

## Chapter 4. Local Government Finance

### Resource Endowments

The provincial income of Cavite resulted to a minimal decrease of 1.047% from the year 2012 to 2013. This is equivalent to Php25,847,563.91. The total income of the province for 2013 is Php2,441,960,116.42. The decrease was largely affected by decrease in the local taxes and the income from medical, dental and laboratory fees. On the other hand, the decreases were compensated by the increase in internal revenue allotment or the so-called IRA.

The decrease in local taxes was greatly affected by the conversion of Bacoor and Imus from municipality to city. The said cities no longer remit provincial share out of their real property taxes, thus a decrease of almost Php62M. On the other hand, the income from medical, dental and laboratory fees that falls under Permits, Licenses, Service and Business Income decreased due to the transfer of account from the provincial government to the Botika ng Lalawigan ng Cavite.

The unstoppable urbanization in Cavite tends to convert the highly urbanized areas into cities which in effect will give them autonomy in terms of their local income. Given this challenge, the provincial government is continually instituting new measures, policies and systems as well as utilizing modern technologies that would contribute in a more efficient local taxes collection.

The comparative financial profile of the province from 2012 to 2013 is as follows:

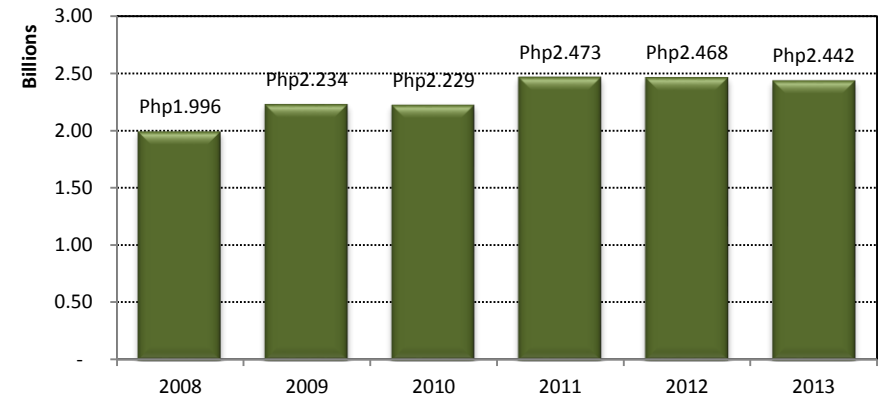
	2012	2013
Internal Revenue Allotment Share	1,594,655,094.00	1,810,442,652.00
Local Taxes	765,233,114.82	570,284,045.28
Permits, Licenses, Service and Business Income	102,118,726.12	59,385,179.75
Other Incomes:		
Share from Economic Zones	-	18,845.16
Share from PCSO	-	-
Interest Income	5,800,745.39	1,829,394.23
Dividend Income	-	-
Insurance Income	-	-
	<b>2,467,807,680.33</b>	<b>2,441,960,116.42</b>

For two consecutive years, there has been no recorded income coming from PCSO, dividends and insurance. Unlike last year, an income of Php18,845.16 was generated from economic zones for 2013.

### Provincial Operating Income

The provincial income of Cavite for the year 2013 have reached the amount of Php2,441,960,116.42. There is no significant difference in the provincial income as compared to that of the previous year. However, a decrease of Php25,847,563.91 was recorded that corresponds to 1.047% decline in budget. The income was largely affected by factors like cityhood of Imus and Bacoor that led to lower local taxes but was compensated by the increase in internal revenue allotment by 13.53%. It is fair to note that the provincial income is stable at around Php2B since the year 2009.

Figure 4.1. Income by Year, Province of Cavite: 2008 to 2013



Financial management in the provincial government involves the classification of budget into two categories, the General Fund and the Special Education Fund. General funds are those that are being spent for the general expenses of the province like infrastructure projects, social services, economic services and everything other than education related programs which budgets are being drawn from the special education fund. Certain amount of budget is allocated under the special education fund in order to support the national government in the delivery of educational services. Special education fund on the other hand is being used to supplement teachers under the Local School Board, classroom construction and purchase of educational materials among other education related expenditures.

