


NINETEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
*First Regular Session* )



22 NOV 23 P 1 :22

**SENATE**

**S. No. 1530**

RECEIVED BY: 

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Introduced by Senator JOSEPH VICTOR G. EJERCITO

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**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 No. 249 issued on 25 July 1987 by then President Corazon Aquino provides for the income classification of local government units (LGUs). The same Order only gives authority to the Secretary of Finance to review the income ranges of the LGUs at least once every four years and recommend appropriate changes. The most recent income reclassification was issued by the Finance Secretary on July 29, 2008 through Department of Finance (DOF) Order No. 23-08.

The income classifications of LGUs, aside from determining its financial capability to undertake programs and projects, serve as basis for fixing the maximum tax ceiling imposable by the LGUs; determine financial grants, aids, and other form of assistance to LGUs; establish the entitlement of local officials and employees to salary and other emoluments, among others.

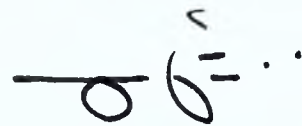
Needless to say, the current income classifications of the LGUs do not reflect the actual financial status of the local governments. This limits the LGUs in accessing programs, aids, and opportunities which could translate to services for their

constituents. This also limits the LGUs' taxing capacities and the establishment of certain key positions in the LGU crucial for service delivery.

This proposed legislation aims to institutionalize automatic income reclassification every two (2) years based on the updated table of income classifications to be released by the Bureau of Local Government Finance (BLGF). Further, the Finance Secretary is granted clear mandate and authority to set income targets or the periodic automatic income reclassification.

This measure seeks to factually classify the financial capabilities of LGUs consistent with the prevailing economic conditions and ultimately address the limitations to the development of the local government units.

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



**JOSEPH VICTOR G. EJERCITO**

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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 Income  
2 Classification Act for LGUs”.

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

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

14                   ~~“The income classification of local government units shall be~~  
15                   ~~updated within six (6) months from the effectivity of this Code~~

1           ~~to reflect the changes of their financial position resulting from~~  
2           ~~the increased revenues as provided herein.]”~~

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

5           **“SEC. 8-A. INCOME CLASSIFICATION OF PROVINCES,**  
6           **CITIES AND MUNICIPALITIES. –**

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

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

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

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

**EFFECTS OF THE AUTOMATIC INCOME RECLASSIFICATION.**

**(E) THE FIRST AUTOMATIC INCOME RECLASSIFICATION SHALL BE MADE WITHIN SIX (6) MONTHS AFTER THE EFFECTIVITY OF THIS ACT, AND EVERY TWO (2) YEARS TEHREAFTER. IN CASES OF UNMANAGEABLE PUBLIC SECTOR DEFICIT, THE SECRETARY OF FINANCE MAY ORDER THE RE-COMPUTATION AND REVISION OF THE INCOME CLASSIFICATION OF PROVINCES, CITIES, AND MUNICIPALITIES TO REFLECT THE ACTUAL FINANCIAL SITUATION OF THE LOCAL GOVERNMENT UNITS; PROVIDED, THAT A PROVINCE, CITY, OR MUNICIPALITY, WHICH HAS BEEN IN EXISTENCE FOR A PERIOD OF 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**

1 IMMEDIATELY PRECEDING ITS CREATION. THIS RULE  
2 SHALL LIKEWISE APPLY TO A MUNICIPALITY THAT IS  
3 CONVERTED INTO A CITY, OR A CITY THAT IS CREATED  
4 OUT OF EXISTING MUNICIPALITIES AND/OR  
5 BARANGAYS.

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

9 I. THE DETERMINATION OF ADMINISTRATIVE AND  
10 STATUTORY AIDS, FINANCIAL GRANTS, AND  
11 OTHER FORMS OF ASSISTANCE TO LOCAL  
12 GOVERNMENTS;

13 II. THE DETERMINATION OF THE FINANCIAL  
14 CAPABILITY OF LOCAL GOVERNMENT UNITS TO  
15 UNDERTAKE DEVELOPMENTAL PROGRAMS AND  
16 PRIORITY PROJECTS;

