



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS

Second Regular Session

House Bill No. 6767



Introduced by Representative Jose Enrique S. Garcia III

EXPLANATORY NOTE

Executive Order (E.O.) No. 249 dated 25 July 1987 classified local government units (LGUs), namely provinces, cities (except Manila and Quezon City, which are Special Class Cities), and municipalities into six income classes based on their average annual income for the last four years immediately preceding the reclassification.

At present, it serves as basis for the determination of the financial capability of LGUs to provide in part or in full the funding requirements of developmental projects and other priority needs in their locality. Moreover, it is used to determine the maximum amount expendable for salaries and wages, the salary scales and rates of allowances, per diems, and other emoluments that local officials and personnel may be entitled to; the number of *sanggunian* members; and the implementation of personnel policies on promotions, transfers, details or secondments and related matters. Thus, the LGU income classification is necessary in determining national allocations or other financial grants.

The Department of Finance (DOF) implements E.O. 249 through DOF Orders¹, the latest of which is DOF Order No. 23-08, promulgated on 29 July 2008. The Secretary of Finance periodically revises the income thresholds for each level of LGU as set by E.O. 249. Section 9 of the E.O. provides that the Secretary of Finance shall have the authority to review the income ranges provided in the E.O. at least once every four years after its implementation and "recommend such appropriate changes or revisions to the proper authority in order that the income classification of local government units may continue to conform with prevailing economic conditions and the overall financial status of local governments."

¹ Section 3, E.O. 249

Through time, however, the income reclassifications of local governments have evolved in such a way that an LGU's income class is not truly reflective of its financial capabilities as well as its relationship with other LGUs within the same level. The present classification, particularly for provinces and cities, is skewed in favor of the higher classes. With the phased doubling of the Internal Revenue Allotment (IRA) under the Local Government Code, it has become the biggest component of the annual regular income, which is the basis for classifying the income class of LGUs. Consequently, more LGUs are classified under higher classes while very few are classified in the lower classes. In addition, there exists a wide disparity in the taxing capacities of LGUs.

There should have been another reclassification in 2012, but this was held in abeyance in view of the issue whether or not the Secretary of Finance has the authority not only to reclassify all provinces, cities (except Manila and Quezon City), and municipalities once every four years, but also to readjust or revise the income ranges or benchmarks as set forth under E.O. 249. Thus, the reclassification of LGUs is three years overdue and the last year covered in the computation of the average annual income is 2006, making the revenue figures nine years old.

This bill aims to address these issues by proposing the following reforms: (i) grant clear authority to the Secretary of Finance to set income targets and undertake the periodic income reclassification of LGUs; (ii) conduct the reclassification by DOF every three (3) years to synchronize with the term of local elective officials; and (iii) the use of the DOF-BLGF's Statement of Receipts and Expenditures for setting the income ranges for the purpose of LGU income reclassification.

This will enable the DOF to effectively and systematically determine the LGU financial capability and fiscal position that are reflective of the economy and the state of local development. In return, the LGUs can also better position themselves in line with the National Government's financial and fiscal policies.

In view of the foregoing, the passage of this bill is earnestly sought.


JOSE ENRIQUE S. GARCIA III
Second District, Bataan



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AN ACT
INSTITUTIONALIZING THE INCOME CLASSIFICATION OF
PROVINCES, CITIES, AND MUNICIPALITIES, AND FOR OTHER
PURPOSES

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

1 **SECTION 1. Short Title.** – This Act shall be known as the “The Local
2 Government Units Income Classification Act of 2017.”

3 **SECTION 2. Declaration of Policy.** – It is the policy of the State to
4 provide an equitable and rational system of regular income classification of
5 provinces, cities, and municipalities that will reflect realistically their respective
6 financial positions.

7 **SECTION 3. Definition of Terms.** – As used in this Act, the following
8 terms shall mean:

9 (a) **Annual Regular Income** refers to revenues, including fees and receipts
10 actually realized which are reported yearly on cash basis by provinces,
11 cities and municipalities from regular sources, including the Internal
12 Revenue Allotment (IRA) and other shares provided for in Sections 284,
13 290, and 291 of Republic Act (R.A.) No. 7160, otherwise known as the
14 Local Government Code of 1991 (LGC), but exclusive of non-recurring
15 receipts, such as national aids, grants, financial assistance, loan proceeds,

1 sales of assets, miscellaneous income/receipts, and similar others. For the
2 purpose of this Act, shares from national wealth, excise tax on tobacco,
3 incremental collection from value added tax (VAT) under R. A. No. 7643,
4 and the gross income tax paid by businesses and enterprises in Special
5 Economic Zones (ECOZONES) under R.A. No. 7916, as amended, and such
6 other shares as may be granted by law to the province, city, or
7 municipality, shall be considered as part of the annual regular income. The
8 annual regular income shall be computed from the Statement of Receipts
9 and Expenditures (SRE) maintained by the Bureau of Local Government
10 Finance of the Department of Finance.

