Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

13th Congress
First Regular Session

HOUSE BILL NO. 808

HOUSE OF REPRESENTATIVES
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Introduced by Representative Harlin Cast. Abayon

EXPLANATORY NOTE

The proposed measure seeks to revise the formula for allocating funds to local government to correct the emerging inequities created by the Local Government Code of 1991.

The Allocation of transfer under the internal revenue allotment (IRA) system is not based on the specific fiscal needs, fiscal effort, fiscal capacity or the amount of evolved responsibilities of the individual Local Government Units (LGUs).

Under the Local Government Code, the formula gives greater weight to land area and equal share. This is because the government wishes to transfer more resources to the sparsely populated and developed areas.

As a result, less emphasis has been given on other economic grounds such as the actual cost of devolved functions, the capacity of the local government to raise their own resources or to carry out developed functions. This has created winners and losers in terms of financial resources, without significant correlation of economic and social attributes of with their increased responsibilities while others have received more resources than they need or are capable of spending. Provincial governments are particularly disadvantaged because of their narrow tax bases and the high recurrent costs imposed on them as a result of higher than average devolved facilities and personnel.

Studies indicate that the additional fiscal responsibilities cost about P 500 million pesos for cities and as such as P 3 billion pesos for provinces which took over the bulk of services in agriculture, health, natural resources, public works and social welfare.

However, since the transfer of resources under the IRA were not tied to devolved functions, cities receive on the average P 100 million pesos, while an average municipality received P 4 million pesos. Provinces, on the other hand, get only P39 million pesos.

Thus, there is no net resources loser among cities but more than 100 municipalities and 27 provinces need to pay more for devolved functions than they receive additional IRA.

These issues have emerged because there are no mechanisms that allow the national government to compensate these LGUs which incur net losses from devolution and in the short run, the people may have to suffer less adequate levels of public services.

Hence, approval of the attached bill is urgently requested.

HARLIN CAST. ABAYON

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AN ACT
DEDUCTING THE COST OF DEVOLVED FUNCTIONS AND PERSONNEL FROM THE SHARE OF LOCAL GOVERNMENT UNITS IN THE INTERNAL REVENUE ALLOTMENT AND THE TOTAL COST SO DEDUCTED SHALL BE DISTIRBUTED ARE REMITTED DIRECTLY TO THE LOCAL GOVERNMENT UNITS CONCERNED AND REVISING THE FORMULA FOR ALLOCATING FUNDS TO LOCAL GOVERNMENT UNITS TO CORRECT INEQUTIES, AMENDING FOR THE PURPOSE SECTION 285 OF REPUBLIC ACT NUMBERED 7160, OTHERWISE KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991, AND FOR OTHER PURPOSES.

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled;

SECTION 1. Section 285 of Republic Act Numbered 7160, otherwise known as the Local Government Code of 1991, is hereby amended to read as follows:

Sec. 285. *Allocation to Local Government Units* .- The share of the local government units in the internal revenue allotment shall be allocated STARTING IN 2001, AFTER DEDUCTING THEREFROM THE COST OF THE DEVOLVED FUNCTIONS AND PERSONNEL, AND THE COST SODEDUCTED SHALL BE DISTRIBUTED AND REMITTED DIRECTLY TO THE LOCAL GOVERNMENT UNITS CONCERNED AND THE NET OR BALANCE OF THE INTERNAL REVENUE ALLOTMENT SHALL BE ALLOCATED in the following manner:

"(a) Provinces-Twenty –Three-Percent (23%);

"(b) Cities- Twenty- Three Percent (23%);

"(c) Municipalities – Thirty-Four Percent (34%);

"(d) Barangays- Twenty Percent (20%);

"Provided, however, That the share of each province, city and municipality shall be determined on the basis of the following formula:

"(a) Population-Fifty-Five Percent (50%) 55%;

"(b) Land Area- Twenty (five) Percent (25%) 20%;

"(c) Equal Sharing- Twenty-Five Percent (25%);

" *Provider, further*, That the share of each barangay with a population of not less than one hundred (100) inhabitants shall not be less than eighty thousand pesos (P80,000.00) per annum chargeable against the twenty percent (20%) share of the barangay from the internal revenue allotment, and the balance to be allocated on the basis of the following formula:

"(a) On the first year of the year effectivity of this Code:

"(1) Population- Forty Percent (40%); and

"(2) Equal Sharing- Sixty Percent (60%)

"(b) On the second year:

"(1) Population-Fifty Percent (50%); and

"(2) Equal Sharing- Fifty Percent (50%),

"(c) On the third year and thereafter:

"(1) Population_ Sixty Percent (60%); and

"(2) Equal Sharing – Forty Percent (40%):

Provided, finally, That the financial requirements of barangays created by local Government units after the effectivity of this code shall be the responsibility of the localGovernment units concerned.

Sec. 2. All laws, orders, issuances, rules and regulations or parts thereof inconsistent With this Act are hereby repealed or modified accordingly.

Sec. 3. This act shall take effect fifteen days after its publication in the Official Gazette Or in any newspaper of general circulation.

Approved,