

# LOCAL FINANCE SURVEY



CONDUCTED BY:  
NATIONAL TAX RESEARCH CENTER



FOR THE:  
BUREAU OF LOCAL GOVERNMENT  
MINISTRY OF LOCAL GOVERNMENT  
AND COMMUNITY DEVELOPMENT

## NOTES

It is said that as always the case, whenever local government officials meet to discuss common concern, their attention generally turns to the realm of finance. This is so because finance is the lifeblood of local governments. Equally, topical for discussion is the sharing of competencies, responsibilities and accountabilities among the various levels of local governments, which to a great extent, is rationally determined by local fiscal capabilities. The extent to which the principle of shared political power has been put into practice can be tested by examining firstly the division of the total public revenue among the various governmental levels and secondly, by determining the degree to which each levels share is consonant with its legal and moral responsibilities. It is in this context that this Survey on Local Finance will find meaning and utility for it shows a perspective of finance as critical determinant which can effectively measure the viability of a local administration. Finance is a component that keeps alive the concept of Local Autonomy.

The findings of this report, it is hope, will pave the way to the introduction of actions necessary to improve local fiscal administration as well as intergovernmental fiscal relations in contemporary Philippines.

The Ministry would like to gratefully acknowledged the assistance and cooperation of the Ministry of Finance and its field officials, the local officials and the MLGCD field personnel and the National Tax Research Center specifically the Local Taxation Branch which completed this report.

  
GAUDIOSO C. SOSMENA, JR.  
Director

## FOREWORD

The indispensable role of local government units as effective partners in attaining national growth has long been recognized. Thus, tremendous efforts have been exerted by the national government to financially strengthen them to enhance their development. The fact remained however that there has not been an objective and comprehensive study revealing the real financial situation of these local units. Policy makers therefore did not have a total picture with which to base their evaluation on whether or not present national government support given them is sufficient for their needs. The National Tax Research Center, cognizant of the need for such a study, welcomed the opportunity to work with the Ministry of Local Government and Community Development in cooperation with the Ministry of Finance in conducting a survey on local finance.

The survey, which is primarily designed to present an objective picture of the local government units' financial position is likewise intended to guide policy makers in (1) improving, if necessary, the extension of allotment and aid by the national government to local governments and (2) assessing the impact of the Local Tax Code, as amended, and the Real Property Tax Code, as amended, on local government finance. It is also hoped that students, researchers and other interested persons on Philippine local governments will find the findings and recommendations embodied in this survey useful for their purposes.



ANGEL Q. YOINGCO  
Executive Director

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## PART I

### INTRODUCTION

Local governments in the Philippines are political subdivisions of the government consisting of provinces, cities, municipalities and barangays. Their main task is the performance of certain functions and responsibilities. In the discharge of these, the local units act either in their governmental or proprietary capacity.

In its governmental capacity, the local government acts as an agent of the national government, assisting the national government in such matters as the suppression of crimes, preservation of public health and in other public functions in conformity with law.<sup>1/</sup> In its proprietary capacity, the local government has generally the attributes of a private corporation, such as the acquisition and disposition of property, owning, maintaining and operating public utilities, and undertaking other private or business acts in conformity with law.<sup>2/</sup>

For purposes of performing their functions and responsibilities, local governments are authorized by law to raise revenues and they receive shares from national internal revenue taxes. With the rising expectations of the people for better services and the shift towards a more active role for local governments in the implementation of national programs, the fiscal capacities of local governments have been a constant concern of policymakers. To date however, decisions on how much they should get of the revenue pie have been at most, arbitrary, in the absence of a systematic examination of basic data on their finances. Thus, the survey was conducted to look into the state of local government revenues and expenditures.

#### A. OBJECTIVES

The survey was designed to come up with indicators which would primarily guide policy-makers, local government administrators, and those concerned with local governments on the necessary changes or improvements to be made in local government finance. Moreover it was undertaken to validate previous observations and studies, and point to specific fields of further inquiry in local government finance. To accomplish this objective, the following were looked into:

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<sup>1/</sup>

Mendoza V. de Leon, 33 Phil.508.

<sup>2/</sup>

Ibid.