11 (b) **Average Annual Regular Income** refers to the sum of the “annual
12 regular income,” as herein defined, of a province, city, or municipality for a
13 particular number of fiscal years preceding the year of general income
14 reclassification of local government units as provided in Section 4 hereof,
15 divided by the same number of fiscal years.

16 (c) **Local Government Units (LGUs)** refer to the following political
17 subdivisions of the State – province, city, or municipality.

18 **SECTION 4. *Income Classification of Provinces and Cities.*** – All
19 provinces and cities shall be classified into six (6) income classes according to
20 income ranges and based on the average annual regular income for three (3) fiscal
21 years preceding the general income reclassification, as follows:

22 (a) First Class provinces and cities – the provinces and cities that have
23 obtained an average annual income of Eight Hundred Million Pesos
24 (P800,000,000.00) or more;

25 (b) Second Class provinces and cities – the provinces and cities that have
26 obtained an average annual income of Six Hundred Fifty Million Pesos
27 (P650,000,000.00) or more, but less than Eight Hundred Million Pesos
28 (P800,000,000.00);

29 (c) Third Class provinces and cities – the provinces and cities that have
30 obtained an average annual income of Five Hundred Million Pesos

(P500,000,000.00) or more but less than Six Hundred Fifty Million Pesos (P650,000,000.00);

(d) Fourth Class provinces and cities – the provinces and cities that have obtained an average annual income of Three Hundred Fifty Million Pesos (P350,000,000.00) or more, but less than Five Hundred Million Pesos (P500,000,000.00);

(e) Fifth Class provinces and cities – the provinces and cities that have obtained an average annual income of Two Hundred Million Pesos (P200,000,000.00) or more, but less than Three Hundred Fifty Million Pesos (P350,000,000.00); and

(f) Sixth Class provinces and cities – the provinces and cities that have obtained an average annual income of less than Two Hundred Million Pesos (P200,000,000.00).

SECTION 5. *Income Classification of Municipalities.* – All municipalities shall be classified into six (6) income classes according to income ranges and based on the average annual regular income for three (3) fiscal years preceding the general income reclassification, as follows:

(a) First Class municipalities – the municipalities that have obtained an average annual income of Ninety Million Pesos (P90,000,000.00) or more;

(b) Second Class municipalities – the municipalities that have obtained an average annual income of Eighty Million Pesos (P80,000,000.00) or more, but less than Ninety Million Pesos (P90,000,000.00);

(c) Third Class municipalities – the municipalities that have obtained an average annual income of Sixty Million Pesos (P60,000,000.00) or more but less than Eighty Million Pesos (P80,000,000.00);

(d) Fourth Class municipalities – the municipalities that have obtained an average annual income of Forty Million Pesos (P40,000,000.00) or more but less than Sixty Million Pesos (P60,000,000.00);

1 (e) Fifth Class municipalities – the municipalities that have obtained an
2 average annual income of Thirty Million Pesos (P30,000,000.00) or more
3 but less than Forty Million Pesos (P40,000,000.00); and

4 (f) Sixth Class municipalities – the municipalities that have obtained an
5 average annual income of less than Thirty Million Pesos
6 (P30,000,000.00).

7 **SECTION 6. *Administrative Authority of the Secretary of Finance.***

8 – The Secretary of Finance shall have the authority to undertake the regular income
9 reclassification of all provinces, cities, and municipalities once every three (3) fiscal
10 years, in order that the income classification of LGUs conforms with the income
11 ranges provided in this Act.

12 The Secretary of Finance shall also have the authority to recommend to the
13 Congress revisions to the income ranges provided in this Act that would better reflect
14 the prevailing economic conditions and the overall financial status of the local
15 governments.

