469

*1 "Loans" do not include "loans to bankrupt borrowers," "non-accrual delinquent loans," "loans past due for 3 months or more," and "restructured loans" that apply to Article 19-2 Clause 1(5) of the Banking Law Enforcement Regulations (Ministry of Finance Ordinance No. 10 of March 31, 1982).

*2 "Reserve fund for interest losses" is noted in legal financial statements as "reserves for interest losses," which are reserves under special laws.

*3 "Fund for interest rate fluctuations" is noted in legal financial statements as "loss reserves for renewal of bonds," which are

Note: Totals may not agree due to rounding.