## General Areas of Inquiry

1. The revenues of local units generated through their revenue-raising powers as authorized under existing laws as well as the allotments, aids and loans they receive from the national government; and
2. Their allocation of these revenues among expenditures for carrying out their functions and responsibilities.

## Specific Areas of Inquiry

1. The impact on local finance of PD 76 and PD 464 (Real Property Tax Code) that affect real property taxation and PD 231 (Local Tax Code), as amended, that authorizes the other revenue-raising powers of each level of local government. This includes --
  - a. Determining the effects of the aforementioned decrees in terms of their revenue yield for local units, and
  - b. Assessing the extent of implementation of these presidential decrees and the problems encountered in their implementation.
2. The extension of allotment and aid by the national government to local governments under PD 144 which prescribes the allotment systems for local governments; PD 436 which grants local government shares from specific tax proceeds on manufactured oils; and RA 917 which extends aid to local units for the maintenance of local roads from the Highway Special Fund.  
This includes ---
  - a. Assessing the effects of national allotment and aid on the revenues and expenditures of local units;
  - b. Assessing the distribution of the allotment and aid by level of local government and by income class within each level of local government;



- c. Determining the extent and manner of utilization of the Local Government Fund <sup>1/</sup>; and
- d. Determining how the required 20% development funds <sup>2/</sup> was spent by local units.

- 3. The revenue profile of local units and analyzing their different sources of revenues, as well as their expenditure pattern, by fund and by function.

#### B. Respondents and Time Frame of Survey <sup>3/</sup>

For purposes of the survey, questionnaires were fielded to local executives, treasurers and assessors. Data on revenues and expenditures were taken from local treasurers and the Commission on Audit. ....

The time frame of the survey covers Fiscal Years 1971 to 1975. Most of the presidential decrees affecting local finance were issued in 1973. To see the variance between the period and after such enactments, two fiscal years each, before and after 1973 were included in the period covered by the surveys. While the figures may no longer be up to date, the problems underlying local finance which were borne out by the survey are still existing and should be the concern of policy-makers and administrators.

#### C. Cooperating Agencies

The Local Finance Survey was conducted by the Department of Local Government and Community Development and the National Tax Research Center, in cooperation with the Department of Finance.

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<sup>1/</sup> Section 7 of PD 144 sets aside 5% of national internal revenue taxes not otherwise accruing to special funds and special accounts in the general fund for disbursement by the President to local development projects and local governments.

<sup>2/</sup> Section 6 of PD 144 requires each local unit to set aside twenty percent of its national allotment share for development project.

<sup>3/</sup> See Appendix A for Conduct and Schedule of Survey Operations, Appendix B for Sampling Design, and Appendix C for List of Sample Local Units.

## APPENDICES TO PART I

### APPENDIX A

#### CONDUCT AND SCHEDULE OF SURVEY OPERATIONS

Upon approval of the survey design by the Department of Local Government and Community Development, questionnaires for respondents and revenue-expenditure forms were formulated. Separate questionnaires were prepared, one each for the local executive, local treasurer and local assessor. In addition to the questionnaires three forms were designed to get the data on revenues and expenditures of the sample local units:

- |               |   |
|---------------|---|
| FORM RE I —   | Actual Expenditures, by Fund, and All Funds Combined  |
| FORM RE II-A— | Actual Revenues and Other Income,<br>By Fund and All Funds Combined<br>for Fiscal Years 1970-1972       |
| FORM RE II-B— | Actual Revenues and Other Income,<br>By Fund, and All Funds Combined<br>for Fiscal Years 1973 and 1974. |

Revenue-expenditure data for Fiscal Years 1970-1972 (Tables RE I and RE II-A) were taken from records of the Commission on Audit. However, all questionnaires were fielded to the respondents, and tables RE I and RE II-B for Fiscal Years 1973 and 1974 to local treasurers. One DLGCD fieldman was assigned to each sample local unit to be responsible for the completion of the questionnaires and tables by the respondents. These DLGCD personnel underwent briefing and training for their task prior to their field assignments. Upon their completion, questionnaires and tables were edited and coded prior to their processing by the Operations Control Center of the DLGCD.