16 **SECTION 7. *Period of Income Reclassification.*** – a) The Secretary of

17 Finance shall undertake the first general income reclassification of all provinces,
18 cities, and municipalities within six (6) months after the effectivity of this Act, and
19 every three (3) years thereafter. In cases of diminishing revenues, the Secretary of
20 Finance may order the re-computation and revision of the income classification of
21 provinces, cities, and municipalities to reflect the actual financial situation of the
22 LGUs.

23 b) However, a province, city or municipality, which has been in existence for a
24 period of less than three (3) fiscal years immediately preceding the general income
25 reclassification of LGUs, as herein provided, shall be classified on the basis of its
26 average annual regular income during such lesser number of fiscal years.

27 c) If a province or municipality is created before the year of the general
28 reclassification of LGUs, it shall be classified on the basis of the aggregate net share
29 of income from regular sources actually realized from its component cities and
30 municipalities in the case of a province, or its component barangays in the case of a

1 municipality, plus the corresponding estimated IRA of the newly created province or
2 municipality pursuant to Section 285 of R.A. No. 7160, during the fiscal year
3 immediately preceding its creation.

4 d) The rule prescribed under the immediately preceding paragraph shall
5 likewise apply to a municipality that is converted into a city, or a city that is created
6 out of existing municipalities and/or barangays.

7 **SECTION 8. *Uses of Income Classification.*** – The income classification
8 of provinces, cities, and municipalities shall, among other purposes, serve as basis
9 for:

- 10 a) The determination of administrative and statutory aids, financial
11 grants, and other forms of assistance to local governments;
12 b) The determination of the financial capability of LGUs to undertake
13 developmental programs and priority projects;
14 c) The number and compensation of employees of LGUs; and,
15 d) Such other purposes as provided under existing laws and regulations.

16 **SECTION 9. *Guidelines in Cases Where a Fourth or Lower Income***
17 ***Class Province, City, or Municipality Receives a Third or Higher Income***
18 ***Class Designation as a Result of the General Income Reclassification.*** –
19 A Fourth or lower income class province, city, or municipality which gets either a
20 First, Second, or Third income class designation from the general reclassification
21 provided herein shall cease to provide for additional personal services and maintain
22 its existing personnel complement prior to the reclassification, pursuant to civil
23 service rules and regulations; *Provided*, further, that in case of personnel transfers,
24 resignations or deaths, the local government shall not cause the filling up of the
25 vacant position nor provide for its funding until the succeeding general
26 reclassification; and *Provided*, finally, that in case the local government shall still
27 exceed the limitations provided in Section 325 of the LGC despite the maintenance of
28 the status quo after it first received a First, Second or Third income class designation
29 as provided herein, this shall not be considered in violation of Section 325 of the
30 LGC.

1 **SECTION 10. *Effectivity of the Income Reclassification.*** – All income
2 reclassification of provinces, cities, and municipalities pursuant to this Act shall be
3 effective on January 1st of the immediate succeeding year.

4 **SECTION 11. *Implementing Rules and Regulations (IRR).*** – The
5 Secretary of Finance shall promulgate rules and regulations within three (3) months
6 after the effectivity of this Act, and may continue to issue guidelines to carry out the
7 provisions of this Act.

8 **SECTION 12. *Saving Clause.*** – All existing income classifications of
9 provinces, cities, and municipalities shall continue to be in force and effect until
10 superseded by the issuance of a new income classification by the Secretary of Finance
11 pursuant to this Act.

12 **SECTION 13. *Supplementary Application of Existing Laws.*** – The
13 provisions of R.A. No. 7160, and other laws consistent with this Act shall have
14 supplementary effect.

15 **SECTION 14. *Repealing Clause.*** – Executive Order No. 249 dated 25 July
16 1987 is hereby repealed. All laws, presidential decrees, executive orders, presidential
17 proclamations, rules and regulations or parts thereof contrary to or inconsistent with
18 this Act are hereby repealed, superseded, or modified accordingly.

19 **SECTION 15. *Separability Clause.*** – Any portion or provision of this Act
20 that may be declared unconstitutional or invalid shall not have the effect of nullifying
21 other portions or provisions hereof, as long as such remaining portions or provisions
22 can still subsist and be given effect in their entirety.

23 **SECTION 16. *Effectivity.*** – This Act shall take effect fifteen (15) days after
24 its complete publication in the Official Gazette or in at least two (2) newspapers of
25 general circulation.

Approved.