LOCAL GOVERNMENT FISCAL and FINANCIAL MANAGEMENT

BEST PRACTICES

Juanita D. Amatong
Editor

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CONTENTS

LIST OF TABLES AND FIGURES

Province of Aklan

Province of Bohol

San Jose de Buenavista, Antique

ABOUT THE PROJECT

This book is a project of the Department of Finance funded by the Asia Europe Meeting 2 (ASEM 2) Trust Fund Grant (TF052163) Strengthening Institutions for Sustainable Poverty Reduction and Good Governance, "Strengthening Local Government Units' Effectiveness in Poverty Alleviation and Service Delivery by Disseminating LGU Good Practices." The Grant was administered by the World Bank, with the Department of Finance as implementing agency.

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The DOF officials who helped in making this project a reality are the following: Undersecretary Roberto B. Tan, Assistant Secretary Carlito P. Yu, Central Financial Management Office Director Ma. Lourdes Dedal, and ASEM Grant Implementation Coordinator Jose Robert Javier. We are particularly grateful to Corporate Affairs Group Division Chief Abigail Barbara Sanglay for providing imaginative solutions to many problems along the way, to BLGF Executive Director Presentacion R. Montesa, and Director Norberto Malvar and staff of the Research Division, who provided an effective network between the case researchers and the local government officials and vital information on the LGUs, as well as the staff of the BOT Center, under Executive Director Rafaelito Taruc.

There are several other individuals who deserve special mention for their distinctive participation in the completion of this Project. First and foremost, we thank lawyer and former Dean of the UP School of Urban and Regional Planning, Asteya M. Santiago, who painstakingly helped review and improve the cases for substance, form, and style, working with us deep into several nights and giving up some precious weekends during the period of revision and editing. Jay Edward Amatong gave valuable inputs on the technical aspects of the production, particularly the graphs, layout and visual presentations. Our Project Assistant, Niño Raymond B. Alvina, has to be commended for his studious and persistent effort in data gathering, validation and encoding, and in attending to all the administrative and coordinative aspects of the Project. His wizardry in computer applications had been a great asset to the undertaking.

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MESSAGE

Since the implementation of the Local Government Code (LGC), many Local Government Units (LGUs) had initiated financing innovations to meet their developmental requirements. Each of their experience involved the basic constraint of inadequate financing from traditional sources. After realizing the funding opportunities that LGUs can avail of if only they capitalize on their own potential, LGUs were able to find a solution to these constraints. Eventually, many pursued new ways of generating funding resources.

The range of good practices is wide, many times challenging the boundaries of the LGC framework. Some exhausted the potentials of traditional revenue raising such as taxes and fees through more efficient assessment and collection programs such as computerization and MIS improvements, implementation of civil and administrative remedies, and institution of presumptive income of selected businesses for taxation purposes. Many expanded their LGU-owned economic enterprises to compete with private counterparts in order to generate more income. Others have ventured into more sophisticated financing arrangements such as public-private partnerships and bond financing. While some LGUs encountered difficulties, many have reaped the benefits of good planning and programming.

This documentation of innovation provides a very useful source of knowledge of experience and lessons to guide LGUs in local fiscal and financial management. Now that resource mobilization and financing occupy center stage in the process of Philippine decentralization, this publication becomes more relevant for LGU managers and planners. LGUs, nonetheless, will have to determine and innovate what is the most suitable financing strategy based on their own circumstances.

I would recommend this book of best practices in local fiscal and financial management as a must-read for all local officials. As a basic and instructive material, the task is to explore the new powers given to the LGUs under the Code. I am confident that this book will open up great opportunities for LGUs to meet their development goals.

ROBERTO B. TAN
Undersecretary of Finance

FOREWORD

This book documents the best practices on fiscal and financial management of seven local government units in the Philippines. The Project is funded by an ASEM grant which is executed by the World Bank. We wish to thank the European Community for its financial support and the World Bank through Mr. Amit Mukherjee, the Task Manager, for agreeing for us to undertake this particular project.

Ms Perla A. Segovia was hired as project coordinator. She supervised the case research work, developed the cases with the assistance of the researchers and the project team. Aside from desk research, field visits and interviews with local government officials and stakeholders were made. Ms Segovia's input to this project is invaluable.

This Project was conceived as we discussed the state of fiscal and financial management of the local government units in the Philippines. While the Local Government Code of 1991 has provided the local government units with authority to raise their own revenues and were given ample leeway in managing their fiscal operations, it is a fact that the local government finances, as a whole, have not grown appreciably to meet the challenges of a decentralized environment. Local government receipts continue to be dependent on the internal revenue allocation from the National Government. Locally-generated receipts contribute to a measly sum to the total funding resources of local government units. Expenditures are mostly in the form of current operating expenditures, primarily for salaries and wages of government employees. Investments in capital formation in many cases are coming from National Government subventions. While this is the general situation, there are a few local government units which have embarked on innovative, out of the box fiscal and financial exercises. It is these exercises that we are documenting in this book.

It is our desire to cover a wide array of local government units, thus we have in our sample provinces, cities, and municipalities in Luzon, Visayas and Mindanao. We have also tried to cover local government units which have different income classification, i.e. from first to fourth class. In this manner, we are able to present different representative groups of local government units. By no means, however, are we saying that the local government units covered in this book are the only ones which have done innovative, even bold steps, to improve their fiscal and financial management.

Best practices are varied. We tried to document diverse practices from the areas of revenue generation and financing arrangement. The major criterion in the selection of a best practice in the local government unit is that the practice or exercise has some proven results. There are many local government units which have started to implement mechanisms to improve their finances, but the results of such innovations are not or have not been determined as yet.

The objectives of this Project are threefold: (1) to document the best practices undertaken by local government units; (2) to showcase the practices so as to make them models for other similarly-situated local government units to replicate; and (3) to demonstrate that there are innovative and out of the box practices which require leadership, dedication, institutionalization, and good communication with the constituency.

JUANITA D. AMATONG
Former Secretary of Finance

INTRODUCTION

The year 1991 was momentous for local governments in the Philippines. The Local Government Code (RA 7160) was passed, emancipating local government units (LGUs) from the restrictive centralization of powers in the National Government. Section 129 of the Code empowered LGUs to create their own sources of revenues and to levy taxes, fees and charges, which shall accrue exclusively to them. The law also made available to LGUs a variety of modes of financing which used to be enjoyed only by the national government and government-owned-and-controlled corporations, such as issuance of bonds, privatization of economic enterprise, and joint venture arrangements with the private sector through the Build, Operate, and Transfer (BOT) scheme and its variants.

Serendipitously, earlier on the same year, RA 6976 was passed, otherwise known as the Build, Operate, and Transfer (BOT) Law, authorizing the financing, construction, operation and maintenance of infrastructure projects by the private sector. Later amended by RA 7718, LGUs were authorized to enter into contracts with any duly pre-qualified project proponent for the financing, construction, operation and maintenance of any financially viable infrastructure or development projects that have been adopted as priority by the LGU.

Fourteen years hence, the situation is both inspiring and disturbing. It is inspiring because a number of LGUs have exercised their initiatives in revenue generation using their new taxing powers which funded vital development projects that have brought progress to their provinces and municipalities. What is disturbing is that only a small minority of local governments have taken advantage of the new financing options made available to them. Specifically, of 1,696 LGUs (79 provinces, 114 cities, and 1,503 municipalities), less than 10 percent exercised their new financing mandate. The provincial and the city governments appear to be more active in pursuing joint venture arrangements and bond issuance compared to municipalities.

The aggregate cost of the bonds issued by the local governments reached Php 2.8 billion in 2005. Based on LGUs that have registered with, and sought the assistance of the Build, Operate, and Transfer (BOT) Center for their joint venture undertakings, the Center estimates the total cost of LGU BOT Projects at US$156.7 million as of December 2005. There are other small projects, however, which have been undertaken by the LGUs on their own. Expectedly, loans from government financial institutions (GFIs) remain as the most popular form of external financing among LGUs. From 2000 to 2005, total LGU loans with the GFIs reached Php 62.7 billion, with the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) providing Php 46.2 billion and Php 5.7 billion, respectively. Private banks and financial institutions have remained largely untapped by the LGUs for their loan requirements.

LGUs with Bond Issuance

Bond Name	Project Amount (Million Pesos)	Term (Years)	Guarantor
Victorias Mabuhay Bonds Negros Occidental	8	2	HGC
Legazpi Suerte Bonds Albay	26	3	HGC
Claveria Housing Bonds Misamis Oriental	20	3	HGC
Puerto Princesa Housing Bonds Palawan	20	3	HGC
Sto. Domingo Housing Bonds Nueva Ecija	10	NA	None
Urdaneta City Municipal Bonds Pangasinan	25	5	LGUGC
Boracay-Aklan Provincial Bonds Aklan	40	7	LGUGC
Puerto Princesa Green Bonds Palawan	320	7	LGUGC
Caloocan Katipunan Bonds Caloocan City	620	7	LGUGC
Tagaytay City Tourism Bonds Tagaytay City	220	7	LGUGC
Iloilo City Bonds Iloilo City	130	3	LGUGC
Daraga Municipal Bonds Albay	75	7	LGUGC
Bayambang Aliguas Bonds Pangasinan	42	7	LGUGC
Leyte Liberation Bonds Series A Leyte	430	7	LGUGC
San Juan Pinaglabanan Bonds San Juan, Metro Manila	390	7	LGUGC
Carmona Bonds Carmona, Cavite	200	7	LGUGC
Pasay Kaunlaran Bonds Pasay City	500	7	LGUGC
Imus Bonds Series A Imus, Cavite	74	7	LGUGC
Calatagan Municipal Bonds Batangas	35	7	PVB
Aksyon Padayon Bonds Masbate City	160	7	PVB
Onward Tacloban Bonds Tacloban City	315	7	PVB

SOURCE: Bureau of Local Government Finance, DOF

LGUs with BOT Projects

Name	Estimated Project Cost (Million US$)	Scheme
Completed Concession		
Talisay City Hall Project Talisay City, Negros Occidental	4	BT
Under Concession/Operational		
Bohol Provincial Electric System *Bohol Water Supply System* Bohol Provincial Government	14.4 5	JV JV
Malabon Digital Infrastructure Project Malabon City	0.5	BTO
Mandaluyong Marketplace Mandaluyong City	23	DOT/BT
Dapitan Public Market Quezon City	1.3	BOT
Carmen Public Market *Cogon Public Market* Cagayan de Oro City	2.4 4	BOT BT/BOT
Awarded		
Binirayan Administrative and Commercial Center Province of Antique	3.8	BOT
Bocaue Public Market and Commercial Center Municipality of Bocaue, Bulacan	5.8	BOT
Tarlac Public Market Tarlac City	3.6	BOT
Roxas City Boulevard Commercial Center Municipality of Roxas, Isabela	1	BOT
Slaughterhouse Cagayan de Oro City	3	BOT
Matnog Integrated Bus Terminal Municipality of Matnog, Sorsogon	4.4	BOT
Pre-Award/Bidding		
Koronadal City ICT Koronadal City	.5	BOT
PUD Modernization PSP/BOT Olongapo City	3.6	CAO
Davao del Norte Integrated Water Resource Development Davao del Norte	76.4	BOT

SOURCE: BOT Center

LGU Loans with Financial Institutions

Year	Number of LGUs	Loan (Million Pesos)
2000	51	1,134.77
2001	10	247.16
2002	20	397.95
2003	28	1,351.94
2004	47	426.50
2005	8	135.04
Total	**164**	**3,693.37**

SOURCE: Bureau of Local Government Finance, DOF

This book documents the experiences of selected LGUs which have chosen to think and act "out of the box" approaches in fiscal and financial management, and, therefore, have set the benchmarks for what maybe considered best practices in this area.

Best Practices represent particular methods, approaches, or practices, which positively impact on the LGU's fiscal and financial performance, or initiatives that, on their own, have resulted in tangible improvement in the financial condition of the local government unit, the economic development, and the quality of life in the community, including the adoption of desirable values. Exemplary or best practices also suggest sustainability and replicability.

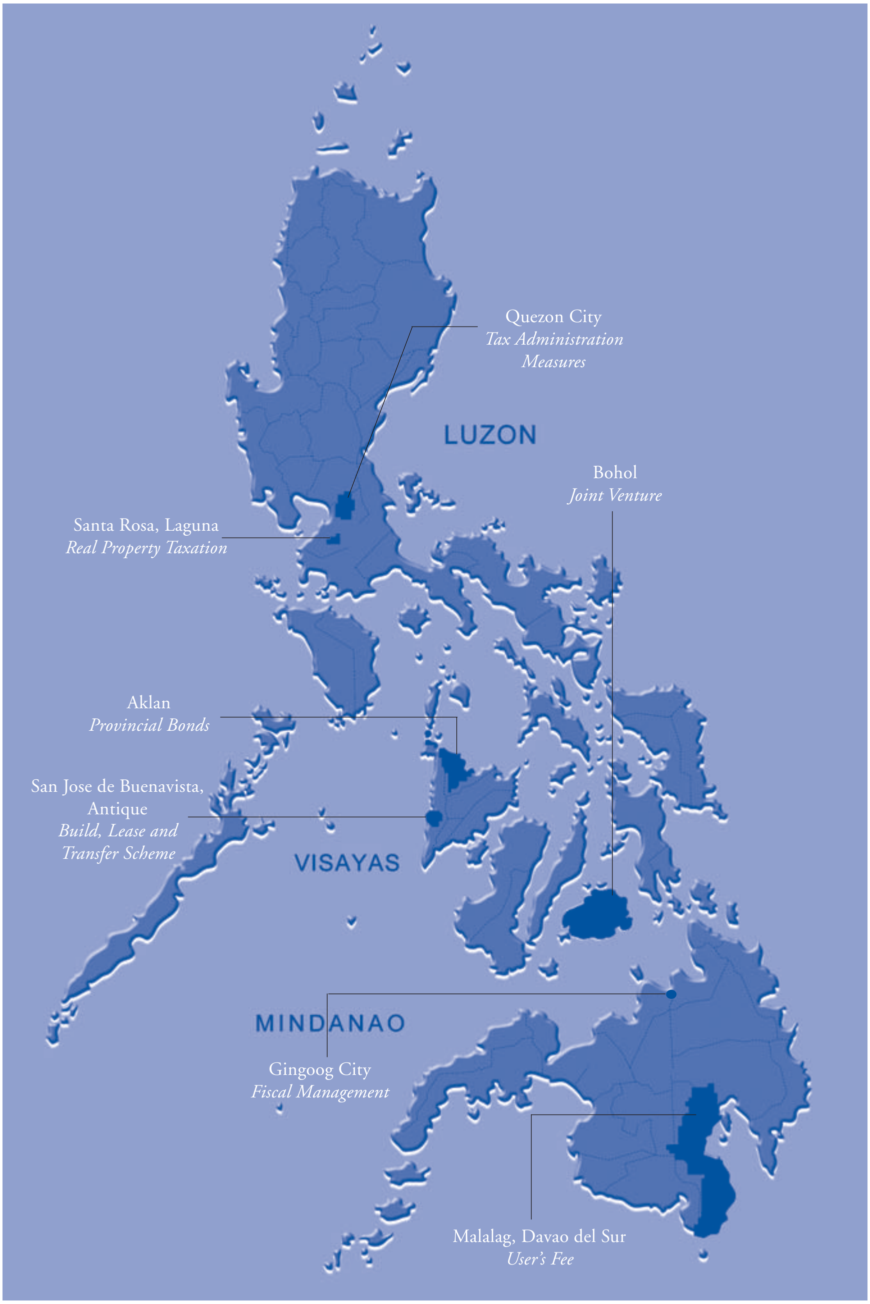
There are two groups of LGUs in this study. The first group represents LGUs which have modeled Best Practices by working within the existing fiscal and financial management systems, but have introduced innovative approaches in their implementation. The Municipality of Malalag took the bold initiative of charging user fees on what used to be free health services. Gingoog City adopted and manualized a fiscal management system based on targeted tax collection levels. Quezon City introduced the prompt payment discount and the "carrot and stick" approach to real property management, and the Presumptive Income Level Approach (PILA) in business tax collection. The Municipality of Santa Rosa took advantage of National Government programs for the Ecozones and the development of the CALABARZON in initiating and implementing a comprehensive tax mapping, computerization and the adoption of a geographic information system (GIS) in real property tax administration.

The second group comprises LGUs which have embraced the new financing options and accepted the risks and challenges involved in taking new paths to economic development. From this group, three LGUs were selected for the study. These are the Province of Aklan, which pioneered the first provincial bond flotation, the Province of Bohol, which blazed the trail in the privatization of water and electricity, and the Municipality of San Jose de Buenavista, which adopted the Build, Lease and Transfer (BLT) scheme which triggered economic activity in the Municipality.

What is remarkable in these few LGUs which have demonstrated "Best Practices" in fiscal and financial management, is the fact that a number of them belong to the lower income classification, e.g., Aklan is a 3rd class province, San Jose de Buenavista is a 3rd class municipality and Malalag was a 5th class municipality now elevated to 3rd class municipality.

As shown in the attached map, these exemplary LGUs represent the three main islands of the country—from the most urban center to the most rural economy. How these LGUs thought "out of the box" to establish financial independence from the national government by mobilizing locally-generated sources of revenues, should be instructive for other LGUs. By their bold decision, they were able to improve their incomes outside of the Internal Revenue Allotment (IRA) to deliver more economic and social services to their constituencies, and pursue more development programs.

MAP OF THE PHILIPPINES



CHARGING USER FEES FOR HEALTH SERVICES
MALALAG, DAVAO DEL SUR

Do client fees help or hurt? Should local governments charge their constituents, especially the poor, for health services? The Local Government Code of 1991, in a way, helps answer the second question. It provides that all Local Government Units (LGUs) "may improve and collect fees and service charges for any service rendered in an amount reasonably commensurate to such services" (Implementing Rules and Regulation). The answer to the first question, however, is not as straightforward as this case study illustrates.

In 1991, the Local Government Code (LGC) decentralized services to local governments and expanded their administrative autonomy with respect to raising local revenues and delivering basic services.

QUICK FACTS		VISION	MISSION
LOCATION	Davao (Region XI)	To become a self-reliant community driven by self-determination and actively pursuing development that will be people-oriented, equity-led and sustainable	To become the provincial agri-industrial center of Davao de Sur To become the major fruit processor in Southern Philippines To establish and develop Malalag Port into a port of international standards To become a leading LGU in Region XI in effective local governance To restore and protect the vital ecosystem within the town
LAND AREA	206.60 km^2		
POPULATION	33,334		
POPULATION DENSITY	161 /km^2		
MAJOR INDUSTRY	AGRICULTURE		

As generally viewed, the devolution of powers and functions by the LGC has empowered LGUs and, in the process, has brought about dynamic examples of developments in the countryside. It has also been claimed that LGUs have improved their capability to initiate sound local government practices to strengthen their financial standing. In this regard, cost recovery through user fees is among the possible practices that local governments can adopt.

While many observers endorse the collection of user fees for basic services as both feasible and necessary, they also acknowledge that tiered pricing systems may be needed to avoid excluding the poorest clients.[1] Those who do not share the view of the pro-user fees posit that the potential revenue that can be raised from user fees for essential services is often "too small to justify the negative impact on access for the most disadvantaged or poorest clients."[2] This, they add, also negates the "democratization of basic services" principle that seeks to reduce the gap in the access to basic social services between social classes.

These were the issues that confronted the Municipality of Malalag when the Local Government Code devolved to the LGUs certain National Government functions such as agriculture, health, and social welfare and development, etc.

Profile of the Municipality

Malalag, a 3rd class municipality of the Province of Davao del Sur in Region XI was created on May 28, 1953 by virtue of Executive Order No. 596 issued by then President Elpidio Quirino. There are two interesting accounts on how the town derived its name. One is that the natives who found the water of the main river running within the heart of the town to the sea yellowish, described it as *"Malalag nga Tubig"* which in their dialect means "Yellow Water". The second account comes from the story of a disheartened Spanish soldier who, deceived by the famous chieftain of the place, Datu Alag, shouted in rage *"Mal Alag, Mal Alag"*.

[1] Sidney Ruth Schuler et al, "Reconciling Cost Recovery with Health Equity Concerns in a Context of Gender Inequality and Poverty: Findings from a New Family Health Initiative in Bangladesh", International Family Planning Perspectives, Vol. 28, No. 4, December 2002.

[2] Ibid

Malalag is located in the southeastern part of Mindanao, South of Digos City (the capital of Davao del Sur) and General Santos City. It is bounded in the north by the Municipality of Sulop and the Malalag Bay, and in the south, by the Municipality of Malungon, Sarangani Province. In the east, it is bounded by the Municipality of Sta. Maria and, in the west, by the Municipality of Kiblawan. Because of its strategic location, Malalag serves as the port of entry for vessels from other nations in the Southeast Asian Region.

This Municipality of 15 barangays is roughly 55 percent flatlands and 45 percent mountainous, especially on its southern part. About 885 hectares comprise the municipal waters, 50 hectares of which is a fish sanctuary that serves as a tourist spot which has been contributing to local revenues. The area serves as the fishing ground to a considerable number of fisher folks. Malalag's wharf is one of the port of entries of the Brunei-Indonesia-Malaysia-Philippines East Asian Growth Area (BIMP-EAGA).

Malalag's economy is primarily agriculture and its highly varied produce are mangoes, coconut, sugarcane, rice, corn, root crops, coffee and bananas. Being dependent on agriculture, the Municipal Government provides financial assistance to the farm inputs subsidy and providential loans, and technical assistance to the farmers in capacity-building.

Though essentially a farming and fishing Municipality, the number of business establishments in the area and the amenities of modern infrastructures have started to improve the place. A multi-million expansion waterworks system and a memorial park have contributed another source of income. A multi-million new public market, which will provide quality services through modern facilities and utilities, is under construction. Upon the turnover of the management of the port services by the national government to the Municipality, additional income is expected in the form of fees from dockage, usage, wharfage, pilotage, and arrastre services.

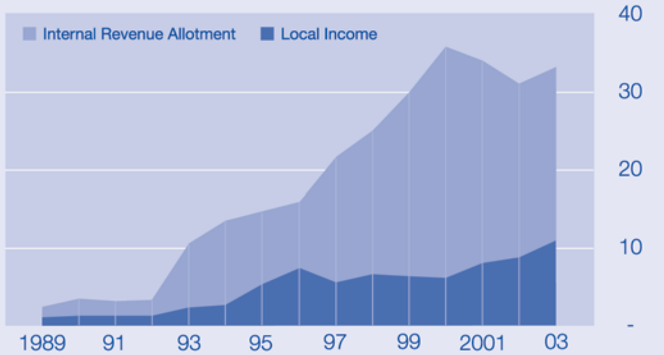
Finances of Malalag: An Overview

Sources of Income

The Internal Revenue Allotment. During the fifteen-year period, from 1989-2003, the Municipality has been largely dependent on the Internal Revenue Allotment (IRA) for its income. The IRA share of the Municipal income had ranged from a low of 68 percent in 1996 to a high of 86 percent in 2000. Conversely, locally generated income for the period ranged from a high of 32 percent in 1996 to a low of 14 percent in 2000. As the IRA share increased, local sources also increased over time, resulting in a positive total income growth.

It is important to note that about 10 percent of the Municipality's total income from 1989-1991 came from grants and aids. Income from the National Wealth, on the other hand, contributed 15 percent in 1992 and 5 percent in 1996 to total income. In 2000, a loan amounting to Php 20 million was secured for the acquisition of heavy equipment, the installation of submersible pumps, rehabilitation of sports facilities and wharfs, and the construction of a new public market.

Figure 1.1 Annual Revenues by Source



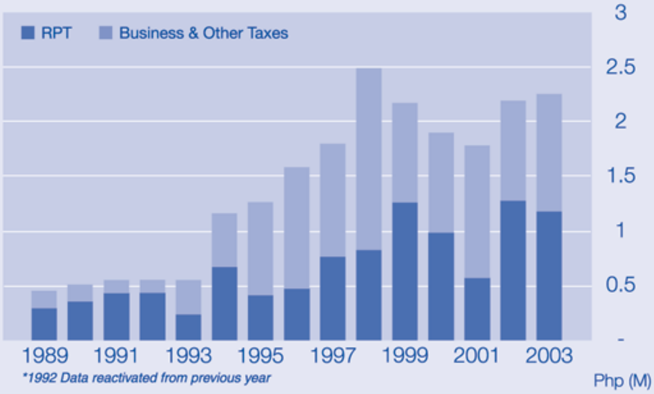
**1992 Data reactivated from previous year*
Local income is net of Extraordinary Receipts/Grants and Loans/Borrowings

SOURCES: Malalag Annual Reports and Bureau of Local Goverment Finance, DOF

Local Taxes. Income from local taxes has grown from Php 462,898 in 1989 to Php 2,258,235 in 2003 or an increase of 388 percent. In 1994, collections from taxes doubled that of the previous year and the amount increased by 93 percent in 2003. The respective contribution of real property tax (RPT) and business taxes (BT) to this increase has, however, seesawed through the years. From 1989 to 1994, RPT was the major source of local tax revenues.

From 1995-1998, however, BT outpaced RPT. RPT started to pick up again from 1996 to 1999 as an offshoot of the intensive tax campaign and collection enforcement programs undertaken by the municipal government. It was later noted, that RPT collection efficiency had dropped in 2000 and 2001. In the succeeding year (2002), RPT recovered and a significant increase was realized. Collections from BT, on the other hand, slowed down in 2000 but steadily increased from 2001 to 2003.

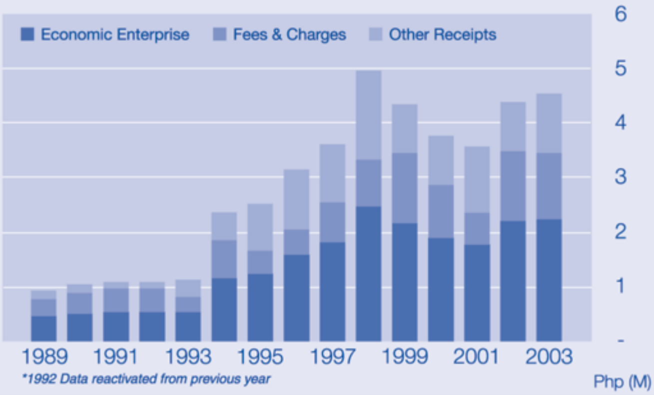
Figure 1.2 Revenues from Local Taxes



SOURCE: Malalag Annual Reports (1989-1992) and BLG-DOF

Non-Tax Revenues. Non-tax revenues are generated from the operation of economic enterprises, namely, market and slaughterhouses, waterworks, telephone system, bus terminal, cemetery and gymnasium or sports center. Income from fees and charges are those realized from the exercise of regulatory functions such as the issuance of permits, licenses, clearance certificates, secretary's fees, garbage and inspection fees, toll fees and registration fees. The Malalag Revenue Code of 1993, implemented in 1994, imposed additional fees which included those charged for the processing and approval of subdivisions, for the issuance of locational clearances, and medical/dental, and laboratory and health certificates. The other types of collections are classified as "Other Receipts".

Figure 1.3 Non-Tax Revenues



SOURCE: Malalag Annual Reports (1989-1992) and BLG-DOF

Income realized from the operation of economic enterprises had contributed a substantial amount to the total local income, with significant increases from 1994-1999. Revenues grew significantly when service fees and municipal charges, including fees for the approval and processing of subdivisions, locational clearance fees and medical and laboratory fees were imposed in accordance with the approved local Revenue Code.

Expenditures

Along with the growth in income of the Municipality, local expenditures had been growing steadily from 1989 to 2003, with the General Government Services as the biggest item of expenditure. The growth in expenditures were remarkably huge in 1990 (57 percent), in 1993 (76 percent), in 1994 (44 percent) and in 2000 (70 percent). For these years, several capital intensive programs and projects were implemented, including the rehabilitation of roads/infrastructure and economic support services, the agro-industrialization projects, the development of Malalag Port, and the acquisition of heavy equipment. In 2000, expenditures grew by 41 percent to fund its capital outlay programs amounting to Php 22.1 million. For two years (2001 and 2002), there were reductions in expenditures from Php 44.1 million in 2002 to Php 35.1 million in 2001. In 2003, however, expenditures slightly increased to Php 38 million.

Devolution of Health Services

The year 1992 was a milestone year when, pursuant to the Local Government Code, national government functions in agriculture, health, social welfare and development, public works and highways, and tourism were devolved to local government units (LGUs). Half of the total resources and activities involved in the devolution of the five functions was required by the health sector alone which included the absorption of the National Government personnel performing these functions. The budgetary support for such functions, however, did not accompany the transfer to the LGUs, as a significant portion of it remained with the Department of Health (DOH) which devolved the functions. In brief, only the National Government personnel and their salaries were transferred to the LGUs.

Prior to the devolution, the Municipality performed only basic health and sanitation services like postnatal care, immunization, dental and medical laboratory, and nutrition and population control, with assistance from the Department of Health (DOH). As mandated, devolution required the LGU to assume the function and implement programs and projects under it such as primary health care, maternal and child care, and control services of communicable and non-communicable diseases. Also included are activities to provide access to secondary and tertiary health services, and purchase of medicines, medical supplies and equipment needed to carry out these services. Considering the high cost of delivering the devolved health services, the burden then rested in Malalag to generate the needed resources to support these obligations.