Due to the increase in internal revenue allotment, the general fund also increased by 3.47% equivalent to Php74,778,550.01. The general fund accounts to 91.41% of the

entire provincial income. On the other hand, the special education fund accounts to 8.59% of the provincial income. The special education fund was greatly affected by the decrease in local taxes thus it recorded a decline of 32.43% or a reduction equivalent to Php100,626,113.92. Out of the total income, Php2,232,314,759 is general fund and only Php209,645,357.42 is special education fund (Figures 2 and 3).

Figure 4.2. Income by Fund Category, Province of Cavite: 2013

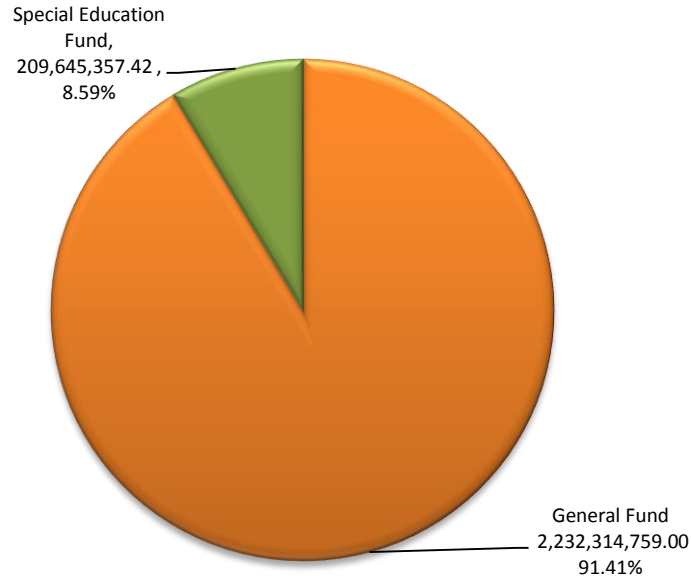
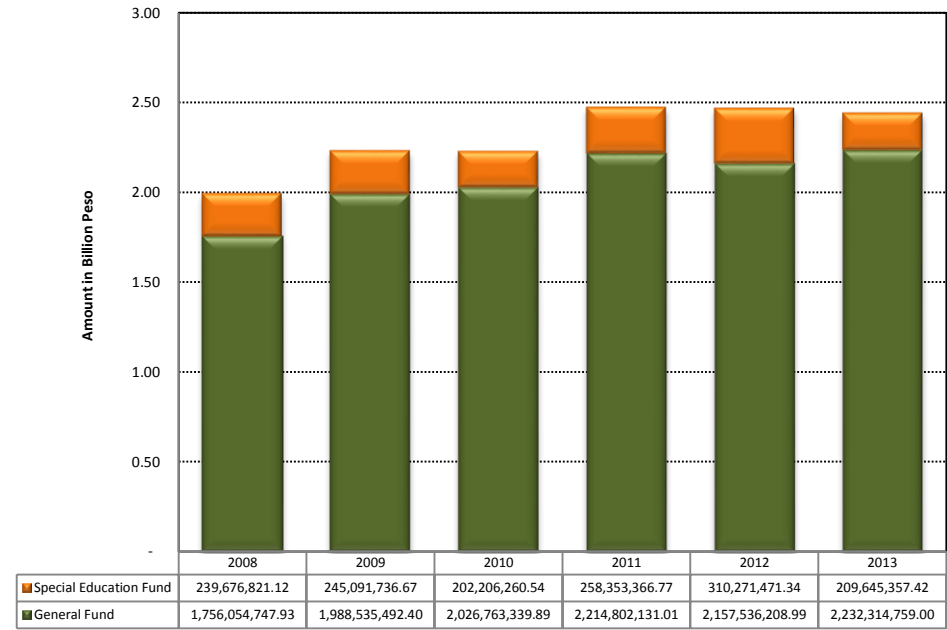


Figure 4.3. Provincial Income with Fund Category by Year, Province of Cavite: 2008 to 2013



