

[DEPARTMENT ORDER NO. 031-2018, June 27, 2018]

**GUIDELINES ON THE COMPUTATION AND CERTIFICATION OF
INCOME FOR THE CREATION, CONVERSION, MERGER OR
ABOLITION OF A LOCAL GOVERNMENT UNIT (LGU)**

*Adopted: 04 May 2018
Date Filed: 27 June 2018*

1.0 RATIONALE

This Department Order establishes the rules and guidelines in the attestation or certification of income relative to the requirement of law in the creation, conversion, merger, or abolition of local government units (LGUs). Pursuant to Sections 7, 8 and 9 of Republic Act (RA) No. 7160, otherwise known as the Local Government Code (LGC) of 1991, and RA No. 90091, the Department of Finance (DOF) is mandated to attest the income indicator in the creation, conversion, merger or abolition of LGUs. Likewise, the provincial treasurer and the city treasurer are mandated by the LGC to certify the income requirement for the creation of municipalities and for the classification of a city into a highly urbanized city, respectively.

2.0 LEGAL BASES

2.1 Section 7 of the LGC requires that the creation of an LGU or its conversion from one level to another level shall be based on verifiable indicators of viability and projected capacity to provide services, to wit: (i) income; (ii) population; and (iii) land area. The income of such LGU must be sufficient, based on acceptable standards, to provide for all essential government facilities and services and special functions commensurate with the size of its population, as expected of the local government unit concerned;

2.2 Section 8 of the LGC prescribes that the division and merger of existing LGUs shall comply with the same requirements of Section 7 of the LGC. However, such division shall not reduce the income, population, or land area of the local government unit or units concerned to less than the minimum requirements prescribed in this Code: Provided, further, That the income classification of the original local government unit or units shall not fall below its current income classification prior to such division.

2.3 Section 9 of the LGC further mandates that an LGU may be abolished when its income, population, or land area has been irreversibly reduced to less than the minimum standards prescribed for its creation under Book III of the LGC, as certified by the national agencies

mentioned in Section 17 of the LGC to Congress or to the sanggunian concerned as the case may be.

2.4 The income requirement for the conversion of municipality or a cluster of barangays into a component city and for the creation of a province shall be certified by the DOF, pursuant to Section 450(a), as amended by RA No. 9009, and Section 461(a) of the LGC, respectively.

For the conversion into a component city, the required locally generated average annual income for the last two (2) consecutive years shall be at least One Hundred Million Pesos (Php100,000,000.00) based on 2000 constant prices. While the required average annual income for the creation of a province shall be not less than Twenty Million Pesos (Php20,000,000.00) based on 1991 constant prices. Provided, That the creation thereof shall not reduce the income of the original unit or units at the time of said creation to less than the minimum prescribed requirements.

2.5 The income requirement for the creation or conversion to a municipality and classification into highly urbanized city shall be respectively certified by the provincial and city treasurer, pursuant to Section 442(a) and Section 452(a) of the LGC.

For the creation of a municipality or conversion of a barangay into a municipality, the required average annual income for the last two (2) consecutive years shall be at least Two Million Five Hundred Thousand Pesos (Php2,500,000.00), based on 1991 constant prices. Provided, That the creation thereof shall not reduce the income of the original municipality or municipalities at the time of said creation to less than the minimum requirements prescribed herein. While the required latest annual income for the classification into a highly urbanized city shall be at least Fifty Million Pesos (Php50,000,000.00) based on 1991 constant prices.

2.6 Sections 442(c), 450(c), as amended, and Section 461(c) of the LGC, defines the composition of the average annual income as the income accruing to the general fund, exclusive of special funds, trust funds, transfers and non-recurring income.

2.7 Under Department Special Order No. 6-92 dated August 21, 1992, or the Code of Approving and Signing Authorities, the Bureau of Local Government Finance (BLGF) of the DOF is mandated to certify the income of LGUs.

2.8 Under Department Order 08-2011 dated 11 February 2011, the electronic Statement of Receipts and Expenditures (eSRE) is the official reporting system of the DOF on local fiscal and financial matters, to be maintained by the DOF-BLGF to fully establish a reliable, accurate and timely reporting and monitoring system in the country.

2.9 Resolution No. 2, series of 2009, entitled "Approving the Synchronized Rebasing of Price Indices to Base Year 2006" of the

National Statistical Coordination Board (NSCB), now known as the Philippine Statistics Authority (PSA), has approved the rebasing of the price indices to base year 2006. The PSA has declared through its letters dated 04 November

2014 and 10 May 2016 that the old Consumer Price Index (CPI) series will no longer be generated once the new or rebased series becomes available.

3.0 PURPOSE

This Department Order shall be used by the BLGF and the provincial and city treasurers in attesting and certifying the income requirement for purposes required by the LGC to ensure uniformity in the computation thereof.

4.0 BASIC DATA

The BLGF and the concerned provincial and city treasurers shall use the approved Statement of Receipts and Expenditures (SRE) submitted by the LGUs through eSRE system for the last two (2) consecutive years, and four (4) years prior to the issuance of the latest income reclassification, as the basic data for computing and attesting the income requirement.

5.0 FEATURES OF THE CERTIFICATION

The certification of the average annual income shall be comprised of the following income requirements:

5.1 Average Annual Income of Proposed LGU;

5.2 Resulting Average Annual Income of the Original LGU or LGUs (in determining whether the income of the original unit or units at the time of the creation or conversion will be reduced to less than the minimum requirements prescribed in the LGC); and

5.3 Resulting Average Annual Regular Income of the Original LGU or LGUs (as basis of the income classification of the original LGU or LGUs at the time of said creation or conversion).

6.0 DETERMINATION OF ANNUAL INCOME

Based on the definition of annual income cited in the LGC and RA No. 9009, it shall be composed of income accruing to the general fund, exclusive of special funds, trust funds, transfers and non-recurring income, and computed as follows:

6.1 Creation of Province, Creation of Municipality or Conversion of Barangay into Municipality, and Classification of Component City into Highly Urbanized City:

$$\begin{aligned} \text{Annual Income} = & \text{Real Property Tax (General Fund)} + \text{Tax on} \\ & \text{Business} + \text{Other Taxes} + \text{Regulatory Fees} \\ & \text{(Permits and Licenses)} + \text{Service/User} \\ & \text{Charges (Service Income)} + \text{Receipts from} \end{aligned}$$