The Social Watch Philippines (2001) reported that for a 3rd-class municipality like Malalag, the cost of devolved health functions as estimated in 1993 was Php 1.5 million. This figure is about 54 percent of the total cost of devolved functions amounting to Php 2.8 million. This means that for Malalag to effectively deliver health functions, it will have to produce a budget that will enable it to support and maintain the local health services components. These gargantuan responsibilities required resources not available in the regular income of the LGU. Confronted with this predicament, Malalag was left with no option but to adopt and implement innovative or alternative strategies to generate additional resources for this purpose.

Malalag's expenditures for health services had increased fourfold from Php 1.1 million in 1993, at the time of devolution, to Php 3.8 million in 2004 (Table 1.1). During the first year of the devolution, Malalag simply took over the devolved functions, using, for the purpose, their existing budget for health services.

Table 1.1. Expenditures for Health Services

Year	Health Expenditures	Total Expenditures	Percentage Share in Total Expenditures
1993	1,103,509	10,034,111	11
1994	1,429,949	14,191,905	10
1995	1,630,831	18,268,906	9
1996	1,747,671	21,120,939	8
1997	2,606,594	29,541,575	9
1998	2,483,564	31,080,645	8
1999	3,398,401	35,467,936	10
2000	3,298,151	39,312,281	8
2001	3,474,834	44,090,376	8
2002	3,749,674	35,138,924	11
2003	3,849,193	37,988,413	10

In Philippine Peso (Php)
SOURCES: Malalag Annual Reports (1993-2003)

User Fees for Health Services: Review of LGU Capacity

Early on, upon implementation of the LGC in 1992, Malalag started to institute structural and procedural changes to respond to the expanding demand for its services under the devolved program. Thus, in September and October 1993, the Municipality's Service Delivery Unit composed of the offices of Engineering, Agriculture, Social Services, Local Enterprises, and the Local Civil Registrar, together with the Sangguniang Bayan Secretariat and the Municipal Health Office conducted a comprehensive review of their policies, programs, systems and procedures in the delivery of basic services that are part of the devolved functions. As objectively as possible, they took a hard look at the financial capacity of Malalag to deliver sustained health services considering that the LGU, at that time, was a 5th class Municipality with a limited tax base. What added to their predicament was that there were not enough facilities and provisions for elective health services such as major and minor surgery.

The review sessions held in September and October 1993 were followed by a Cost Analysis Workshop in November 1993 attended by Malalag's entire service units. The purpose was to further evaluate the fiscal position of the LGU. It was here that a firm consensus was reached that, given the financial position of Malalag, the implementation of health programs and projects was imperilled if the services continued to be delivered free of charge.

In a parallel move, the Sangguniang Bayan undertook a comprehensive review of the LGU's organization, operation, and work processes for delivering basic services. The objective was to gather benchmark information which will enable it to zero in on problems/gaps that had hindered the full take off of Malalag's development. Cost analysis was also conducted to assess the preparedness of the LGU to bear the cost of carrying out the identified development projects and sustain their delivery. This had become absolutely necessary in the light of its expanded functions and responsibilities under the Local Government Code.

The review resulted in the recommendation to take the following actions: (1) formulation of a comprehensive development plan; (2) revision of its organizational structure; and (3) computerization of the existing systems and procedures. All these were to be undertaken in the context of an LGU mandate to undertake a number of devolved functions. Thus, their Comprehensive Development Plan had to incorporate their revised goals and objectives, performance of the devolved functions including the funding and other logistical requirements therefrom, and others.

Nature and Scope of the Project

Eventually, the Municipal Government passed the Malalag Revenue Code in 1993. It authorized Malalag to collect fees and charges from certain transactions with the public and for services rendered. The Code also incorporated a policy directive charging user fees for medical, dental, and laboratory services, in effect adopting for the LGU a User Fees for Health Services Project.

The User Fees for Health Services Project ("Project") involves a bold policy redirection from the traditional dole-out health services to that of "service at cost". Integrated in the Project is a partnership strategy between government agencies and private institutions in the delivery of health care protection and promotion services. The Project includes activities that promote people's access to elective health services which cannot ordinarily be availed of by poor constituencies such as major or minor surgeries.

The adoption of the Project was perceived to be a logical step to develop Malalag's capacity to deliver in a sustained manner the devolved health functions. It was a much needed and precedent setting effort towards value reorientation, which emphasizes that *"primary responsibility for meeting health needs rests on the people themselves and not on the government on which they have, through the years, come to depend'.* The Project envisioned that the dole-out dependent constituencies will change to socially responsible, participative and self-reliant community.

Goal and Objectives

The goal and objectives of the Project are as follows:

1. Transformation of social values from the traditional dole-out mentality to that which inculcates social responsibility;
2. Institutionalization of an alternative scheme for resource generation to sustain the delivery of health services; and
3. Increasing access of the people to elective health services such as major and minor surgeries.

Selling the New Policy

Not unlike the usual public reaction to most revenue measures, the implementation of user fees was met with initial resistance by the people. A series of public hearings and consultations were held, primarily to inform the public of the important features and implications of the new non-tax measure. However, it should be noted that any proposed changes to the policy directive on user fees arising from the consultations could not be effected because the Malalag Revenue Code, where the policy is embodied, was protected from any amendment until 1998. In spite of the resistance to the health user fees, the Municipality continues to collect user fees and provide health services using revenues from these fees.

Information drive and public awareness campaign
Massive information campaigns were conducted at the *purok* or zone level, spearheaded by the Barangay Health Workers, with support from other health and community workers. These series of activities finally broke the public's resistance and the policy directive eventually gained community acceptance. The massive public awareness building and information campaign had made the people realize the benefits they could derive from the Project. To date, the Municipal Health Office (MHO) continues its regular advocacy activities to sustain clients' interest in availing health services for a fee.

Networking and linkage-building
For the success of the Project, Malalag decision makers and implementors had realized the imperative of securing the support of both government and private organizations. The very first partnership endeavor was forged as early as May 1993 before the September-October 1993 review of LGU policies. This was in conjunction with the celebration of *Araw ng Malalag*. A community outreach program was jointly conducted by the Municipality and its private organization partners. The barangay health workers, Sangguniang Kabataan officers, barangay officials, community members, and public school teachers were also mobilized as regular participants. A number of physicians, dentists, and medical staff from private clinics and companies volunteered their services. The distribution of free medicines by local officials on one occasion highlights this partnership with private organizations such as Del Monte and Malalag Ventures Plantation, Inc. To keep the Project in the public eye, week-long community health services are slated to be delivered on March 21-28 of every year, to coincide with the celebration of *Araw ng Malalag*.

Project Implemention

The Municipal Health Officer or MHO, the front liner in the delivery of health services and prime mover of the User Fee Project, has overall responsibility for implementing the User Fees policy. He plans and coordinates with other agencies the outreach program and gets support from the various units of the LGU. The Office of the Treasurer, for instance, is in charge of collecting (a roving bookkeeper is designated for this purpose) and having custody of funds received. The Social Services Office and the Municipal Planning and Development Office (MPDO), for their part, provide the technical support in the conduct of survey, preparation of campaign materials and the launching of advocacy activities.

Under the direct supervision of the MHO, the nurses, midwives and barangay health workers coordinate their activities in ensuring that the directive on user fees is strictly enforced at the field/barangay levels. Related thereto, prior to extending medical, dental, and laboratory services, the midwife and the barangay health workers assess the clients' capacity to pay, applying a pre-determined pricing scheme. While indigent clients enjoy the benefit of free services, this is not given to the rest of the populace. As part of the process, the billing is prepared and signed by either the midwife or the Barangay Health Worker, and payments are collected and receipted by the roving bookkeeper.

At the start of the Project, the fees and charges were originally structured, adopting a sliding scale based on the client's capacity to pay. As shown in Table 1.2, the affluent members of the community were to pay more than their poor neighbors. The payment scheme adopted is shown below:

Table 1.2. Payment Scheme for Health Services

Annual Family Income Level	Service Fee
Between Php 15,001-Php 50,000	50 percent of actual service fee
Php 15,000	25 percent of actual service fee
Below Php 15,000	Free medical services

SOURCE: Municipality of Malalag, 2005

However, the implementation of the socialized payment scheme was not sustained because the Social Services Officer (or whoever was assigned to undertake the income survey) had expressed difficulty in determining whether a person was really poor. In his experience, people tended to understate their income in order to pay less. This was especially true for non-salaried individuals or those not working with institutions which issue appointments carrying salary levels. Eventually, to simplify the process and avoid arbitrary decisions, all clients whose income levels were difficult to establish were charged a uniform minimal amount for health services rendered. Those with established income continued to pay the required fees. Fees were, however, charged for elective medical services like minor or major surgeries. Even if patients were charged the full amount of fees, the amount is still lower than that charged by private medical practitioners.

Impact of the Project

The impact of the Project may be assessed in relation to Malalag's adopted objectives in introducing the health user charges, namely; social transformation of the community, revenue generation to support the delivery of services, and increased access by the public to elective health services.

Without doubt, the imposition of user fees has proven to be a well considered decision. Transformation of social values is positively indicated by the statistics on the number of patients who have availed of health services for a fee (Table 1.3).

Table 1.3. Number of Paying Patients

Year	Number
1993	10,985
1994	8,850
1995	no data
1996	no data
1997	no data
1998	no data
1999	13,016
2000	12,166
2001	11,911
2002	14,022
2003	13,977

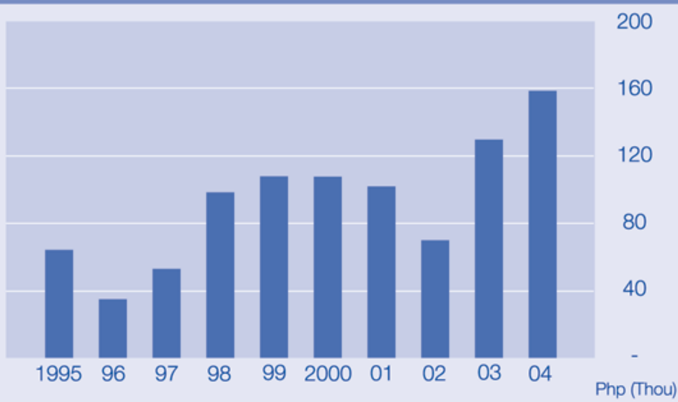
SOURCE: Municipality of Malalag, 2005

The number of people who have availed of the health services under the Project indicates an encouraging pattern of participation in the program. From 10,985 people at the start of the program in 1993, it gradually increased and reached a peak of 14,022 in 2002. The decrease in the number of people who availed of services in 2003 can be explained by the fact that in times of financial difficulties, people tend to forego expenditures for health services in favor of other basic needs. There were also those who availed of free services offered in neighboring communities.

Despite the slightly erratic number of people availing of health services in the past two years (2002 and 2003), the amount of money raised from user fees had gone up from Php 64,060 in 1994 to Php 129,780 in 2003 and Php 158,220 in 2004. This is accounted for by the payment of user fees and income from elective medical services. The accumulated increase in funds raised during the 10-year period was 60 percent. This had substantially augmented Malalag's budget for health services.

The continuing massive information campaign undertaken since 1994 has produced positive results. What has been appreciated as important is that the community appears to have accepted its responsibility to pay its way to accessing services for their physical and emotional well-being. This is shown by the number of patients who have been part of the program and the amounts paid as user fees in the past 10 years.

Figure 1.4 Revenues from Health Services



SOURCE: Malalag Municipal Treasurer, 2005

Summary

The charging of user fees for health services adopted by the Municipality of Malalag, Davao del Sur was a pioneering move adopted by a local government unit to ensure the cost of delivering health services to its constituencies. The local government of Malalag was compelled to take this move to augment the inadequate budget transferred by the National Government to support the devolution of health functions. Although deemed to be politically unpopular, the innovation introduced by Malalag had inspired other LGUs to replicate and adopt this innovation.

From the financial point of view, the income derived from charging user fees may not be large enough to constitute its total budget for health services of the Municipality. Nevertheless, it constitutes a welcome augmentation to municipal income to defray the cost of such services because, even without it, the Municipality is obligated to deliver these services. In the case of Malalag, there was an initial large number of patients who were willing to pay for the health services received. In the next few years after its introduction, the number waned as people tended to seek out free health services offered by neighboring municipalities. This same situation was experienced by other LGUs who adopted the user fee for health and other social services. Recognizing this problem, neighboring communities have started to cooperate in addressing this problem. They are discussing plans of adopting common rates of charges/fees, among others, and considering other options, among them:

1. Client categorization or identification of indigents against those who can afford for reason of being salaried, employed, or having the income to pay. A threshold should be established for free medical services for indigents.

2. Earmarking collections for health services, medicines, medical supplies, etc., and deciding which could be passed on to patients.
3. Passing on of health supplies at full cost, and services for free.
4. Adjustment of existing fee rates.
5. Creation of inter-health zones to harmonize fee rates to avoid concentration of patients in LGUs whose services are free.

It is generally accepted that values reorientation or reshaping of attitudes is one of the more difficult LGU undertakings. This is especially true when these involve shifting to a new set of values or attitudes which will entail cost or carry any form of burden. In the case at hand, the "cost" is not unjustified or unreasonable because there are corresponding benefits in the form of services received from payments made. However, long held practices are difficult to discard or even modify, and resistance to change in this convenient practice is understandable.

On the whole, considering that the primary objective of charging user fees is to transform societal values from the dole-out mentality to responsible citizenship, the need for more social marketing, not only for the adult members of society, is needed. Educational and training institutions should start educating young children about this social responsibility.

The introduction of the health user fees, which was initially resisted, but eventually accepted, is a step in the right direction of citizens accepting their responsibility to pay for benefits received from the government, whether in goods or services. After all, citizens are expected to have both rights and obligations.

It is relevant to mention that Malalag became one of the awardees of the *Gawad Galing Pook* in 2003 for Trailblazing Programs. More specifically, the award was for having improved the quality of life of its constituents by maximizing its meager resources and directing them to those who need them most. This, it had done by re-channeling its mortuary aid, and providing health insurance and Social Security System coverage to its poor residents in the years 1999-2003.

Having had an early start in deliberately shifting its constituencies' dole-out mentality to a self sufficient mindset through the adoption of health user charges helped Malalag to add 16 more indicators to the 33 general social indicators under the Minimum Basic Needs (MBN) approach. They have utilized these to measure the impact and effectiveness of the Project on people's behavior and attitudes. Using health indicators had made it easier for this LGU to identify families with unmet needs. In practical terms, these indicators have helped improve maternal and child care, increase the number of children immunized and substantially reduce malnutrition cases *(Gawad Galing Pook 2003* publication, p21, Gawad Galing Pook Foundation, 2004).

IMPLEMENTING A FISCAL MANAGEMENT SYSTEM (FMS)

GINGOOG CITY

Overshadowed by its livelier neighbors of Cagayan de Oro City and Butuan City, Gingoog City is easily overlooked as a quiet rural community. In fact, if not for the presence of the national fast-food chain Jollibee marking the City center, one would dismiss Gingoog City as a larger-than-regular municipality along the outskirts of Misamis Oriental. Unbeknownst to the casual passerby, this City of over 100,000 people is a beehive of activity in the daytime. Its location between two larger urban centers has proven to be an advantage, as may be seen in the government-owned bus terminal where buses and vans shuttle commuters and produce to and from Cagayan de Oro and Butuan. This unassuming City is, in fact, a 1st class local government unit, a Component City of Misamis Oriental which has been a model of fiscal management.

QUICK FACTS	
LOCATION	Northern Mindanao (Region X)
LAND AREA	404.60 km^2
POPULATION	102,379
POPULATION DENSITY	253 /km^2
MAJOR INDUSTRY	AGRICULTURE

VISION

A God-centered, freedom loving community, living together in dignity and respect for one another in an ecologically balanced, self-sustaining, agri-industrialized and highly empowered and peaceful energized Gingoog City

MISSION

To boost the city's economy and improve the quality of life of its people
To ensure self-reliance and people empowerment through improved and effective services and facilities
To promote easy access, mobility and convenience of resources
To promote an effective administrative machinery through efficient and effective organizational structure
To promote an ecologically balanced environment through sustainable use of natural resources

Profile of Gingoog City

"Gingoog" means good luck in Manobo, and, living up to its name, this coastal City has been blessed with good fortune throughout its history. The potential for agricultural production was what attracted the original Manobo settlers to the present-day poblacion. As the thriving Manobo settlement prospered, the arrival of a Jesuit Missionary presaged the advent of colonial administration by Spanish Colonists, as they turned Gingoog into a *pueblo* in 1868. The Spaniards' American successors declared it a municipality in 1903. In the late 40's, while the rest of the country suffered the debilitating after-effects of World War II, Gingoog enjoyed rapid growth in its agricultural and logging industries, paving the way for its conversion into a Chartered City in 1960 under Republic Act 2668. In 1982, the City was elevated to a 1st class City (from a 3rd class City) due largely to the increase in population and commerce.

Today, despite its urban appearance, Gingoog City has remained agricultural at its core. Coconut ranks highest among its agricultural products, followed by coffee, a distant second. A review of the City's General Land Use Plan shows that 39.1 percent of its total area is devoted to coconut production. The City produced an estimated Php 249,764,300 worth of copra in 2004. Coffee, meanwhile, contributed Php 25.9 million to the City's agricultural production. Rice and corn production, as well as fishing, constitute the rest of its major industries.

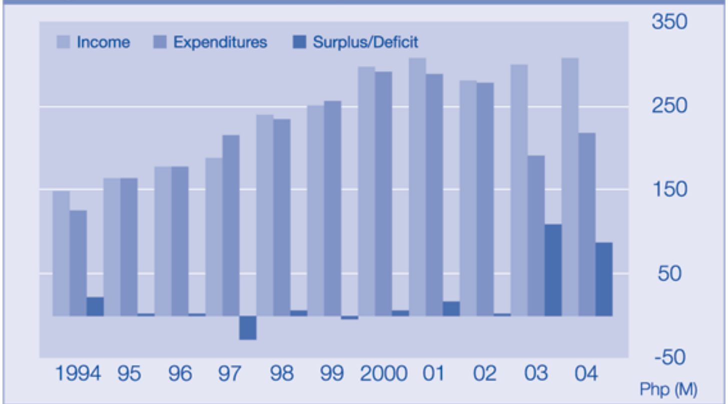
With no distinct dry season and an evenly distributed rainfall, the City is blessed with a climate that is suitable for agricultural development. And it owes much of its abundant agricultural resources to its geography. Composed mostly of flat terrain on the north east coast of Misamis Oriental, it is bounded by Gingoog Bay in the north and surrounded by mountain ranges in the south. This City is sheltered from the monsoon and other extreme weather conditions that plague most of its neighboring localities. While its unique topography assures the City bountiful agricultural resources, its location, 122 kilometers east of Cagayan de Oro and 74 kilometers west of Butuan City bestows some commercial possibilities as well. Tourism and trade have flourished in the City brought about by spillover from its bigger neighboring urban centers.

Financial Profile

Adhering to its commitment to sustainable growth, the City had been diligent in providing an economic environment conducive to growth. This was evident in the fact that in the ten-year period, (1994-2004) the City had incurred a fiscal deficit only in 2 years: 1997 and 1999. Sizeable surpluses were had in 1994 which, by 1995, started to diminish. An 11 percent increase in total income, after all, couldn't cope with a 29.7 percent increase in expenditures. This culminated in a Php 28.5 million deficit in 1997. Due to a substantial jump in Internal Revenue Allotment (IRA), the City complemented it with a meager surplus in 1998, but the downtrend continued in 1999 when the City again absorbed a deficit, this time amounting to Php 4.3 million.

The dawning of the new millennium brought with it another substantial increase in the IRA, a Php 44 million jump, and with it, a Php 6 million surplus. From then on, the City never looked back, managing to produce a surplus every year which reached as high as Php108.5 million in 2003 (Figure 2.1).

Figure 2.1 Income and Expenditures



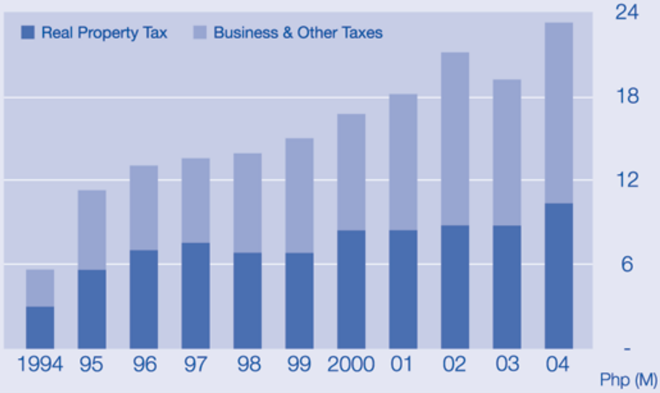
SOURCE: Bureau of Local Government Finance, DOF

The secret to the City's success is two-fold. First, the LGU has managed to rein in public expenditure over the years. It adheres strictly to the Department of Budget and Management Local Budget (DBM) Circular 75 which limits the service allocation for personnel services to 45 percent of real property tax collection of the preceding year. Also, even with an average growth in the LGUs expenditure of 9.3 percent, the judicious use of zero budgeting has allowed the City government to keep its head above water for the most part of this period.

Second, and perhaps the more significant of the two, the revenue-generating capacity at the local level has significantly expanded.

Whereas the City collected the usual taxes and fees that a City of its classification is authorized to collect under the Local Government Code of 1991, real property tax (RPT) and business tax (BT) have significantly risen over the past ten years. BT grew at an average of 18.6 percent annually, from Php 2,379,718 in 1993 to Php 10,920,446 in 2004. Similarly, RPT grew from Php 2, 861,315 in 1993 to Php 10,440,362 in 2004, registering an average annual growth rate of 14.7 percent, despite a period of slow growth 1997-1999. It is noteworthy that the City has not incurred any borrowings in the same ten-year period (Figure 2.2).

Figure 2.2 Tax Revenues



SOURCE: Bureau of Local Government Finance, DOF

Adopting a Fiscal Management System (FMS)

The revenue gains resulting from increased tax collection, notwithstanding, the City administration did not appear comfortable that its fiscal operation was heavily dependent on Internal Revenue Allocation (IRA). It found its position vulnerable to the rise and fall of the IRA. Over the years, the proportion of IRA to its total income has been fluctuating around the high figure of 87 percent. While the remaining 13 percent of its income was divided between tax and non-tax revenues, the City officials had become more acutely aware of the lopsided proportion between the national government assistance and locally generated revenue sources (Figure 2. 3).

Figure 2.3 Income Sources

SOURCE: Bureau of Local Government Finance, DOF

In the light of its fiscal difficulties, it was in 1997 that several organizations came together to formulate a strategic plan for Gingoog. These were the Gingoog Bay Development Council (GBDC), with assistance from the Canadian International Development Agency-Regional Development Council (CIDA-RDC), the Philippines Canada- Local Government Support Program, Region X (PC-LGSP) and DAP *sa Mindanao.* The Strategic Plan outlined the programs, projects and activities that the City needed to undertake.

Manualizing Strategies to Facilitate Revenue Collection

To help finance the programs and projects in the Strategic Plan, the members of the GBDC proposed the Resource/Revenue Mobilization and Generation Project, the output of which was a Manual detailing various strategies and activities to facilitate revenue collection.

The objective of the Manual was to increase local revenue by 10 percent every year, starting in 1999, and gradually reduce the City's dependence on IRA. To carry out the revised Fiscal Management System (FMS), the Manual lent its support by operationalizing the objectives using quantifiable measures:

a.) Increase Real Property Tax (RPT) collection efficiency by 5 percent annually until 100 percent efficiency is attained. This ultimate target would have been realized after 20 years;
b.) Increase Revenues from business tax (BT) by 15 percent in 1999 and 5 percent annually thereafter;
c.) Increase revenue from market operations by 5 percent by 1999 and 10 percent by 2000, while decreasing market operation cost by 5 percent in 1999 and 10 percent by 2000;
d.) Reduce time spent on processing permits from one week to one day;
e.) Provide necessary tax information to taxpayers within one hour from request; and
f.) Initiate at least one revenue-generating project every three years.

By implementing the revised Fiscal Management System (FMS), the Manual set more specific targets for each revenue center:

Increase RPT collection efficiency by 5 percent annually until 100 percent efficiency is attained

Since the implementation of reforms in the Land Tax Division, collection efficiency has been on the rise. Although the rating had been slow initially, it has exceeded targets in 2004 at 133 percent. The Chief of the Land Tax Division attributes this to computerization of records, prompt distribution of delinquency notices and a comprehensive tax information campaign and tax mapping, all of which have been instituted since 2000.

Increase Revenues from business tax by 15 percent in 1999 and 5 percent annually thereafter

Likewise, the Business Tax Division has enjoyed the benefits of implementing the FMS. This division has consistently exceeded collection targets through activities designed to reach out to taxpayers wherever they may be. By 2001, this Division exceeded target collection by 10 percent and, in 2002, it exceeded target by 18.3 percent. A community outreach campaign, tax-mapping, and inspection of business establishments were the primary tools towards achieving this goal.

Increase revenue of market operations by 5 percent by 1999 and 10 percent by 2000, while decreasing market operation cost by 5 percent in 1999 and 10 percent by 2000

Operation of the public market as well as other government-owned enterprises like the slaughterhouse and bus terminal are currently under a state of reform. By increasing the rates and intensifying daily collections, the LGU is moving towards a direction of self- sufficiency for these entities.

Reduce processing time on permits from one week to one day

In 2002, the Business Tax Division initiated the 1-hour processing of business permits. Although no major changes have been made to normal tax collection activities, computerization again facilitated faster processing time for permits and taxes, provided all the requirements have been duly completed. Computerization began in 2002.

Provide necessary tax information to taxpayers within one hour from request

For the most part, this has been accomplished by computerization of records which enable revenue offices to provide tax information. Continuous training of its personnel is also being undertaken.

Initiate at least one revenue-generating project every three years

In 2001, then incumbent Mayor signed the Gingoog City Investment Incentive Code of 2001. The Incentive Code encourages private local and foreign investors to locate within the City by granting establishments exemption from various fees and taxes. Although this means foregone income for these fees and charges, the City believes that the influx of more investors will increase employment, enhance resource utilization and facilitate technological transfer. Eventually, the Project will pay back in future income.

FMS Reform Areas

The FMS Manual provided a framework within which to systematize operations through a set of recommended activities. These were divided into eight major issues on resource/revenue mobilization and collection, together with their desired outcome, time frame and person/s responsible. The major areas that the Manual hoped to reform were:

1. tax information campaign
2. collection scheme
3. deputization of Barangay Treasurers
4. monitoring schemes
5. remedies on tax delinquency
6. rewards and incentive scheme
7. remittance system, and
8. formulation of revenue generating projects.

Most, if not all major issue areas in the FMS Manual, were tackled by the LGU.

The Tax Information Campaign and Collection Scheme
The tax information campaign involves the conduct of various communication activities to educate the taxpayers about the provisions of the local tax ordinances. It also informs the public about programs and the projects that the LGU is implementing to highlight the uses of tax collections. Through this, it is hoped that the tax-paying public understands the need to pay taxes promptly. Barangay assemblies, house-to-house campaigns, and print and broadcast media were employed to get the message across.

Collection schemes covered activities that systematize the entire tax collection process from pre-collection to post-collection. Pre-collection prepares the offices concerned for the actual collection process. The activities differ according to the type of tax being collected. However, they all generally involve review of tax ordinances in July of every year, setting of collection quotas and installing a revenue data bank in November and December of every year. The other activities include identifying taxable individuals in the 4th quarter of every year, sending out notices of delinquency as the need arises, and preparing the tax collection procedure in November and December of every year.

The actual collection process may involve negotiation for a compromise agreement on real property tax. The collection process also includes granting of discounts for prompt or advance payment. The recording of payment and preparation of collection reports and the conduct of audits for field collection officers are done in the post-collection phase.

Deputization of Barangay Treasurers and Monitoring Scheme
Barangay treasurers were to be deputized to make collections in behalf of the LGU. Guidelines were provided, from screening of potential deputies to their undergoing continuous training in enforcing tax ordinances and procedures.

Monitoring schemes aimed to supervise and evaluate tax collection activities were recommended.

Remedies on Tax Delinquencies and Reward/Incentives
Remedies on tax delinquencies involve undertaking activities related to dealing with non-paying accounts and follow up action in case of their failure to respond. These could ultimately involve judicial action.

Through the Rewards and Incentives Program approved by the City Council, outstanding taxpayers and barangays were recognized and conferred with plaques and certificates. Collectors who reached their total quota for the month are given 2 percent cash incentives based on the amount in excess of quota.

Remittance System
The guidelines on the Remittance System provide an organizational structure that would ensure an efficient remittance system. It proposes a daily remittance from Revenue Collection Clerks (RCC) to the Liquidating Officer to be deposited in the bank on a daily basis. The Barangay Treasurer, for his part, also remits the total collection to the Liquidating Officer and credits to the Barangay Trust Account are made quarterly.

Formulation of Revenue Generating Projects
Every three years, the City Mayor is tasked to formulate a revenue-generating project. For this purpose, his office has to prepare and submit a proposal identifying the project beneficiaries' needs and funding source. Before implementation, however, the City government and the other party need to sign a memorandum of agreement. The Office of the City Mayor is then tasked to monitor and evaluate the project, its accomplishments and its impact on the influx on the revenue generation.