## Sources of Income

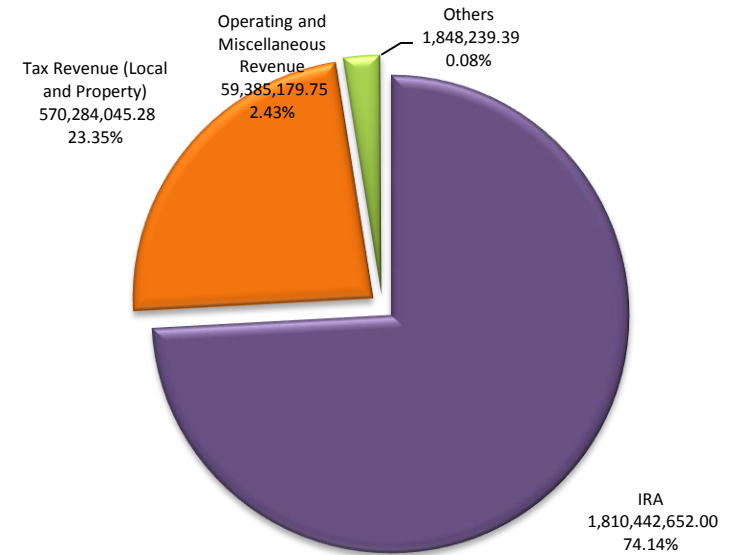
The income of the province can come from various sources. The amount of income of the province is critical in defining the programs to be implemented under the local administration, social, environment and economic sectors. The source of income of the province can come from national government subsidy, local collections and other sources, being the first two as the principal resources. The national government subsidy is in the form of Internal Revenue Allotment or what is commonly known as IRA. The local collections are from the real property taxes, permits and licenses fees being collected by the province as well as service income and business income. The other income includes dividends, insurances, interests, share from economic zones and Philippine Charity Sweepstakes Office (PCSO).

For the year 2013, the provincial income mainly came from the internal revenue allotment of the national government that accounts to a rate of 74.14%. This is also referred as IRA dependency rate. This is higher than the IRA dependency ratio of 67.62% in 2012 and 67.66% in year 2011. The revenue of the province from local and property taxes covers 23.35% of the income. However, there is a significant decrease in the revenue from local taxes. This was driven from cityhood of two municipalities that led to the non-remittance of provincial share from real property taxes. This is despite the efforts of the provincial government to raise the collection of real property taxes thru the computerization of the real property tax system and ISO certification. The income from Tax Revenue decreased by 25.48% from year 2012 to 2013.

The third largest share is Service Income which totaled to 2.43%. This income came primarily from medical, dental and laboratory fees in the provincial hospital while a portion of it came from other services, permits and licenses.

More efforts should be exerted to further decrease the IRA dependency of the province while intensifying its drive to become independent in terms of its locally-sourced income. This would also reduce the impact of conversion of municipalities to cities (Figure 4).

Figure 4.4. Income by Source, Province of Cavite: 2013

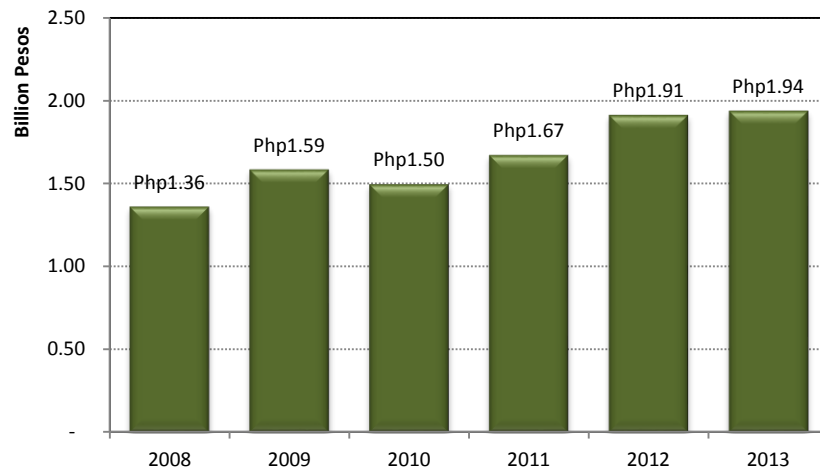


## Provincial Operating Expenses

The two major expense accounts of the provincial government are Personal Services and Maintenance and Other Operating Expenditures. For the year 2013, the total operating expenses have reached Php1,940,895,149.15. This can be translated to 79.48% of the income of the province. The operating expense did not pose significant increase but only pegged at Php26,356,081.41 or 1.38% from year 2012 to 2013.