17 III. THE TOTAL ANNUAL OR SUPPLEMENTAL  
18 APPROPRIATION FOR PERSONAL SERVICES OF A  
19 LOCAL GOVERNMENT UNIT TO ONE (1) FISCAL  
20 YEAR AS PROVIDED IN SECTION 325 (A) OF LGC  
21 OF 1991;

22 IV. COMPENSATION ADJUSTMENT FOR LGU  
23 PERSONNEL AS PROVIDED UNDER SECTION 10 OF  
24 EXECUTIVE ORDER NO. 201 (SALARY  
25 STANDARDIZATION LAW OF 2015);

26 V. THE CREATION OF A NEW LOCAL GOVERNMENT  
27 UNIT WHEREIN SECTION 8 OF THE LGC OF 1991  
28 PROVIDES THAT THE DIVISION AND MERGER OF  
29 EXISTING LOCAL GOVERNMENT UNIT SHALL NOT  
30 DOWNGRADE THE INCOME CLASSIFICATION OF  
31 THE ORIGINAL UNIT;

- 1           **VI. THE NUMBER OF ELECTIVE MEMBERS IN THE**  
2           **SANGGUNIANG BAYAN AS PROVIDED UNDER**  
3           **SECTION 2 OF RA NO. 6637;**
- 4           **VII. ISSUANCE OF A FREE PATENT TITLE TO**  
5           **RESIDENTIAL LANDS AS PROVIDED UNDER RA**  
6           **NO.10023;**
- 7           **VIII. THE MINIMUM WAGE OF DOMESTIC WORKERS AS**  
8           **PROVIDED UNDER SECTION 24 OF RA NO. 10361;**
- 9           **IX. LGUS TO INSURE ITS PROPERTIES WITH GSIS IN**  
10           **COMPLIANCE WITH SECTION 5 OF RA NO. 656 OR**  
11           **PROPERTY INSURANCE LAW;**
- 12           **X. PROVIDE LIMITATIONS ON THE PERCENTAGE OF**  
13           **AGRICULTURAL LAND THAT CAN BE**  
14           **RECLASSIFIED AND PROVIDED FOR THE MANNER**  
15           **OF THEIR UTILIZATION OR DISPOSITION AS**  
16           **STIPULATED IN SECTION 20 OF THIS CODE; AND**
- 17           **XI. SUCH OTHER PURPOSES AS PROVIDED UNDER**  
18           **EXISTING LAWS AND REGULATIONS.**
- 19           **(G) ALL INCOME RECLASSIFICATION OF PROVINCES,**  
20           **CITIES, AND MUNICIPALITIES PURSUANT TO THIS**  
21           **SECTION SHALL BE EFFECTIVE ON JANUARY 1<sup>ST</sup> OF THE**  
22           **IMMEDIATELY SUCCEEDING YEAR.**
- 23           **(H) FOR PURPOSES OF IMPLEMENTING THIS**  
24           **SECTION, THE SECRETARY OF FINANCE SHALL ISSUE**  
25           **SUCH RULES AND REGULATIONS AS MAY BE DEEMED**  
26           **NECESSARY AND THE APPROPRIATE DEPARTMENT**  
27           **ORDERS PROVIDED FOR THE AUTOMATIC INCOME**  
28           **CLASSIFICATION OF PROVINCES, CITIES, AND**  
29           **MUNICIPALITIES."**

30           **SEC. 4. *Transitory Provision.* - A fourth or lower income class province, city, or**  
31           **municipality which gets either a first, second, or third income class designation from**  
32           **the first automatic income reclassification provided herein shall be exempted from**

1 providing for additional personal services and may maintain existing personal services  
2 prior to the reclassification, pursuant to civil service rules and regulations; provided  
3 further, that in case of personnel transfers, resignation or deaths, the local  
4 government shall not cause the filling up of vacant position nor provide for its funding  
5 until the succeeding automatic income reclassification; and provided finally, that the  
6 limitations enunciated under section 325 (a) on the use of LGU funds shall not be  
7 applicable for LGUs which has received its first, second, or third income class  
8 designation as provided herein.

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

13         SEC. 6. *Repealing Clause.* – Executive Order No. 249, dated July 25, 1987 is  
14 hereby repealed. Further, all laws, presidential decrees, executive orders, presidential  
15 proclamations, rules and regulations or parts thereof contrary to or inconsistent with  
16 this Act are hereby repealed, superseded or modified accordingly.

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

Approved,