- |                           |   |  |
|---------------------------|---|--|
| June—August, 1974         | — | Preparation and approval of survey design.   |
| September — October, 1974 | — | Preparation of survey questionnaires and table forms for gathering of data on revenues and expenditures. |

- |                            |   |  |
|----------------------------|---|--|
| November, 1974             | — | Pretesting of survey questionnaires and tables in 22 local units in the eleven administrative regions of the DLGCD.  |
| December, 1974             |   |  |
| January, 1975              | — | Revision of questionnaires and tables preparation of the manual of instructions for respondents and interviewers and briefing for trainers.  |
| February - March, 1975     | — | Training of field interviewers by trainers.  |
| April - August, 1975       | — | Follow-up and monitoring of survey including the return of questionnaire for correction or completion, and gathering of data on revenues and expenditures of sample local units at the COA for FY's 1970, 1971 and 1972. |
| September - December, 1975 | — | Editing and coding of survey questionnaires and tables.  |
| December, 1975             |   |  |
| October, 1976              | — | Processing of data by OCC, DLGCD.  |
| October - December, 1976   | — | Analysis of data and writing of report.  |

## APPENDIX B

### SAMPLING DESIGN

The sample survey was conducted nation-wide. Independent stratified random sampling was done for the provinces, cities, and municipalities. (See Tables 1, 2 and 3 for the distribution of samples).

The sampling frames consisted of 75 provinces, 61 cities, and 1,347 municipalities. Excluded in the frame of municipalities because of inaccessibility and/or adverse peace and order situation obtaining in the area are the municipalities from the following provinces:

- |                   |                   |
|-------------------|-------------------|
| 1. Batanes        | 6. Maguindanao    |
| 2. North Cotabato | 7. Sultan Kudarat |
| 3. South Cotabato | 8. Siquijor       |
| 4. Quirino        | 9. Tawi-tawi      |
| 5. Sulu           |                   |

The population of 75 provinces were first grouped or stratified according to the eleven administrative regions of the Department of Local Government and Community Development. Within each regional grouping, the provinces were further stratified into their income classification prepared by the Department of Finance prior to the new classification pursuant to PD 465,<sup>1/</sup> issued on July 1, 1974. As far as feasible a fifty percent sampling per sub-stratum was followed.

<sup>1/</sup> When the survey was started, the new income classification under PD 465 was not yet completed. Hence, the old classification under Republic Act Nos. 4477 and 2368, as amended was used. The income classification of local units prior and pursuant to PD 465 are presented below.

Income Class	Prior to PD 465	Pursuant to PD 465
<b>Provinces and Cities</b>		
1	P 1,500,000 or more	P 3,000,000 or more
2)	1,000,000 - 1,499,999	1,500,000 - 2,999,999
3	700,000 - 999,999	1,000,000 - 1,499,999
4	500,000 - 699,999	500,000 - 999,999
5	300,000 - 499,999	Below P500,000
6	150,000 - 299,999	—
7	Below P 150,000	
<b>Municipalities</b>		
1	P 300,000 or more	P 1,500,000 or more
2	200,000 - 299,299	1,000,000 - 1,499,999
3	100,000 - 199,999	500,000 - 999,999
4	50,000 - 99,999	300,000 - 499,999
5	30,000 - 49,999	300,000 - 499,999
5	30,000 - 49,999	100,000 - 299,999
6	15,000 - 29,999	Below 100,000
	Below P 15,000	

However, not all income classes were represented in all the eleven regions. A 50 percent sampling was followed for income classification regardless of region except for income class 6 provinces which were completely enumerated.<sup>2/</sup>

A similar scheme was used in sampling for the cities. A fifty per cent sample was taken from income classes 1, 2, 3 and 5 and complete enumeration for income classes 4, 6, 7, and the special class.

For the municipalities, the 1,347 included in the frame were grouped by region and also stratified according to income class. A sample on a regional basis was selected but no uniform sampling fraction was determined because not all income classes are represented in each region. Only an eleven per cent sample was selected from each income class.

Whenever necessary, total estimates were derived using a 0.50 raising factor for the provinces and cities, and 0.11 for the municipalities.