Applying the FMS in Business Tax Collections

Recognizing the need to educate the public about the uses and advantages of paying taxes, the Business Tax Division Chief, Ciriaco B. Bascanot, Jr., adopted a community outreach drive. This involved a house-to house campaign and radio broadcast informing the public about local tax ordinances and the procedure for proper compliance therewith. In preparation for collection activities, business tax mapping operations were carried out to enable the Division to identify taxable businesses and accurately set collection targets. It involved using a set of questionnaire to conduct a survey of taxpayers' data at the barangay level. Through this, an inventory of business establishments was generated to assist in assessment and inspection proceedings. Data gathered from the business tax map were then encoded in a comprehensive tax data bank for future tax collection operations.

Together with data banking, business establishments and public transportation vehicles were inspected to determine issuance of business permits. Likewise, books of accounts of business entities were examined to verify correct payment of taxes. In cases where commercial enterprises were unable to keep their tax accounts up-to-date, first, second and final notices of delinquency were served to the corresponding institution.

Upon actual collection, a quick assessment and payment procedure was organized to minimize processing time and errors. On the spot collections were also made in rural barangays. In the event of non-compliance with tax procedures, administrative and judicial remedies were applied, including the imposition of penalties on late payments and the non-processing of current permits until all arrears were settled. A 25 percent annual surcharge plus 2 percent monthly surcharge proved substantial enough to discourage late payments. As indicated earlier, this enabled the collection of business tax to exceed 10 percent in 2001 and 18.3 percent in 2002. In all these activities, the Business Tax Division closely coordinated with other tax divisions to ensure that other taxes due the LGU have also been settled.

FMS in RPT Collection: Application

Compared to the Business Tax Division, the Land Tax Division in charge of the collection of RPT, proceeded with implementation of the FMS at a slower pace and with far more growing pains. When the current Chief, Emma T. Caingles, took over the Land Tax Division in February 2000, it seemed as if the updated Fiscal Management System had not borne fruit as expected. The City had just incurred a Php 4.4 million deficit in 1999. Real property tax collections in 1999 amounted to Php 8.2 million, a mere 1.9 percent increase over the previous year's collection, despite the new tax initiatives from the updated FMS manual.

Tax collection was also hampered by lack of tax records and an error-strewn manual computation of collectibles. To complicate matters further, the Division Chief's budget for publication of notice of auction of the office of Land Tax Division was on the chopping block.

Having been authorized by the City Treasurer to initiate reforms in order to correct the decelerating tax collection, the Division Chief went about her analysis of the problem and designing measures to counter them. She attributed the leveling of tax collections to the absence of up-to-date records. She recalled instances where more than one tax declaration was found for the same property, leading to confusion among the tax collectors. Because of this, the Division had not been accurate in making assessments and, consequently, ineffective in tracking delinquent accounts.

The irregular delivery of notices to the delinquent taxpayer was deemed as a factor that caused lower tax collection. The Land Tax Division Chief observed that tax notices were more often delivered to people who were not in regular contact with the party concerned, particularly in the rural barangays. Furthermore, the flaw in the delivery process diminished the effectivity of auctions as a means to discourage delinquent accounts.

Related to this was the looming budget cut for publication of final notice of auction. Before her assumption to office, auctions of delinquent properties were conducted without any regularity. At times, they were conducted on a monthly basis, while at other times, no auctions took place for more than three consecutive months. As each auction yielded only a minimal amount and the cost of publications rose directly with the frequency of auctions, by end of 1999 auctions netted only a little over half a million pesos.

Computerization of Local Tax Records

The remedies the Land Tax Chief devised to plug the loopholes in the FMS appeared startlingly simple. Upon her assumption of office, the Division Chief was able to identify this problem immediately and, straight away, pushed for computerization of office files. With regard to the second problem, the revised FMS did not dwell on administrative and judicial remedies in detail, except to serve top 20 delinquent taxpayers with notices of delinquency (NOD) and prepare for the imposition of administrative or judicial sanctions.

The Division Chief chose to intensify delivery of NODs by assigning more personnel to this task, with specific instructions to serve notices to the actual owner of the property or to the actual occupants. Where no response was received within 30 days, a warrant of levy was then delivered using the same channel. In the absence of any response to the warrant, the final notice of auction was published in a local daily and posted at prominent areas around the City, coupled with radio public service announcements. Finally, with a budget cut in publication notices looming, the Division Chief deemed it wise to set auctions on a quarterly basis, thus reducing the number of auctions taking place in a year thereby reducing the publication costs.

This particular solution worked remarkably well with the second remedy. With a higher likelihood of NODs delivery and a more regular schedule of auctions, the Division Chief found that delinquent taxpayers were more likely to settle their outstanding balance or negotiate for a compromise agreement just before a scheduled auction. In cases where the delinquent party did not settle the account, the auction found more buyers for auctioned properties because they were aware of the date and time of the proceedings. As a result, the proceeds from auctions conducted in 2000 and 2001 were Php 1,002,711 and Php 928,805 respectively, almost double those in 1999, before the reforms. In 2002, however, no auctions took place because of a realty tax amnesty program authorized by a Sangguniang Panglungsod Resolution effective from January 2002 to March 2003. Only one auction took place in 2003, with proceeds amounting to Php 162,099. Collection efficiency for RPT increased annually and, in 2003, it exceeded targets by 33 percent.

Impact of FMS on Local Income

In the course of operationalizing the tax initiatives of the Resource/Revenue Mobilization and Generation Project, the various divisions within the revenue collection system undertook a variety of activities in addition to their regular functions. The Business Tax Division, for example, seamlessly incorporated the activities of the updated Fiscal Management System (FMS) into its operations with few adjustments. While the community outreach drive and tax mapping activities proceeded soon after the introduction of FMS in 1998, computerization did not begin until 2002. This, however, did not preclude the Business Tax Division from enjoying the benefits of the updated FMS. This Division exceeded its target collection by 10 percent in 2001and by 18.3 percent in 2002.

Because of these changes in revenue collection practices, Gingoog City has achieved its primary objective of increasing its income from local sources. According to records of the City Treasurer, business tax collections rose from Php 10.57 million in 2000 to Php 14.3 million in 2004. Meanwhile, RPT collections increased from Php 9.9 million in 2000 to Php 13.3 million in 2004. Moreover, the City has been enjoying a surplus since 2000, particularly in 2003 and 2004, when it posted a Php 108 million and a Php 89 million surplus, respectively.

With such huge surpluses, the City now has more opportunities to pursue some of its development programs. The biggest increases on the expenditure side are those expenses for health, nutrition and population control and economic services. According to the City Planning Officer, Manuel A. Nambatac, there are a number of investment possibilities for the City to finance partially or wholly. Haruhay Vacation City, a 100-hectare property at the foot of Mt. Balatucan, is being developed as a tourist area because of its cooler climate. By inviting more tourism related establishments to set up shop, the City hopes to further augment its tax revenues.

The City also hopes to negotiate with a strategic partner a Build Operate and Transfer (BOT) arrangement for a Mini-Hydro Plant, with a view to parlaying some of the costs involved in this capital-intensive project.

The City has not, by virtue of its remarkable surplus, been prompted to be more liberal in its expenditures. On a positive note, its favorable fiscal position has inspired the administrators to undertake a more efficient fiscal management system, in revenue generation and expenditure management. Through the effort of the Sangguniang Panglungsod and the chair of its finance committee, Jabi I. Bernaldez, reforms are underway with regard to management of the government-owned bus terminal and the public market. It intends to lessen subsidies to the bus terminal by increasing parking fees for vehicles using it. Likewise, the City has also increased rental for market stalls and intensified its daily collection from market stall-owners. With regard to expenditure management, the City continues to implement austerity measures and prudent spending practices, slashing big ticket items like personnel services and miscellaneous expenses while strictly monitoring the progress of projects to ensure their completion at pre-agreed cost.

Locally sourced income cannot take all the credit for this substantial increase in savings. The IRA still takes up the biggest chunk of total income at 87.9 percent in 2004. As such, gradual independence from IRA has not been attained. However, the results from Gingoog City's continuing drive to raise locally sourced income have had encouraging results. For now, this substantial revenue-raising capability gives the City confidence that it has produced a reliable buffer against IRA fluctuations.

Summary

LGUs can certainly replicate the success of Gingoog City in raising local revenues by carrying out the recommended activities outlined in the FMS Manual. A number of factors, however, influence the degree to which these initiatives could accomplish their purpose. The role of computerization, for example, was key to attaining collection targets in Gingoog City.

The Business Tax Division's accomplishments in tax collection, without electronic automation, notwithstanding, the importance of computerization cannot be underestimated. Most, if not all tax departments can certainly benefit from the speed and accuracy that computers offer. In the case of the Land Tax Division, it played a central role in bolstering collections by efficiently tracking down delinquent accounts and regularly minimizing errors in assessment.

The complexity of implementing the FMS also demands effective internal communication and efficient coordination. Furthermore, internal monitoring keeps the different players informed with regard to their individual assignments. It also gives the various players in the system a better appreciation of their individual activities, avoiding boredom and inefficiency, particularly where they are repetitive and mechanical. Effective coordination among all the divisions involved in the collection effort is likewise critical in a well-functioning system.

In conclusion, the revised Fiscal Management Manual of Operations has proven that it is a very handy tool for LGUs that aspire for higher tax collections, as the Gingoog experience shows. It has also proven its sustainability over the years, having been in operation since 1998 and continuing to unfailingly deliver results through the years. The Manual itself contains various mechanisms to avoid obsolescence. The regular review and evaluation of tax ordinances help ensure that appropriate changes are made within the system to respond to developments through time. Applying the FMS in its standardized form, however, may not be the best course of action for an LGU to take. Instead, customizing the FMS to address specific issues unique to the LGUs situation and experience is highly advisable.

TAX MAPPING, COMPUTERIZATION and GIS in REAL PROPERTY TAXATION

MUNICIPALITY OF SANTA ROSA, LAGUNA

QUICK FACTS	
LOCATION	CALABARZON (Region VI-A)
LAND AREA	54.1 km^2
POPULATION	185,633
POPULATION DENSITY	4,748 /km^2
INDUSTRY	MANUFACTURING

VISION

The Investment Capital and Center of Trade and Industry of South Luzon, motivated, deeply committed and God-Centered City responsive to the basic needs of the people for sustainable development towards a peaceful, orderly and self-reliant community

MISSION

To attain sustainable economic growth, provide quality basic services, promote science and technology and environmental consciousness towards a healthy and safe community

The Municipality of Santa Rosa has, in the past decade, emerged as a rapidly developing industrial and urban center. It is the hub of commercial and industrial activities in the province of Laguna. It is host to 50 major multi-national and local manufacturing companies, including the largest Coca-Cola plant outside the United States. It has earned the appellation of "Little Detroit of the Philippines" for having the biggest concentration of car manufacturers and assemblers, including Ford, Honda, Toyota, Nissan, Star Motors, and Columbian Motors, in the country.

These companies provide local employment, generate export earnings, increase local revenues and serve as instruments for the transfer of technology, with linkages to its local economy. Middle and high-end residential areas, such as Laguna Bel Air, La Residencia and San Lorenzo South, a first class golf club, the Santa Elena Golf Club, and the country's only world-class theme park, the Enchanted Kingdom, have established Santa Rosa as a bustling and a highly competitive LGU.

Profile of Santa Rosa

Santa Rosa was Barrio Bukol of the Municipality of Biñan, when the latter was discovered by the Spanish Conquistador Juan de Salcedo while exploring the Laguna Lake Region in 1571. Biñan was latter annexed to the town of Cabuyao to be separated from it in 1688. Barrio Bukol was then taken out of Biñan and set up as a new political entity named Santa Rosa. It derived its name from its patron saint Santa Rosa de Lima of Peru which was reputed to have generously given material and spiritual blessings and favors to its devotees for the past 207 years.

Composed of 18 barangays and 117 residential subdivisions, with a land area of 54.1 km^2, Santa Rosa is located in the south corridor of Luzon, about 45 km south of Metro Manila, along the coastline of Laguna Lake. It serves as a major gateway to the provinces of Batangas, Quezon, and Cavite via the South Luzon Expressway (SLEX). Its proximity to Metro Manila makes it a strategic site for domestic and international business, with Metro Manila's Ninoy Aquino International Airport (NAIA) and the

Manila International Container Port just an hour or two away. It is also within commuting distance from Makati, the country's main business and financial center.

From a population of 41,335 in 1970, its number increased by 348 percent in a thirty-year period. Between the years 1991 and 2000, population increase was 200 percent. In 2000, Santa Rosa's population was 185,000[1], with a population density of 4,427.6/km^2. These increases are due to the high rate of in-migration from the neighboring provinces and the spread of population caused by the urban sprawl of Metro Manila.[2]

The Industrialization of Santa Rosa

Until the 1970s, Santa Rosa was just a sleepy town, with its people largely dependent on basic agriculture and family-owned enterprises for livelihood. At that time, it was a 4th class municipality. Later, it moved up to 2nd class in 1996 and eventually to a 1st class municipality in 2000. By 2004, Santa Rosa had qualified to become a city. Two major developments gave the strong push toward Santa Rosa's industrialization: the declaration of the provinces of Cavite, Laguna, Batangas, Rizal, and Quezon (CALABARZON) as a growth center, and the establishment of ecozones in Laguna and its municipalities.

On September 24, 1972, Presidential Decree No. 1 was signed, adopting the Integrated Reorganization Plan which, among others, created Region IV (Southern Tagalog) from several provinces, including Laguna, with Quezon City as its regional center.

Twenty years later, on May 17, 2002, Executive Order No. 103 created CALABARZON as Region IV-A, out of Region IV (Southern Tagalog).

CALABARZON is the large-scale project complex which is transforming an agro-rural based economy into a thriving industrial/urban based economy. The project was envisioned to play a pivotal role in the development of Region IV and provide jobs and livelihood to its populace. Next to Metro Manila, CALABARZON has emerged as the most urbanized geographic unit in Luzon and one of the most populated areas in the country.[3]

The other factor which has accelerated the industrialization efforts of Santa Rosa was the enactment on February 21, 1995 of Republic Act No. 7916, the "Special Economic Zone Act of 1995." Its adopted policy was to encourage economic growth through the development of special economic zones called Ecozones. To implement the law,

[1] www.laguna.gov.ph/Articles/02_08_01Population_By_Density.htm, accessed May 2005
[2] National Statistics Office, Provincial Profile, Laguna, 1996 and op. cit, Briefing Paper
[3] www.citem.com.ph/ntf/region_4a.htm , accessed May 2005

the Philippine Economic Zone Authority (PEZA) was created out of the former Export Processing Zone Authority (EPZA) established in 1972. Among other things, this law provided fiscal incentives, such as exemption of business enterprises from national and local taxes, except for real property taxes on land owned by developers. In lieu of the business tax, 5 percent of the gross income earned by said business enterprises are to be paid and remitted as follows: 3 percent to the national government, and 2 percent, directly to the treasurer's office of the municipality or city where the enterprise is located.

RA 7916 also established Ecozones in areas designated by the national government for development into balanced agricultural, industrial, commercial, and tourist/ recreational regions. The goal was to create employment opportunities, generate foreign exchange and encourage the dispersal of economic activities in the countryside.

Seventeen ecozones have been established in Laguna, almost one-third (1/3) of which are located in Santa Rosa. The five ecozones occupy more than 300 hectares of the Municipality, namely: (1) Laguna Automotive Park, Santa Rosa (50 ha); (2) Laguna Techno Park I, Santa Rosa-Biñan (71 ha); (3) Laguna Techno Park II, Santa Rosa-Biñan (68 ha); (4) Laguna Techno Park III, Santa Rosa-Biñan (89 ha); and (5) Toyota Santa Rosa Special Zone Industrial Complex, Santa Rosa (25 ha). These developments have been instrumental in the fast-paced economic and social transformation of Santa Rosa and Laguna.

Improving Real Property Tax Administration

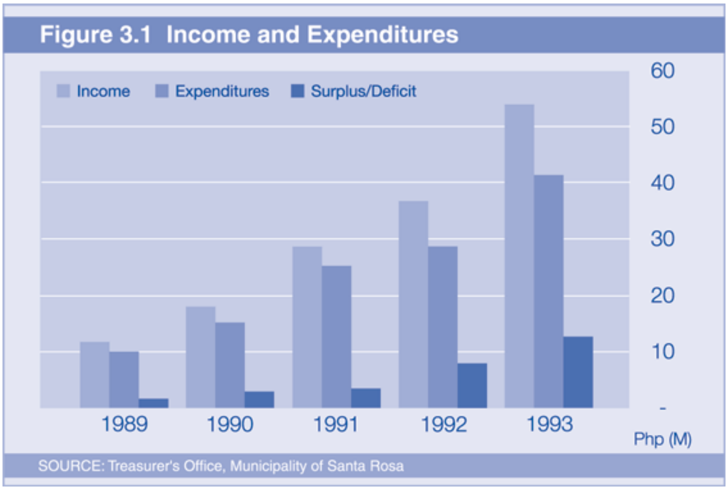
Financial Profile: 1989-1993

The financial profile of Santa Rosa presented in this study covers two periods: 1989 to 1993, and 1994 to 2003. The first period corresponded to the years preceding the Municipality's tax mapping project, while the second period covers the period after tax mapping was put in place. It was in 1994 that the Municipality completed its tax mapping project supported by the World Bank.

This section presents the financial profile of the Municipality prior to the completion of the tax mapping project.

Income and Expenditures. Total income of the Municipality grew from Php 11,637,951 in 1989 to Php 54,278,249 in 1993, representing an annual average increase of 43 percent in a five-year period. The net income of the Municipality grew consistently from 1989 (Php 1,487,205) to 1993 (Php 12,779,308), or an increase of 759 percent for the five-year period. Income increased from Php 11,637,951 to Php 54,278,749 (increase of 366 percent), while expenditures rose too, from

Php 10,150,746 to Php 41,499,441, registering an increase of 309 percent. Income, however, always exceeded expenditures, leaving a net income that grew bigger through the years (Figure 3.1).



Total Income. Locally generated income grew consistently higher than income from national government subsidy through the years. Locally generated income constituted from 72-79 percent of total income, while Internal Revenue Allotment (IRA) amounted from 21-28 percent of total income of the Municipality. From 1989 to 1992, the share of local income in the Municipality's total income was a high 79 percent. In 1993, this percentage went down to 72 percent with the big increase in its IRA (28 percent). This, in spite of the Php 10.5 million increase in local income (Table 3.1).

Table 3.1. Local Income and IRA

Year	Total Income	Local Income	IRA
1989	11,637,951	9,020,978	2,616,973
1990	18,015,839	14,199,758	3,816,081
1991	28,544,019	22,403,998	6,140,021
1992	36,700,627	28,724,965	7,975,662
1993	54,278,749	39,251,424	15,027,325

In Philippine Peso (Php)
SOURCE: Treasurer's Office, Municipality of Santa Rosa

Tax Revenues and Non-Tax Revenues. In the five-year period of 1989-1993, tax revenues comprised the bulk (62-77 percent) of Santa Rosa's local income, while non-tax revenues, consisting of receipts from economic enterprise, fees/charges, loans and borrowings, and other receipts contributed about one-third (23-38 percent) of the local income. The highest percentage share of tax revenues occurred in 1989 (74 percent) and in 1993 (78 percent) (Table 3.2).

Table 3.2. Tax and Non-Tax Revenues

Year	Local Income	Tax	Non-Tax
1989	9,020,978	6,717,991	2,302,987
1990	14,199,758	9,711,372	4,488,385
1991	22,403,998	13,798,818	8,605,180
1992	28,724,965	19,314,392	9,410,573
1993	39,251,424	30,212,838	9,038,586

In Philippine Peso (Php)
SOURCE: Treasurer's Office, Municipality of Santa Rosa

Real Property and Business Taxes. The real property tax (RPT) and business taxes (BT) comprised the local tax revenues for the 1989-1993 period, with the RPT providing the larger portion (60-80 percent) of the income. From the highest registered share of RPT to total tax revenues in 1991 (80 percent), RPT declined to 58 percent in 1993 (Table 3.3). On the other hand, BT collections had been increasing. From a 27 percent share of total income in 1989, BT's share increased to 42 percent in 1993.

Table 3.3 RPT and Business Tax

Year	Tax Income	RPT	Business Tax
1989	6,717,991	4,913,280	1,804,711
1990	9,711,372	7,276,559	2,434,814
1991	13,798,818	11,048,557	2,750,262
1992	19,314,392	11,677,259	7,637,133
1993	30,212,838	17,411,623	12,801,215

In Philippine Peso (Php)
SOURCE: Treasurer's Office, Municipality of Santa Rosa

Growth in RPT collection increased every year at an average of 33.6 percent, except in 1992, when RPT decreased from a 52 percent growth in 1991 to 6 percent growth. BT collection had been increasing, with 1992 exhibiting the highest growth at 178 percent and, subsequently in 1993 with 68 percent growth.

Problems in Real Property Tax Administration

Land is one of the more tangible assets of an LGU. The bulk of local government revenues are derived from the real property tax, with property taxation being the largest tax source. With a fixed real property rate prescribed by law, its growth depends on the responsiveness of the market value to economic growth and the ability of the LGU, specifically the local assessor, to capture the benefits from changing market values through the assessment process.

As early as 1985, at the start of the industrialization of Santa Rosa, the Municipality already recognized the problems of real property tax administration (RPTA). RPT, being the major source of local tax revenues, these problems needed to be addressed. These problems were: (1) incomplete data on property ownership, addresses, and the name of the property's administrators; (2) duplication of records; (3) absence of maps to delineate the properties; (4) unrealistic taxable assessed valuation due to table revision earlier undertaken (5) record keeping done manually without uniformity. These problems were exacerbated by the rapid industrialization of the Municipality where vast tracks of agricultural lands had been converted to commercial and industrial complexes or to residential areas by subdivision developers.

Real Property Records

Records for as far back as 1948 and for 1962, 1967, 1979 and 1983 had been stored in the *bodega* (warehouse) in the Municipality which made retrieval time consuming, affecting the records management system. These records had remained un-updated. Prime properties were not readily identifiable. For various reasons, there was also frequent turnover of responsibility among officials, resulting in the non-identification and non-collection of delinquent accounts.

Tax collection enforcement was weak. Because of the poor records system, only the updated paying owners were being monitored, resulting in incomplete/un-updated records of payment.

In 1985, Municipal Assessor Nelly C. Gomez, with only five personnel to assist, undertook a tax mapping project in an effort to rectify these weaknesses. The Project's intent was to put in place the necessary data base for RPT assessment and collection. This initiative was supported and approved by the Mayor, Cesar E. Nepomuceno, with the consent of the Sangguniang Bayan. With a budget of Php 35,000 per barangay, the tax mapping of four (4) barangays was completed in 1990. It was at this same time that Santa Rosa received an invitation from the Bureau of Local Government Finance (BLGF) of the Department of Finance (DOF) for the Municipality to join its "Real Property Tax Administration (RPTA) Program."

The RPTA Program

The RPTA Program is part of the Metro Manila Infrastructure Utilities and Engineering (MMINUTE II) Program Fringe RPTA Program, a project assisted by the International Bank for Rural Development (IBRD) for the Bureau of Local Government Finance (BLGF) under the DOF. It was a project aimed at providing medium term financing and technical support to LGUs countrywide for the implementation of their programs and activities. MMINUTE II was concerned with accelerating the growth of local source revenues, specifically revenues from real property taxes.[4] Among the components of the Program were: (1) tax mapping activities of which, records management and improvement collection system were a part; and (2) computerization program.

In its 14th Regular Session of July 11, 1990, the Sangguniang Bayan of Santa Rosa authorized the Mayor to enter into an agreement with the BLGF, DOF to avail of the RPTA program and to prepare all pertinent papers and documents relative thereto. It also enjoined all concerned offices in the Municipality to extend their cooperation in the implementation of said Program.

The execution of the RPTA Program commenced in 1992. Impetus was given by the Local Government Code of 1991 which introduced major changes in the implementation of Real Property Tax Administration, and the availability of the local counterpart financing of 35 percent of the Project cost which was fully provided by Santa Rosa. These total counterpart funds amounted to Php 1,455,475 of which Php 1,147,475 was allocated to the tax mapping (manual) component, and Php 308,000 for computerization.

Although not a part of the program package, the Geographic Information System (GIS) component was included and executed after the computerization program, for the amount of Php 800,000. Santa Rosa officials believed that this would move the tax mapping activity a step further. The GIS included a digitized map of Santa Rosa which added valuation to the present records.

These two components progressed as follows: the tax mapping component (manual) was completed in 1994; the computerization of 59,496 real property units (RPUs), in 1996. This was complemented by the adoption of a Geographic Information System (GIS) through a digitized tax map in 1998, which was undertaken on the initiative of the LGU.

[4] Bureau of Local Government Finance, DOF in http://www.blgf.gov.ph/pages/rpta.php, accessed 20 October 2005

Tax Mapping: The Centerpiece Activity

Tax Mapping involved the inventory of real properties in Santa Rosa, accounting for every piece of real property therein, including its ownership. Real property information, containing data on the RPU value, extent, ownership, land boundaries and actual use, were recorded in a tax map. A tax map is a graphic representation of a portion of the earth's surface drawn to scale on a standard size drawing material, having property lines and jurisdictional boundaries delineated, showing all parcels of real property and their use, and identifying each separate real property ownership by a unique number. It also indicates the section designation on the permanent parcel index numbering system. The map provides a permanent link between the real property and the corresponding office records.[5]

Pre-Field Operation Activities

The tax mapping activity in Santa Rosa was undertaken by the Assessor's Office in accordance with Assessment Regulations No. 1-78 of the DOF dated March 16, 1978. Designated as Program Director was the Municipal Assessor who supervised, coordinated and directed all phases of the tax mapping operation. One of the important tasks of the Program Director was ensuring that the budget support requirement of the program was adequate and made available as needed. It was important that careful budget planning and preparation and prompt follow-up took place so that sufficient facilities, personnel, transportation, training, equipment, supplies, and per diems for the field crew were made. After orienting the Mayor and the Sanggunian on the overall tax mapping plan which was approved and adopted for implementation, the required divisions, with their cited functions below were organized, to wit:

1. Tax Mapping Division, for tax mapping operations;
2. Appraisal and Assessment Division, for real property appraisal and assessment operations;
3. Records Management Division, for records management operations; and
4. Research and Statistics Division, for gathering and studying the data on real property valuation, assessment and tax collection.

The positions of a Tax Mapping Aide, an Assessment Clerk, a Records Clerk and a Statistical Aide were created and filled up.

[5] Department of Finance, Assessment Regulations No. 1-78 v, March 16, 1978

To avoid the possible problem affecting geographical areas, municipality and barangay boundaries were clearly identified. It was fortunate that for the duration of the tax mapping project, there were no existing barangay disputes/conflicts, nor were there new barangay boundaries which had not yet been delineated. These situations would have prolonged or disrupted the tax mapping activities.

Field Operations

During the field operations, property ownership was established using the base source control map. All information necessary for the appraisal and assessment of land values and improvements were recorded. Tax declarations were assigned corresponding temporary index numbers from the field sheets and said numbers were inscribed in the base map. All these activities were undertaken for the entire area.

For field operation purposes, tax mapping teams were organized. Each team was composed of the team leader (tax mapper in the Office of the Assessor), the data gatherer (deputy), the tax mapping guide (draftsman), and the guides who were recruited from the barangay, and was either part of the staff or the barangay *tanod*, or the clerks in the Assessor's Office. It was the tax mapping guides who were responsible for recording the notations on the base map and tracing the property boundary lines on the rectified aerial photo on the map board. Since the guide was a resident of the barangay, he also assisted the team in identifying the ownership and property boundary lines, and served as the liaison between the team and the real property owners.

The tax mapping field operation was first cleared with the municipal and the barangay officials whose areas were going to be mapped. Notices written in both English and the vernacular were also posted in conspicuous places throughout the barangay for the information of the residents to be visited.

Post-Field Operations

The final phase of tax mapping commenced upon the return of the teams from the field. This phase consisted of the following activities: final tax maps were prepared, permanent property index numbers (PIN) assigned, land area calculated, and the field copies of the tax declarations completed. Aside from the PIN, the Municipality devised and included in the system the taxpayer's identification number (TIN) as a control device by the owners, where all properties of an individual are grouped as one, irrespective of how they appear or are declared in the title.

The completion of the tax maps was followed by maintenance activities, the responsibility for which was lodged in the Tax Mapping Division. Tax map maintenance is important in preserving the integrity of the property index numbering system. This is because elements of the system such as ownership, value and land area may be subject to change, and the recording of these changes necessitates technical revisions in the tax maps and in the property index numbering system.

Administering the RPTA Program

Most LGU officials are aware that critical to the administration of the real property tax are the efficient operations of the basic functional units responsible and the operational activities of real property tax declaration, assessment, field appraisal, updating of records, tax collection and reports generation.

Tax Declaration, Assessments, and Appraisal

Simultaneously with the tax mapping program, a general revision of real property assessment was made in 1991. This was in accordance with the provisions of the LGC (Section 19, Book II). The general revision that preceded it took place six years earlier, in 1985.

