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(In substitution of Senate Bill Nos. 1530, 1913 and 2067)

Prepared by the Committee on Local Government joint with the Committee on Finance, with Senators Ejercito, Revilla Jr, Gatchalian, and Villanueva, as authors thereof

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

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 of Local Government Units Act”.

3 Sec. 2. *Declaration of Policy.* – It is the policy of the State to provide a more
4 responsive approach to promote local autonomy and enable local government units to
5 realize their full economic potential. In line with this, the State recognizes the need to
6 determine the financial capability and fiscal position of the local government units.

7 Towards this end, the State shall formulate policies and guidelines for an
8 equitable and rational system of income classification to effectively distribute national
9 resources based on the needs of the communities.

10 Sec. 3. *Definition of Terms.* – As used in this Act:

11 a. *Annual Regular Income* refers to revenues, including fees and receipts
12 actually realized which are reported yearly on cash basis by provinces, cities
13 and municipalities from regular sources, including the National Tax
14 Allotment (NTA) and other shares in national wealth, but exclusive of non-

1 recurring receipts, such as national aids, grants, financial assistance, loan
2 proceeds, sales of assets, miscellaneous income/receipts and similar others.
3 For the purpose of this Act, shares from national wealth, excise tax on
4 tobacco, incremental collection from value added tax (VAT) under Republic
5 Act (R. A.) No. 7643, and the gross income tax paid by business and
6 enterprises in Special Economic Zones under R. A. No. 7916, otherwise
7 known as "The Special Economic Zone Act of 1995" as amended, and such
8 other shares as may be granted by law to the province, city, or municipality,
9 shall be considered as part of the annual regular income. The annual regular
10 income shall be computed from the Statement of Receipts and Expenditures
11 submitted by the local government units pursuant to the guidelines issued
12 by the Department of Finance (DOF);

- 13 b. *Average Annual Regular Income* refers to the sum of the annual regular
14 income, as herein defined, actually obtained by a province, city, or
15 municipality during the required number of fiscal years preceding the year
16 of general income reclassification of local government units, divided by such
17 number of fiscal years as provided in Section 4 hereof;
- 18 c. *Local Government Units (LGU)* refer to the political subdivisions of the State,
19 namely province, city, or municipality;
- 20 d. *LGU Leagues* refer to the Union of Local Authorities of the Philippines
21 (ULAP), League of Provinces of the Philippines (LPP), League of
22 Municipalities of the Philippines (LMP), and the League of Cities of the
23 Philippines (LCP); and
- 24 e. *Schedule of Income Classification* refers to the updated income
25 classification of LGUs periodically issued by the Secretary of Finance
26 pursuant to Section 6 of this Act.

27 **Sec. 4. *Income Classification of Provinces, Cities, and Municipalities.* –**

- 28 a. Provinces shall be classified into six (6) classes, according to income ranges
29 and based on the average annual regular income for three (3) fiscal years
30 preceding a general income reclassification. The classification shall be as
31 follows:

- 1 1. First Class – The Provinces that have obtained an Average Annual
2 Regular Income of One Billion Five Hundred Million Pesos
3 (P1,500,000,000.00) or more;
 - 4 2. Second Class – The Provinces that have obtained an Average Annual
5 Regular Income of One Billion Two Hundred Million Pesos
6 (P1,200,000,000.00) or more, but less than One Billion Five Hundred
7 Million Pesos (P1,500,000,000.00);
 - 8 3. Third Class - The Provinces that have obtained an Average Annual
9 Regular Income of Nine Hundred Million Pesos (P900,000,000.00) or
10 more, but less than One Billion Two Hundred Million Pesos
11 (1,200,000,000.00);
 - 12 4. Fourth Class - The Provinces that have obtained an Average Annual
13 Regular Income of Six Hundred Million Pesos (P600,000,000.00) or
14 more, but less than Nine Hundred Million Pesos (P900,000,000.00);
 - 15 5. Fifth Class - The Provinces that have obtained an Average Annual
16 Regular Income of Three Hundred Million Pesos (P300,000,000.00)
17 or more, but less than Six Hundred Million Pesos (P600,000,000.00);
18 and
 - 19 6. Sixth Class - The Provinces that have obtained an Average Annual
20 Regular Income of less than Three Hundred Million Pesos
21 (P300,000,000.00).
- 22 b. Cities shall be classified into six (6) classes, according to income ranges and
23 based on the average annual regular income for three (3) fiscal years
24 preceding a general income reclassification. The classification shall be as
25 follows:
- 26 1. First Class – The Cities that have obtained an Average Annual Regular
27 Income of One Billion Three Hundred Million Pesos
28 (P1,300,000,000.00) or more;
 - 29 2. Second Class – The Cities that have obtained an Average Annual
30 Regular Income of One Billion Pesos (P1,000,000,000.00) or more,
31 but less than One Billion Three Hundred Million Pesos
32 (P1,300,000,000.00);