In the 36 sample cities, only 34 city respondent treasurers and 35 city respondent executive accomplished questionnaires. However, all the 36 city respondent assessors accomplished questionnaires.

In the 150 sample municipalities, 144 assessors, 146 treasurers, and 146 executives accomplished questionnaire.

However, in 41 sample provinces, all the respondent executives, assessors and treasurers accomplished questionnaires.

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<sup>2/</sup> The sole sample from income class 7 (Batanes) was not included as explained in previous page.

Table 1

Distribution of Sample Provinces, By Income  
Class and By Region

Region/ Income Class	Total	1	2	3	4	5	6
Total	41	27	5	4	2	1	2
I	3	3					
II	4	1		1	1		1
III	3	3					
IV	6	3	1	2			
V	4	3		1			
VI	3	2	1				
VII	2	1			1		
VIII	4	2	1			1	
IX	2	2					1
X	6	4	1				
XI	4	3	1				

Table 2

Distribution of Sample Cities, By Income  
Class and By Region

Region/ Income Class	Total	1	2	3	4	5	6	7	8*
Total	36	15	7	5	2	2	1	1	3
I	2	1		1					
II			NO CITY						
III	4	2		1				1	
IV	7	2	1			1			3
V	1	1							
VI	4	2	2						
VII	6	1	2	2		1			
VIII	2	1	1						
IX	3	1	1		1				
X	5	2		1	1		1		
XI	2	2							

\* Special Class



Table 3

Distribution of Sample Municipalities  
By Income Class and By Region

Income Region/Class	Total	1	2	3	4	5	6	7
Total	150	10	11	32	53	29	13	2
I	21	1	1	3	7	4	5	0
II	14	1	1	3	3	5	0	1
III	11	1	1	6	3	0	0	0
IV	14	1	1	4	5	3	0	0
V	14	1	1	4	6	1	1	0
VI	11	1	1	2	6	1	0	0
VII	15	1	1	2	7	4	0	0
VIII	17	1	1	1	6	4	3	1
IX	4	0	1	2	1	0	0	0
X	23	1	1	2	8	7	4	0
XI	6	1	1	3	1	0	0	0

## APPENDIX C

### LIST OF SAMPLE LOCAL UNITS

#### Region I

<u>Province</u>	<u>Income Classification</u>
Pangasinan	1
Benguet	1
La Union	1
<u>City</u>	
Dagupan	1
San Carlos	3
<u>Municipality</u>	
San Fernando, La Union	1
Bauang, La Union	2
Bimaley, Pangasinan	3
Pozarrubio, Pangasinan	3
Tayug, Pangasinan	3
Balungao, Pangasinan	4
Sta. Maria, Pangasinan	4
Kabayan, Benguet	4
Bangui, Ilocos Norte	4
Vintar, Ilocos Norte	4
Sta. Maria, Ilocos Sur	4
Magsingal, Ilocos Sur	4
Pagudpod, Ilocos Norte	5
Santiago, Ilocos Sur	5
Sagada, Mt. Province	5
Natividad, Pangasinan	5
San Quintin, Abra	6
Tayum, Abra	6
Burgos, Ilocos Sur	6

San Vicente, Ilocos Sur	6
Sadanga, Mt. Province	6

## Region II

<u>Province</u>	
Cagayan	1
Kalinga-Apayao	3
Ifugao	4
Quirino	6

## Income Classification

<u>Municipality</u>	
Ilagan, Isabela	1
Cauayan, Isabela	2
Cabatuan, Isabela	3
Alicia, Isabela	3
Dupax, Nueva Viscaya	3
Enrile, Cagayan	4
Piat, Cagayan	4
Mallig, Isabela	4
Benito Soliven, Isabela	5
Quezon, Isabela	5
San Pablo, Isabela	5
Pinukpuk, Kalinga, Apayao	5
Santa Fe, Nueva Vizcaya	5
Sta. Praxedes, Cagayan,	7

## Region III

<u>Province</u>	
Bataan	1
Tarlac	1
Zambales	1

<u>City</u>	
Cabanatuan	1
Olongapo	1
San Jose	3
Palayan	7