During this period of general revision, numerous consultations were held by the Municipality with company owners, landowners, residents of subdivisions and developers. Concurrently, the barangay captains were engaged in information dissemination. These were intended to elicit the reactions and sentiments of the constituents of the Municipality on the ongoing program activities and the resultant increase in real property tax. No protests were received nor recorded petitions filed with the Board of Assessment Appeal. The tax mapping and general revision were, thus, successfully implemented.

The task of conducting daily appraisal and assessment of real properties on record through actual site inspections was with the Municipal Assessor's Office. In coordination with the Municipal Treasurer's Office (in charge of tax computations and collections), it serviced about 37,801 taxpayers in the Municipality, creating and canceling/archiving similar number of records. This process is cumbersome and time-consuming. RPUs are classified into land, building, and equipment. Valuation (assessment or determination of the value of the RPU) are made based on actual use of the land, the schedule of market value for buildings, and the actual cost of the equipment. Increase in the number of RPUs, however, do not automatically translate to increase in the amount of RPT payments because some RPUs are tax exempt. Examples of these are residential buildings with market value of Php 175,000 and below, and special types of properties like public schools, hospitals, public road lots, and public cemetery. If these are the types of RPUs added, an increase in the number of RPUs occurs, but there is no corresponding increase in assessment and, consequently, no increase in RPT collections.

For every real property unit (RPU), at least three major records were maintained. New index cards were made by the Treasurer's Office as soon as new records were submitted by the Assessor's Office. Thus, in 1995, about 35,137 RPUs were serviced, involving site inspection of properties either voluntarily declared by the owners, or pinpointed "upon chance discovery". Two years through the Program, about 64,778 records of land, buildings, and machineries had been produced. All records had to be managed, and three or more management reports were done which had used incomplete/un-updated records since all the data were taken from the old system files.

The provision for reduced assessment levels, the exemption from taxes of residential buildings with market value of Php 175,000 and below, and the implementation of PEZA (under the Omnibus Investment Code of 1987) threatened to decrease real property valuation and collection. To offset the decreases, the Municipality undertook inspection visits to identify the taxable subdivisions and buildings whose assessed value needed to be increased due to improvements introduced and/or remove some properties from the tax exemption list.

Inadequate personnel in the Assessor's Office to carry out its tasks was an added problem. Most of the assessment and collection personnel were assigned clerical work and only a few were engaged in field appraisal and collection activities. Thus, 35 additional personnel were hired, augmenting the five original personnel in the Assessor's Office.

With the completion of tax mapping, every parcel of land in Santa Rosa had been accounted for, with the legitimate owners of land, buildings, etc, their addresses, and other vital information such as actual use of the property, recorded. The properties were then assessed accurately, and current and fair market values applied.

Revenue-Based Geographical Information System (RBGIS)

The completion of the tax mapping program paved the way for undertaking the computerization program which converted manual records into digital database. During its conversion process, all the records underwent cleansing. Each record was updated, verified, reproduced, and validated, to enhance and preserve the integrity of the movement of collection records. Soon thereafter, the adoption of the Revenue Based Geographic Information System (RBGIS) was approved by the Mayor.

The RBGIS infused the Municipality's database operations with the benefits of unique visualization and geographic analysis offered by digitized maps. The RBGIS has made possible better analysis and has increased the efficiency of map production, standardizing maps that can be used by all the departments in the Municipality.

With a reliable spatial database, it was expected that the Municipal government will be able to take an active role in guiding the physical transformation of the Municipality through the development and enforcement of the proper mix of zoning, building and business permits, and infrastructure development.

The digitization of the RPTA was undertaken by a private information technology service contractor. Its services included the connection on line of the Assessor's Office with the Treasurer's Office, database buildup, cleansing and reconciliation of the records of the Assessor's Office, and the provision of training and technical support and services.

Reports Generation

Under a manually administered real property tax system, only about two or three management reports could be produced which included among others, the Assessment Roll and the Journal of Assessment Transactions. The RPTA Program has made possible the production of more reports which are not only accurate and reliable but available on demand.

Financial Profile After the Tax Mapping (1994-2003)

This discussion presents the financial profile of Santa Rosa after the tax mapping program in 1994 was completed.

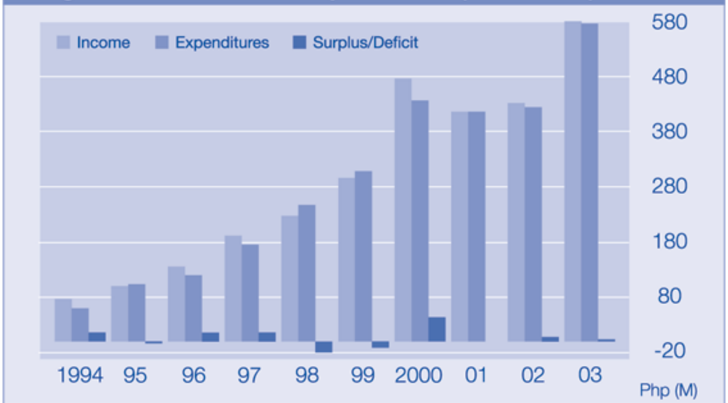
Income and Expenditures

The pattern of income and expenditure for Santa Rosa showed a consistent increase from 1994 to 2003, except for 2001. During the ten year period, income grew by more than Php 100 million to Php 585 million in 2003. This represents an astronomical increase of nearly 600 percent. From 1994 to 1999, there was a steady upward growth of income. In 2000, there was a spurt of increase by roughly 40 percent of the previous year. It slowed down in 2000-2001 (Figure 3.2).

The expenditure side was marked by a continuous increase, except for 2001, when there was a decline to Php 419 million from Php 437 million from the previous year.

Three years (1995, 1998 and 1999) reflected negative net income for the Municipality. This negative net income can be explained by the implementation of several projects of the incumbent mayor. Among these was the purchase of land for the low cost housing for the police, teachers, and employees of the municipality in 1995. In 1998, a similar purchase and construction of the annex building of the Municipality and, in 1999, another housing project for the middle-income local executives in the Municipality caused the net income loss in those years.

Figure 3.2 Income and Expenditures (1994 -2003)



SOURCE: Bureau of Local Government Finance, DOF

Share of Local Income and IRA in Total Income

Local income ranged from 71-88 percent for the period 1994 to 2003. The more than 80 percent share of local income in total income was observed from 1996 to 2001. On the other hand, IRA share in total income was 25 percent in 1994. It declined at a range of 2-5 percent from 1996-2002. At one time, in 2000, IRA plunged to 12 percent of the income of Santa Rosa. In that year, the local income share in total income rose to 88 percent (Figure 3.3).

Figure 3.3 Local Income and IRA

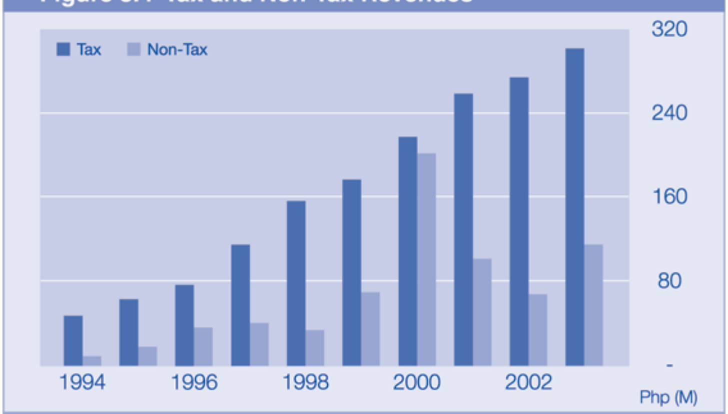
SOURCE: Bureau of Local Government Finance, DOF

Comparing the ratio of local income to IRA in relation to total income before and after 1994, an observation may be made that the share of local income to total income after the tax mapping was a high 88 percent in 2000 while IRA's share was 12 percent. In actual amounts, local income was at its highest (Php 420,333,019 in 2000) in the ten-year period (1995-2003). On the other hand, IRA's lowest percentage share in 2000 was still high at Php 59,935,961, representing 12 percent of total income.

Share of Tax and Non-Tax Revenues in Local Income

Tax revenues comprised the bulk of local income, which was 83 percent in 1994 and 52 percent in 2000. The post tax mapping period (1995-2003) shows the following picture. The highest percentage share (83 percent) of tax revenues occurred in 1994, the year the tax mapping was completed. In 1998, a comparable 82 percent share of tax revenues in total income was shown. Tax revenues showed a constant increase from Php 47 million (in 1994) to Php 302 million (in 2003), with non-tax revenues showing declines in the years 2001 (from Php 201.9 million to Php 103 million) and 2002 (from Php 103 million to Php 67.9 million). For Santa Rosa, the year 2000 stands out for giving the biggest share of non-tax revenues (48 percent) to its total income (Figure 3.4). Starting 2001, additional categories have been included in non-tax revenues, namely regulatory fees, service/user charges/ toll fees and other receipts under the Special Education Fund (SEF) which are expected to improve further the income from non-tax.

Figure 3.4 Tax and Non-Tax Revenues

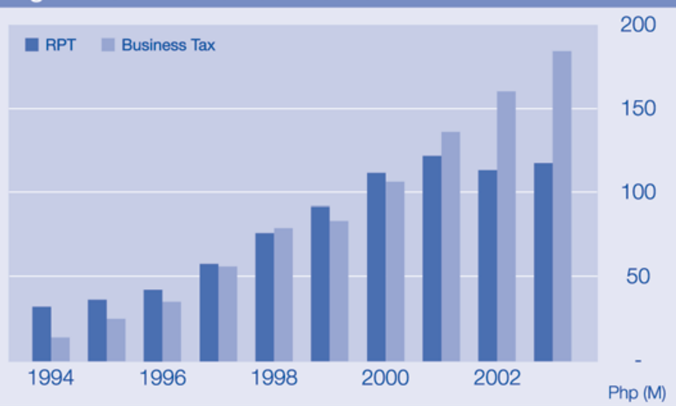


SOURCE: Bureau of Local Government Finance, DOF

Share of RPT and Business Tax in Total Tax Revenues
Total tax revenues continued to increase from Php 46,914,022 (in 1994) to Php 301,765,000 (in 2003), registering an increase of 543 percent. Real property tax collection increased from Php 32,494,110 in 1994 to Php 111,540,896 in 2000, or an increase of 26 percent. From the time tax mapping was completed in 1994, a dramatic jump in RPT collection was registered at 87 percent. In 1997, there was a notable increase in RPT collection of 37 percent over the previous year's 16 percent after the computerization of the records of the Municipality.

In terms of share in total tax revenues, business tax showed an increase from 41 percent (Php 14,419,912 in 1994) to 60 percent (Php 179,944,000 in 2003), while the share of RPT collections in the total tax revenues declined from 69 percent (Php 32,494,110) in 1994 to 40 percent (Php 121,821,000) in 2003. Thus, while RPT collection was increasing, its share in total tax showed a decline, compared to business tax (Figure 3.5).

Figure 3.5 RPT and Business Tax



SOURCE: Bureau of Local Government Finance, DOF

Growth of RPT and Business Tax
In the nine-year period from 1994 to 2003, RPT collections increased on the average by 17.05 percent, vis-à-vis business tax collection of 31.96 percent. When the tax mapping program was completed in 1994, however, there was a dramatic jump in RPT collection to 87 percent from the 1993 figure. This was the highest increase in real property tax collection for the period 1994 to 2003.

Business tax collection also increased from Php 14,419,912 to Php 179,944,000 for the 1994-2003 period. The highest increase in business tax collection was observed from 1994 (with Php 14 million) to 1995 (with Php 26 million), or an increase of 80 percent.

Share of RPT and Business Tax in Total Local Tax Revenues

In 1994, just after the competion of tax mapping, RPT and business taxes accounted for 69 percent and 31 percent, respectively, of local tax revenues. In subsequent years, there was steady increase in RPT collection, while business tax later increasingly assumed the higher percentage of total income.

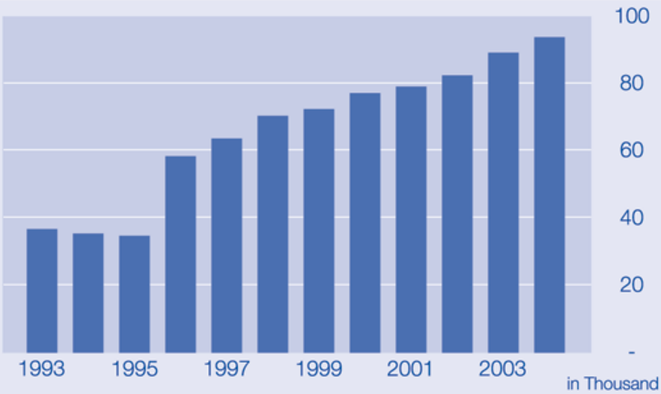
Impact of RPTA Program

The implementation of the RPTA Program has resulted in major benefits for Santa Rosa in the following areas: expanded tax base, increased collections, improved quality of service to their client-taxpayers, improved records management, and readily available information.

Expanded Tax Base

The record for the three-year period (1993-1995) showed a declining trend in the number of real property units (RPUs). The registered 37,200 RPUs in 1993 were reduced to 36,135 in 1994, declining further to 35,137 in 1995 (Figure 3.6). The reduction of RPUs between 1994 (when tax mapping was completed) and 1995 (the first year of post tax mapping) was due to the consolidation of properties, the removal of duplication of records and the deletion of demolished buildings from the records. Hence, the resultant lowering of the number of RPUs for the two successive years of 1994 and 1995. Since the completion of tax mapping in 1994, RPUs had steadily increased from 35,137 in 1995, to 77,959 in 2000, and to 95,201 in 2004. The increase in RPUs after the initial number set in 1995 up to 2004 had been due to the continuing change in the real property scenario. More lots had been broken down into smaller RPUs by the continuing growth of subdivisions in the place. On the government side, the increase in the number of RPUs was the result of the sustained site inspection of properties and the saturation drive to go after delinquent taxpayers carried out by the Assessor's Office. Commercial and business establishments had also put up new buildings and equipment. The condition, the use, and the value of the RPUs were the bases for arriving at the assessed values of land, building, and machinery, and for RPT collection. There was a dramatic increase in taxable assessed valuation in 1997, 1998, and 1999 brought about by the increase in the number of residential subdivisions, among others, shown in Figure 3.6.

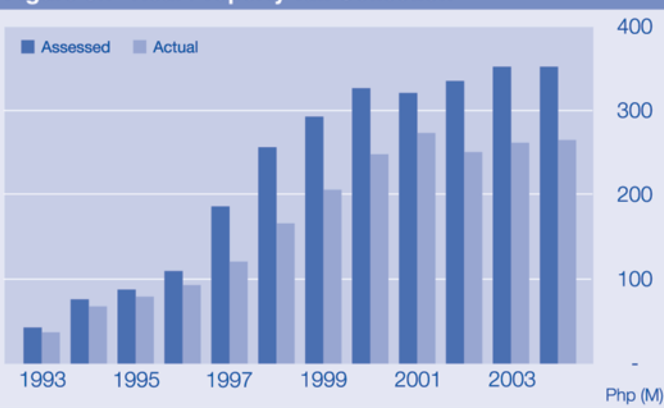
Figure 3.6 Real Property Units (RPUs)



SOURCE: Municipal Assessor's Office, Municipality of Santa Rosa

The data on taxable assessed value and real property tax collection from 1994 to 2004 showed an increase in the taxable assessed value from Php 75,054,864 in 1994 when the tax mapping was completed, to Php 109,899,499, two years thereafter in 1996, after computerization was put in place, showing a 46 percent increase. The figure further increased to Php 257,245,159 in 1998 after the adoption of the RBGIS, to Php 325,651,223 in 2000 (an increase of 27 percent), to 353,228,029 in 2004. There was a 296 percent increase in the actual value within the five years of operation of the new RPTA system, or an average yearly increase of 32 percent (Figure 3.7).

Figure 3.7 Real Property Tax Collection



SOURCE: Municipal Treasurer's Office, Municipality of Santa Rosa

In 2002, the PEZA law went into operation. Under this law, PEZA locators are subject to Gross Income Taxation as financial incentive to business establishments in PEZA sites. Business enterprises were exempted from national and local taxation (including RPT), paying only 5 percent of their gross income, 2 percent of which accrues to the municipal coffers. The decrease in both RPT and business tax collections in this year was, thus, due to the implementation of the PEZA law.

Increased Collections

From Php 35,406,618 in 1993, RPT collections almost doubled (Php 68,314,204) in 1994, the year when the tax mapping was completed, and almost tripled (Php 91,900,078) in 1996 after computerization. This figure further increased to Php 165,724,805 in 1998 after the introduction of GIS. In 2000, the collection increased to Php 247,875,793.93. These figures represent the total share of the province, the municipality and the barangays, and show a 269 percent increase within the five-year operation of the new system. Worth noting is the fact that the Municipality was able to sustain an average collection efficiency of about 72 percent (Figure 3.7), despite the decrease in tax collections in 2002 from the highest that was reached in 2001. In 2003 and 2004, tax collection rate improved but still slightly lower than 2001, due to some inefficiencies.

The increase in RPUs (which caused an increase in the tax base and the taxable income value) was complemented by the adoption of innovative procedural measures to ensure effective collection efforts were:

a. the prompt and regular sending of Notice of Delinquencies (NOD) to different barangays every Saturday, and the sending of a Warrant of Levy on each delinquent taxpayer who did not pay on the new due date, despite the NOD; and
b. conduct of raffles with attractive major prizes such as car, household appliances, etc. as incentive to tax payers and collectors.

Improved Quality Service to Client-Taxpayers

Payment of taxes has been made easy for tax payers through online payment and in a convenient two-stop location in the Assessor's and Treasurer's Offices. These have shortened transaction time from several hours to 10 minutes. Taxpayers were also regularly updated on their tax liability through billing notices.

Improved Records Management
The manual records of the Municipality were converted and stored in digital database which gave the staff and the taxpayer easy access to needed information. This had also preserved and enhanced the integrity of the assessment and collection record. For example, no transfer transactions were allowed without the payment of the real property tax being current and updated.

Readily Available Reliable Information
From being able to produce only two to three management reports, tax mapping, GIS, and computerization have made it possible for several reliable, accurate and verifiable reports made available to staff and concerned agencies.

Contributory Factors to RPTA Success

The confluence of several factors has contributed to the success of the RPT Program:

First, the Mayor(s), the Vice-Mayor(s), the members of the Sangguniang Bayan, the Municipal Assessor and the Treasurer, and the other officials of Santa Rosa collectively provided the leadership that guided the direction that the community needed to take to improve their lives.

Second, effective partnership and linkage established by the Municipality with the national agencies, such as the Bureau of Local Government Finance (BLGF) and the Department of Finance (DOF), went a long way in improving RPTA. The Metro Manila Infrastructure Utilities and Engineering (MMINUTE II) Program was implemented by the national government and the Municipality put up the counterpart funding.

Third, the contributions of the MMINUTE II – Fringe RPTA Program in the improvement of the RPT collection activities in Santa Rosa through the application of tax mapping and computerization had provided the systematic and reliable basis for efficient RPTA. The opportunity to beef up its personnel, made available by the said Program, had tremendously increased the chances for the success of the Program. The introduction of the Revenue Based Geographic Information System (RBGIS) on the initiative of the Municipality, after computerization was put in place, had introduced modern technology to RPT administration.

Fourth, experience has amply demonstrated the importance of continuity and sustainability of projects. The Program took at least two years before it could take off, and another two to three years before it could be completed and fully implemented. For the full duration of the Program, there had been a change in leadership in the person of the Mayor (Cesar E. Nepomuceno, Roberto R. Gonzales, and Leon C. Arcillas), the Vice-Mayor and the members of the Sangguniang Bayan. This could have easily caused the project to lose momentum. Fortunately, with the strong support and firm commitment to the Program by the local and national leaders, this did not happen.

Summary

Experience over the past decade in the implementation of the Local Government Code has demonstrated that LGUs throughout the country have risen to the challenge of a devolved setup. To a certain extent, many of them have been placed in situations which emboldened them to adopt innovative and creative ways to respond to the call for good local governance practices. Santa Rosa found itself in such a situation where national and local policies for development (declaration of CALABARZON and creation of ecozones) had encouraged it to adopt and implement a program which improved its revenue generating capability and reduced its dependence on national assistance through the IRA.

Santa Rosa has demonstrated that an LGU could, despite resources and time constraint, maximize the opportunities which would enable it to improve its revenue generating potential. These opportunities were triggered by an aggressive national policy toward industrialization. As one of the LGU beneficiaries of this national policy to be achieved through an inter-provincial integrated development and the designation of ecozones within its area, it did its share to implement the Program by strengthening its financial position.

The MMINUTE Project provided the rare opportunity to increase its revenues (real property and business taxes) to enable it to undertake the various projects which are valuable inputs to the industrialization effort. The components of the program of tax mapping which were pre-conditions to increased revenue generation have also made Santa Rosa competitive in the area of more modern technology. It was later complemented by the adoption of a Geographic Information System (GIS) by the Municipality. As a computerized system, GIS has facilitated entry of data, their analysis and presentation which have proven useful in the imposition of real property taxes because real property units (RPUs) are geographically referenced or geobased information.

Lastly, although financing investment required quite a substantial amount in terms of hardware, software, training, and support services, the payback in terms of the tangible benefits have been worth it and are expected to have a most favorable impact for a long period of time. The innovation, accomplished in the spirit of good local governance, accelerated Santa Rosa's transformation from a predominantly agricultural area to a largely industrializing and competitive Municipality.

Santa Rosa's increased income from the RPTA has found its way into funding free basic education, socialized housing, manpower training, construction of barangay roads, health services and insurance, and a new municipal hall and school building. All of these social and physical infrastructures have contributed in supporting the Municipality's attainment of its development goals and objectives.

INNOVATING TAX ADMINISTRATION MEASURES

QUEZON CITY

Quezon City (Q.C.) is the largest among the cities that comprise Metropolitan Manila, occupying one-fifth of its total land area. It also holds the biggest population, the largest concentration of national government offices and agencies, the major radio and television stations, information technology centers, and the premier universities in the country. Along with these establishments, over 440,000 real property taxpayers form Quezon City's huge tax base.

QUICK FACTS	
LOCATION	National Capital Region
LAND AREA	161.12 km^2
POPULATION	2,173,831
POPULATION DENSITY	13,492 /km^2
MAJOR INDUSTRY	COMMERCE

VISION

It is our mission to provide quality service which will make Quezon City an ideal community where people live, work and do business in a hospitable, progressive and peaceful environment.

MISSION

The Quezon City Government envisions itself to be: A model of effective governance and responsible leadership, working in partnership with the citizenry in building a Quality Community.

For these vaunted assets, the City, through many years, had played "poor cousin" to its wealthier neighbors like Makati, Manila, Pasig, and Mandaluyong. In the past three years, however, it has emerged as the richest city in the country, with current assets of Php 6.4 billion, cash deposits of Php 3.4 billion, and gross income of Php 6.5 billion in 2004. The Commission on Audit (COA) has cited it as the local government unit with the highest net income and the *Galing Pook* Foundation has recognized its Fiscal Management Program (FMP) as one of Top Ten Outstanding Local Government Programs for effective revenue collection.

Profile of the City

Named after its distinguished founding father, the President of the Philippine Commonwealth, Manuel Quezon, Quezon City was envisioned to be the permanent site of national government agencies. From an original land area of 1,529 hectares, the City expanded to its present mammoth site when RA 537 (the Revised Charter of Quezon City) carved out 8,000 hectares from Caloocan, portions of San Juan, specifically the Camp Crame Area, Marikina (Loyola Heights and Ateneo de Manila campus), Pasig, Montalban, and San Mateo and declared them part of the City's political territory.

The City has a large middle-class coming primarily from the ranks of employees of government, and those from the growing number of business and industrial establishments which, in year 2003, numbered 55,000. Unfortunately, it also has a progressively growing number of depressed areas, populated mostly by job-seeking migrants from the provinces and the unemployed. The swelling urban poor sector exerts much pressure on the City government for basic services, particularly housing, health and education. Population grows at the rate of 1.9 percent and population density is 135 persons per hectare.

Income and Expenditures: An Overview

Unlike many local government units (LGUs) which depend mainly (as much as 80 percent) from national government transfers in the form of the Internal Revenue Allotment (IRA), Quezon City's income is largely derived from locally generated sources. During the past ten years, the share of its total income from IRA ranged from 23 percent to 31 percent, peaking in the year 2000 (Figure 4.1).

Figure 4.1 Total Income

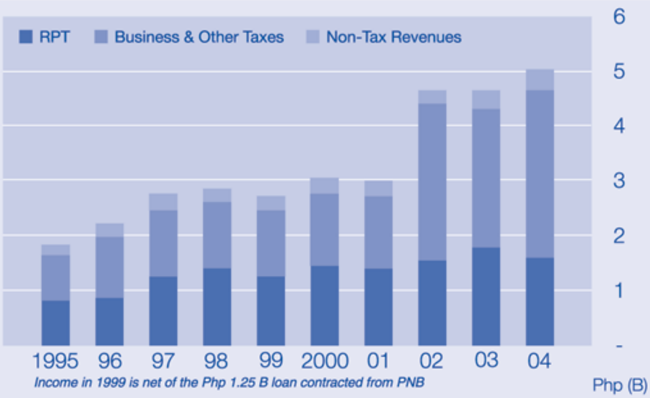
SOURCE: Bureau of Local Government Finance, DOF

The past three years, between 2002 to 2004, had registered the lowest percentage of IRA (23-24 percent) in relation to total income. During these years, total income reached the Php 6 billion mark, representing a 300 percent growth over the figure ten years ago in 1995.

The City's locally generated income is derived primarily from taxes and non-tax revenues (Figure 4.2). Total local income from taxes was dominated by real property tax which, during the ten year period, ranged from 32 to 47 percent of total income. Business taxes contributed from 42 to 60 percent to tax revenues of the City in the past ten years. From 1995-2001, real property tax was the top earner. In the years 2002-2004, business taxes overtook this figure, accounting for 54 to 60 percent of total tax income.

Growth in non-tax revenues, with annual growth ranging from 8 to 10 percent in 1995-2001, dropped to 6 to 8 percent in 2002-2004.

Figure 4.2 Components of Local Income



Income in 1999 is net of the Php 1.25 B loan contracted from PNB

SOURCE: Bureau of Local Government Finance, DOF

From 1995-2001, expenditures always exceeded income (Table 4.1) and resulted in negative net income in 1995, 1998, 2000. Starting 2002, positive net income was observed which continued until 2004. In 1999, the City contracted a loan of Php 1.25 billion from the Philippine National Bank (PNB) for the rehabilitation of the Quezon City Hall, which was partially destroyed by fire, and for other infrastructures such as roads and classrooms.

Table 4.1. Income and Expenditures (in millions)

Year	Income	Expenditures	Surplus/Deficit
1995	2,606.375	2,511.018	95.357
1996	3,036.442	3,199.876	-163.434
1997	3,759.345	3,784.335	-24.990
1998	3,997.728	3,991.424	6.304
1999	3,850.048	4,794.981	-944.933
2000	4,443.717	4,075.676	368.041
2001	4,276.721	4,406.282	-129.561
2002	6,144.008	4,285.540	1,858.468
2003	6,149.792	5,051.800	1,097.992
2004	6,496.282	6,492.774	3.508

Income in 1999 is net of the Php 1.25 billion loan contracted from PNB

In Philippine Peso (Php)
SOURCE: Bureau of Local Government Finance, DOF

Traditionally, 45 percent of Quezon City's budget went to social services, public welfare and internal safety and another 45 percent was spent on general government/public services which includes salaries and wages.

The 2001 Financial Outlook

In June 2001, a new administration took over the helm of the Quezon City government. The new leadership led by Mayor Feliciano "Sonny" Belmonte, Jr. found itself confronted with a financially distressed City, with very little money in the treasury and a number of substantial pending obligations. These consisted, among others, an outstanding debt of Php 1.25 billion with the Land Bank (transferred from the original loan with the PNB), unremitted withholding taxes to the Bureau of Internal Revenue and unpaid incentive allowance to the members of the police force of Php 1,200/ month from March to June 2001. The City also had unpaid claims from suppliers and utility companies like the Manila Electric Company (Meralco) (Php 60 million), garbage haulers and equipment rental companies (Php 560 million), and contractors and suppliers (Php 1.4 billion).

In addition, employees' contributions to the Government Service Insurance System (GSIS) had remained unpaid.

Quezon City's dilemma was how to increase its income not only to pay the above obligations, many of which had become due, but also to pursue its development goals.

Options Available

The financial team of the new administration explored three traditional strategies and decided against the use of two of them. The three strategies generally resorted to by LGUs in generating additional revenues are: (1) raising taxes, (2) declaring tax amnesty, and (3) contracting loans.

Granting tax amnesty could have been the most convenient and expeditious means of raising funds for the City. The financial team, however, acted against the idea in spite of its Php 10.7 billion tax collection deficiency. It had learned its lesson vicariously from the earlier practice of granting a yearly tax amnesty especially, during the five-year period from 1996-2001. The erratic pattern of tax collection revenues in those years showed that tax amnesties did not impact favorably on revenues. If at all, it yielded only a 1 percent increase in tax receipts.

Furthermore, the Q.C. officials believed that the grant of tax amnesty would send the wrong message to taxpayers that there was nothing wrong with failing to pay taxes, as this could be remedied come tax amnesty granting time. Fiscal experts generally advise that a tax amnesty be offered, if at all, only once in 10 to 20 years. This option was, therefore, ruled out.