- 1 3. Third Class - The Cities that have obtained an Average Annual
2 Regular Income of Eight Hundred Million Pesos (P800,000,000.00) or
3 more, but less than One Billion Pesos (P1,000,000,000.00);
 - 4 4. Fourth Class - The Cities that have obtained an Average Annual
5 Regular Income of Five Hundred Million Pesos (P500,000,000.00) or
6 more, but less than Eight Hundred Million Pesos (P800,000,000.00);
 - 7 5. Fifth Class - The Cities that have obtained an Average Annual Regular
8 Income of Three Hundred Million Pesos (P300,000,000.00) or more,
9 but less than Five Hundred Million Pesos (P500,000,000.00); and
 - 10 6. Sixth Class - The Cities that have obtained an Average Annual
11 Regular Income of less than Three Hundred Million Pesos
12 (P300,000,000.00).
- 13 c. Municipalities shall be classified into six (6) classes, according to income
14 ranges and based on the average annual regular income for three (3) fiscal
15 years preceding a general income reclassification. The classification shall be
16 as follows:
- 17 1. First Class – The Municipalities that have obtained an Average Annual
18 Regular Income of Two Hundred Million Pesos (P200,000,000.00) or
19 more;
 - 20 2. Second Class – The Municipalities that have obtained an Average
21 Annual Regular Income of One Hundred Sixty Million Pesos
22 (P160,000,000.00) or more, but less than Two Hundred Million Pesos
23 (P200,000,000.00);
 - 24 3. Third Class - The Municipalities that have obtained an Average
25 Annual Regular Income of One Hundred Thirty Million
26 (P130,000,000.00) or more, but less than One Hundred Sixty Million
27 Pesos (P160,000,000.00);
 - 28 4. Fourth Class - The Municipalities that have obtained an Average
29 Annual Regular Income of Ninety Million Pesos (P90,000,000.00) or
30 more, but less than One Hundred Thirty Million (P130,000,000.00);

1 5. Fifth Class - The Municipalities that have obtained an Average Annual
2 Regular Income of Sixty Million Pesos (P60,000,000.00) or more but
3 less than Ninety Million Pesos (P90,000,000.00); and

4 6. Sixth Class - The Municipalities that have obtained an Average Annual
5 Regular Income of less than Sixty Million Pesos (P60,000,000.00).

- 6 d. If a province or municipality is created before the regular reclassification of
7 LGUs, the Secretary of Finance shall have the authority to classify the
8 concerned LGU on the basis of the estimated aggregate net share of income
9 from regular sources from its component cities and municipalities in the
10 case of a province, or its component barangays in the case of a municipality,
11 including the corresponding estimated NTA of the newly created province
12 or municipality pursuant to Section 285 of R. A. No. 7160 or the Local
13 Government Code of 1991, during the fiscal year immediately preceding its
14 creation. This rule shall likewise apply to a municipality that is converted
15 into a city, or a city that is created out of existing municipalities and/or
16 barangays.

17 Sec. 5. *Administrative Authority of the Secretary of Finance.* – The Secretary of
18 Finance, in consultation with LGU Leagues, shall have the authority to review the
19 income ranges herein provided and make appropriate changes or revisions, and
20 undertake the regular income reclassification once every three (3) years, in order that
21 the income classification of local government units may continue to conform with
22 prevailing economic conditions and the overall financial status of local governments:
23 *Provided,* That in cases of unmanageable public sector deficit, the Secretary of Finance
24 is authorized to recompute and revise the income classification of LGUs to reflect their
25 actual financial situation.

26 Sec. 6. *Period of Automatic Income Reclassification.* –

- 27 a. The first general income reclassification shall be made within six (6) months
28 after the effectivity of this Act, and every three (3) years thereafter.
- 29 b. The DOF, shall within sixty (60) days from the regular income
30 reclassification, issue the appropriate Department Order containing the
31 schedule of income classification which shall serve as certification of the
32 income classification of LGUs. The schedule of income classification shall be

1 automatically updated by the Bureau of Local Government Finance (BLGF)
2 of the DOF every three (3) years: *Provided however*, That the non-issuance
3 of said Department Orders in the succeeding regular reclassification within
4 the said period shall not suspend the effects of the automatic income
5 reclassification.

