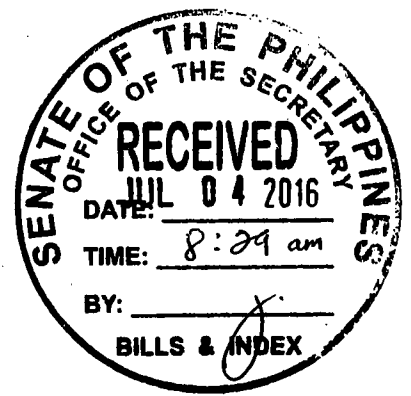


SEVENTEENTH CONGRESS OF THE REPUBLIC
OF THE PHILIPPINES
First Regular Session

SENATE
Senate Bill No. 234



Introduced by **SENATOR LACSON**

EXPLANATORY NOTE

From the time local governments were established in the Philippines, they have always been classified based on their income in order to determine their financial capability to fund development projects and priority needs, to establish the salary scales of local government officials and personnel, and to determine the number of Sanggunian or council members in each locality.

The most recent legislation providing for the income classification of local government units (LGUs) is Executive Order No. 249 issued on 25 July 1987 by then President Corazon Aquino exercising legislative powers after the EDSA revolution. Subsequent LGU income reclassifications have been carried out through the promulgation of Department of Finance (DOF) Orders, the most recent of which is DOF Order No. 23-08 (issued on July 29, 2008).

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 capability particularly in generating locally-sourced revenue. One identifiable reason is due to the impact of the Internal Revenue Allotment (IRA) in setting the income ranges for the different classes. With the phased doubling of the IRA under the Local Government Code, it has become the biggest component of the annual regular income, which is basically the basis for classifying the income class of LGUs. This resulted in more LGUs 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. Given that this factor has a limited effect on the LGUs' current classification, the present system does not truly reflect the LGUs' financial capabilities as well as their relationship to each other within the same level.

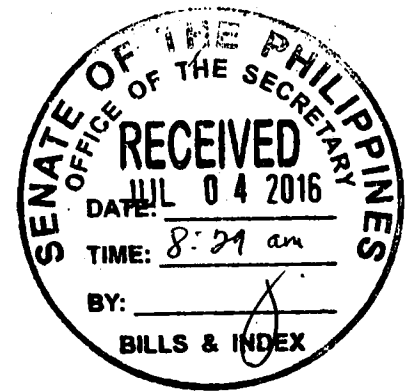
In order to address these issues, it is imperative that the Secretary of DOF be given a clear and unambiguous authority and mandate, and the

flexibility to undertake regular income reclassification of provinces, cities and municipalities.

Through this, LGUs can also better position themselves in line with the National Government's financial and fiscal policies.

For the reasons cited above, the passage of this bill is earnestly requested.


PANFILO M. LACSON
Senator



SENATE
Senate Bill No. 234

Introduced by SENATOR LACSON

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 in Congress assembled:

1 **SECTION 1. *Short Title.*** – This Act shall be known as the "THE
2 **LOCAL GOVERNMENT UNITS' INCOME CLASSIFICATION ACT**
3 **OF 2016"**

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

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

10 (a) **Annual Regular Income** refers to revenues, including fees and
11 receipts actually realized which are reported yearly on cash basis
12 by provinces, cities and municipalities from regular sources,
13 including the Internal Revenue Allotment (IRA) and other shares
14 provided for in Sections 284, 290, and 291 of Republic Act No.
15 7160, but exclusive of non-recurring receipts, such as national aids,
16 grants, financial assistance, loan proceeds, sales of assets,
17 miscellaneous income/receipts and similar others. For the purpose
18 of this Act, shares from national wealth, excise tax on tobacco,

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

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

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

18 **SEC. 4. *Income Classification of Provinces and Cities.*** – All
19 provinces and cities shall be classified into six (6) income classes according
20 to income ranges and based on the average annual regular income for three
21 (3) fiscal 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
24 Pesos (P800,000,000.00) or more;

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

29 (c) Third Class provinces and cities – the provinces and cities that
30 have obtained an average annual income of Five Hundred Million
31 Pesos (P500,000,000.00) or more but less than Six Hundred Fifty
32 Million Pesos (P650,000,000.00);

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

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

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

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

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

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

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

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

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

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

4 **SEC. 6. *Administrative Authority of the Secretary of Finance.*** – The
5 Secretary of Finance shall have the authority to set the income ranges and
6 undertake the regular income reclassification of all provinces, cities and
7 municipalities once every three (3) fiscal years, in order that the income
8 classification of local government units conforms with the prevailing
9 economic conditions and the overall financial status of the local
10 governments.

11 **SEC. 7. *Period of Income Reclassification.*** – a) The Secretary of
12 Finance shall undertake the first general income reclassification of all
13 provinces, cities and municipalities within six (6) months after the effectivity
14 of this Act, and every three (3) years thereafter. In cases of diminishing
15 revenues, the Secretary of Finance may order the re-computation and
16 revision of the income classification of provinces, cities and municipalities
17 to reflect the actual financial situation of the local government units.

18 b) However, a province, city or municipality, which has been in
19 existence for a period of less than three (3) fiscal years immediately
20 preceding the general income reclassification of local government units, as
21 herein provided, shall be classified on the basis of its average annual regular
22 income during such lesser number of fiscal years.

23 c) If a province or municipality is created before the year of the
24 general reclassification of local government units, it shall be classified on
25 the basis of the aggregate net share of income from regular sources actually
26 realized from its component cities and municipalities in the case of a
27 province, or its component barangays in the case of a municipality, plus the
28 corresponding estimated IRA of the newly created province or municipality
29 pursuant to Section 285 of Republic Act No. 7160, during the fiscal year
30 immediately preceding its creation.

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

4 **SEC. 8. *Uses of Income Classification.*** – The income classification
5 of provinces, cities and municipalities shall, among other purposes, serve as
6 basis for:

- 7 a) The determination of administrative and statutory aids,
8 financial grants, and other forms of assistance to local
9 governments;
- 10 b) The determination of the financial capability of local
11 government units to undertake developmental programs and
12 priority projects; and
- 13 c) Such other purposes as provided under existing laws and
14 regulations.

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

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

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

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

12 **SEC. 13. *Suppletory Application of Existing Laws.*** – The provisions
13 of Republic Act No. 7160, otherwise known as the Local Government Code
14 of 1991, and other laws consistent with this Act shall have suppletory effect.

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

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

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

27 *Approved,*