The second mode of raising revenue which was contracting loans was not a viable option for two reasons: (1) there was still an outstanding loan of Php 1.25 billion contracted in 1999 and (2) loans cannot be contracted to finance Maintenance and Other Operating Expenses (MOOEs) but only for local infrastructure and other socio-economic development plan and public investment programs.[1]

The only recourse left, therefore, was to raise the tax rates, which was eventually applied on the business tax (BT). The financial team also explored other practical although difficult options to improve the revenues of the City, and decided on adopting such innovative measures, as stricter control and monitoring of tax assessment and payment, computerization of these processes, and applying the "carrot and stick" approach to both taxpayers and the employees involved in tax assessment and collection.

Revenue-Raising Innovations

Initiatives on Real Property Tax (RPT)

Real property tax, being the main traditional source of local tax, was given special attention. Starting in 2001, several measures were introduced in Q.C. to enhance RPT collection.

Tax Incentives to Prompt RPT Payer. Given its vast land area, Q.C. has 440,000 real property owners, making RPT a reliable source of income. In 2002, it decided to stimulate the tax revenue base through a 20 percent and 10 percent discount as incentive for prompt payment by annual and quarterly payers, respectively. This scheme was implemented earlier in Manila and San Juan whereby prompt payment was encouraged before the start of the tax period which is December of the preceding year for annual payers, and the preceding month, for quarterly payers. Quezon City liberalized it further and made it more attractive for its property owners. For quarterly payers, a 10 percent incentive is given if RPT payment is made during the current quarter, i.e., end of March, June, September, and December. For those who have more cash and want bigger savings, a 20 percent incentive is awarded if full RPT is paid within January 1 – March 31 of the current year.

Under the above scheme, a property owner with a tax liability of, for example, Php 10,000, needs to pay only Php 8,000 if he paid on or before March 31 of the current year, earning him clear savings of Php 2,000. It makes good economic sense for individual tax payers to avail of this incentive program. He not only earns a discount from his tax payment but he is also spared the hassle of making four trips to the City Hall to settle his dues. For the City, the taxes that it collects in advance can earn 6 percent interest when placed in the bank. There is money available to spend on development projects and basic services at the start of the year, even if theoretically it forfeits 14 percent of potential tax receipts from the grant of the prompt payment discount.

This incentive scheme is authorized under Sangguniang Panglungsod Ordinance 1081 S-2001[2] enacted on November 20, 2001. This has become a very popular measure

[1] Section 296a of the Local Government Code of 1991
[2] An Ordinance Amending Chapters Three and Four of Ordinance No. SP-91, S-93, the Quezon City Revenue Code, in Conformity with the Local Government Code, and for other purposes.

and was met with warm reception by the tax payers. In 2002, on its first year of implementation, around 30 percent of RPT payers availed of the annual prompt payment incentive. The number has since then increased by 10 percent every year. In March 2005, 60 percent, or more than half of real property taxpayers had already paid their full annual taxes.

Hence, the City becomes awash with cash from its RPT collection in March of every year. On March 31, 2005 alone, the last day of RPT annual (and quarter) payment when the incentive may be availed, the one-day RPT collection of Quezon City was Php 105,499,431. Adding to this the share of the Special Education Fund (SEF) and the Barangay Trust Fund, the total collection for that day totaled Php 230,658,640.

The tax incentive program had been very successful in part because the City also improved on the manner RPT is collected. Going to the City Hall for tax assessment and payment has been made a pleasant experience, with provision of air-conditioned lounges, free coffee and tea, and free use of telephones. An electronic numbering system similar to those used in airports and banks had been installed to guide the waiting taxpayers of their turn in the queue on a "first come, first served" basis. This translated to a more orderly and less tiresome experience for the taxpayers, not to mention the fact that it effectively warded off unscrupulous individuals, often referred to as "fixers".

When this incentive scheme was conceived in 2001, the primary intention was to generate immediate cash for the coffers, to address the budget deficit, and arrest the negative cash position of the general fund. It has since become a "way of doing things" for the past three years.

Public Auctioning of Distrained Properties. As of December 31, 2002, Q.C.'s accrued receivables from delinquent RPT accounts amounted to Php 10.7 billion. How to remove these from the books, or at least reduce them to a minimum level appeared to be a formidable problem to the new leadership of the City. Under the Local Government Code, public auction is one of the remedies of the LGUs to recover taxes from delinquent property owners.[3] Resorting to auction of property of delinquent accounts, however, is not a popular measure among LGUs because of its "high risk, low reward" feature. Aside from the elaborate and time-consuming administrative preparations entailed, it invites litigation from aggrieved property owners. Furthermore, auctioning the property of delinquent tax payers is not considered an acceptable political move among the voting population of the City.

To launch the public auction proceedings, a Committee on Public Auction of Delinquent Real Properties in Q.C. was constituted, composed of the City Treasurer, the City Legal Officer, the City Assessor and a representative from the Office of the Mayor. It devised the rules and supervised the bidding process. Due notices were

[3] Section 175 of the Local Government Code

served the delinquent property owners, consisting of the following: (1) Statement of Delinquency, (2) Final Notice of Delinquency, and (3) Warrant of Levy. Notices of the auction sale were, furthermore, posted in conspicuous places in the City Hall and all over the City. The rules on announcement of the conduct of the auction through publication were observed.

To ensure the transparency in the conduct of these public auctions, the Committee on Public Auction meticulously followed the guidelines under Section 260 of the Local Government Code on the rules, regulations and conduct of the auction sale including, among others, provisions on who may participate, conditions of the sale, procedure on registration of bidders and conduct of sale.

In money terms, the eight auctions conducted from 2002 to 2004 brought only a total of Php 59.6 million to the City coffers. Of this amount, Php 21.9 million was earned from the auction proceedings itself, while Php 37.6 million came in the form of settlement of back taxes by the owners. Experience had shown that before the auction day, delinquent RPT payers went to City Hall and proposed settlement by way of at least 30 percent down payment, with the balance payable in six months. This has become acceptable settlement arrangement.

The conduct of the auction may not have resulted in dramatic increase in revenues, as the Php 59.6 million raised from the auction was only one half of 1 percent of the Php 10.7 billion RPT liability that the City government wanted to remove from its record. However, the National Tax Research Center (NTRC), the research arm of the Department of Finance opined that the auctions had been beneficial to Q.C. in terms of encouraging up to 52 percent of delinquent property owners to settle their obligations. Furthermore, it expanded the asset base of the City government since property not redeemed by the owners nor sold to the highest bidders were deemed purchased by the City. As a result of these auctions, ownership of some Php 2.1 billion worth of properties were transferred and considered purchased by the City for lack of bidders.

While the auction did not remove all the delinquent real property accounts from its record, its beneficial effect came in the form of raising the level of tax compliance among real property owners. This, somehow, became an indication of their increased awareness of the need for more responsible property ownership.

Ironically, some of the biggest RPT debtors to the City are government-owned and controlled corporations (GOCCs). Of the top 20 delinquent RPT accounts, 19 are government agencies or corporations, with the biggest, having arrears amounting to Php 2.3 billion. These 20 delinquent accounts represent 30 percent of the total uncollected real property taxes. Efforts are presently being worked out with these offices to help them settle their taxes.

Corrective Measures Affecting Transfer Tax. The City government has adopted a number of other reform measures to improve tax collection. For instance, to ensure payment of mayor's permit and business taxes, it had required proof of payment of such permit and tax before processing the transfer tax of sellers of land, building, and condominium units. The payment of transfer tax is a prerequisite to the titling of property in the name of their buyers/new owners. On this matter, the amount of transfer tax is assessed based on whichever is higher between actual market value and/or the prevailing zonal value on the date of payment which could help augment the City's income.

It was not unusual for property sellers to antedate the execution of the deed of sale of real estate property to save on the transfer tax. In fact, a number of documents were found to have been antedated to as far back as 1985 when the value of real properties was very low. This was designed to save sellers from payment of both capital gains tax and transfer tax which ultimately meant lost revenues for the City.

In this regard, another related measure implemented in 2002 required the reconciliation by the City Treasurer's Office of the records of the City Hall with those of the Land Registration Authority (LRA). This was done by cross-checking the official receipts of transfer tax payments at the City Hall with the documents submitted to the LRA. The LRA is the national government agency that processes the certificate of ownership of real property. This cross-checking process had revealed that 58 percent of the official receipts recorded in the LRA were counterfeit, and only in 42 percent of transactions were the correct taxes paid and the proper documents truthfully filed. This meant that more than half of the official receipts of transfer tax presented to the LRA for processing of land, building and condominium certificates of title in Q.C. were not in order and unreliable. This situation affecting non compliance with documentation requirements has since then been avoided through tighter coordination between the City Hall and LRA.

Computerization of RPT Records. To help improve and systematize tax record keeping and safeguard against possible commission of misdemeanor, an independent private firm was contracted in 2002 to encode records of tax declaration and payments made by all 440,000 real property owners. The Q.C. government converted the RPT records from index card entries into computerized information system. The Php 2-million project was kept from the knowledge of the regular employees to thwart any attempts by unscrupulous staff to alter entries in index cards before these got integrated in the computer system. Thus, encoding was done in the evenings not only for the above purpose but also to allow regular office functions to operate undisturbed at daytime. Before the advent of computerization, it took a long time to reconcile the actual versus the recorded payment of real property taxes, much less detect any disparity in the records. The new updated index card reflect only the current tax obligation of the real property owner which is helpful to both local officials and the owner. As a result, non-problematic transactions affecting the RPT have been shortened from 3-5 hours to 30 minutes.

The records on revenue collection and other data on RPT have now been computerized, including data on tax-delinquent property such as location and names of owner, number of years of delinquency, amount due and penalties due, etc. It was the computerization of records that uncovered tax delinquencies in RPT in the huge amount of Php 10.7 billion. The City government is working on resolving this financial fiasco by putting these properties for public auction and exploring other remedies. The computerization has also hastened response time to queries from taxpayers and "human interventions" in various stages of assessment and collection.

Geographic Information System (GIS). A related innovation in the City is the adoption of the Geographic Information System (GIS) at a cost of Php 10 million for tax mapping real estate properties. Using aerial photographs, the GIS is able to graphically capture the area and boundaries of the properties in the City that has been declared for tax purposes and provided with corresponding Property Index Number (PIN). The tax map helps in the proper valuation of all properties and guides the Assessor's Office in updating real estate assessment. This undertaking is still ongoing.

Starting in 2001 when these reforms were introduced, RPT collections rose to Php 1.6 billion in 2002, reaching Php 1.7 billion in 2003, representing an increase of 12 percent and 14 percent, respectively (Figure 4.3). In 2004, RPT collections dropped because some property owners took recourse to a 1996 Ordinance declaring that tax assessment for places of dwellings and buildings should be based on the value stated in the building permit or the value upon sale. They, therefore, claimed their "overpayments" in 1997-1998 to be applied as tax credits to their 2004 payments. This ordinance was subsequently modified.

Figure 4.3 Real Property Tax Collections

SOURCE: Bureau of Local Government Finance, DOF

Incentive Program for the City's Top RPT Payers. In 2002, the City started a yearly recognition program for the top 100 RPT-payers to acknowledge their contribution as the LGU's partners in development. Among the perennial honorees are shopping malls, radio-TV networks, a golf club, a multi national bank, a manufacturing company, and a government office whose tax payments to the city are quite substantial. The top RPT payer for the year 2003, for instance, paid Php 16 million in 2002.

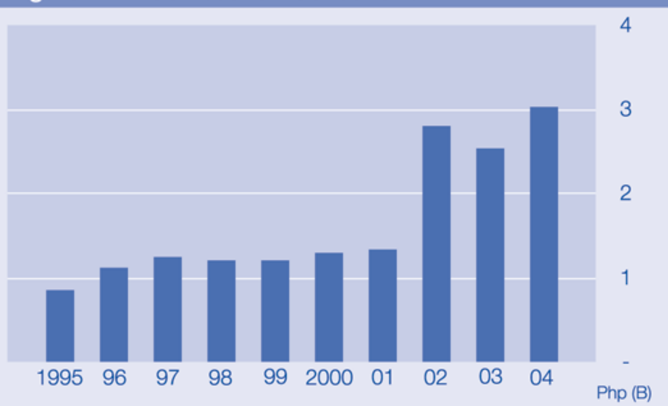
Approaches to Business Tax Collection

From 1995-2001, business taxes provided equally significant contribution to local income, with 43-50 percent share in the seven-year period. Similar to approaches used in enhancing RPT collections, relevant measures were also adopted to improve BT revenues. From 2002 to 2004, the share was from 50 to 60 percent. In 2001, business tax collection was Php 1.3 billion. In 2002, upon the introduction of reforms, it increased by 110 percent to Php 2.8 billion. There was a decrease in BT collection in 2003 by 10 percent, and in 2004, this rose to Php 3 billion or 20 percent over the 2003 collections. Among the reforms introduced in the area of business tax collections were:

Aligning of Business Taxes (BT) with Metro Manila Rates. Another initiative undertaken to increase the City's revenues was the adjustment of business tax by "aligning" its rate with that of other Metro Manila cities. Quezon City invoked the provision of the Local Government Code which authorizes cities to raise the rate of business tax by not more than 50 percent allowed for provinces or municipalities.[4] The City also passed an ordinance[5] which amended the Quezon City Revenue Code which took effect on January 1, 2002.

This move raised the City's income from business taxes dramatically in 2002-2004 by nearly doubling its 2001 level (Figure 4.4).

Figure 4.4 Business Tax Collections



SOURCE: Bureau of Local Government Finance, DOF

[4] Section 151 of the Local Government Code
[5] Sangguniang Panglungsod Ordinance No. 1080, S-2001 enacted on December 18, 2001

The more than 100 percent increase in BT receipts in 2002 over 2001 is attributable to the various interventions introduced by the new administration in relation to BT assessment and collection upon the upward adjustment of the business tax rate. The slight decrease in BT collection in 2003 is due to the implementation of the second round of "realignment" from the application of Ordinance SP 1080 S-2001 to Ordinance SP 1189 S-2002 enacted on December 10, 2002. The second realignment "corrected" the steep increase made in the first ordinance, revealing the new administration's ability to learn and improve on its past actions (Table 4.2).

Table 4.2 Revised Business Tax Schedule

TAX SCHEDULE	1995-2001	2002-PRESENT
Manufacturers, assemblers, repackers, processors of any article of commerce with gross receipts of Php 6,500,000.00 or >	Graduated Schedule	Php 36,560.00 + 50 % of 1% of gross receipts in excess of Php 6.5 M
Wholesalers, distributors, in any article of commerce of whatever kind with gross sales of Php 2,000,000.00 or >	Graduated Schedule	Php 15,000.00 + 60% of 1% of gross receipts in excess of Php 2.0 M
Retailers with Gross Sales Schedule		
Up to Php 400,000	Php 6,600.00	2% of gross receipts
Php 400,000. to Php 100,000,000	Php 24,750.00 + 24% of 1%	Php 8,000.00 + 1% of gross receipts in excess of Php 400,000
Php 100,000 to Php 500,000,000	Php 24,750.00 + 24% of 1%	Php 1,004,000.00 + 75% of 1% of gross receipts in excess of Php 100 M
Php 500,000,000 and above	Php 24,750.00 + 24% of 1%	Php 4,004,000.00 + 50% of 1% of gross receipts in excess of Php 500 M
Contractors with revenues of Php 2,000,000.00 or >	Php 17,250.00 + 75% of 1% of gross receipts in excess of Php 2 M	same
Banks	15 % of 1% of gross receipts	25% of 1% of gross receipts
Other Financial Institutions	15 % of 1% of gross receipts	60% of 1% of gross receipts
Eating Establishments	Php 2,010.00 + 1.2% of gross receipts	1.75% of gross receipts
Other Businesses	Various Schedules	3% of gross sales

SOURCE: Office of the City Treasurer, Quezon City

Adoption of Presumptive Income Level Approach (PILA). The Presumptive Income Level Approach (PILA) did not originate from Q.C., but was introduced in Manila as early as 1986. Dr. Victor B. Endriga, the Q.C. Treasurer who spent some years in the Manila Licensing Division brought it to Q.C. when he transferred offices in 2001. The PILA "presumes" a more realistic and current minimum level of annual gross sales of a particular business enterprise on which the BT assessment (50 percent of 1 percent of gross sales) shall be based.

In the past, business establishments in Q.C. invariably declared any amount of gross sales they were willing to pay taxes on. Being arbitrary and personal, the businessmen generally adopted the lowest gross sales level they could get away with, sometimes in connivance with unscrupulous employees at the tax collection and assessment offices. Checking on the veracity of their declaration of sales is difficult, if not impossible, since these establishments book their own sales and official receipts are often not issued.

To establish the presumptive level of tax for various types of business establishments, an initial study of the business operations is made and sales records and receipts are collected. These data are analyzed in the context of observations of actual business operations. The objective is to establish a benchmark level of gross sales and receipts on which to base the computation of business tax. Arriving at the benchmark income level of these business entities had been considered crude and required application of judgment and common sense. For instance, establishing the income level for sauna parlors and motels was effected in this manner upon which the presumptive income tax was computed:

> *… a particular sauna, located in Quezon Avenue, claimed in its financial statement that its gross earnings in 2003 were only Php 2.3 million. This indicated that only 4 customers paid the standard and minimum Php 1,500 per room rate a day for the entire 365 days of 2003. This was simply implausible. The establishment had a 30-room facility which were booked almost everyday. Using the presumptive income tax formula, the City slapped the sauna parlor a deficiency tax of Php 26 million. It promptly paid the amount. As for motels, the financial team copied their laundry service receipts and multiplied the number of bed sheets used per day with the daily room rates and arrived at a fair estimate of their gross income…*[6]

In December 2004, based on studies made, the City Treasurer issued a memorandum establishing the schedule of Minimum Gross Sales receipts for various business establishments which was to become the basis for computation of the presumptive tax for those types of business establishments (Table 4.3).

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[6] Victor B. Endriga, *The Roadmap to Financial Stability: The Experience of Quezon City,* c 2004, pp. 34-35

Table 4.3. Presumptive Tax Levels for Private & Public Markets			
Line of Business	Minimum Gross	Annual Tax*	Quarterly Tax*
1. Rice Dealer	800,000	9,000	2,250
2. Meat/Pork Vendor	800,000	9,000	2,250
3. Carinderias	550,000	7,125	1,781.25
4. Groceries/Sari-sari store	325,000	4,875	1,218.75
5. Eateries/Refreshments	450,000	6,375	1,593.75
6. Glass/Plastic wares/Native	325,000	4,875	1,218.75
7. Jewelries	325,000	4,875	1,218.75
8. Dry Goods/Textiles	325,000	4,875	1,218.75
9. Footwear	325,000	4,875	1,218.75
10. Fish/Dried Fish	325,000	4,875	1,218.75
11. Fruits/Vegetables	500,000	7,125	1,781.25

Taxes were computed under Sec 19 (e) of the Q.C. Revenue Code without exceeding 1/2 of the prescribed rates

In Philippine Peso (Php)
SOURCE: Memorandum of the Quezon City Treasurer issued on December 21, 2004

Starting January 2005, even stallholders in public and private markets (which do not issue sales receipts) have been paying taxes based on their Minimum Gross Receipts Schedule as basis for their tax rates. Rice dealers and meat/pork vendors are imposed the highest presumptive minimum gross sales of Php 800,000 per annum. The table of presumptive tax levels may not be very accurate, but it has established a predictive basis for tax assessment and reduces the discretion of taxpayers in the determination of their tax accountabilities.

Consultation and Dialogue with the Business Sector. Without doubt, regular consultation and dialogue between the LGU and the private sector goes a long way in fostering cooperation between them. Thus, an interactive relationship between the Q.C. administration and the Q.C. Chamber of Commerce and Industry (QCCCI) has been institutionalized in a Memorandum of Agreement officially recognizing QCCCI as the City's official communication conduit to the business community. Businessmen designated by the QCCCI represent their interests in committees and task forces formed by the City government on matters important to the private and business sector.

These two parties co-founded the Q.C. Registry Databank which is being managed by the QCCI and funded out of the additional Php 100 fee per business registration. The QCCCI is also the City's partner in the Recognition Day of the City's Top Business Tax Payers held annually.

For his part, the City Mayor regularly conducts dialogues with the businessmen on the formulation of business-oriented programs and in making Q.C. an attractive investment destination.

Incentive Program for the City's Top BT Payers. A parallel program to that giving recognition to top real property taxpayers has been adopted to honor the top 100 business taxpayers in the City. The honor roll in 2002 was topped by a broadcasting network which paid Php 40.2 million in BT. The rest of the honorees were manufacturing companies, shopping complexes, financial institutions, and a leading food chain. The business taxes paid by the top 20 payers in 2002 totaled Php 340 million.

Administrative Control Measures

Quezon City implemented these reforms on tax collection through application of administrative control measures. For instance, business taxes are among the taxes which are difficult to impose and collect. The City has, therefore, exerted all efforts to identify and solve the problems involved. These has been done through the issuance of the appropriate memorandum orders.

One such memorandum order directed the City Accountant to deduct from the collection vouchers of Q.C. government contractors the amount of 75 percent of 1 percent of the gross receipts as payment of business tax to the City. This means an upfront or advance payment of Business tax by the contractors who conduct business with City Hall. A civil works contractor with a claims voucher of, for example, Php 1 million is automatically deducted the amount of Php 7,500 as advance payment of his business tax which becomes due during the first 20 days of January of the succeeding year.

Another memorandum order directed the Taxes and Fees Division (TFD) to require business establishments to submit their financial statements for the past two years and record of previous year's monthly payments of Value Added Tax (VAT) and Non-VAT from BIR prior to submission of current year's Business Tax payment. These records are reconciled with their previous year's business tax payment before processing his current Business Tax payment.

To further tighten the "net" over taxable business establishments, City Hall agents mapped their location in 2002 and 2003. They conducted door-to-door and street-by-street inspection and verification of books of account, business permits, licenses, etc. of each of these establishments. The process has also helped identify those which are operating without proper licenses. Revenue officers visited establishments at random, conducting examination of their book of accounts. The books of those whose gross receipts decreased compared to the previous years were routinely examined and verified.

To avoid familiarization between Revenue officers and owners of business establishments, assignment of Letters of Authority (LOA) was raffled among these Officers. The LOA is the all important authorization document that serves as notice to business establishments that the examination is sanctioned by the City Hall. Offices in the City Hall dealing with business tax were directed to maintain a photo-gallery of permanent and casual employees posted in conspicuous places for easier identification by possible complainants.

Other activities which constitute the application of the "carrot and stick" approach in management had also been applied. For instance, revenue officers with poor collection performance were grounded. They were assigned desk work and remained in the office instead of doing field work. On the other hand, cash rewards and trips to Hong Kong were given in 2003 to the top collectors of the Special Task Force for Inspection and Examination who collected an unprecedented Php 100 million in business taxes.

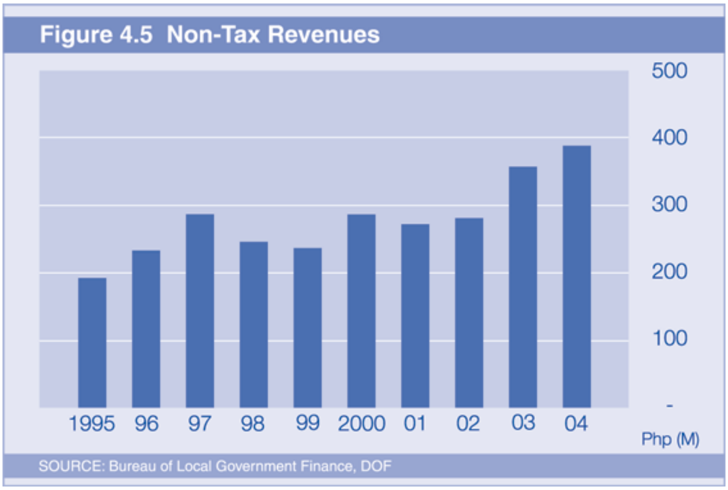
Central Management Information System

A Central Management Information System has been established with a capability for providing all taxpayers information, from assessment to payment. It has interconnectivity and provides real time data. A computerized monitoring and reporting system has also been developed. Reports on daily tax receipts and cash position are generated and submitted to the mayor and the city treasurer.

Employees found to have been involved in various tax anomalies, like connivance with taxpayers to under-declare their taxable income or issue counterfeit official receipts, were imposed sanctions such as transfer to less sensitive positions and/or filing of formal charges for the offense and/ or dismissal.

Non-Tax Revenue Collections

The share of non-tax revenues in the local income of the City varied between 6 to 10 percent annually from 1995 to 2004 (Figure 2 and Figure 4.5). The income figures of Q.C. are so big that its receipts from non-tax revenues alone are equal to the entire total income of certain cities in the country. Being a busy and centrally located city with a large number of commercial and business activities, Quezon City's income from fees and charges amounted to Php 390 million in 2004. Aside from the current fees collected by all cities, Quezon City derives income from special parking areas, for numbering its residential, commercial and other buildings, and for issuance of license with sign plates and advertisements.



To enhance the contribution of the non-tax revenue collection, the City government has adopted several control measures. Among these are the following:

Stricter Requirements for Various Permits. To ensure that there is no evasion in the payment of RPT and the contractor's tax in certain cases, the City Engineer and the City Building officials have been directed to require contractors proof of payment of RPT and contractor's tax as pre-requisite for processing building, excavation, and occupancy permits.

In relation to this, contractors with principal offices in Q.C. are assessed business tax based on 100 percent of the gross receipts of work contracts executed with the City. Contractors with principal office outside Q.C. are imposed taxes amounting to 70 percent of the gross receipts for building and excavation contracts in Q.C. This guarantees that 70 percent of the income derived from doing work in Q.C. accrue to the City, which is authorized under the Situs of Tax in the Local Government Code.

Security of NTR, Official Receipts, and Documents. To minimize forgery of official documents, especially on payment orders and receipts, a memorandum order has authorized the City Treasurer to direct the Taxes and Fees Division not to accept payments unless it bears his original signature in fuchsia ink, with rubber stamp marking of his picture and name. Presumably, while highly personalistic, this practice could discourage would-be forgers from committing this criminal offense.

Summary

Quezon City's remarkable turnaround from a perennially financially-distressed city to the country's financial giant among LGU's was achieved through a lot of effort and strategizing. The results have been phenomenal. From a total local income of Php 3,003,846,000 in 2001, local income grew progressively for the next three years and reached Php 5,023,514,000 in 2004. This is a 67 percent increase in four years.

The financial turnaround team of which the City Mayor and the City Treasurer were the lead players was supported by the City Council and hundreds of employees and staff of the City government.

The present strong financial position of Q.C. has enabled it to pursue in the past three years wide-scale projects in the following areas: physical infrastructure, socio-economic, environment, organizational, and urban development. Some of the flagship projects of the City are:

1. Creation of business centers and specially-designated economic zones located in Cubao, Libis-Eastwood, Balintawak, North Fairview-Novaliches, Tomas Morato, and South Triangle.
2. Concreting of major interconnecting thoroughfares, improvement of drainage and flood control projects, and construction of sidewalks and streetlights, etc.
3. Grant of subsidies for the hospitalization of poor patients up to Php 5,000 per patient through its *Sagip Buhay* Medical Care program.
4. Entrepreneurial assistance through more than Php 40 million in non-collateral loans and training of new entrepreneurs.
5. Waste management program which subsidized garbage collection and disposal at an annual cost of Php 600 million. Q.C.'s income from garbage fees is almost nil.
6. Provision of computer for each of the 142 barangays.

As a way of demonstrating transparency and informing the taxpayers and other Q.C. residents as well, of the City's fiscal and financial position, a large bar chart on tarpaulin had been set up outside the City's Assessment Lounge showing *Comparative Approved Budget and Total Income of the City from 1999-2003.* Hopefully, this system will be regularly updated as a means of reporting to the community the financial gains and performance of the City government.

BOND FLOTATION FOR TOURISM DEVELOPMENT

THE BORACAY-AKLAN PROVINCIAL BONDS (BAPB)

On July 1, 1999, the Provincial Government of Aklan issued Php 40 million worth of revenue bonds, earning for itself the distinction of being the first province to exercise this mandate under the Local Government Code of 1991. The Boracay-Aklan Provincial Bonds (BAPB) aimed to raise funds for the construction of vital transportation infrastructures in support of Aklan's flourishing tourism industry.

QUICK FACTS	
LOCATION	Western Visayas Region (VI)
LAND AREA	1,817.90 km^2
POPULATION	451,314
POPULATION DENSITY	248 /km^2
MAJOR INDUSTRY	TOURISM

VISION

Empowered Aklanons living amidst a well anchored, vibrant economy where agri-ecotourism developments are globally competitive, environment-friendly, equitable, self-sufficient, and sustainable

MISSION

To zealously develop Aklan's agri-industrial capabilities to complement the booming ecotourism industry, improving education, commerce and trade, and bring about the balanced progress in both the rural and urban centers

By July 1, 2006, the Province shall have fully settled its financial obligations for the bond issuance. Meanwhile, an all-weather jetty port and a "world-class" passenger terminal building in Caticlan have been completed and will be ready for full commissioning in October 2005. These twin facilities started partial operations in June 2003, and have brought in Php 26,748,258 to the provincial coffers in a period of 26 months. In 2004, this income rose to Php 11,320,099, coming close to the projected income for the first year of full operations of Php 12,399,118 of these facilities. In the first eight months of 2005, collections reached Php 12,932,700, and, by yearend, the amount will likely approximate the income projections for the Year 4 operations of the Project. By exploring the largely uncharted waters of bond flotation, the Province has not only boosted tourism as a sustainable industry in Boracay, but it has also discovered new sources of local income to fuel Aklan's resurgent economy.

