

LEAGUE OF CITIES OF THE PHILIPPINES

Policy and Program Note

July 27, 2018

www.lcp.org.ph

POLICY UPDATES

The League is closely monitoring the development of the following cases and bills that will greatly impact city administration and governance:

MANDANAS CASE

The Supreme Court decided on 04 July that the “just share” of local government units (LGUs) should be calculated and obtained from ‘national taxes’ and not just from the ‘national internal revenue taxes’. The said ruling was on a petition filed in January 2012 by then Batangas Representative Hermilando Mandanas who questioned before the Supreme Court the constitutionality of the government’s computation of the Internal Revenue Allotment (IRA). The verdict will substantially increase the proposed allotment to LGUs with the addition of national taxes collected by the Bureau of Customs such as tariffs and customs duties. The decision is also a victory for City Mayors who championed the same advocacy in the Senate by supporting the immediate passage of the Bigger Pie, Bigger Slice Bills, particularly Senate Bill No. 110.

As of 22 July 2018 and based on the Press Statement of DOF Secretary Carlos Dominguez III, DOF will file a motion for reconsideration upon receipt of the final resolution from the Supreme Court.

CONSULTATIVE COMMITTEE’S DRAFT CONSTITUTION

The Consultative Committee (Con-Com) tasked to review the 1987 Constitution released on 09 July the latest, official version of its proposed Federal Constitution. More powers, resources, and representation appear to go local in the said draft. The draft constitution delegates exclusive and shared powers between the Federal and Regional Governments. Noteworthy, the Regional Governor shall exercise general supervision over local government units (LGUs). Regional Governments shall also have the power to levy taxes, fees, and charges

within its territory, in addition to the Equalization Fund (3 percent or more of the GAA) and 50 percent share in national taxes. Cities, in particular, find representation at the federal and regional levels. Those with a population of at least 500,000 voters shall have one seat in the House of Representatives. Each Regional Assembly, the legislative body for the region, shall be composed of the incumbent governors of provinces and mayors of highly urbanized cities and independent component cities. To note, the Con-Com draft is only a recommendation to Congress, the only public institution with the mandate to revise the Constitution. In LCP Resolution 2018-01, cities unanimously called for the drafting of a Philippine Federal Constitution through a Constituent Assembly. Furthermore, the League spearheaded or took part in various efforts to promote Philippine Federalism and Constitutional Reform.

BANGSAMORO ORGANIC LAW

The bicameral conference committee approved on 18 July the reconciled version of the proposed Bangsamoro Basic Law, now called the Bangsamoro Organic Law. The joint bill shall create a substantially autonomous territory out of the existing areas in the ARMM (i.e., Basilan, Sulu, Tawi-Tawi, Lanao del Sur and Maguindanao) and, if approved by a one-time plebiscite, portions of Lanao Del Norte and North Cotabato. The proposed Organic Law allows the Bangsamoro government to have its own legislative assembly, retain the largest share of its local revenues, regularly receive a fixed portion of the central government’s revenues, and manage natural resources within its territory. The region’s justice system shall also incorporate Islamic Laws.

Under the Con-Com draft constitution, the Bangsamoro Organic Law shall be appended as Ordinance II of the Federal Constitution. In its formal appeal for Philippine federalization, the League is convinced that only a Federal Constitution can accommodate the creation of a Bangsamoro state, which may quell the decades-

» continued in page 3

PROGRAM UPDATES

2018 LCP CITY DATABASE PROJECT

During the 2016-2019 LCP National Executive Board (NEB) Strategic Planning, members of the NEB have envisioned to develop its own database – a consolidation of comprehensive pertinent local government data ranging from demographics, economic activities, local revenue, education, environment and natural resources, peace and security, and local best practices, among others. The database will be available online and made accessible to cities in a user-friendly format through the use of data visualization and information technology. Through this initiative, local data will be made available to key stakeholders such as the city government, researchers, and development partners in a form that is easier to understand. It is a response to the current issues confronting local governments – inaccessibility of local data that are usually shelved in offices, lack of consolidated data at the city-level, and the challenge in understanding and interpreting data. LCP will play an important role in bringing the consolidated data back to its source – the cities themselves and underscore the importance of utilizing and visualizing data.