In the last six years, the highest operating expense is recorded in the year 2013 at Php1.94B. The operating expenditures do not include yet the financial expenses, subsidies to local government units, donations and other extraordinary items (Figure 5).

Figure 4.5. Operating Expenses by Year, Province of Cavite: 2013



The operating expense is divided into two fund classification such as the Special Education Fund and General Fund. The expenses under the SEF amounted to Php146,524,511.40 that is equivalent to 7.55% of the total expenses. The general fund expenses on the other hand amounted to Php1,794,370,637.75 equivalent to 92.45% of the total operating expense (Figure 6).

The general fund was used-up up to 80.38% while the special education fund was used-up at 69.89%. The expenses under the special education fund decreased from year 2012 to 2013. However, the fund utilization is highest in the year 2013 for the general fund (Figure 7).

Figure 4.6. Expenses by Fund Category, Province of Cavite: 2013

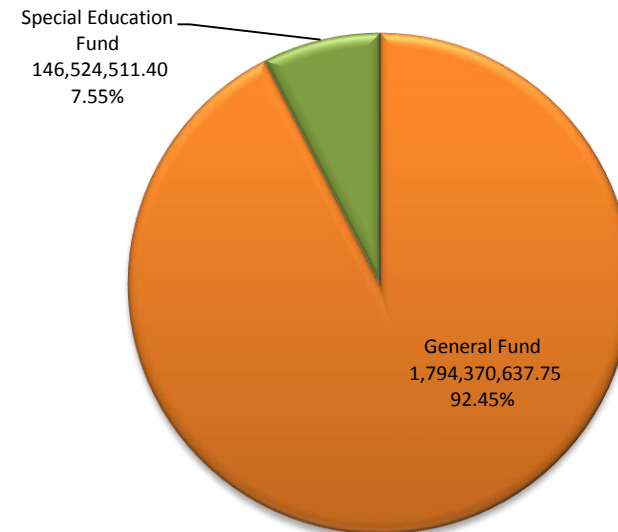


Figure 4.7. Operating Expenses with Fund Category by Year, Province of Cavite: 2008 to 2013