Aklan Province: A Profile

Aklan is the youngest of four provinces in Panay Island, but, historians believe it is one of the country's oldest. Legislated as a province only in 1956 upon separation from Capiz, it was actually established in 1213 as *Minuro it Akean* by Bornean settlers led by Datu Puti when he purchased the whole Panay Island from the Ati King Marikudo for a golden *salakot* (native head gear) and necklace, bolts of cloth and some trinkets. The occasion was celebrated with great revelry, which the Aklanons have continued to observe through the years as the Ati-Atihan Festival.

With its varied topography of steep mountains, sloping hills, wide plains, and inland water resources, the Province is shaped like an inverted goblet. Sixty percent of the land area is devoted to agriculture, mostly rice and coconut, which account for 75 percent of the Province's annual Gross Provincial Product (GPP). High value fruits with export potentials like bananas, *rambutan*, fiber crops like piña and abaca, are grown in the wider plains of the Province. Aqua-culture, poultry and livestock raising are secondary sources of livelihood. Aklan's commercial sector which showed significant growth during the past ten years is made up largely of wholesale and retail trade, and manufacturing. Food processing, furniture-making, metal and iron works, and handicrafts, are popular cottage industries, but are generally family enterprises. Aklan's population and population density are the lowest in the Western Visayas region.

The Province has adequate infrastructures: a relatively good network of roads and bridges spanning its 17 municipalities; wharves and two airports linking it with Manila and the neighboring provinces; and adequate communications and electric power facilities. Kalibo, the capital town and center of commerce, is also the seat of the Provincial Government and the National Government offices in the area.

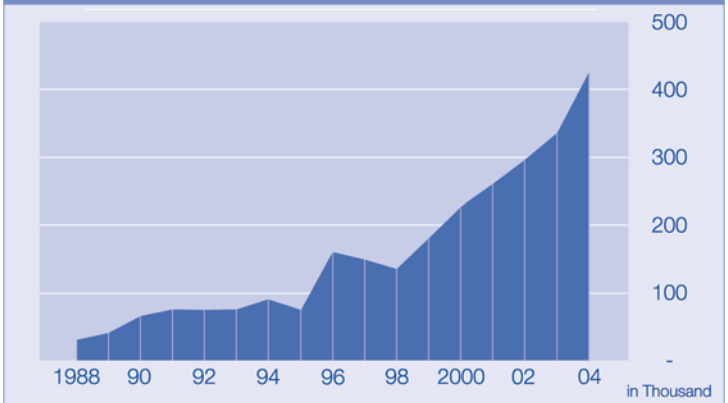
Tourism: The Main Industry

Boracay, situated off the northernmost tip of the main island of Panay, started to be a tourist attraction in the seventies, supposedly, after having been "discovered" by a foreign film crew while shooting a movie on the Island. Its fabled pristine white beaches, clear blue waters and virgin coral reefs, have since made the Island a popular tourist destination. In 1990, the BMW Tropical Beach Handbook cited it as one of the best beaches in the world; and in 1996, it was named by a British publication as the best tropical beach in the world.

In the eighties, tourists started coming to the Island in large numbers. In 1988, the Department of Tourism recorded 30,836 tourists as having visited Boracay. This number grew by more than 500 percent in 10 years (1988-1997), reaching 164,429. A sudden decline was briefly experienced in 1995 and 1998 in the aftermath of the Asian financial crisis, but tourism recovered quickly, and, in 1999, tourist arrivals were 181,813. This number continued to grow steadily in the next five years (1999-2004), at an annual average rate of 20 percent. The number of tourists during these years consistently exceeded projections. In 2004, tourist arrivals registered a record 428,751 (Figure 5.1). This is a 135.8 percent increase in five years. During the first eight months of 2005, the number reached 362,448, a 13 percent increase over the same period of the previous year.

Tourism has concededly emerged as the main industry of the Province.

Figure 5.1 Tourist Arrivals in Boracay Island



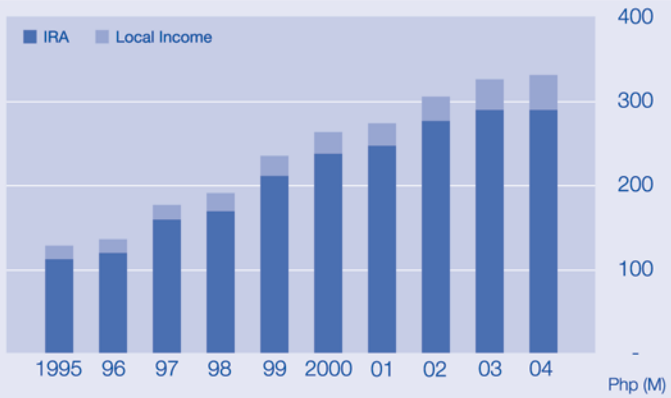
SOURCE: Tourism Information Office, Province of Aklan

Financial Profile (1995-2004): An Overview

The Province had experienced tremendous growth in both income and expenditures during the past 10 years. From Php 127,325,331 in 1995, total income increased to Php 329,073,880 in 2004, representing more than 150 percent increase. Annual average increase in income during the period was 11.9 percent. Increases were noted in both national subsidy and locally generated income. Aklan's total income is derived primarily from national government subsidy, specifically, the Internal Revenue Allotment (IRA), and locally generated sources from tax and non-tax revenues.

The Province had been highly dependent financially on the national government. During the past ten years, annual average share of the IRA in total income was 87 percent. The progressive increase in local Provincial income from 1995 to 2004 was directly attributable to the increasing annual allotment for the Province from this internal revenue source. From Php 112,283,491 in 1995, the IRA rose to almost double, Php 210,832,582 in 1999, and rose further to Php 288,660,580 in 2004 (Figure 5.2). Income from locally generated source, however, also started to increase progressively starting in 1997. Its contribution to the total income of the Province has also been increasing vis-à-vis the IRA.

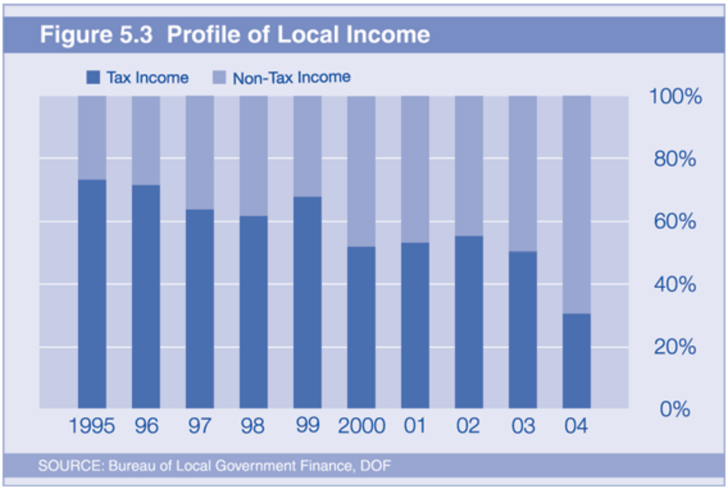
Figure 5.2 Profile of Total Income



SOURCE: Bureau of Local Government Finance, DOF

From Php 15,041,840 in 1995, it increased nearly three times over a ten-year period, to Php 40,413,300 in 2004. This meant an average annual growth rate of 10.69 percent. Taxation had been, traditionally, the main source of local income for the Province. From 1995 to 1999, tax revenues accounted for 62 to 72 percent of local income, while non-tax income constituted only from 27 to 32 percent of total income. Tax revenues were derived primarily from Real Property and Business Taxes, while fees, charges, and economic enterprises were the source of non tax revenues.

The scenario changed starting in 2000 when tax revenues begun declining. Non-tax revenues, on the other hand, started increasing at an annual average rate of 21 percent starting in the same year. The share of non-tax income in total income, vis-à-vis the tax revenues increased consistently from 2000 to 2004. In 1999, non-tax revenues earned Php 7,499,761 for the province, while taxes raised Php 16,053,838. In 2004, non-tax income increased to Php 28,098,280, while tax revenues amounted to only Php 12,315,020 (Figure 5.3). A large portion of the non-tax revenues came from new sources like passenger and cargo terminal fees and rolling cargo fees that were generated from the partial operation of the new jetty port and passenger terminal. In 2004, tax income comprised only 30 percent of local income, and non-tax revenues, particularly passenger terminal fees, emerged as the highest income earner for the Province, providing 70 percent of income from locally generated sources. Non-tax revenues had established itself as the new top income grosser for the Province, over taxation, the traditional biggest income source. Undoubtedly, the operation of the transportation infrastructure projects funded from bond flotation had brought about this reversal in local income source.



Expenditures during the period from 1995 to the present essentially followed the same pattern of growth of income (Table 5.1). Health, nutrition, economic and social services, and general government comprised 90 percent of expenditures, leaving a very little percentage for capital outlay to fund development projects. The gains in increased income from 2003 and 2004, however, have been offset by higher expenditures in health programs. This was due to the expanded immunization and nutrition program and the series of medical missions for indigent patients, the budget for which increased by 31 percent over the previous year.

Table 5.1. Income and Expenditures

Year	Income	Expenditures	Surplus/Deficit
1995	127,325,331	129,163,129	-1,837,798
1996	135,829,748	133,045,473	2,784,275
1997	201,589,114	187,178,630	14,410,484
1998	189,470,888	180,714,489	8,756,399
1999	234,386,182	213,906,933	20,479,249
2000	292,524,778	289,180,839	3,343,940
2001	273,385,930	270,751,170	2,634,760
2002	304,106,290	279,432,300	24,673,990
2003	323,980,220	331,521,770	-7,541,550
2004	329,073,880	340,561,920	-11,488,040

In Philippine Peso (Php)

SOURCE: Bureau of Local Government Finance, DOF

Tourism Infrastructure for Resource Generation

Officials of Aklan have long realized that while tourism was its dominant industry, the Province had derived only peripheral financial benefits from it. The Municipality of Malay, which, by accident of geography, has Boracay Island in its territory, enjoyed much of the tourists' money which elevated it from a barangay into an independent municipality. In the meantime, Aklan, has remained a 3rd class Province, receiving trickles of economic benefits from Boracay's tourist income.

In 1995, the newly-elected young Governor of Aklan, Florencio T. Miraflores, thought it was time for the Province to actively promote the tourism industry for the LGU's benefit. He was convinced that tourism was the proverbial goose that will lay the golden eggs for the Province, and that it was time for tourism in Boracay which had not realized its full potential, to help propel Aklan's economy. The Sangguniang Panlalawigan shared this view. The development of Boracay was, therefore, adopted as one of the priority programs under the Provincial Development Plan, and a major item in the Provincial Priority Investment Plan approved by the local legislative body. Focus of the Development Program was the transportation infrastructure, specifically the development of alternative world-class facilities to replace the existing antiquated system.

It was inevitable for visitors to Boracay, except those coming by small boats via the Tablas Straits in Romblon, to pass by Caticlan, to reach the island. The most popular routes for tourists would, of course, be Manila by air or sea to Kalibo or Iloilo, and, from there, by land to Caticlan. The roads from both points to Caticlan are excellent. From Caticlan, a fifteen-minute ride by pump boats and outriggers will bring the tourists to Boracay's beaches. During *habagat*, the southwest monsoon season (May to September), the short ride could be hazardous due to the large waves and turbulent sea. Embarking and disembarking from these boats and outriggers at the old makeshift ports in Caticlan and Boracay could also be very risky, if not impossible, during this period, in the absence of appropriate landing and docking facilities. It is not surprising then, that during this season, tourist arrivals decline to less than half the number during the northeast monsoon season or *amihan*, which covers the other half of the year.

Moreover, there were no appropriate terminals and landing stations in either Caticlan or Boracay, making passenger traffic between these two ports chaotic, and, the security problem, serious. Entry and exit to Boracay from Caticlan was being managed by a cooperative of outrigger and pump boat owners. Passengers had to contend with enterprising and competing pump boat and outrigger operators for the cost of the short ride from Caticlan to Boracay and back. Moreover, the pump boat owners berth wherever they pleased in Boracay, and even encroached on the beach area designated for swimming and water-skiing. At least two fatal accidents between water skiers and pump boats had already been reported in recent years.

By addressing this intractable transportation infrastructure problem, the Provincial Governor was certain that more tourists will visit the Island throughout the year. But passenger traffic should be streamlined and orderly, and a *One Entry, One Exit* policy should be implemented. To address this perennial transportation problem, it was imperative to construct a new all-weather jetty port, and a comfortable and efficient passenger terminal building in Caticlan, as well as smaller docking stations and terminal buildings in Sitio Tambisaan and Barangay Manok-manok on Boracay Island. These facilities, he believed, should be tourist friendly and benchmarked with similar facilities in other countries.

The infrastructure Project envisioned the Caticlan jetty port to have 10 docking stations capable of accommodating larger vessels coming directly from whatever port in the country and later, even from overseas. The terminal building, on the other hand, will offer a wide range of amenities and services to visitors, including waiting lounges, ticketing booths, tourist information and assistance desks, airline, resort and bank offices, and cargo and luggage areas, much like those found in airport and seaport passenger terminals in developed countries. There will also be commercial stalls, restaurants and shops and a local crafts display center in the terminal.

The Process

Marketing the Project

In May 1996, the Department of Tourism reported that tourist arrivals for the first five months of the year had already exceeded the projection for the whole year. It considered this as an indicator of higher growth rate of tourism in the coming years. It decided it was time to fast track the development of the Island in anticipation of large numbers that usually come in the latter half of the year. It created, for the purpose, the Aklan Provincial Tourism Special Task Force or simply Task Force Boracay. The Task Force identified as priority projects potable water supply and solid waste management which, in recent years, have been concerns raised by environmentalists. The Governor brought up to the Task Force his proposal for a jetty port and terminal building, adding that the total development of the Island can be realized, only if the persistent problems of air, seaport, and passenger transportation facilities were addressed. In the case of air travel, he had earlier written the President of the Philippines about upgrading the airport in Kalibo, and even the smaller airstrip in Caticlan which serves essentially the foreign tourists. The jetty port and the passenger terminal project would be undertaken by the Provincial Government.

With the Task Force Boracay having pledged support to the prioritization of the Project, the Governor and members of the Sangguniang Panlalawigan began campaigning for the support of the local business and community leaders, as well as the national government agencies, for the Project. They cited the direct impact of these infrastructures in further promoting tourism and its multiplier effect on the local economy. Provincial officials explained that the proposed Caticlan Jetty Port and Passenger Terminal Project will encourage more tourist arrivals which will eventually trigger more demand for goods and services, thus, leading to more business and employment opportunities. This will translate to more income for the LGU in the form of taxes and fees. Real property values will rise and real property tax collections will increase. These added revenues will enable the Provincial government to pursue aggressively other development projects. For the people of Aklan, the Project will provide more opportunities for employment and income.

The above marketing strategy was generally well received by all sectors of the community. The only resistance came from outrigger and pump boat owners. For decades, this group had dominated the transportation system to and from the Island. They expressed serious concern about the bigger and modern vessels that may come and displace their source of livelihood. It took some time, and many dialogues between the Provincial officials and this group, for the Project to gain their acceptance. The Governor's spiel that *"Boracay will never be world-class if we insist on the banca"* appeared to have finally been understood in its proper context. The boat and outrigger owners withdrew their objections after being reassured that they could operate exclusively in certain areas in Caticlan and Boracay. The Municipality of Malay adopted a resolution supporting the construction of the infrastructure project.

Financing the Project: Options

With the community giving full support to the Project, the Provincial officials now had to face the inevitable issue of sourcing of funds for its implementation. It was clear from the beginning that the resources of the Province can not support the Project. The Project package was estimated to cost Php 100 million, with Php 40 million for the Caticlan jetty port and passenger terminal project, and Php 60 million for the smaller passenger terminal and seaports in Sitios Tambisaan and Cagban in Boracay Island.

From the time the Project was being conceptualized, the Governor was fully convinced that bond flotation was the ideal financing option. He was part of a study tour group organized by the Local Government Support Program (LGSP), and, in their visit to Canada, he was impressed by the initiatives of LGUs in that country in implementing their development programs, largely by floating municipal bonds. He had made serious inquiries on how the system worked, thinking of its possible application in the Philippines. The Governor was personally convinced that bond flotation will be successful and that the Project will be viable, being essentially income-generating. He also believed that the largely untapped tourist industry will, itself, ensure the sustainability of the Project. However, he was concerned that the implementation cost of the infrastructure project and the debt service burden might take a heavy toll on the financial resources of the Province. The Provincial officials, therefore, met to explore other alternative options and/or complementary funding schemes. Among these were:

1. ***Bond float with financial assistance from the Department of Tourism (DOT).*** The proposal was for the proceeds of bond flotation to apply to the Caticlan Jetty Port and Passenger Terminal in Boracay, and for DOT funds to develop the Tambisaan and Cagban seaports. For lack of funds, however, the DOT rejected the request for financial assistance and suggested that the Province apply for a loan facility from the Development Bank of the Philippines;

2. ***Loan facility window from the Development Bank of the Philippines (DBP).*** This was not pursued for the following reasons: (a) the Project did not fall within the category of small and medium scale enterprises for which the loan facility window was open; (b) the amount proposed exceeded the Php 45 million limit for loans under the window; (c) the bank required a 25 percent equity which the Province could not put up; and (d) interest rate for such loan was found to be not substantially different from existing commercial lending rates;

3. ***Straight loan with commercial banks.*** The group rejected this option because the average lending rate at that time of l6.2 to l8 percent was deemed too prohibitive. Furthermore, the Governor and the Sangguniang Panlalawigan did not want to bind the Province to a fixed high interest rate for a specific period of time, since this could adversely affect expenditures for social services. They were also discouraged from taking this option after being advised that interest rates would likely decline in the following years, and, therefore, it did not seem wise to take out a loan at the time.; and

4. ***Build Operate and Transfer (BOT) and its variants.*** This option was immediately found attractive because it entailed no upfront cost to the government. Under this arrangement, a private investor group will construct the facilities, operate, and maintain it for a given number of years, after which, it will turn over the facilities to the Province. Exploratory talks with prospective investors, however, yielded no takers from the groups that would have the capability to do the undertaking. Their reluctance had been due to their unfamiliarity with the operations of the local governments and the fact that BOT, being a new a concept in the country, procedures for its undertaking still remain to be clearly provided. They also entertained doubt about the viability of the Project, in the light of the prevailing financial crisis.

Given these developments, the Governor and the Sangguniang Panlalawigan realized that bond flotation was the best option to take. It was decided, however, to limit the amount of the bonds to Php 40 million, primarily because the obligations under this smaller float will be within the capacity of the Provincial government to absorb, without affecting the delivery of basic services. The Governor's strategy was to float a smaller amount of bonds which will make it easier to sell. Once the bonds passed the market test, it will be relatively easy to sell bigger amounts of bonds for other development projects of the Province in the future.

A bond is a written promise by the issuer to repay its financial obligations in a specified principal amount at a fixed time in the future, together with a series of periodic interest payments during its life. When an LGU issues bonds, the buyers of the bonds or the bondholders become investors in the LGU project. They will get back their invested money with interest upon maturity of the bond.[1]

Due to the reduction in the amount of the bonds to be floated, it was also decided that the proposed transportation infrastructure Project be refocused on the passenger terminal and the reclamation works in the port in Caticlan. The terminal and sea ports in Cagban and Tambisaan and the other complementary projects on the Boracay side were to be funded from other sources. The Department of Transportation and Communications (DOTC) responded and provided a Php 50 million assistance to complete the remaining components of the transportation infrastructure Project.

In May 1996, Aklan passed an ordinance authorizing the Provincial Executive "to enter into negotiations towards the possibility of effecting self-liquidating, income-producing development, or livelihood projects, to be financed through bonds, debentures, securities, collaterals, notes or other obligations, as provided in the Local Government Code"[2]. The following month, in June, it passed another ordinance "prioritizing among other projects "the improvement and construction of jetty port facilities serving the maritime transportation needs between Caticlan, Malay, Aklan and the Island of Boracay, and vice versa, including a passenger terminal"[3]. The June Ordinance provided that, for lack of available funds, the Project should be prioritized for funding from such bonds, debentures, collaterals, and notes.

Securing the Services of a Financial Adviser

To help in the preparation for the bond float, the Province secured the services of a Financial Adviser. The Adviser was tasked to conduct a feasibility study of the proposal, specifically, to evaluate the historical, political, managerial and financial status of the Province and the validity of financial, technical and operational viability of the Project, and determine the financial capacity of the LGU to meet and secure the requirements. Based on the foregoing, the Adviser was to propose a financial package.

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[1] Municipal Bonds: A Manual, prepared by the Financial Executives of the Philippines (FINEX), the US Agency for International Development (USAID), and the Multinational Investment Bancorporation (MIB) in June 2000.
[2] SP Ordinance No. 96-121
[3] SP Ordinance No. 96-150

The Financial Adviser, after completing the appropriate studies, came out with the following conclusions:

1. The Province was in a sound financial position and has the financial capability to pursue the Project.

2. The transportation infrastructure Project was highly and unquestionably viable.

3. The projected income and cash flow was very favorable and the Project will be able to support the debt service obligations and still end up with a positive cash balance by Year 7, the proposed term of the bond. The bulk of revenues will come from passenger terminal fees, cargo, and stall rentals, and lease of docking rights. Passenger fee is projected to account for 86 percent of the income. A net income of Php 69.2 million was projected from operations in the seven year period.

The income projections of the Financial Adviser were based largely on its seven year projection of tourist arrivals.

The Financial Adviser also assisted the Province in designing the features and implementing strategies for the bond float, and in negotiating with trustee banks, concerned government agencies and instrumentalities, relative to the float.

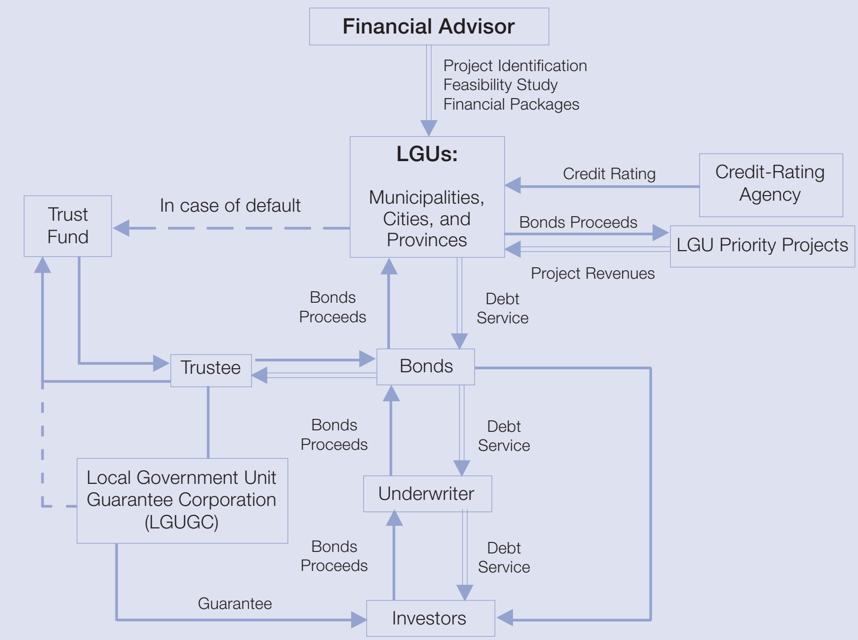
On April 8, 1997, the Sangguniang Panlalawigan passed an ordinance approving the bond float.[4] The Ordinance also gave the Governor broad powers to pursue all the activities relative to its execution. Specifically, the Governor was authorized to represent the Province in various activities required for implementing the bond flotation, and to negotiate and enter into contracts with any investor or licensed underwriter. The Sanggunian also approved and appointed the Land Bank of the Philippines (LBP) to act as its trustee and fiscal agent, and, likewise, approved the contract between the Province and the Financial Adviser for the bond. The Sangguniang Panlalawigan also established the terms and conditions for the bond float.

Subsequently, another Provincial Ordinance authorized the appropriation of a certain percentage or a portion of the Internal Revenue Allotment and the share of the Province from the gross revenue collection of the National Government for the guarantee of redemption or payment of the forty million pesos (Php 40 million) Boracay-Aklan Provincial Bonds (BAPB).[5] The amount shall be treated as "Sinking Fund" to be used for the redemption of the bonds when they mature. It also authorized the Governor to make arrangements for the assignment of a portion of the collections

[4]SP Ordinance No. 97-10
[5]SP Ordinance No. 97-11

from the share of Province in the IRA from the Department of Budget and Management (DBM) to the Trustee Bank, the Land Bank of the Philippines. A subsequent ordinance authorized the appropriation of an amount from the Provincial budget as the contribution of the Province to the Sinking Fund for that year and the succeeding years, to secure payment of obligations for the bond float "until such time that all obligations under the Trust Indenture with the Land Bank of the Philippines was fully paid and satisfied." Figure 5.4 provides the institutional framework for bond issuance.

Figure 5.4. Bond Issuance Institutional Framework



SOURCE: Asian Development Bank, Local Government Finance and Bond Markets, Manila ADB, 2003

Trust Agreement

Armed with the authority given by the Sanggunian, the Governor started negotiations with the Land Bank. A Trust Indenture was executed between the Province and LBP on May 23, 1997. As Trustee, Land Bank-Trust Banking Group assumed the following responsibilities:

1. To handle custody of the Trust Fund, which was composed of the proceeds from the sale of bonds, revenues from the Project, the Sinking Fund, guarantee payments, and fund remittance by the Province, which may be used for project development and servicing of the bonds;

2. To keep custody of all documents relating to the BAPB, including its certificates of ownership of titles of properties;

3. To maintain a registry of bond holders and act as paying agent to handle the scheduled payments of the interests and principals to the bond holders;

4. To have accountability for ensuring that all revenues from the Project shall be part of the Trust and deposited in a trust sub-account separate from the account, wherein the proceeds from the sale of the bonds were deposited, and that the Trust Fund representing the revenues generated shall be transferred to the Sinking Fund;

5. To make appropriate releases of the Trust Fund as payment to contractors, subcontractors and suppliers for the jetty port and passenger terminal; and

6. To deliver and remit for deposit in the Sinking Fund the amount of Php 5,657,500 semi-annually, or Php 11,315,000 annually, for seven years. This amount represented the Provincial contribution to the Sinking Fund.

A Deed of Assignment of Deposits of Internal Revenue Allotment (IRA) was signed by the partners, the Province, and the Trustee Bank. The Province then appointed the Land Bank of the Philippines-Kalibo Branch as exclusive depository, to which the periodic IRA releases due the Province, will be remitted by the Department of Budget and Management (DBM). The Province then informed the DBM of such appointment and requested the remittance of said IRA to the depository bank. It also authorized the DBM to withhold the Province's IRA according to the terms of the Trust Indenture, and to certify that the amount to be withheld did not exceed 20 percent of the Province's regular income, as required by the Local Government Code.

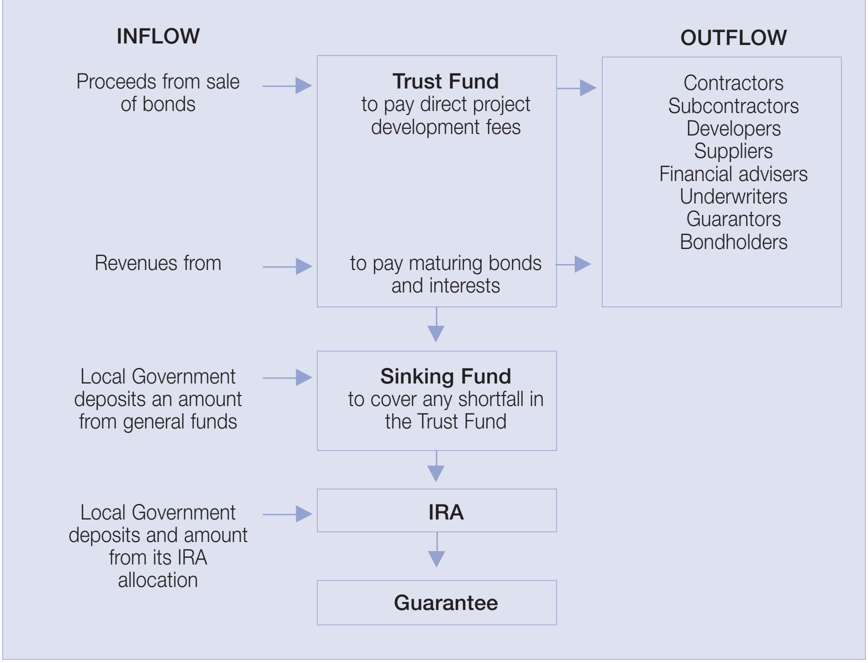
The following process flow describes the financial structure to support the bond issuance (Figure 5.5).[6]

Clearances from Regulatory Agencies

Bond flotation requires clearances from regulatory agencies, like the Securities and Exchange Commission (SEC) and the Monetary Board of Bangko Sentral ng Pilipinas (BSP). The Securities and Exchange Commission Regulation Code provides that all forms of securities, including bonds, may not be sold or offered for sale, or distributed to the public, without registering such security with the Commission. Although local governments are exempted from this regulation, an express exemption from the SEC

[6] The process flow was derived from a paper presented in the workshop "Establishing the Operating Framework and Monitoring Mechanisms for LGU Bond Issuances" on July 11, 2000.

