

Republic of the Philippines
HOUSE OF REPRESENTATIVES

NINETEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 5290



Introduced by Representative Rex Gatchalian

AN ACT
INSTITUTIONALIZING THE AUTOMATIC INCOME CLASSIFICATION OF
PROVINCES, CITIES AND MUNICIPALITIES, AMENDING FOR THIS
PURPOSE SECTION 8 OF REPUBLIC ACT NO. 7160, OTHERWISE
KNOWN AS THE LOCAL GOVERNMENT CODE OF 1991, AS AMENDED,
AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Executive Order (EO) No. 249, series of 1987, provides for the income classification of cities, provinces, and municipalities. It states that the "*Secretary of Finance shall have the authority to review the income ranges at lease once every four years and recommend such appropriate changes or revisions...*"¹ For several cycles, the Secretary of Finance issued Department Orders that reclassified local government units (LGUs).

However, in 2012, the Department of Justice opined and emphasized that the Secretary of Finance merely have a recommending authority in making changes or revisions in the income classifications of LGUs. This resulted in the abeyance of the income reclassifications in 2012 and the succeeding cycles.

¹ Section 8, Executive Order No. 249, s. 1987.

More than 10 years after the last income reclassification in 2008, the income classifications of LGUs extremely deviate with the prevailing economic conditions and the overall financial status of LGUs.

This bill aims to effectively and systematically determine the LGUs financial capability and fiscal position that are reflective of the economy and the state of local development by: (1) granting the mandate and clear authority to the Secretary of Finance to set income targets for the periodic automatic income reclassification of LGUs; (2) having a system of automatic income reclassification (upgrade/downgrade) of LGUs every two (2) years based on the updated table of income classifications to be released by the Bureau of Local Government Finance, and (3) utilization of the Bureau of Local Government Finance's Statement of Receipts and Expenditures for purposes of LGUs' automatic income reclassification.

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



HON. REX GATCHALIAN
Representative
1st District, Valenzuela City

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

1 **SECTION 1. Short Title.** – This Act shall be known as the “Automatic
2 Income Classification Act for LGUs”.

3
4 **SEC. 2.** Section 8 of Republic Act (RA) No. 7160, otherwise known as
5 the “Local Government Code of 1991”, as amended, is hereby amended as
6 follows:

7
8 **“Section. 8. Division and Merger.** – Division and merger of
9 existing local government units shall comply with the same
10 requirements herein prescribed for their creation: Provided
11 however, That such division shall not reduce the income,
12 population, or land area of the local government unit or units
13 concerned to less than the minimum requirements prescribed
14 in this Code: Provided, further, That the income classification of
15 the original local government unit or units shall not fall below
16 its current classification prior to such division.

17
18 ~~[The income classification of local government units shall be~~
19 ~~updated within six (6) months from the effectivity of this Code~~
20 ~~to reflect the changes of their financial position resulting from~~
21 ~~the increased revenues as provided herein.]”~~

22
23 **SEC. 3.** A new section designated as Section 8-A of RA No. 7160,
24 as amended, is hereby added to read as follows:
25

1 **“SEC. 8-A. INCOME CLASSIFICATION OF PROVINCES,**
2 **CITIES AND MUNICIPALITIES. -**

3 **(A) ALL PROVINCES, CITIES AND MUNICIPALITIES SHALL**
4 **BE CLASSIFIED INTO SIX (6) INCOME CLASSES**
5 **ACCORDING TO RANGES OF INCOME AND BASED ON**
6 **THE AVERAGE ANNUAL REGULAR INCOME FOR TWO (2)**
7 **FISCAL YEARS PRECEDING THE AUTOMATIC INCOME**
8 **CLASSIFICATION; PROVIDED THAT, THE ANNUAL**
9 **REGULAR INCOME SHALL BE COMPUTED FROM THE**
10 **STATEMENT OF RECEIPTS AND EXPENDITURES (SRE)**
11 **MAINTAINED BY THE BUREAU OF LOCAL GOVERNMENT**
12 **FINANCE (BLGF).**

13
14 **(B) THE SECRETARY OF FINANCE, IN CONSULTATION WITH**
15 **THE LGU LEAGUES, SHALL HAVE THE AUTHORITY TO**
16 **SET THE RANGES OF INCOME FOR THE AUTOMATIC**
17 **INCOME CLASSIFICATION OF ALL PROVINCES, CITIES**
18 **AND MUNICIPALITIES.**