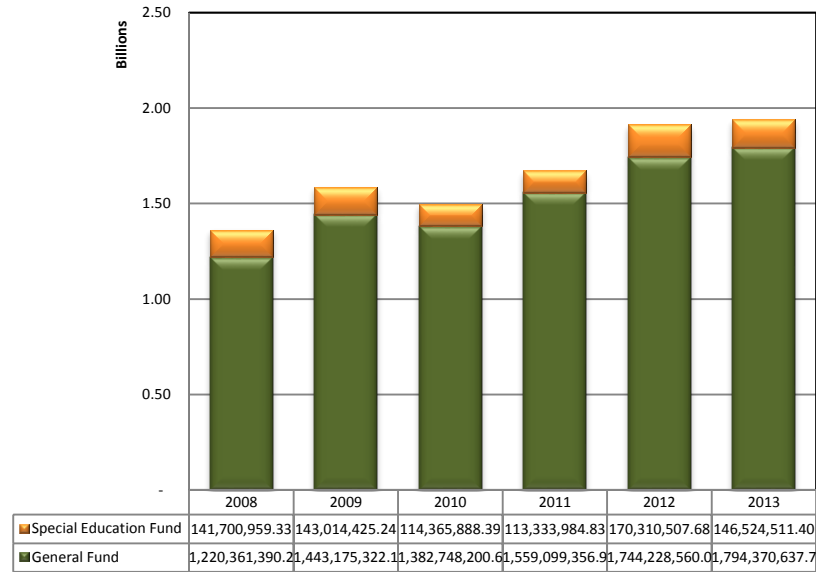
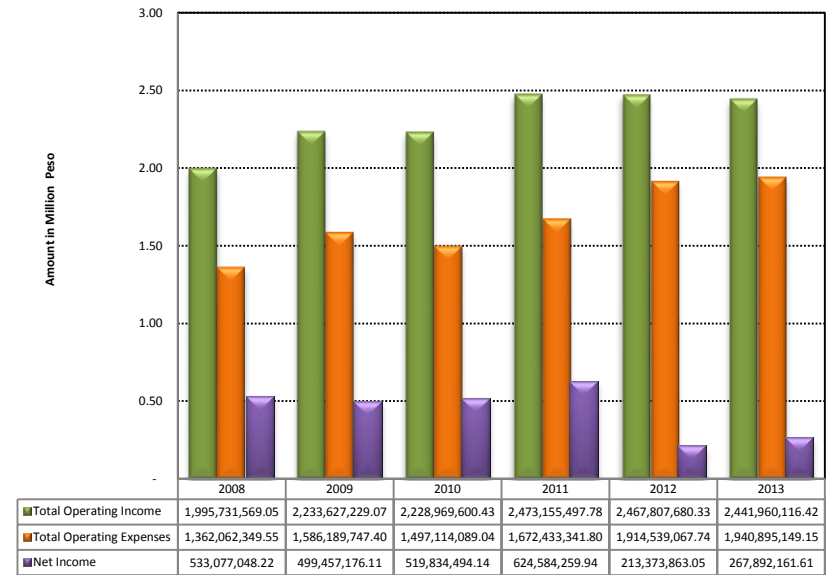


Figure 4.8. Comparative Gross Income, Expenditure and Net Income by Year, Province of Cavite: 2008 to 2013



## Gross Income, Expenses and Net Income

Financially speaking, the province is in good financial status based on its recorded net income for the past six years. In the provincial government setting, the net income is the money remained from income after all the expenses have already been deducted except for extraordinary expenses. For 2013, the province has a net income of Php267,892,161.61. The net income increased from the year 2012 to 2013 by 25.55% or equivalent to Php54,518,298.56. The net income rate of 2013 is at 10.97% (Figure 8).

## Income Class Classification

The Department of Finance (DOF) implements a categorization system that determines the income classification of a certain Local Government Unit (LGU). This classification depends on the amount of revenue and income of the LGU. The employees' compensation on the LGU is based on this classification. The latest classification system is based on DOF's Department Order No. 23-08 effective July 29, 2008. The classification scheme is as follows:

Class	Average Annual Income
<b>Provinces</b>	
First	P450M or more
Second	P360M or more but less than P450M
Third	P270M or more but less than P360M
Fourth	P180M or more but less than P270M
Fifth	P90M or more but less than P180M
Sixth	Below P90M
<b>Cities</b>	
First	P400M or more
Second	P320M or more but less than P400M
Third	P240M or more but less than P320M
Fourth	P160M or more but less than P240M
Fifth	P80M or more but less than P160M
Sixth	Below P80M
<b>Municipalities</b>	
First	P55M or more
Second	P45M or more but less than P55M
Third	P35M or more but less than P45M
Fourth	P25M or more but less than P35M
Fifth	P15M or more but less than P25M
Sixth	Below P15M

Based on the said income classification system, the Department of Finance came up with the Memorandum Circular No. 01-M(24)-08 dated November 12, 2008 classifying the 19 municipalities of Cavite and Memorandum Circular No. 01-C-08 dated November 27, 2008 classifying the four cities (Table 4.1).