Figure 5.5. Financial Structure to Support Bonds Issuance



is required. Likewise, favorable opinion was to be secured from the Monetary Board of the Bangko Sentral ng Pilipinas, to ascertain that the issuance of the Province's proposed bonds will not affect the country's monetary aggregates, the price levels and the balance of payments. The Provincial Governor also requested the Insurance Commission to endorse the bonds as eligible for the reserve investment of insurance companies. These clearances were granted in the middle of 1997.

In January 1998, the only remaining document needed by the Land Bank before floating the bonds was the Foreshore Lease Agreement (FLA). The FLA was crucial for the issuance by the Department of Environment and Natural Resources (DENR) of the Environmental Clearance Certificate (ECC) needed to start construction of the Caticlan jetty port and passenger terminal. An application had been filed with the Provincial Environment and Natural Resources Office (PENRO) in November 1997, and approval was being awaited. A provisional FLA was issued in March 1998.

LGUGC Guarantee

By June 1998, the BAPB certificates had been printed by the Philippine Clearing House. The financial crisis persisted, however, and there were strong indications from the capital market that investors would prefer short-term over long-term investments. The seven-year maturity period for the bonds was deemed long term, since earlier bonds, including the National Government's retail treasury bonds, had been termed for only five years. Faced with this predicament, the Financial Adviser proposed to the Province three options to ensure the successful sale of the bonds, namely: (1) sale of bonds by phases; by floating initially Php 16 million worth of bonds to provide start-up money for the construction of the jetty port, with the remaining Php 24 million to be sold a year later; (2) retain the seven year term but offer a buyback in 2-3 years; and (3) secure a guarantee cover for the bonds to enhance their marketability. The Financial Adviser recommended that the Province secure such guarantee cover from the Local Government Units Guarantee Corporation (LGUGC). The LGUGC, had, at that time, been recently established by members of the Bankers Association and the Development Bank of the Philippines to help local governments in their financing needs.

Table 5.2. Features of the Boracay-Aklan Provincial Bonds (BAPB)

Bond Offer	Php 40,000,000.00 worth of Provincial Bonds called Boracay-Aklan Provincial Bonds (BAPB) sold and offered at a price equivalent to 100 percent of its face value
Purpose	To provide developmental funds for the improvement and construction of Phase I of the Jetty Port facilities, serving the maritime transportation needs between Barangay Caticlan, Malay, Aklan, and Boracay Island, and vice versa, likewise, including a passenger terminal
Term	7-year maturity
Yield	3.0 percent p.a. + average 182-day T-bill rate of the latest auction conducted by the Bangko Sentral ng Pilipinas, immediately preceding the maturity of the Issue Date
Lots / Denominations	Php 1,000, Php 10,000, Php 100,000, Php 1,000,000
Medium of Sale	Public Offering; Private Placement; As direct payments to suppliers, contractors or project developers and proponents of the Project
Interest	Semi-annual floating interest rate
Principal	Balloon Payment
Source of Repayment	Proceeds from revenues of the Project, Project improvement and facilities funded by and proceeds of the Project, and certain percentage of the Internal Revenue Allotment
Sinking Fund	Pursuant to the Trust Indenture, the Province maintains a Sinking Fund to ensure the payment of the BAPB upon maturity
Guarantee / Source of Repayment	The scheduled payment of the principal and interest of the BAPB is directly secured 100 percent by the LGUGC
Security	The BAPB is guaranteed by LGUGC for the punctual payment of interest due on the Bonds on interest payment maturity dates, including repayment of principal thereof, and amounts due under the Trust Indenture for debt service obligations. Coverage is from the Issue Date, up to the date of final redemption of the Bonds
Taxes	Interest income will be subject to 20 percent final withholding tax or at such rate that may be provided by law for the account of the Bondholder (RCBC)

SOURCE: Sangguniang Panlalawigan Ordinance No. 97-10 (April 8,1997)

The Province chose the third option. It requested and was granted a guarantee cover for the bonds by the LGUGC, and a Guarantee Agreement was executed between the Province of Aklan, the Trustee Bank (LBP) and the LGUGC on June 30, 1999.

Appointing an Underwriter

Subsequently, an Underwriter was appointed by the Province for the bond float. Under the terms of the Underwriting Agreement, the Underwriter will buy the bonds, and/or negotiate for the sale of the bonds to individuals, corporations or institutional investors, government or private. Smaller denomination bonds of Php 1,000 and Php 10,000 had been appropriated for local citizens to participate in the bond offer.

The Province was now ready to float the bonds. On June 30, 1999, the Province of Aklan issued an Official Statement on the Boracay-Aklan Provincial Bonds (BAPB).

The bond float successfully raised for the Province Php 40 million for its favorite project.

The Jetty Port and Passenger Terminal

Given the needed support funds, the reclamation work on the jetty port and the basic structure of the passenger terminal were completed on January 1, 2001. Some work remained to be done on both structures, however, namely, elevation of the retaining wall on the port, construction of the connecting boardwalk and parking lot, and, internal refurbishing of the stalls and offices on the terminal building. Preparations for the public bidding for concessionaires were to be undertaken, contracts prepared, and the organization and staffing for the management of the facilities, were still to be done. In the meantime, two fulltime officials and a few casual employees of the Provincial government were assigned to the management and operations of the facilities. Partial operation of the jetty started in June 2001, and the passenger terminal partially opened its door to the public in June 2003, while aforementioned construction activities were still on-going. The facilities will be fully operational in October 2005.

Financial Performance vs. Projections

Considering that the twin facilities are still in partial operation mode, a comparison of financial performance against projections will be untenable at this stage. However, incomes realized from these partial operations are impressive.

The first six months of operation yielded, in 2003, an income of Php 2,495,459. This increased by more than 500 percent, to Php 11,320,099, for the whole year of 2004. In the first eight months of 2005, collections already reached Php 12,932,700. This puts its monthly average income at Php 1,616,587. Projected by yearend, the income will compare with the projections for the Year 4 full operations of these facilities. Moreover, this data on collection level for the past three years are, at best, an understatement, for the following reasons;

1. Of the intended Php 40 per head passenger terminal fee, only half (Php 20) per head was collected during the period, the reason being that the Cagban and Tambisaan terminal and seaports on the Boracay side were not yet completed. Upon their completion in October 2005, the full rate for terminal fees will be collected. The foregone income from this discounted Passenger Terminal Fee, however, is more than made up for by the increased number of tourists that swelled beyond the projections for the past three years.

2. Only income so far been derived from stall rentals and stall rights are partial, as some units were still unoccupied, and the others that have already been bidded, remains to be completed.

3. Other projected income sources, like advertising, lease of docking stations, etc. are yet to be realized.

Table 5.3. Cash Flow Projections from Project Operations

Inflow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Sale of Rights (Stalls)	5,928,000	-	-	-	-	-	-	5,928,000
Monthly Rent (Stalls)	-	1,311,600	1,442,760	1,587,036	1,745,740	1,920,314	2,112,345	10,119,795
Terminal Fee (Passenger)	4,106,818	10,951,665	12,763,809	14,901,692	17,429,106	20,423,346	23,978,256	104,554,692
Terminal Fee (Cargo)	739,399	1,720,616	2,005,322	2,341,205	2,738,287	3,208,712	3,767,224	16,520,765
Berthing Fee	-	594,000	653,400	718,740	790,614	869,675	956,643	4,583,072
Sale of Rights (Docking Stations)	125,000	-	-	-	-	-	-	125,000
Monthly Rent (Docking Stations)	-	120,000	132,000	145,200	159,720	175,692	193,261	925,873
TOTAL	10,899,217	14,697,881	16,997,291	19,693,873	22,863,467	26,597,739	31,007,729	142,757,197
Outflow								
Personal Services	696,000	1,583,400	1,662,570	1,745,699	1,832,983	1,924,633	2,020,864	11,466,149
Maintenance & Other Operating Costs	69,600	475,020	498,771	523,710	549,895	577,390	606,259	3,300,645
TOTAL	**765,600**	**2,058,420**	**2,161,341**	**2,269,409**	**2,382,878**	**2,502,023**	**2,627,123**	**14,766,794**

In Philippine Peso (Php)

SOURCE: Province of Aklan

As projected, passenger terminal fees proved to be the biggest income earner, even if the terminal charges, as earlier explained, was discounted by half. Cargo fees and monthly stall rentals, which were expected to bring in 11.5 percent and 7 percent, respectively, of income, turned out to exceed these figures. Rolling cargo fees and cargo terminal fees unexpectedly contributed roughly 36 percent of total income for 2005. Stall space rentals contributed, so far, only 3.3 percent to income from project operations.

The sudden and unanticipated flow of income from rolling cargo fees and cargo terminal fees can be attributed to the opening of the Philippine Nautical Highway, which Roll-On Roll-off (RORO) operations has made Caticlan the center of RORO operations between Manila and the Western Visayas. While income from these operations were not part of the feasibility study to support the Project, an argument can be made that if the jetty port and passenger terminal were not constructed, the RORO operations for the region would have been shifted to other ports.

Impact on Provincial Income

Collections from the Project started to impact positively on the finances of the Province from the start of partial operations of the facilities. From an income of Php 23,553,600 in 1999, total provincial income increased to Php 35,359,910 in 2003. In 2004, it rose further to Php 40,413,300. This represents an increase of 62 percent from the 1995 level; 41 percent from that of 1999, and 12 percent over the 2003 income from locally generated sources. In 1999, local income accounted for only 10 percent of total income of the Province. This share increased to 12 percent in 2004. This increase in income has improved the share of local income vis-à-vis the subsidy from the National Government.

This robust financial picture from the partial operation of the jetty port as passenger terminal is expected to continue and improve further in the coming years, as tourist arrivals have decidedly gone on an upward trend. The operation of the new world-class facilities is expected to give an added attraction for tourists to visit Boracay. The fees and charges from RORO operations are, likewise, expected to increase, on account of the growing popularity of the RORO as a means of transport for both passengers and cargo.

Table 5.4. Project Revenues

Source of Income	Actual Status		
	2003 (6 mos)	*2004*	*2005 (8 mos)*
Commercial Space Rental	-	-	285,781
Sale of Lease Rights	-	-	145,833
Docking Stations Rental	-	-	149,393
Docking Stations Lease Rights		no lease rights yet	
Berthing Income	-	-	24,150
Passenger Terminal Fee	-	-	7,524,013
Cargo Terminal Fee	-	-	472,242
Rolling Cargo Fee	-	-	4,162,188
Advertising Fee	-	-	169,100
TOTAL	**2,495,459**	**11,320,099**	**12,932,700**

In Philippine Peso (Php)

SOURCE: Office of the Provincial Accountant, Province of Aklan

Summary

The bond flotation for the BABP was conceptualized and implemented at a time when the Philippines, like the rest of Asia, was in the midst of a financial crisis. A more auspicious time had to be planned for the issuance of the bond, and a guarantee cover was necessary to render the bonds marketable. These, notwithstanding, many institutional investors were reluctant to lock in their cash for seven years, and small investors who were targeted for the lower-denominated bonds shied away from the offering, preferring to put their hard-earned cash in savings bank. It was to the credit of the Governor and the Sangguniang Panlalawigan that they boldly and tenaciously persisted in pursuing a financing source that was nascent in the local government sector. Their perceptiveness in identifying tourism as the centerpiece of their program, with transportation infrastructure as the focus, had been remarkable. Indeed, the infrastructure problem had been there since the time tourists started their trek to the Island paradise. It had to take a lot of political will and the massive support of stakeholders to finally grapple with the perennial problem. The Provincial leadership did not hesitate to exercise its option, nor blink, in the face of initial resistance. The assumption to office of a new governor, Gov. Carlito Marquez, who shared the vision of the former governor, gave the Project a greater boost towards successful completion.

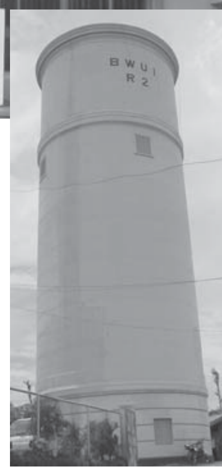
The past 34 months of partial operations of the jetty port and passenger terminal had more than vindicated the Project advocates. The resources generated had exceeded expectations. The Provincial leadership had also correctly read the situation of the tourism industry as one with limitless possibilities, and, this is a built-in insurance for the sustainability of the Project.

There have been other unintended positive consequences of their intrepid initiative. For one, the Province had unshackled itself from the traditional mindset that taxation is the only major source of income for the local government—which could be instructive to other LGUs. Second, and perhaps as important, the innovation had a transforming effect on the social values of the people of Aklan. It might be said that this started with the pump boat operators who initially resisted the Project, but eventually accepted it, realizing the inevitability of change, and seeing in it an opportunity for improving their lives, which the status quo could not provide.

The jetty port and the passenger terminal now stand as a source of pride to the Aklanons. To ensure sustainability, the Province is setting it up as economic enterprises, and currently establishing their organization and staff. The ascent of Aklan to a higher provincial class, as a direct result of its pioneering spirit, is not far-fetched.

PRIVATIZATION OF POWER & WATER UTILITIES

THE JOINT VENTURE PROJECT OF THE PROVINCE OF BOHOL



The Province of Bohol is a pioneer among local government units (LGUs) in the business of operating and maintaining water and power utilities. The Provincial Waterworks System (PWS) and the Provincial Electric System (PES) which served Tagbilaran City and a few nearby towns, have been managed by the Province since the mid-1920s.

The Province again broke new ground on December 28, 2000, when it entered into a joint venture with the private sector for the rehabilitation of these facilities, and the expansion of their coverage areas under a rehabilitate-own-and-operate (ROO) arrangement. This is the first major initiative of cooperation between an LGU and private investors.

QUICK FACTS	
LOCATION	Central Visayas (Region VII)
LAND AREA	4,117.26 km^2
POPULATION	1,137,268
POPULATION DENSITY	276 /km^2
MAJOR INDUSTRY	AGRICULTURE

VISION

Bohol is a prime eco-cultural tourism destination and a strong agro-industrial province with an empowered and self-reliant people who are God-loving, law- abiding, proud of their cultural heritage and committed to the growth and protection of the environment

MISSION

To create effective and efficient policies and structures; adopt appropriate technologies and participatory processes; ensure and safeguard the balanced and sustainable development of the Province; advance the economic, social and cultural well-being of the Boholanos; and spearhead the growth and sustain the competitive edge of Bohol's prime industries

Joint venture through ROO is a form of Private Sector Participation (PSP). A variant of the Build, Operate, and Transfer (BOT) scheme, a joint venture agreement is a contractual agreement entered into by an LGU or a National Government agency authorizing a private sector entity to finance, construct, operate and maintain a facility and, in the process, to charge user fees, or receive compensation from the government.

The Province of Bohol took advantage of the opportunity to form a partnership with the private sector, in order that adequate and safe water and sufficient and reliable power can be provided to meet present and future demands of the people of Bohol and, at the same time, meet the requirements of a rapidly growing eco-tourism industry. By taking this financing option, the Province effectively transferred to the private sector the huge cost of rehabilitation and expansion, and relieved itself of the annual expenditures for their operations and maintenance. Today, these two utilities operate under new corporate names, the Bohol Water Utilities, Inc. (BWUI) and the Bohol Light Company, Inc. (BLCI).

Profile of the Province

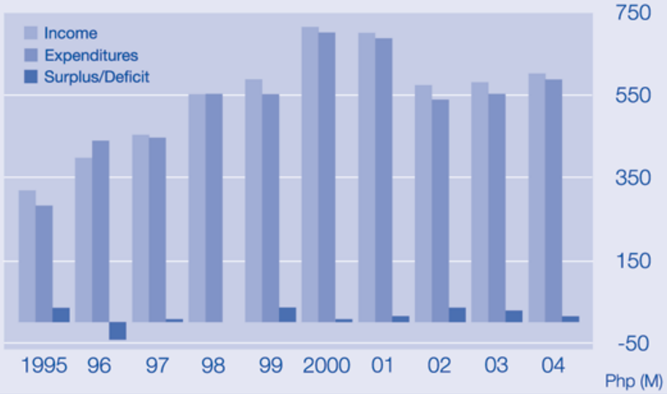
The Island Province of Bohol in Region VII is the 10th largest island in the Philippines. It is composed of the City of Tagbilaran and 47 municipalities, and has a total of 1,109 barangays. Cebu and Leyte, which are on the northwest and northeast portions of the Province, respectively, are its nearest neighbors. Its agricultural economy is now perked up by a fast-growing eco-tourism industry which has, for its main attraction, the famed 1,268 haycock hills popularly known as "Chocolate Hills," the well preserved Baclayon Church, the pristine white sand beaches, and the picturesque marine life in Pamilacan, Panglao Island Tourism Estate, Balicasag, and the world's smallest primate, the Philippine tarsier.

Bohol is derived from the word *Bo-ol*, a place in the Province where the international treaty on peace and unity through a blood compact took place on March 16, 1565 between the native chieftain Datu Sikatuna and the Spanish conquistador Miguel

Lopez de Legaspi. The Boholanos are believed to be descendants of the last group of inhabitants of the country called the *pintados* or the tattooed ones.

Bohol, with an average annual income of close to Php 550 million for the past ten years, is a 1st class Province (see Figure 6.1). The average IRA dependency of the Province for the period 1995-2004 was 69 percent.

Figure 6.1 Income and Expenditures



SOURCE: Bureau of Local Government Finance, DOF

Its annual population growth rate of 2.9 percent from 1995 to 2000 is higher than the national average of 2.4 percent.

The Provincial Waterworks System

The Provincial Waterworks System established in 1924 was granted a franchise to operate by the Public Service Commission in 1932. The franchise allowed the Provincial Government to operate, administer, and maintain a waterworks system for the then Municipality of Tagbilaran and the town of Dauis. In the early years of its operation, the PWS had two wells and two reservoirs, which increased to 22 wells and five storage facilities, serving 11 of the 15 barangays of the City of Tagbilaran, and the poblacion of the Municipality of Dauis. Water in the franchise area was sourced from deep wells, using submersible electric pumps, and distributed from five reservoirs made of concrete and steel. A vast network spanning 50 kilometers of distribution pipes of varied types, like cast iron, cement, galvanized iron and PVC, connects to houses and businesses. In 2000, PWS had 51 regular and 20 casual employees, distributed among the planning and development, engineering, administrative, and operations offices.

PWS served 90 percent of Tagbilaran City (consumers totaled 7,605 households and establishments), while the Tagbilaran City Water System, owned and operated by the City government, covered the remaining 10 percent of the Provincial capital. Some municipalities have their own municipal water systems.

Most of the income of PWS during the late 1990s until 2000 consisted mainly of collections from meter rates (average of 96 percent), penalties, service charges, and other charges. In 1996, the Province took out a loan worth Php 35 million to improve the waterworks system.

Expenditures, on the other hand, were primarily for personal services (PS), the power consumption of pumping units, and interest expense which were booked separately from the maintenance and other operating expense (MOOE). Other expenditures included other MOOE and capital outlay (CO).

The Provincial Electric System

The Provincial Electric System, on the other hand, was established a year after the founding of the PWS in 1930. The Province of Bohol was granted a Certificate of Public Convenience and Necessity (CPCN) by the Public Service Commission in 1931 which allowed the Provincial Government to operate an electric plant in the then Municipality of Tagbilaran. The Certificate was renewed in 1946, for a period of 50 years.

In 1996, when the CPCN expired, the Provincial Government filed an application for franchise with the National Electrification Commission (NEC) and power was purchased from the National Power Corporation (NAPOCOR).

Power in the Province is distributed by three systems, of which the government-owned and managed PES is the biggest. It served the City of Tagbilaran, with 14,958 customers in December 2000; Bohol I Electric Cooperative, Inc. (BOHECO I) covered the northwestern portion of the Province; and Bohol II Electric Cooperative, Inc. (BOHECO II), distributed electricity to the southeastern municipalities.

During the period 1990-2000, PES derived 98 percent of its income from meter rates. Other sources of income were penalties, service charges (for the installation of transformers), and rental of transformers.

On the expenditure side, NAPOCOR's power charges for the electricity used in the utilities accounted for 91 percent of total expenditure, on average, during the same period. The Provincial Government purchased distribution transformers in 1996 and 1997 to ease the system overload, and to service additional consumers.

Provincial Public Utilities Department

For years, these two utilities, operated separately and independently of each other. In March 1986, the PWS and PES were placed under the divisions of the Provincial Public Utilities Department (PPUD) and were supervised by Division Heads from the Provincial Government.

Finances of Bohol: Operation of the PWS and PES

Tax and non-tax revenues are the sources of local income of the Province. Tax revenues include taxes on real property and business. On the other hand, receipts from economic enterprise, fees, charges, and other receipts, comprise non-tax revenues. Receipts from water and power charges are booked as receipts from economic enterprises. During 1995-2000, local source income was increasing. With collections worth Php 116 million in 1995, and Php 267 million in 2000, local source increased by 129 percent in the six-year period (see Table 6.1). The combined income of PWS and PES was the largest contribution to the local source income of Bohol. The share of receipts from economic enterprises in the Province's local source income averaged 83 percent. The average shares of other local source income were: real property tax (6 percent), business tax (1 percent), fees/charges (4 percent), and other receipts (6 percent).

Table 6.1. Profile of Local Source Income, 1995-2000

Year	Real Property Tax	Business Tax	Receipts for Economic Ent.	Fees/ Charges	Other Receipts
1995	7,463,373	1,574,962	94,193,723	97,559	13,058,703
1996	8,322,567	1,569,230	120,597,830	8,521,841	6,173,769
1997	10,335,456	2,038,112	148,674,483	7,155,041	6,004,145
1998	11,482,987	1,782,454	174,298,070	7,136,353	15,154,039
1999	15,862,459	2,002,241	182,346,944	9,901,833	11,216,526
2000	15,943,988	1,489,746	224,971,003	8,309,350	16,120,705

In Philippine Peso (Php)
SOURCE: Bureau of Local Government Finance, DOF

During the period from 1995-2000, the Province's total income increased by 124 percent, from Php 318 million in 1995, to Php 712 million in 2000. It was composed of local source income and IRA. About 60 percent of total income was derived from IRA (see Table 6.2) which increased by 120 percent, from Php 202 million in 1995, to Php 445 million in 2000.

Table 6.2. Profile of Income by Source

Year	Real Property Tax	Business Tax	Receipts from Economic Ent.	Fees/ Charges	Other Receipts	IRA
1995	7,463,373	1,574,962	94,193,723	97,559	13,058,703	202,134,032
1996	8,322,567	1,569,230	120,597,830	8,521,841	6,173,769	217,965,246
1997	10,335,456	2,038,112	148,674,483	7,155,041	6,004,145	280,759,368
1998	11,482,987	1,782,454	174,298,070	7,136,353	15,154,039	301,601,225
1999	15,862,459	2,002,241	182,346,944	9,901,833	11,216,526	367,941,164
2000	15,943,988	1,489,746	224,971,003	8,309,350	16,120,705	445,166,260

In Philippine Peso (Php)
SOURCE: Bureau of Local Government Finance, DOF

Similar to income, the expenditures increased through the years. Expenditures grew 148 percent, from Php 283 million in 1995, to Php 702 million in 2000 (see Table 6.3). Expenditures of the PWS and PES were booked under operation of economic enterprises. During the six-year period, the operation of PWS and PES had the largest budget allocation, comprising, on average, one-third of the total expenditures of the Province. The other items of expenditure were in general public service (18 percent), public welfare and internal safety (22 percent), economic services (14 percent), and other charges (14 percent). Capital outlay constituted 2 percent of the expenditures.

Table 6.3. Expenditures by Category, 1995-2000

Year	General Public Service	Public Welfare & Internal Safety	Economic Services	Operation of Econ Ent	Other Charges	Capital Outlay	Total Expenditures
1995	60,264,946	70,017,581	50,126,423	80,293,021	17,835,721	4,491,185	283,028,877
1996	71,449,411	76,958,462	55,083,446	167,610,902	70,114,865	-	441,217,086
1997	82,183,902	107,349,147	64,856,905	123,445,767	68,971,517	-	446,807,238
1998	88,257,107	114,545,237	76,949,153	146,067,324	79,783,663	46,083,302	551,685,785
1999	93,030,902	125,637,697	78,512,772	154,614,264	99,701,120	317,850	551,814,604
2000	115,225,162	153,104,489	78,570,762	223,677,912	112,856,876	18,467,832	701,903,032

In Philippine Peso (Php)
SOURCE: Bureau of Local Government Finance, DOF

Unreliable Water & Power Supply: The Perennial Problem

The aforementioned problems affecting water and power supply have been a continuing concern of Bohol for many years. When a new Governor, Rene L. Relampagos, took over the helm of the Province in 2001, these basic services were given highest priority in his administration's agenda and he took the initiative to look for a permanent solution to these age-old problems. The Provincial Government created a technical working group (TWG), comprising of staff from the Office of the Governor and the Provincial Planning and Development Office (PPDO), to conduct fact-finding activities, financial assessment, and development planning with regard to the operations of PWS and PES. The Province solicited the technical assistance of the Associates in Rural Development, Inc. (ARD) consultants, through the Governance on Local Democracy (GOLD) Project of the United States Agency for International Development (USAID). ARD consultants provided technical support to the TWG during its study.

The Study had two interrelated phases. Phase I looked into the existing water and electricity situation. The second phase, which started in 1998, looked into the revenue financing options available to the Province. The significant findings of the TWG, presented as the operations and finances of PWS and PES, are described in the succeeding sections.

The Water Sector

Operations. The problems of the PWS operations were (1) salt water intrusion into its aquifers due to over-extraction of fresh groundwater which has compromised its safety for drinking; (2) the Province had been unable to manage properly the watershed which had been steadily degraded because of farming and other activities; and (3) the high systems loss of 66 percent which is above the industry standard of 20 percent. This continuous systems loss has been brought about by excessive pipe leakages, undersized pipes, and a generally poor condition of the piping system.

Until 1993, water supply in the franchise area was only available between four to six hours daily. During the first term of the then Gov. Rene L. Relampagos, the Province spent close to Php 72 million, and increased the water rates by almost 80 percent, in an attempt to improve the condition of the PWS. As a result, since 1997, 90 percent of the franchise area has been enjoying 24 hours of water supply. The 1998 systems demand profile of the PWS indicated that only 51 percent of the maximum daily demand was accounted for, while the remaining 49 percent may have been lost to leakages, delinquency in payments, or illegal connections.

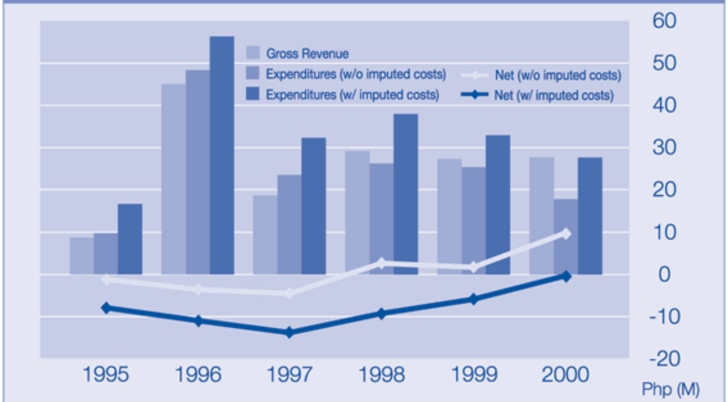
Meanwhile, there was increasing demand for potable water in Tagbilaran City and in the entire Province due to the growing population and the requirements of the

Province's eco-cultural tourism industry and its agro-industrialization program. There was a strong demand for safe water to ensure the health and sanitation of the residents.

Finances. Despite the improvements made on the waterworks systems in 1996 from the proceeds of the loan, the Provincial Government was aware that it could not provide for the growing water supply demand in the coming years, and another major investment would hurt Bohol's finances. The TWG estimated that a capital investment of Php 968.5 million was needed. Two opposing views had been presented regarding the financial state of the water system. While PWS had brought millions into the Province's coffers, the TWG contended that the operation and maintenance of the PWS had been very costly for the Provincial Government, with its imputed costs in the computation.

Figure 6.2 shows the disparity in the income and expenditures statements developed separately by the PWS operations and the estimates made by the TWG.

Figure 6.2 Income and Expenditures of PWS



SOURCE: Financial Statement with Imputed Costs; TWG Report;Financial Statement without Imputed Costs: Provincial Accounting Office

During the period 1995-2000, the PWS Statement of Operations exhibited an average annual gross revenue of almost Php 26 million. On the other hand, the average annual expenditure for the same period was Php 25 million. Thus, the annual surplus averaged almost Php 800,000, and the cumulative surplus for the six-year period was Php 4.8 million.