19
20 **(C) THE TABLE OF INCOME CLASSIFICATION SHALL BE**
21 **AUTOMATICALLY UPDATED BY THE BLGF EVERY TWO**
22 **(2) YEARS. THIS SHALL CONSTITUTE THE INCOME**
23 **RECLASSIFICATION OF ALL PROVINCES, CITIES AND**
24 **MUNICIPALITIES.**

25
26 **(D) THE BLGF SHALL ISSUE A CERTIFICATION OF THE**
27 **INCOME RECLASSIFICATION OF AN LGU WITHIN SIXTY**
28 **(60) DAYS FROM THE RECLASSIFICATION OF LGUS;**
29 **PROVIDED HOWEVER THAT, THE NON-ISSUANCE OF**
30 **SAID CERTIFICATION SHALL NOT SUSPEND THE**
31 **EFFECTS OF THE AUTOMATIC INCOME**
32 **RECLASSIFICATION.**

33
34 **(E) THE FIRST AUTOMATIC INCOME RECLASSIFICATION**
35 **SHALL BE MADE WITHIN SIX (6) MONTHS AFTER THE**
36 **EFFECTIVITY OF THIS ACT, AND EVERY TWO (2) YEARS**
37 **THEREAFTER. IN CASES OF UNMANAGEABLE PUBLIC**
38 **SECTOR DEFICIT, THE SECRETARY OF FINANCE MAY**
39 **ORDER THE RE-COMPUTATION AND REVISION OF THE**
40 **INCOME CLASSIFICATION OF PROVINCES, CITIES AND**
41 **MUNICIPALITIES TO REFLECT THE ACTUAL FINANCIAL**
42 **SITUATION OF THE LOCAL GOVERNMENT UNITS;**
43 **PROVIDED THAT, A PROVINCE, CITY OR MUNICIPALITY,**
44 **WHICH HAS BEEN IN EXISTENCE FOR A PERIOD OF**
45 **LESS THAN TWO (2) FISCAL YEARS IMMEDIATELY**

PRECEDING THE AUTOMATIC INCOME RECLASSIFICATION OF LOCAL GOVERNMENT UNITS, AS HEREIN PROVIDED, SHALL BE CLASSIFIED ON THE BASIS OF ITS AVERAGE ANNUAL REGULAR INCOME FOR THE FISCAL YEAR OF ITS EXISTENCE; PROVIDED FURTHER THAT, IF A PROVINCE OR MUNICIPALITY IS CREATED BEFORE THE YEAR OF THE AUTOMATIC RECLASSIFICATION OF LOCAL GOVERNMENT UNITS, IT SHALL BE CLASSIFIED ON THE BASIS OF THE ESTIMATED AGGREGATE NET SHARE OF INCOME FROM REGULAR SOURCES FROM ITS COMPONENT CITIES AND MUNICIPALITIES IN THE CASE OF A PROVINCE, OR ITS COMPONENT BARANGAYS IN THE CASE OF A MUNICIPALITY, INCLUDING THE CORRESPONDING ESTIMATED NTA OF THE NEWLY CREATED PROVINCE OR MUNICIPALITY PURSUANT TO SECTION 285 OF REPUBLIC ACT NO. 7160, DURING THE FISCAL YEAR IMMEDIATELY PRECEDING ITS CREATION. THIS RULE SHALL LIKEWISE APPLY TO A MUNICIPALITY THAT IS CONVERTED INTO A CITY, OR A CITY THAT IS CREATED OUT OF EXISTING MUNICIPALITIES AND/OR BARANGAYS.

(F) THE INCOME CLASSIFICATION OF PROVINCES, CITIES, AND MUNICIPALITIES SHALL, AMONG OTHER PURPOSES, SERVE AS BASIS FOR:

- I. THE DETERMINATION OF ADMINISTRATIVE AND STATUTORY AIDS, FINANCIAL GRANTS, AND OTHER FORMS OF ASSISTANCE TO LOCAL GOVERNMENTS;
- II. THE DETERMINATION OF THE FINANCIAL CAPABILITY OF LOCAL GOVERNMENT UNITS TO UNDERTAKE DEVELOPMENTAL PROGRAMS AND PRIORITY PROJECTS;
- III. THE TOTAL ANNUAL OR SUPPLEMENTAL APPROPRIATION FOR PERSONAL SERVICES OF A LOCAL GOVERNMENT UNIT TO ONE (1) FISCAL YEAR AS PROVIDED IN SECTION 325 (A) OF LGC OF 1991;
- IV. COMPENSATION ADJUSTMENT FOR LGU PERSONNEL AS PROVIDED UNDER SECTION 10 OF EXECUTIVE ORDER NO. 201 (SALARY STANDARDIZATION LAW OF 2015);
- V. THE CREATION OF A NEW LOCAL GOVERNMENT UNIT WHEREIN SECTION 8 OF THE LGC OF 1991 PROVIDES THAT THE

DIVISION AND MERGER OF EXISTING LOCAL GOVERNMENT UNIT SHALL NOT DOWNGRADE THE INCOME CLASSIFICATION OF THE ORIGINAL UNIT;

VI. THE NUMBER OF ELECTIVE MEMBERS IN THE SANGGUNIANG BAYAN AS PROVIDED UNDER SECTION 2 OF RA NO. 6637;

VII. ISSUANCE OF A FREE PATENT TITLE TO RESIDENTIAL LANDS AS PROVIDED UNDER REPUBLIC ACT NO. 10023;

VIII. THE MINIMUM WAGE OF DOMESTIC WORKERS AS PROVIDED UNDER SECTION 24 OF RA NO. 10361;

IX. LGUs TO INSURE ITS PROPERTIES WITH GSIS IN COMPLIANCE WITH SECTION 5 OF RA NO. 656 OR PROPERTY INSURANCE LAW;

X. PROVIDE LIMITATIONS ON THE PERCENTAGE OF AGRICULTURAL LAND THAT CAN BE RECLASSIFIED AND PROVIDED FOR THE MANNER OF THEIR UTILIZATION OR DISPOSITION AS STIPULATED IN SECTION 20 OF THIS CODE; AND

XI. SUCH OTHER PURPOSES AS PROVIDED UNDER EXISTING LAWS AND REGULATIONS.

(G)ALL INCOME RECLASSIFICATION OF PROVINCES, CITIES, AND MUNICIPALITIES PURSUANT TO THIS SECTION SHALL BE EFFECTIVE ON JANUARY 1ST OF THE IMMEDIATELY SUCCEEDING YEAR.

(H)FOR PURPOSES OF IMPLEMENTING THIS SECTION, THE SECRETARY OF FINANCE SHALL ISSUE SUCH RULES AND REGULATIONS AS MAY BE DEEMED NECESSARY AND THE APPROPRIATE DEPARTMENT ORDERS PROVIDED FOR THE AUTOMATIC INCOME CLASSIFICATION OF PROVINCES, CITIES AND MUNICIPALITIES.”

SEC. 4. *Transitory Provision* - A fourth or lower income class province, city or municipality which gets either a first, second or third income class designation from the first automatic income reclassification provided herein shall be exempted from providing for additional personal services and may maintain existing personnel prior to the reclassification, pursuant to civil service rules and regulations; provided further, that in case of personnel transfers, resignations or deaths, the local government shall not cause the

1 filling up of vacant position nor provide for its funding until the succeeding
2 automatic income reclassification; and provided finally, that the limitations
3 enunciated under section 325 (a) on the use of LGU funds shall not be
4 applicable for LGUs which has received its first, second or third income class
5 designation as provided herein.
6

7 **SEC. 5. *Saving Clause.*** – All existing income classifications of
8 provinces, cities and municipalities shall continue to be in force and effect
9 until superseded by the issuance of a new income ranges set by the Secretary
10 of Finance and the first automatic income reclassification of LGUs pursuant
11 to this Act.
12

13 **SEC. 6. *Repealing Clause.*** – Executive Order No. 249, dated July 25,
14 1987 is hereby repealed. Further, Section 8 of Republic Act No. 7160,
15 otherwise known as the Local Government Code of 1991, as amended, is
16 hereby amended. All laws, presidential decrees, executive orders, presidential
17 proclamations, rules and regulations or parts thereof contrary to or
18 inconsistent with this Act are hereby repealed, superseded or modified
19 accordingly.
20

21 **SEC. 7. *Effectivity.*** – This Act shall take effect fifteen (15) days after
22 its complete publication in the Official Gazette or in at least two (2)
23 newspapers of general circulation.
24

Approved,