Table 4.1. Income Classification of Cities and Municipalities, Province of Cavite: Effective July 29, 2008

City/Municipality	Average Annual Income CYs 2004-2007 (Php M)	Income Class
<b>1<sup>st</sup> District</b>		
Cavite City	208.724	4th
Kawit	69.373	1st
Noveleta	41.267	3rd
Rosario	351.135	1st
<b>2<sup>nd</sup> District</b>		
Bacoor	352.922	1st
<b>3<sup>rd</sup> District</b>		
Imus	293.365	1st
<b>4<sup>th</sup> District</b>		
City of Dasmariñas	425.750	1st
<b>5<sup>th</sup> District</b>		
Carmona	219.579	1st
Gen. Mariano Alvarez	93.417	1st
Silang	173.000	1st
<b>6<sup>th</sup> District</b>		
Trece Martires City	185.162	4th
Amadeo	31.695	4th
Gen. Trias	339.756	1st
Tanza	115.431	1st
<b>7<sup>th</sup> District</b>		
Tagaytay City	345.591	2nd
Alfonso	56.255	1st
Gen. Aguinaldo	22.489	5th
Indang	56.526	1st
Magallanes	27.535	4th
Maragondon	28.812	3rd
Mendez	29.715	4th
Naic	75.675	1st
Ternate	32.193	4th
<b>Cavite Province</b>	<b>1,135.806</b>	<b>1st</b>

Sources: Department of Finance, Manila



Out of the nineteen municipalities, twelve were classified as first class having an average municipal income of more than Php55 million from 2004 to 2007. Two municipalities are third class, four are fourth class and one is fifth class. On the other hand, the City of Dasmariñas is a first class city, while Tagaytay City is second class and the remaining two cities, Cavite and Trece Martires are fourth class. Over-all, the province of Cavite is classified as a First Class Province. The objective of all localities is to become first class in order to exhibit their competitiveness and capacity to host investments and residents as a sustainable development partner of the private sector.

### Taxable Assessment of Real Property

The appraisal and assessment of real properties in a specific local government unit for taxation purposes is guided by fundamental principles embodied in the Real Property Tax Code of the Philippines. These fundamental principles are as follows:

- Real property shall be appraised at its current and fair market value;
- The appraisal of real property shall be uniform in each local political subdivision;
- Real property shall be classified for assessment purposes on the basis of its actual use;
- Real property shall be assessed on the basis of a uniform standard of value within each local political subdivision;
- In no case shall the appraisal and assessment of real property for taxation purposes and the collection of the real property tax be let to any private person; and
- The goal of property assessment shall be the equitable distribution of the tax burden.

The real property taxable assessment is one of the indicators of the level of development in a particular area. For instance, a parcel of lot has higher taxable assessment in a highly urbanized municipality as compared to the same land area of lot in a rural community. This is being affected by the market value of a real property considering that market value of real properties appreciate depending on the level of development and urbanization of the area. The higher assessment there is for real property, the higher the probable tax collection of the LGU thus, better income for the government and consequently better services for the citizens.

The municipality of Carmona has the highest recorded assessed valuation of real properties. It is followed by the City of Imus. However, the cities of Bacoor, Dasmariñas, Trece Martires and Tagaytay were not able to provide their assessment for the year 2013.

On the other hand, the lowest valuation was recorded in Gen. Aguinaldo. The increasing trend in all the taxable assessment of all towns is a good indicator of positive development in the province.

**Table 4.2. Taxable Assessment of Real Property by City/Municipality, Province of Cavite: As of January 31 and December 31, 2013**

City/Municipality	As of January 1, 2013	As of December 31, 2013	Increase (Decrease)
<b>1<sup>st</sup> District</b>			
Cavite City	2,472,807,651	2,526,878,261	54,070,610
Kawit	1,243,958,610	1,582,547,640	338,589,030
Noveleta	946,324,520	1,003,335,650	57,011,130
Rosario	5,928,530,300	6,283,263,050	354,732,750
<b>2<sup>nd</sup> District</b>			
City of Bacoor			-
<b>3<sup>rd</sup> District</b>			
City of Imus	14,537,177,850	15,465,345,930	928,168,080
<b>4<sup>th</sup> District</b>			
City of Dasmariñas			-
<b>5<sup>th</sup> District</b>			
Carmona	19,832,279,280	20,239,548,480	407,269,200
Gen. Mariano Alvarez	1,667,490,130	1,729,560,490	62,070,360
Silang	5,431,198,510	15,488,923,140	10,057,724,630
<b>6<sup>th</sup> District</b>			
Trece Martires City			-
Amadeo	661,216,980	680,354,610	19,137,630
Gen. Trias	7,137,308,150	7,577,752,940	440,444,790
Tanza	5,603,138,050	5,805,163,060	202,025,010
<b>7<sup>th</sup> District</b>			
Tagaytay City			-
Alfonso	2,129,201,290	2,212,103,220	82,901,930
Gen. Aguinaldo	287,657,760	318,276,120	30,618,360
Indang	1,055,705,910	1,100,931,600	45,225,690
Magallanes	398,592,640	402,958,820	4,366,180
Maragondon	1,077,254,000	1,083,802,170	6,548,170
Mendez	474,443,640	489,379,920	14,936,280
Naic	2,923,051,110	2,962,550,640	39,499,530
Ternate	3,168,414,570	3,177,084,530	8,669,960