Data will be collected from cities themselves and various national government agencies. LCP has developed data gathering tools to aid in data collection. City visits will be conducted for data validation. Data will then be used in the development of the database and various information, education, and communication materials.

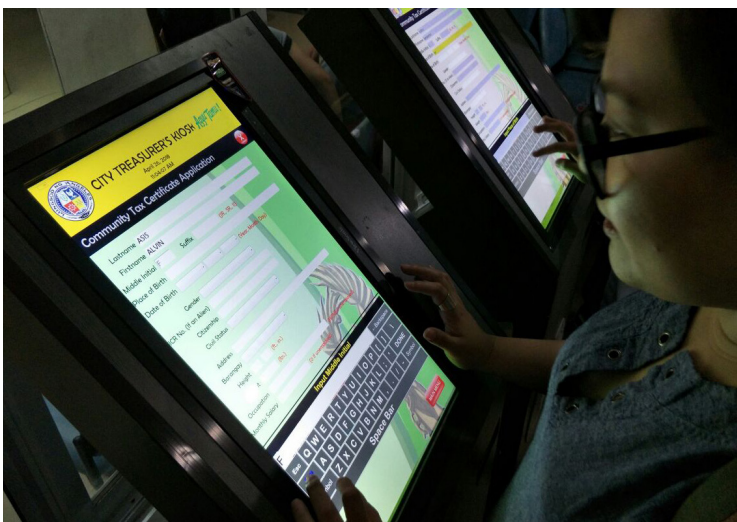
Officially launched this 2018, the League aims to cover 32 cities for this year and have the entire 145 cities covered by 2020.

Updates

Pilot testing of data gathering tools in the cities of Meycauayan and Angeles

Last March 2018, the city of Meycauayan became the first pilot city for the testing of the data gathering tools developed by LCP.

Members of the LCP Database Committee visited the city government for further data gathering and validation. This was then followed by a visit to Angeles City in April, the second pilot city for the tool testing. The testing of the data gathering tools aimed to calibrate and align the tools according to the data needs of the cities and their relevance to them. The pilot testing activity allowed the committee to trim down the number of tools to be used at the local level and incorporate inputs from the cities. On the other hand, national government agencies with depository of local data were also identified. LCP will coordinate with these agencies to properly request for data.



Pilot testing at Angeles City - City Treasurer Office



Pilot testing at Meycauayan City - City Planning Office

UPDATE ON DBM OPEN SPACES PROGRAM

The Department of Budget and Management (DBM) issued Local Budget Circular no. 116 which sets the guidelines on the utilization of the P2.5 Billion assistance to cities for open spaces. According to DBM, 143 cities have submitted their letter of intent and conceptual designs. Out of 143 cities, 100 conceptual designs have been reviewed. After the technical review, endorsement on fund releases will be sent to the Bureau of Local Government and Regional Coordination (BLGRC).

DBM is targeting to finish the technical review within the year. LCP offered to assist in contacting the 43 cities, which DBM has difficulty establishing communication. They reasoned that that is one of the issues for the slow completion of the technical reviews.



Mayor Edgardo Pamintuan and Secretary Benjamin Diokno at DBM Open Spaces Confab



Mayor Olivarez, Mayor Malapitan and Mayor Barzaga



Mayor Lagman-Luistro, Mayor Lee and Mayor Gomez

Data collection and validation in the cities of Dapitan and Dipolog

Last 02-06 July 2018, members of the database committee visited the cities of Dapitan and Dipolog for further data collection and validation using the reviewed and improved data gathering tools. The city visit enabled the committee to capture not only basic information but also the characteristics of each city, as well as their best practices on local governance. Dapitan City has an active agriculture program which provides economic opportunities to its constituents. Dipolog City on the other hand, has its own local economic enterprise facilities and activities which significantly contribute to the city's local revenue generation.