- 6 c. No readjustment of classification shall be made more than once in three (3)
7 consecutive calendar years after the first general reclassification provided
8 herein.

9 *Sec. 7. Uses of Income Classification.* – The income classification of provinces,
10 cities, and municipalities shall, among other purposes, serve as basis for the following:

- 11 a. Determination of administrative and statutory aids, financial grants, and
12 other forms of assistance to local governments;
- 13 b. Determination of the financial capability of local government units to
14 undertake developmental programs and priority projects;
- 15 c. Total annual or supplemental appropriation for personal services of a local
16 government unit for one (1) fiscal year as provided in Section 325 (a) of R.
17 A. No. 7160;
- 18 d. Compensation Adjustment for LGU Personnel as provided under Section 10
19 of R. A. No. 11466 or the Salary Standardization Law of 2019;
- 20 e. Creation of a new local government unit wherein Section 8 of R. A. No. 7160
21 provides that the division and merger of existing local government unit shall
22 not downgrade the income classification of the original unit;
- 23 f. Number of elective members in the *Sangguniang Panlalawigan* and the
24 Sangguniang Bayan as provided under Section 2 of R. A. No. 6637;
- 25 g. Issuance of a free patent title to residential lands as provided under R. A.
26 No. 10023;
- 27 h. Minimum wage of domestic workers as provided under Section 24 of R. A.
28 No. 10361;
- 29 i. Local government units to insure its properties with the Government Service
30 Insurance System (GSIS) in compliance with Section 5 of R. A. No. 656 or
31 the Property Insurance Law;

1 j. Limitation on the percentage of agricultural land area that can be
2 reclassified and the manner of their utilization or disposition as stipulated in
3 Section 20 of R. A. No. 7160; and

4 k. Such other purposes as provided under existing laws and regulations.

5 *Sec. 8. Guidelines in Cases Where a Fourth or Lower Income Class LGU*
6 *Receives a Third or Higher Income Class Designation as a Result of the First General*
7 *Income Reclassification.* - A fourth or lower income class LGU which is reclassified as
8 first, second, or third income class following the first general income reclassification
9 provided herein shall be exempted from providing for additional personal services and
10 may maintain existing personal services prior to the reclassification, pursuant to civil
11 service rules and regulations, until the next general income reclassification. In case of
12 personnel transfers, resignation or deaths, the local government may not cause the
13 filling up of vacant position nor provide for its funding until the succeeding general
14 income reclassification.

15 LGUs exceeding the limitations provided in Section 325 (a) of R. A. No. 7160
16 despite maintaining the status quo after it received a first, second, or third income
17 class designation following the first general income reclassification shall not be
18 considered in violation of Section 325 of R. A. No. 7160.

19 *Sec. 9. Effectivity of the Income Reclassification.* - The first income
20 reclassification of provinces, cities, and municipalities pursuant to this Act and its uses
21 as provided under Section 7 herein shall take effect on January 1st of the immediately
22 succeeding year following the issuance of the table of income classification by the
23 Secretary of Finance as mandated by this Act.

24 *Sec. 10. Transitory Provision.* - An LGU whose average annual regular income
25 fall below the income range based on the first general income reclassification as
26 provided in this Act shall retain its current income class: *Provided, however,* That if its
27 income continues to fall below the income range in the next reclassification, the
28 concerned LGU shall be downgraded to its corresponding income class: *Provided,*
29 *further,* That during the first income reclassification, no official or employee in the
30 concerned LGU shall suffer any diminution of salary and benefits that he or she is
31 actually receiving at the time of the effectivity of this Act.

1 Sec. 11. *Implementing Rules and Regulations (IRR).* - *Implementing Rules and*
2 *Regulations.* — The DOF, in coordination with the DBM, and in consultation with LGU
3 Leagues, shall promulgate the necessary implementing rules and regulations within
4 three (3) months from the effectivity of this Act.

5 Sec. 12. *Separability Clause.* – If any portion or provision of this Act is declared
6 unconstitutional, the remainder of this Act or any provisions not affected thereby shall
7 remain in force and effect.

8 Sec. 13. *Repealing Clause.* – Any law, presidential decree or issuance, executive
9 order, letter of instruction, rule or regulation inconsistent with the provisions of this
10 Act is hereby repealed or modified accordingly.

11 Sec. 14. *Effectivity.* – This Act shall take effect fifteen (15) days following its
12 complete publication in a newspaper of general circulation.

Approved,