Source: Provincial Assessor's Office, City Assessor's Office

## Internal Revenue Allotment

The Internal Revenue Allotment plays critical role in the local government operation. As a support of the national government, each Local Government Unit is receiving what we term as Internal Revenue Allotment or more commonly known as IRA. In almost all localities, the IRA accounts for their major income source.

The Internal Revenue Allotment (IRA) is the annual share of local governments out of the proceeds from national internal revenue taxes. It is estimated at forty percent (40%) of the actual collections of national internal revenue taxes during the third fiscal year preceding the current year, as certified by the Bureau of Internal Revenue (BIR).

The IRA provides considerable budget for a certain Local Government Unit which makes possible the implementation of localized programs and projects. Aside from the IRA received by the cities and municipalities, the Province is also receiving its share of IRA for programs and projects in the provincial level.

The sources of national internal revenue taxes are the following:

- National Government
- Internal Revenue Allotment
- Share from taxes, fees and charges collected from the development and utilization of national wealth
- Other grants and subsidies
- Debt Relief Program

Locally Generated

- Real Property Taxes
- Business Taxes
- Other Local Taxes
- Regulatory Fees
- Operation of Local Economic Enterprises
- Tolls and Users Charges

Other Sources

- Sales/Lease of Assets
- Credits
- BOT-BT Scheme

The share of local government units in the internal revenue allotment shall be allocated in the following manner:

- a. Provinces - Twenty-three percent (23%);
- b. Cities - Twenty-three percent (23%);
- c. Municipalities - Thirty-four percent (34%); and
- d. Barangays - Twenty percent (20%)

The share of each province, city, and municipality shall be determined on the basis of the following formula:

- a. Population - Fifty percent (50%);
- b. Land Area - Twenty-five percent (25%); and
- c. Equal sharing - Twenty-five percent (25%)

The IRA is being computed using the latest census which is updated every 5 years by the NSO. The figures as certified by the NSO are considered final. For the 2012 computation, the result of 2010 Census of Population and Housing was used.

The internal revenue allotment for 2013 increased by 19.38% as compared to that of the year 2012, equivalent to Php969,071,858. All of the localities' IRA showed remarkable increase from year 2012 to 2013. The growth can be attributed to the increasing population of the province.

Almost one-third or 30.33% of the IRA is under the provincial accounts. The remaining 69.67% are divided among the 23 cities/municipalities. The City of Dasmariñas got the biggest slice of IRA at 11.68% amounting to Php697,040,429.00. It is followed by City of Bacoor and City of Imus. Meanwhile, the least amount of IRA for a town was recorded at Gen. Aguinaldo with only 0.63% of the total provincial IRA. It is equivalent to only Php37,838,435.00 (Table 4.3).



