

DEPARTMENT ORDER No. 23-08
July 29, 2008

TO : All Regional Directors of the Bureau of Local Government Finance, this Department; Provincial Governors, City Mayors, and Municipal Mayors; Members of Provincial, City and Municipal *Sanggunian*; Provincial, City and Municipal Treasurers; and All Others Concerned.

SUBJECT : **Prescribing the New Income Brackets for the Re-classification of Provinces, Cities and Municipalities and Amending for the Purpose Department of Finance Order No. 20-05, dated July 29, 2005.**

RATIONALE: The income classification of Provinces, Cities and Municipalities serves, among other purposes, as basis for the determination of the financial capability of Local Government Units (LGUs) to provide in full or in part the funding requirements of developmental projects and other priority needs in their locality. Thus, in the preparation of project studies and proposals, the income class of LGUs is used as a factor in the allocation of national or other financial grants. Likewise, the income classification of LGUs is used to determine the maximum amount expendable for salaries and wages, as well as the salary scales and rates of allowances, per diems, and other emoluments that local government officials and personnel may be entitled to; the number of *sanggunian* members and the implementation of personnel policies on promotions, transfers, details or secondments and related matters at the local government level.

Considering therefore the marked increase in the Internal Revenue Allotment (IRA) shares of LGUs and the corresponding improvements in their tax collection performance, as reflected in the aggregate Statements of Income and Expenses (SIEs) for CYs 2004-2007, in the Annual Financial Reports of the Commission on Audit, the income re-classification of all Provinces, Cities and Municipalities shall be based on the revised income brackets herein provided.

The revised income brackets on the average were adjusted upward to net-out the impact of IRA increases on the income of LGUs for the past four (4) years,

i. e., CYs 2004-2007. In effect, this scheme will anchor the income re-classification on the own-sourced revenue efforts of LGUs, thus, promoting greater local fiscal sustainability.

SECTION 1. Definition of Terms. – (a) The term “**annual income**” shall refer to revenues and receipts realized by Provinces, Cities and Municipalities from the regular sources of the Local General Fund, inclusive of the IRA and other shares provided for in Section 284, Section 290 and Section 291 of the Local Government Code of 1991 or R. A. No. 7160, exclusive, however, of non-recurring receipts such as national aids, grants, financial assistance, loan proceeds, sales of assets, and others.

(b) The term “**average annual income**” shall refer to the sum of the “annual income”, as herein defined, actually obtained by a Province, City, or Municipality during the required number of consecutive calendar years immediately preceding the general classification of LGUs, divided by such number of calendar years as may be certified to by the Commission on Audit for the purpose of re-classification.

SECTION 2. Classification of Provinces, Cities and Municipalities. - As provided for under Section 1 and Section 2 of Executive Order No. 249, dated July 25, 1987, Provinces, Cities and Municipalities, except Manila and Quezon City which shall remain as special class cities, shall be divided into six (6) main classes according to the Average Annual Income actually realized during the last four (4) calendar years immediately preceding the year of re-classification.

Based on the Financial Statements of LGUs for CYs 2004-2007 of the Commission on Audit, the income brackets of Provinces, Cities and Municipalities which shall be used in their re-classification are ranged, as follows:

I. PROVINCES:

<u>Class</u>	<u>Average Annual Income</u>
1 st	₱ 450M or more
2 nd	₱ 360M or more but less than ₱ 450M
3 rd	₱ 270M or more but less than ₱ 360M
4 th	₱ 180M or more but less than ₱ 270M
5 th	₱ 90M or more but less than ₱ 180M

6th Below ₱ 90M

II. CITIES:

<u>Class</u>	<u>Average Annual Income</u>
1 st	₱ 400M or more
2 nd	₱ 320M or more but less than ₱ 400M
3 rd	₱ 240M or more but less than ₱ 320M
4 th	₱ 160M or more but less than ₱ 240M
5 th	₱ 80M or more but less than ₱ 160M
6 th	Below ₱ 80M

III. MUNICIPALITIES:

<u>Class</u>	<u>Average Annual Income</u>
1 st	₱ 55M or more
2 nd	₱ 45M or more but less than ₱ 55M
3 rd	₱ 35M or more but less than ₱ 45M
4 th	₱ 25M or more but less than ₱ 35M
5 th	₱ 15M or more but less than ₱ 25M
6 th	Below ₱ 15M

Accordingly, the Bureau of Local Government Finance is hereby directed to undertake the re-classification of Provinces, Cities (except Manila and Quezon City) and Municipalities in accordance with the foregoing income brackets and issue appropriate circulars therefor.

SECTION 3. Period of General Re-classification of Provinces, Cities and Municipalities. – (a) Upon the effectivity of the re-classification of Provinces, Cities and Municipalities pursuant to the provisions of this Order and Section 3 of the aforementioned Executive Order No. 249, the general re-classification of LGUs shall be made once every four (4) consecutive years.

(b) However, any newly converted/created/merged Province, City or Municipality, which has been in existence for a period of less than four (4) full calendar years of the general re-classification of LGUs as herein provided, shall be

tentatively classified on the basis of its Average Annual Income actually realized during the last four (4) calendar years immediately preceding the year of classification.

SECTION 4. Adjustment of Income Classification. – As provided for under Section 3 of Executive Order No, 249, an adjustment of the income classification of any Province, City or Municipality shall not be made oftener than once every four (4) consecutive years, except in cases of diminishing revenues, which upon the occurrence thereof, this Department may order at any time the downward adjustment of the income classification of the LGU concerned in accordance with the income brackets herein prescribed.

SECTION 5. Repealing Clause. – Department of Finance Order No. 20-05, dated July 29, 2005, and all other orders, circulars or issuances of this Department which are inconsistent with, contrary to or not in accordance with the provisions of this Order are hereby repealed and/or modified accordingly.

The Bureau of Local Government Finance, this Department is hereby directed to disseminate copies hereof to all Provincial, City and Municipal Treasurers. All Provincial, City and Municipal Treasurers, in turn, are hereby directed to provide their local chief executives and members of the *sanggunian* of their respective stations with sufficient copies of this Order, for their proper information and guidance.

This Order shall take effect immediately.

MARGARITO B. TEVES
Secretary