

## LGU Perspectives on Local Government Finance Issues

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A very pleasant afternoon to everyone: thank you for making the League of Cities of the Philippines a part of this undertaking.

Allow us to set the parameters of our message today within the proper context of genuine decentralization and devolution. We strongly believe that for devolution and decentralization to work, three crucial and essential requirements must concur: *first*, national government agencies, most especially those that have been devolved, must be rationalized and streamlined; *second*, the availability of adequate resources to address the demands of devolution and decentralization must be ensured; and *third*, these resources must not be further strained or overburdened with unfunded mandates and anti-devolution policies.

On the first requirement, our desk review revealed that the budgets of two devolved agencies steadily grew during the first eight years of Local Government Code implementation. The Department of Health, for instance, enjoyed an average increase of 7% in its budget between 1992 and 1999, while the Department of Agriculture registered an average increase of 20% within the same stretch – notwithstanding the fact that the two agencies combined had at that time devolved 70% of their personnel to local government units. This is explained by the fact that, to date, these agencies have not phased out their regional offices, in violation of Section 17(c) of the Code, which mandates such phase out within one year of its implementation, and the replacement thereof with simple field offices for coordination purposes. This notwithstanding, we hope that this issue will be finally settled in the aftermath of EO366, or the rationalization edict of the President, as well as her EO444 which mandates a strategic review of devolution.

This first requirement pales in comparison with the strong negative impact brought about by the second and third requisites for effective devolution.

We require that adequate resources, also known as our just share, should be ensured and protected. Experience teaches us that this has not been done from Day One of Code implementation.

Let us begin with the way our 40% share is computed. In the *Ulat ng ULAP sa IRA*, we were shown that since 1992, our 40% share has been computed against "net general fund" instead of against the gross internal revenue collections or collections actually realized. This manner of reckoning has resulted in a shortfall of P2.054-Billion.

Furthermore, we have an outstanding receivable of P29.937-billion corresponding to the un-programmed appropriation of the IRA in 2000 and 2001, as well as in the IRA discrepancy on account of the reenacted budgets in 2001 and 2004. From this, we should deduct the P17.5-Billion un-programmed IRA which is currently being monetized, thereby

leaving an outstanding balance of P12.437-Billion in additional receivables.

Worse of all, between 1992 and 2004, the actual IRA released to us maintains a shortfall amounting to P33.639-Billion representing prior deductions from gross collections in the form of subsidy to certain institutions. On top of these all, we have yet to receive our just share from special taxes like the VAT, mining taxes, franchise taxes, and taxes from operations of eco-zone areas amounting to P33.918-Billion.

All in all, the unreleased IRA share and the IRA shortfall, less the P17.5-Billion being monetized, now amount to P82.048-billion as of end 2004.

This is further aggravated by the pernicious practice of downloading functions to us without the corresponding resources: from the Magna Carta for Health Workers law to the Clean Water Act.

While relevant concerns regarding these fiscal matters continue to hound LGUs, some of our members have likewise

raised other issues, some of them administrative and operational in nature.

For example, a lot of our colleagues have voiced out strong resentment over the refusal of revenue district officers of the BIR to open the books of accounts of persons or entities subject to tax. This pernicious practice is in gross violation of Section 171 of the LGC, which provides, among others, that for the purpose of examination of books of accounts of any person or entity subject to tax, the revenue district office of the Bureau of Internal Revenue is mandated to make its records available to the local treasurer or his/her deputy. To us, opening these books of accounts has double benefits. For one, it will enable us to assess the right amount of business tax to collect. For another, the double checking assures us that the BIR also collects the right amount of taxes from these entities that may, in all probability, also increase our IRA share in the long run.

Another matter that has been brought to our attention is the existing policy of the BSP which classifies LGU bonds

under the 50% risk category when under the Code, LGU bonds are considered government borrowings and are therefore risk-free. This policy dampens the effort of some LGUs to explore alternative sources of revenue because it diminishes the attractiveness of LGU bonds in the market.

We also suffer from a lack of clear-cut support for LGU bond development. We therefore propose, through this forum, that we ask Congress to amend the Code by exempting interest earnings on LGU bonds with maturity of over 5 years from income taxes. In addition, we propose that the Code be revised such that the debt service for real revenue-generating and self-liquidating enterprises will no longer be subjected to the 20% debt cap.

Going back to the non-release of LGU shares in national taxes and in the utilization of the national wealth, we have been told that this is principally occasioned by the failure of concerned agencies to submit their collection reports to the DBM. Through this forum, we are therefore asking the DBM to

require these agencies to submit their collection reports together with their proposed budgets, and that failure to do so would mean that their budget proposals will not be given due course. Furthermore, the DBM, in turn should include the full amount of the LGUs share in the proposed budget submitted to Congress.

Another case has to do with the share of cities and provinces from the motor vehicle users' charge (MVUC), or more popularly the road users' tax. We were told by the MVUC secretariat, through its counterpart in the DILG, that five of our member-cities had forfeited their share simply because they failed to submit their program of work on time. This, we strongly believe, is illegal. There should be no forfeiture of this just share in any case and in any event, specifically because it is vested by law in our favor.

On the matter of assessment revisions, we find it very costly – both economically and politically – to do so every three years. We strongly suggest, again through this forum, that the

proper policy be put in place to make assessment revisions every 5 years

On a final note, we would like to submit for the record that while LGUs are given broad powers to create their own sources of revenue, concerned national government agencies should still provide the necessary policy guidance, technical assistance and financial incentives. This is because, what happens most of the time is that LGUs are confused by different reporting systems and conflicting guidelines on what they can and cannot do in terms of resource mobilization.

Again, please accept our appreciation for giving us the proper forum to voice out the concerns of local government units.