Table 4.3. Internal Revenue Allotment, Province of Cavite: 2008-2013

Local Government Unit	2008	2009	2010	2011	2012	2013
<b>District I</b>	<b>354,441,381</b>	<b>416,958,229</b>	<b>448,329,608</b>	<b>483,090,132</b>	<b>445,564,921</b>	<b>476,050,654</b>
Cavite City	177,347,473	209,399,574	227,870,460	244,272,589	213,450,927	220,421,363
Kawit	63,108,536	73,908,917	78,540,263	85,079,610	82,709,036	91,968,294
Noveleta	38,900,682	45,642,792	48,358,247	52,335,536	50,808,679	57,764,342
Rosario	75,084,690	88,006,946	93,560,638	101,402,397	98,596,279	105,896,655
<b>District II</b>	<b>293,520,257</b>	<b>344,487,043</b>	<b>366,757,867</b>	<b>398,104,014</b>	<b>387,599,118</b>	<b>615,696,954</b>
Bacoor	293,520,257	344,487,043	366,757,867	398,104,014	387,599,118	615,696,954
<b>District III</b>	<b>183,132,788</b>	<b>214,945,615</b>	<b>228,712,414</b>	<b>248,150,678</b>	<b>241,468,044</b>	<b>476,741,768</b>
Imus	183,132,788	214,945,615	228,712,414	248,150,678	241,468,044	476,741,768
<b>District IV</b>	<b>369,626,394</b>	<b>433,981,230</b>	<b>683,847,974</b>	<b>733,615,581</b>	<b>657,456,199</b>	<b>697,040,429</b>
City of Dasmariñas	369,626,394	433,981,230	683,847,974	733,615,581	657,456,199	697,040,429
<b>District V</b>	<b>311,446,409</b>	<b>365,172,584</b>	<b>388,266,012</b>	<b>420,933,728</b>	<b>409,437,489</b>	<b>467,389,497</b>
Carmona	58,375,137	68,445,313	72,745,235	78,824,487	76,595,194	89,957,647
Gen. Mariano Alvarez	100,456,311	117,780,733	125,237,886	135,793,081	132,113,036	145,867,218
Silang	152,614,961	178,946,538	190,282,891	206,316,160	200,729,259	231,564,632
<b>District VI</b>	<b>483,476,046</b>	<b>581,356,783</b>	<b>624,134,267</b>	<b>674,191,667</b>	<b>630,235,791</b>	<b>732,314,833</b>
Trece Martires City	164,476,712	207,080,819	226,217,618	242,695,394	210,509,893	234,526,377
Amadeo	35,476,286	41,499,827	44,024,741	47,606,579	46,198,087	52,190,888
Gen. Trias	156,054,056	183,245,477	194,829,559	211,371,344	205,688,348	247,014,996
Tanza	127,468,992	149,530,660	159,062,349	172,518,350	167,839,463	198,582,572
<b>District VII</b>	<b>488,984,688</b>	<b>587,273,233</b>	<b>630,242,930</b>	<b>680,048,940</b>	<b>634,639,785</b>	<b>694,451,512</b>
Tagaytay City	152,445,295	193,121,325	212,019,147	227,533,850	195,388,889	206,550,984
Alfonso	47,538,686	55,662,057	59,090,748	63,953,843	62,108,816	68,524,364
Gen. Aguinaldo	26,728,720	31,276,982	33,150,810	35,818,796	34,707,104	37,838,435
Indang	56,632,023	66,249,562	70,329,263	76,110,771	73,959,978	82,019,364
Magallanes	29,102,491	34,090,307	36,138,014	39,061,216	37,848,748	43,729,123
Maragondon	41,723,548	48,892,651	51,864,859	56,106,857	54,432,120	61,283,476
Mendez	32,600,277	38,144,863	40,455,514	43,738,220	42,424,316	48,157,352
Naic	73,073,874	85,671,851	90,959,274	98,537,724	95,796,926	105,662,423
Ternate	29,139,774	34,163,635	36,235,301	39,187,663	37,972,888	40,685,991
<b>Province of Cavite</b>	<b>1,229,961,353</b>	<b>1,456,611,301</b>	<b>1,549,036,274</b>	<b>1,673,328,952</b>	<b>1,594,655,094</b>	<b>1,810,442,652</b>
<b>TOTAL</b>	<b>3,714,589,316</b>	<b>4,400,786,018</b>	<b>4,919,327,346</b>	<b>5,311,463,692</b>	<b>5,001,056,441</b>	<b>5,970,128,299</b>

Source: Provincial Budget Office