Next Steps

For 2018, LCP aims to cover all the targeted 32 cities for the year and begin with the development of the online database. Database activities will resume this August 2018. If you are interested to be part of first 32 city respondents, kindly

contact Mr. Broderick Sapnu, LCP Knowledge Management Unit Head and City Database Committee Lead at bssapnu.lcp@gmail.com or citydatabase.lcp@gmail.com and thru (02) 470 6843.

The LCP Secretariat has been actively seeking external funding to support the completion of the City Database. Recently, we submitted a proposal to Canada Fund for Local Initiatives and other development partners have expressed interest to support this initiative.

Bangsamoro Organic Law (from page 1)

old problem of rebellion in the area. As of 24 July 2018, both Houses of Congress have ratified the joint Bill. President Rodrigo Duterte, in his third State of the Nation Address, committed to signing it into law in the coming days.

RESEARCH ON UNREMITTED VALUE ADDED TAX

On 24 April 2018, during the 64th National Executive Board meeting at Royce Hotel in Clarkfield Pampanga, the Board instructed the Secretariat to conduct further research on the release of the value-added tax shares of cities. Current research shows that some cities are getting their VAT shares while others are unknown. In 2007, the cities of Manila, Mandaluyong, Angeles, and Quezon received their VAT shares. While in 2011 and 2014, Oroquieta City and Masbate City recorded in their LBP Form 2 that they have received their VAT shares. Cebu City was the most successful in obtaining their VAT shares from 2000-2008.

As a background, on 25 July 1987, President Aquino signed Executive Order 273 which introduced Value-Added Tax (VAT) in the country. VAT was adopted under the 1986 Tax Reform Program to simplify the tax administration and make the tax system more equitable. Section 21 of the National Internal Revenue Code of 1997 originated from RA 8424, specifically deems VAT as one of the sources of national internal revenue; Section 283 of the same law specifically mentions that cities and municipalities will have 20% of the 50% VAT collections in excess of the increase in collections from sales of goods and services, sales of services and use of lease properties. On the other hand, RA 7643 requires the payment of VAT monthly and allows LGUs to share in the VAT revenue, with Section 2 specifically recognizing the amounts from the collected national internal revenue due to LGUs have to be set apart by way of allotment as provided for under RA 7160.

According to a Tax Revenue Journal, LGUs fail to enjoy their VAT shares due to the complicated procedure in adopting the rule on the situs of local business tax stated in Section 150 of the LGC. Also, since the LGUs shares are computed based on incremental increase, the share is not consistent.

Updates

On 7 May 2018, the League wrote to the Chief of the Revenue Accounting Division of the Bureau of Internal Revenue (BIR) requesting for the cities share from 1986-2017 VAT collections and the number and name of cities which successfully obtained their VAT shares.

On the 6 June 2018 reply of BIR OIC-Assistant Commissioner Alfredo Misajon, a summary of shares of cities from incremental VAT collection for 1994-2017 were provided. However, on the same letter, BIR stated that the Department of Budget and Management is in-charge of issuing the budget release documents to cities. As a follow through, the League wrote to DBM Secretary Ben Diokno on 13 June 2018 requesting for a list of cities which has successfully obtained their VAT shares. According to the DBM reply letter dated 25 July 2018 signed by DBM Director for Local Government and Regional Coordination Bureau, there are a total of 85 cities that received their incremental VAT share from 2004-2007.

Next Steps

The Secretariat will compare the list provided by BIR with the list provided by DBM. Currently, the remaining years in question are from 1986-1992 and 1992-2002. According to the reply of DBM, the Joint Memorandum Circular that provided for the computation of cities share on the incremental VAT collection was issued 10 years after the passage of Republic Act 7643 or the EVAT Law. Our research questions now are:

1. What happen to the cities share from 1992-2002?
2. How can cities obtain these shares?



**LEAGUE OF CITIES OF
THE PHILIPPINES**

Telephone +63 2 470 6837 Fax: +63 2 470 7210
Email: league.cities.philippines@gmail.com
Social Media: www.facebook.com/philcities