

SENATE
Senate Bill No. 251

'19 JUL -8 P2:04

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Introduced by **SENATOR LACSON**

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

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

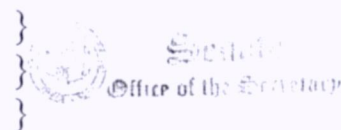
this factor has a limited effect on the LGUs' current classification, the present system does not truly reflect the LGUs' financial capabilities as well as their relationship to each other within the same level.

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, passage of this bill is earnestly requested.


PANFILO M. LACSON
Senator



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PURPOSES**

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

1 **SEC. 1. *Short Title.*** – This Act shall be known as the "**THE LOCAL**
2 **GOVERNMENT UNITS' INCOME CLASSIFICATION ACT OF**
3 **2019**"

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

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

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

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

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

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

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

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

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

- 1 (c) Third Class provinces and cities – the provinces and cities that
2 have obtained an average annual income of Five Hundred Million
3 Pesos (P500,000,000.00) or more but less than Six Hundred Fifty
4 Million Pesos (P650,000,000.00);
- 5 (d) Fourth Class provinces and cities – the provinces and cities that
6 have obtained an average annual income of Three Hundred Fifty
7 Million Pesos (P350,000,000.00) or more, but less than Five
8 Hundred Million Pesos (P500,000,000.00);
- 9 (e) Fifth Class provinces and cities – the provinces and cities that have
10 obtained an average annual income of Two Hundred Million Pesos
11 (P200,000,000.00) or more, but less than Three Hundred Fifty
12 Million Pesos (P350,000,000.00); and
- 13 (f) Sixth Class provinces and cities – the provinces and cities that
14 have obtained an average annual income of less than Two Hundred
15 Million Pesos (P200,000,000.00).

16
17 **SEC. 5. *Income Classification of Municipalities.*** – All municipalities
18 shall be classified into six (6) income classes according to income ranges
19 and based on the average annual regular income for three (3) fiscal years
20 preceding the general income reclassification, as follows:

- 21 (a) First Class municipalities – the municipalities that have obtained
22 an average annual income of Ninety Million Pesos
23 (P90,000,000.00) or more;
- 24 (b) Second Class municipalities – the municipalities that have obtained
25 an average annual income of Eighty Million Pesos
26 (P80,000,000.00) or more, but less than Ninety Million Pesos
27 (P90,000,000.00);
- 28 (c) Third Class municipalities – the municipalities that have obtained
29 an average annual income of Sixty Million Pesos (P60,000,000.00)
30 or more but less than Eighty Million Pesos (P80,000,000.00);

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

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

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

11
12 **SEC. 6. *Administrative Authority of the Secretary of Finance.*** – The
13 Secretary of Finance shall have the authority to set the income ranges and
14 undertake the regular income reclassification of all provinces, cities and
15 municipalities once every three (3) fiscal years, in order that the income
16 classification of local government units conforms with the prevailing
17 economic conditions and the overall financial status of the local
18 governments.

19
20 **SEC. 7. *Period of Income Reclassification.*** – a) The Secretary of
21 Finance shall undertake the first general income reclassification of all
22 provinces, cities and municipalities within six (6) months after the effectivity
23 of this Act, and every three (3) years thereafter. In cases of diminishing
24 revenues, the Secretary of Finance may order the re-computation and
25 revision of the income classification of provinces, cities and municipalities
26 to reflect the actual financial situation of the local government units.

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

1 c) If a province or municipality is created before the year of the
2 general reclassification of local government units, it shall be classified on
3 the basis of the aggregate net share of income from regular sources actually
4 realized from its component cities and municipalities in the case of a
5 province, or its component barangays in the case of a municipality, plus the
6 corresponding estimated IRA of the newly created province or municipality
7 pursuant to Section 285 of Republic Act No. 7160, during the fiscal year
8 immediately preceding its creation.

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

12
13 **SEC. 8. *Uses of Income Classification.*** – The income classification
14 of provinces, cities and municipalities shall, among other purposes, serve as
15 basis for:

- 16 a) The determination of administrative and statutory aids,
17 financial grants, and other forms of assistance to local
18 governments;
- 19 b) The determination of the financial capability of local
20 government units to undertake developmental programs and
21 priority projects; and
- 22 c) Such other purposes as provided under existing laws and
23 regulations.

24
25 **SEC. 9. *Guidelines in Cases Where a Fourth or Lower Income***
26 ***Class Province, City or Municipality Receives a Third or Higher Income***
27 ***Class Designation as a Result of the General Income Reclassification.*** – A
28 Fourth or lower income class province, city or municipality which gets
29 either a First, Second or Third income class designation from the general
30 reclassification provided herein shall cease to provide for additional personal
31 services and maintain its existing personnel complement prior to the

1 reclassification, pursuant to civil service rules and regulations; Provided,
2 further, that in case of personnel transfers, resignations or deaths, the local
3 government shall not cause the filling up of the vacant position nor provide
4 for its funding until the succeeding general reclassification; and Provided,
5 finally, that in case the local government shall still exceed the limitations
6 provided in Section 325 of the LGC despite the maintenance of the status
7 quo after it first received a First, Second or Third income class designation
8 as provided herein, this shall not be considered in violation of Section 325 of
9 the LGC.

10

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

14

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

19

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

24

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

28

1 **SEC. 14. *Repealing Clause.*** – Executive Order No. 249, dated July
2 25, 1987 is hereby repealed. All laws, presidential decrees, executive orders,
3 presidential proclamations, rules and regulations or parts thereof contrary to
4 or inconsistent with this Act are hereby repealed, superseded or modified
5 accordingly.

6

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

11

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

15 *Approved,*