However, when imputed costs, such as salaries of personnel detailed from other offices whose functions benefit the PWS (e.g. PWS collectors who are under the Provincial Treasurer's Office and Provincial Accounting Office's staff doing record keeping work for the generation of PWS' financial reports), are considered with the other expenditures of the PWS (i.e. PS, MOOE, and CO), the cost of operating and maintaining the PWS turned out much higher than its gross revenues. Imputed costs estimated for PWS during 1995-2000 constituted an average share of 29 percent in the total PWS expenditures, and increased by 49 percent during the six-year period (see Table 6.4).

Table 6.4. PWS Expenditures

Year	Imputed Costs	Other Expenditures	Total Expenditures	*Percentage Share of Imputed Costs inTotal Expenditures*
1995	6,736,653	9,821,992	16,558,645	41
1996	7,597,227	48,407,125	56,004,352	14
1997	9,241,764	23,214,229	32,455,993	28
1998	11,545,830	26,317,897	37,863,727	30
1999	7,774,100	25,082,796	32,856,896	24
2000	10,051,565	17,570,070	27,621,635	36

In Philippine Peso (Php)
SOURCES: TWG Report for Imputed Costs and Provincial Accounting Office for Other Expenditures

While the TWG report showed the same gross revenues as the PWS Statement of Operations, it indicated that the annual expenditures for the period 1995-2000 averaged close to Php 34 million, which was around Php 9 million more than the average annual expenditures stated in the PWS Statement of Operations. Annual subsidies on PWS operations were, in fact, growing.

The budget allocation for the Provincial Government's operation and other social services were, needless to say, affected by the average annual PWS net deficit of Php 8 million, and a cumulative deficit of more than Php 48 million incurred by the PWS during the six-year period.

Furthermore, it was unusual for gross revenues of the PWS to have decreased since 1996, given the rise in consumption level brought about by increase in population and growing number of commercial establishments. The decline in income through the years was caused, not only by the technical problem of excessive leakage of pipes, but also due to delinquencies in payment; and, possibly, the increase in rates which has affected the consumption pattern of customers.

Since 1980s until late 2000, delinquency payments in the PWS reached almost Php 4 million for active connections, and Php 2.7 million for disconnected accounts. The usual bureaucratic system in government-operated utilities has affected the system's overall efficiency. Also, response to system breakdowns has been slow because of the tedious process of procuring the needed parts. For instance, purchase or replacement of parts for the maintenance of the waterworks system could not be made immediately even in emergency situations, without a proper bidding process, which usually takes a long time. The Government procurement policy that requires selection of the lowest and advantageous price often leads to the purchase and use of poor quality spare parts which result in frequent breakdown, causing higher repair costs and longer downtime for these facilities to be put back to operating condition.

The Power Sector

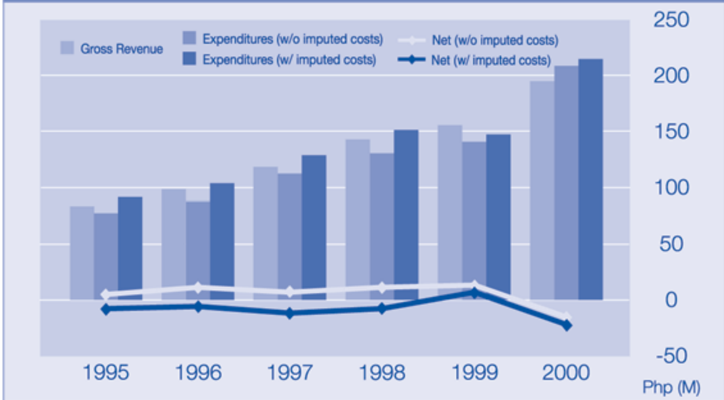
Operations. In the power sector, the technical and operational problems encountered by PES were pretty much like those of the water sector. Systems loss ranged from 17-33 percent during the past five years from 1996 to 2000. Power surges, short-circuiting, and blackouts had become common occurrences due to under voltage and lower power generated. Power supply had been unable to meet regular demand. The maximum demand, based on the 1998 load profile of PES, was around seven o'clock in the evening, at 9.6 megawatts. However, since base load was only 6.7 megawatts or less than the maximum demand, power shortage had become a frequent occurrence. These operational problems were caused by the (1) inadequate and poor condition of distribution lines and substations, which, coupled with overloading, particularly during peak hours, lead to system failures, and (2) the wear and tear of the power system's antiquated equipment and facilities had also contributed to the systems loss and occurrences of brownouts. Systems loss before 1995 was 33 percent, decreased to 20 percent in 1995, and was reduced further to 17 percent in 1999, although the systems loss was still above the industry standard of 10 percent.

These technical problems that have caused both water and power supply shortage and interruptions to the community have already affected business operations and the socio-economic life of the population. Incidents of fire due to lighted candles during blackouts, lower profits due to shortened office and business hours, inoperability of electric-powered equipment and machines, wastage of food and highly perishable items, and damage to electrical appliances due to power surges, have become common complaints.

Finances. The average annual income of PES during the six-year period was more than Php 132 million; however, it was not enough to cover its operation and maintenance costs when imputed costs are included in the computation. Again, figures on income and expenditures prepared by PWS and those of TWG differed significantly.

Figure 6.3 shows the discrepancy in the expenditures based on the estimates made by the TWG.

Figure 6.3 Income and Expenditures of PES



SOURCES: Financial Statement with Imputed Costs; TWG Report;Financial Statement without Imputed Costs: Provincial Accounting Office

In the span of six years, the PES Statement of Operations indicated an average annual expenditure of Php 126.5 million, hence, the annual surplus averaged close to Php 6 million, and the cumulative surplus totaled Php 35.4 million in six years.

Similar to PWS, the TWG reported that the imputed costs of PES (e.g. PES collectors detailed in the Provincial Treasurer's Office and Provincial Accounting Office's staff doing record keeping work for the generation of PES's financial reports), when added to the other expenditures of PES (i.e. PS, MOOE and CO), resulted in expenditures which were much higher than gross revenues of PES. During the period 1995-2000, the share of estimated imputed costs to total PES expenditures averaged 11 percent (see Table 6.5).

Table 6.5. PES Expenditures

Year	Imputed Costs	Other Expenditures	Total Expenditures	*Percentage Share of Imputed Costs to Total Expenditures*
1995	13,755,695	78,305,103	92,060,798	15
1996	15,283,480	88,269,255	103,552,735	15
1997	17,165,950	111,740,045	128,905,995	13
1998	19,586,357	131,514,884	151,101,241	13
1999	7,118,764	140,298,946	147,417,710	5
2000	6,282,156	208,629,255	214,911,411	3

In Philippine Peso (Php)
SOURCES: TWG Report for Imputed Costs and Provincial Accounting Office for Other Expenditures

The annual expenditures of PES, when imputed costs were included, averaged almost Php 140 million, which was around Php 13 million more than the average annual expenditure stated in the PES Statement of Operations. It is possible that the operations of PES may have also affected the budget allocation of the Provincial Government for its operations and other social services, since deficit during 1995-2000 averaged more than Php 7 million, and, in the span of six years, PES had incurred a cumulative deficit of almost Php 44 million.

Furthermore, income lost to delinquent payments from 1980s to late 2000 totaled Php 17.8 million, with Php 12.6 million for active connections, and Php 5.2 million for disconnected accounts.

Confronting the Delinquency Problem

The disturbingly high level of delinquent payers in both utilities may be attributed to the flawed premise of many of the LGU constituents that government has the responsibility to give free services, or at least at subsidized cost. Between 1980 and 2000, delinquent customers of PWS and PES totalled 7,785, and collectibles amounted to Php 24.5 million. Thus, the PWS and PES consumers, in general, expect that they can delay payments, request for extensions for such payments, or consume more power than they can afford. The bureaucratic processes involved in requisitioning replacement or maintenance parts are similar to those earlier described for PWS, i.e. delayed replacement of parts, thus, slowing down response time of the utilities, especially during emergency situations, and the purchase of spare parts and equipment at higher costs and of inferior quality result in frequent breakdowns of operations.

Identifying the Action Required

These operational and technical problems pointed inevitably to just one solution: the rehabilitation and upgrading of both water and power facilities and the expansion of areas of service coverage to serve more consumers and meet the growing demand.

The conclusion was that given the present finances of the Province, no less than capital infusion was necessary to achieve these objectives. Even assuming that TWG estimates on imputed costs were much higher than the figures provided by PWS, the Province will require financial infusion, on top of the cumulative surplus of PWS and PES, since it will still raise funds to defray the huge costs of rehabilitating, upgrading, and expanding of the waterworks and power systems. If this surplus were used for the Province to fund these major improvements, the amount will be a pittance of what is needed, which, in the estimate of the TWG, is Php 212 million, and thus, the delivery of basic services will be greatly affected. Furthermore, the solution will require the introduction of new and superior technology which the Province does not have. For the rehabilitation, upgrading, and expansion to be undertaken, highly specialized expertise was needed, and new technology will have to be introduced, both of which will require additional expenses.

Exploring Various Options: The Process

To arrive at the best course of action to address the issues at hand, the TWG, with ARD assistance, adopted a stepwise approach. The approach consisted of four stages; (1) validation of initial assessment made; (2) tendering of documents; (3) selection and negotiation; and (4) actual transfer.

Validation

This stage involved the further assessment of the operations of the PWS and PES to validate the technical, socio-economic, and financial problems earlier identified. With the concurrence of the Provincial Government, the TWG, along with the technical assistance of the ARD consultants, started the assessments in March 1998. The components of the assessment were:

The financial viability of the Province's water and power utilities was determined in order to identify the rehabilitation, upgrading, and expansion requirements. Aside from the imputed costs on PWS and PES operations estimated by the TWG, which had projected a recurring deficit for both utilities, another financial assessment was made which involved the reappraisal of their fixed assets. The Provincial Government commissioned the Asian Appraisal Co., Inc. to carry out the appraisal of the fixed assets of both the PWS and PES. The findings of the reappraisal of PWS and PES assets enabled the Province to determine with certainty the extent of improvements required to make the two utilities operate efficiently and effectively.

The total value of PWS assets was placed at Php 75.8 million, while those of PES had a total value of Php 59.4 million. The reassessment of PWS and PES confirmed the need for the rehabilitation and upgrading of their facilities and equipment. The antiquated water and power equipments and facilities, like old water pipes and power distribution lines and substations, had become inefficient and more expensive to operate and maintain. Undersized water pipes and aging power distribution lines and substations needed upgrading. On the other hand, the socio-economic concerns relating to PWS and PES, were their inability to provide adequate and safe water supply and reliable and sufficient electricity supply to the community. Both of these concerns pointed to the need to upgrade and expand the facilities to meet the demand of the increasing population and business establishments, as well as the Province's eco-cultural tourism industry and agro-industrialization program.

Rehabilitation, upgrading and expansion plans were drawn to determine the financial requirements of the improvement in the service delivery of water and power. The findings of the TWG showed that the expansion of water supply required the following infrastructure support: (1) establishment of the Uhan and Loboc Water Treatment Plants; (2) laying of new main and transmission lines; and (3) establishment of several reservoirs to facilitate the distribution of water to the municipalities. The total cost of these infrastructure projects, at 1998 prices, was almost Php 968 million, with expansion activities spread over eight years (see Table 6.6).

The improvement in the power distribution system, on the other hand, called for undertaking the following: (1) purchase and installation of additional transformers and substations; (2) replacement of rotten electric posts; and (3) purchase and installation of reconductoring lines and equipment. The total cost of the plan, at 1998 prices, was, at Php 212 million, more than 50 percent less than the needed investment in water supply. Improvement works will be spread over 17 years, or twice longer than that for water.

Given these data, it was concluded that the rehabilitation, upgrading, and expansion activities require almost Php 1.2 billion (see Table 6.6), an amount way beyond the financial capacity of the Province to assume. The annual costs of improvement works, specifically for the first eight years, were projected to be much greater than the Province's net income, which averaged only Php 8 million between the years 1995-2000.

Table 6.6. Estimated Cost of Improvement Works

Year	PWS	PES	Annual Total
1	57,925,683	73,370,000	131,295,683
2	63,468,469	4,194,000	67,662,469
3	54,715,918	5,620,000	60,335,918
4	180,733,909	2,000,000	182,733,909
5	180,612,678	26,400,000	207,012,678
6	168,962,467	8,820,000	177,782,467
7	158,563,180	4,200,000	162,763,180
8	102,872,577	2,000,000	104,872,577
9	-	3,400,000	3,400,000
10	-	2,000,000	2,000,000
11	-	15,400,000	15,400,000
12	-	39,720,000	39,720,000
13	-	6,900,000	6,900,000
14	-	5,500,000	5,500,000
15	-	5,120,000	5,120,000
16	-	3,000,000	3,000,000
17	-	4,400,000	4,400,000
Total	967,854,881	212,044,000	1,179,898,881

In Philippine Peso (Php)
SOURCE: Vistal, John and Juan Ragrario. The Bohol Privatization Initiative. ARD Inc. Dec. 2000.

There was no doubt in the minds of the decision makers that the Provincial Government had to find alternative options of raising funds to undertake this much needed massive and long term program.

A set of criteria in selecting the most appropriate resource mobilization option was formulated. Given the attendant high cost of improvement works, the Province had to search for the most appropriate financing option using the following criteria:

1. The option should be able to generate sufficient funds to develop the waterworks and power systems that will provide better services to more people; and

2. The option must ensure that the Province will retain its stake in the management and operation, as well as, share in the profits of the two utilities.

Among the options that emerged and were considered were:

1. Outright sale of the utilities;
2. Bond flotation;
3. Establishing cooperatives;
4. Water district;
5. Rehabilitate-operate-and-transfer (ROT);
6. Stand-alone entity;
7. Pure joint venture (JV); and
8. Joint venture through rehabilitate-own-and-operate (ROO).

These options were individually evaluated, weighing their advantages and disadvantages. The result of the TWG's findings appear in Table 6.7.

Table 6.7. Advantages & Disadvantages of Options Considered

OPTION	ADVANTAGE	DISADVANTAGE
Outright Sale	• no need for the Province to raise capital	• Province will not have control of management and operations • Province will not have share in the profits
Bond Flotation	• necessary funds are provided • Province will be able to retain stake in management and operations • Province will be able to retain share in profits	• current loan liabilities will strain Province's finances • short-term to medium-term maturities of bonds are not sufficient to ensure financial viability of water and power systems • necessary technical support on management and operations of utilities is not provided
Cooperative	• Province will be able to retain stake in management and operations • Province will be able to retain share in profits	• no capacity to raise funds required • necessary technical support on management and operations of utilities is not provided, thus, problem of inefficiency is still likely to occur
Water District or Metro Cebu Water District (MCWD) model	• Province will be able to retain stake in management and operations • Province will be able to retain share in profits	• water districts, in general, do not have the capacity to raise funds required • necessary technical support on management and operations of utilities is not provided e.g. MCWD experience, in particular, do not present a picture worth emulating (only serves 30% of service area, permanent-rationing basis system, 12-hour water service, systems loss of 40-50%)
Rehabilitate-Operate-and-Transfer arrangement (ROT, a variant of BOT)	• necessary funds are provided • necessary technical support on management and operations are provided	• economic benefits of the Province limited to a fixed income, thus, Province is deprived of additional revenues from improved utilties • since arrangement is limited to a fixed period of 20-25 years, there is a chance that exorbitant user rates will be charged by the private investor to recover its investments • no assurance that the private investor will continue to maintain facilities during the latter part of the arrangement
Stand-Alone Entity (Debt Financing)	• necessary funds are provided • Province will be able to retain stake in management and operations • Province will be able to retain share in profits	• amount of loan payments is beyond the financial capability of the Province • necessary technical support to management and operations of utilities is not provided
Pure Joint Venture	• necessary funds are provided • Province will be able to retain stake in management and operations • Province will be able to retain share in profits • necessary technical support on management and operations are provided	• not protected by law since bidding process is not required
Joint Venture on a Rehabilitate-Own-and-Operate (ROO) arrangement	• necessary funds are provided • Province will be able to retain stake in management and operations • Province will be able to retain share in profits • necessary technical support to management and operations are provided • protected by law because bidding process is required	

SOURCE: Vistal, John and Juan Ragrario. The Bohol Privatization Initiative. ARD Inc. Dec. 2000.

Based on the objectives of the Province and the assessment of the advantages and disadvantages of the options, the joint venture through Rehabilitate-Own-and-Operate (ROO) arrangement emerged as the most ideal option.

Legal Basis

Legal bases for the decision were the LGC[1] and the BOT Law.[2] Both laws, and Executive Order No. 12 of 14 August 1994[3] authorized LGUs to tap private resources, especially in the delivery of services, and allow them to enter into any contract, including joint venture agreements. ROO is a variant of the Build-Operate-and-Transfer arrangement, defined in the BOT Law as *a contractual agreement whereby an existing facility is turned over to the private sector to refurbish and operate, with no time limitation imposed on ownership. As long as the operator is not in violation of its franchise, it can continue to operate the facility in perpetuity.* Under the BOT Implementing Rules and Regulations (IRR), water supply and power distribution are eligible projects for BOT.[4]

The joint venture through ROO was deemed to have met the criteria earlier adopted, to wit, provide the necessary technical support to improve the management and operations of the utilities, and allow the Province to keep its stake in the water and power systems, as well as its share in profits. The bidding process prescribed for such venture will protect the Project from legal issues that may arise. The then incumbent Governor, who had a strong advocacy for private sector participation, added this view, on the matter: with the private sector financing the investment requirements, the Province does not have to spend a significant portion of its resources just for the benefit of the residents of Tagbilaran City and a few nearby towns, but for the benefit of the people of Bohol in general.

It needs restating that the Province was beleaguered with the recurring losses in PWS and PES operations. The TWG's findings indicated that the deficit of PWS and PES grew 37 percent during 1995-2000, with an average annual deficit of approximately Php 15 million (see Figure 6.4). In fact, the combined deficits of PWS and PES from 1995 to 2000 totaled close to Php 92 million. Figure 6.5 indicates that the deficits incurred by PWS and PES had relegated the Province's cumulative surplus for six years to Php 47.9 million, instead of, possibly, Php 139.8 million, if the Province did not operate the PWS and PES. Given these scenarios, the Province would appear to be better off without PWS and PES.

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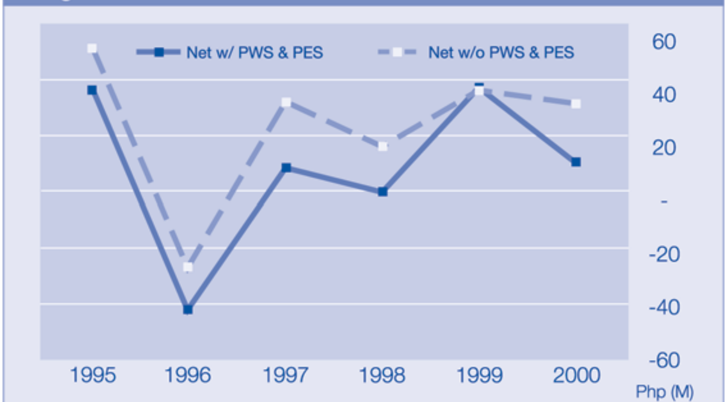
[1] Sections 3(l), 15, 17(j), 22(d) and Article 66 Rule XIII
[2] Section 3
[3] Sections 1 and 3
[4] Section 2.2

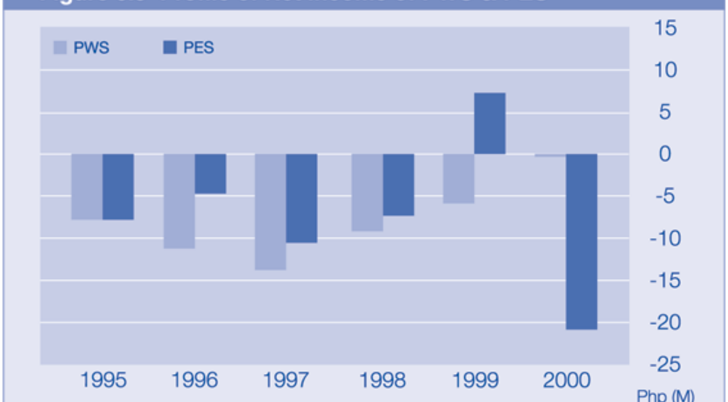
Figures 6.4 and 6.5 provide the financial profile of the Province, with or without the PWS and PES.

Figure 6.4 Profile of Net Income of the Province



SOURCE: Bureau of Local Government Finance and the Technical Working Group, Office of the Governor

Figure 6.5 Profile of Net Income of PWS & PES



SOURCE: Bureau of Local Government Finance and the Technical Working Group, Office of the Governor

The privatization of water and electricity was looked upon as the solution to the problem of mounting delinquent payers and increasing collectibles from non-payment of water and electricity bills, as easy disconnection can be used as sanction under a private regime.

The Sangguniang Panlalawigan, thus, passed Provincial Resolution No. 435, approving the proposal of the Province to pursue the Joint Venture option.

Tendering Stage

The second step in the process involved tendering, or putting up of the Project for offers to be submitted. Drafting of tender documents, which were based on the IRR of the BOT Law, started in December 1999. By January 2000, the Prequalification, Bids and Awards Committee (PBAC) had been organized, and in the same month, Invitations to Bid were published in two consecutive issues of two national papers and two local papers, from December 1999 to January 2000. Seven major corporations expressed interest in the offering. Bidding was set in March 2000 to allow further consultation, particularly with those who remained unconvinced about the merits of the Joint Venture Agreement.

Selection and Negotiation Stage

Five bids for the power facilities and a lone bidder for water were acknowledged on March 10, 2000.

Despite being the lone bidder for water, the PBAC declared the bidding succesful, since the bidder complied with the minimum bid conditions. In a special meeting with the Sangguniang Panlalawigan, the Provincial Attorney, ARD Consultants and the Coordinating Council for Private Sector Participation (CCPSP) held the same opinion as the PBAC, which led to the affirmation of its recommendation by the Sanggunian.

The technical bids for power were opened on March 16, 2000. On March 30, 2000, financial bids for power and the lone technical bid for water were opened. The lone financial bid for water was opened on April 7, 2000.

The bids were evaluated by the PBAC utilizing a selection criteria composed of the elements stated in Table 6.8. It was the Consortium of Salcon International, Inc., Salcon Philippines, Inc., Salcon Limited, Inc., (for water) and Salcon Power Corporation, and Pure and Pam, Inc., (for power) which submitted the best bids for both water and power utilities, hence, it was issued letters of Intent to Award by the PBAC.

Table 6.8. Selection Criteria for Evaluating Bids

Item	Percent
Technical	
• technical organization	2
• rehabilitation program	20
• system expansion program	5
• systems loss reduction program	5
• targets & milestones (rehabilitation/expansion programs)	4
• timetable	4
Subtotal	*40*
Financial	
• bid amount	15
• funding program	15
• tariff proposal	25
Subtotal	*55*
Others	
• overall organization	0.75
• commitment	0.75
• presence in RP	0.5
• employee benefits	1.5
• employee retirement program	0.5
• employee stock option (ESOP)	0.25
• others/enhancement	0.75
Subtotal	*5*
Grand Total	100

SOURCE: Vistal, John and Juan Ragrario. The Bohol Privatization Initiative. ARD Inc. Dec. 2000.

The Provincial Board passed Resolution No. 2000-288[5] creating a negotiating team to take over the work of the PBAC, and to start negotiating with the bidders on the financial terms and conditions of the Joint Venture project. The team, which included the Vice Governor and the Chairman of the Committee on Public Utilities of the Provincial Board, started negotiations on May 12, 2000.

The agreement that was reached with The Consortium was a Joint Venture through the Rehabilitate, Own, Operate, and Maintain (ROOM) scheme. Since the cooperation period was permanent, the Provincial Government wanted an assurance that the private investor will continuously maintain the facilities of the waterworks and power systems. Hence, the variant was called ROOM to emphasize the continuing obligation of the partner to maintain the utilities. The Joint Venture agreement was signed on August 28, 2000.

[5] A Resolution authorizing the Provincial Vice Governor and a member of the Provincial Board to be representatives in the five-man negotiating team.

Highlights of the Joint Venture agreement between the Province of Bohol and the Consortium are as follows:

Table 6.9. Highlights of the Joint Venture Agreement

Rights and Responsibilities of the Consortium

1. Purchase, own, rehabilitate, operate, maintain, and manage the PWS and PES, and charge and collect fees at such rate as may be authorized.
2. Operate, maintain, and manage the PWS and PES in accordance with sound engineering and industry standards and practices, following the completion date.
3. Assume and have full and legal title to the PWS and PES, the site and all buildings, structures, installations, fixtures, and other improvements thereon.

Right and Responsibility of the Province

Sell and transfer the PWS and PES and their franchises to the Consortium.

Ownership

The Consortium will own 70 percent of the Joint Venture companies, while the Provincial Government will own the remaining 30 percent.

Cooperation Period

Cooperation period for both utilities is permanent, unless a franchise violation occurs.

Termination

The Joint Venture Agreement may be terminated in the event of occurrence of any default or due to force majeure.

Table 6.10. Responsibilities of the Consortium

	Waterworks System	Power System
TECHNICAL	Perform comprehensive rehabilitation, upgrading, and expansion on the waterworks system	Perform comprehensive rehabilitation and upgrading on the power system
FINANCIAL	1. Pay the Provincial Government Php 80 million for the purchase of the fixed assets and franchise of PWS 2. Give the 30 percent equity in the Joint Venture company worth Php 24 million, to the Provincial Government, for free 3. Assume the Provincial Government's loan in 1996 worth Php 21 million, which was used to rehabilitate PWS	1. Pay the Provincial Government Php 75 million for the purchase of the fixed assets and franchise of the PES 2. Give the 30 percent equity in the Joint Venture company worth Php 22.5 million, to the Provincial Government, for free
SOCIO-ECONOMIC	1. Lower rates by Php 0.30 per m^3 2. Give additional discount to customers, using less than 10 m^3/month (from flat rate of Php 71.80 to Php 65.00) 3. Not increase its rates for at least two years 4. Absorb all employees of the PWS under the same or better employment terms	1. Lower total rates 2. Give 4 percent discount to all customers, if power demand reaches amounts projected by the Provincial Government 3. No increase in its basic rates for at least five years 4. Absorb all employees of the PES under the same or better employment terms

Overcoming Litigation

Despite public consultations conducted by the Provincial Government, there was initial opposition that prevented the joint venture Project from commencing on July 19, 2000. A Petition for a Class Action for Prohibition with a Prayer for Preliminary Injunction[6], and a request for Issuance of a Temporary Restraining Order, was filed. A summary hearing was conducted on the necessity of issuing a Temporary Restraining Order (TRO) which was subsequently issued. The litigation ended in December 2000, when the second TRO expired, thus allowing the Provincial Government to proceed with the privatization of the water and electric systems.

Effecting Actual Transfer

On July 21, 2000, the Bohol Water Utilities, Inc., (BWUI) and the Bohol Light Company, Inc. (BLCI) were incorporated to assume the functions of PWS and PES, respectively. On December 28, 2000, both facilities were transferred to the Consortium. Commercial operations of the new companies started also on that date. The Consortium owns 70 percent of both BWUI and BLCI, while the Provincial Government owns the remaining 30 percent. The Provincial Government has two seats in the Board of the BWUI, and, another two in the BLCI. Currently, BWUI has 53 employees spread over the three divisions namely: Operation, Engineering, and Administration and Finance. On the other hand, BLCI has 60 employees assigned to the following divisions: Technical and Consumer Services, Operation and Maintenance, and Finance and Administration. Despite the agreement for the Consortium to accept employees of the two government utilities who may want to join them, only a handful of them transferred, e.g. four in the case of PES. There was general apprehension about employment under a privatized set-up, and the majority of the PWS and PES staff chose to remain with the Province, even if their position titles, e.g. lineman or water bill collector, are not relevant to the functions of the Provincial Government.

Five Years After ROOM: The Positive Outcome

So far, the terms of the ROOM agreement had been complied with by both private partners and the Province. Neither BWUI nor BLCI has effected increased rates, despite the fact that BWUI was allowed to increase rates in December 2002, and considering that rehabilitation and expansion activities had already undertaken. It submitted a request for rate increase only recently. On the other hand, BLCI will only be allowed to apply for rate increase starting in December 2005.

[6] Special Civil Action No. 6516

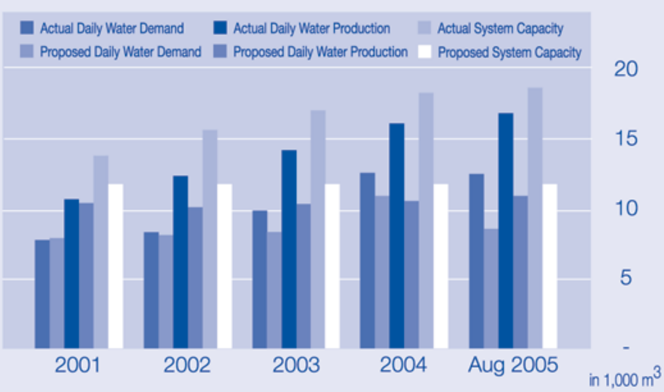
The power and water situation five years after the JVA through ROOM has yielded positive results: the problems that had brought about the decision to go on ROOM appear to have been addressed.

Systems loss reduced and reliability improved

Water. BWU's rehabilitation and expansion works for the first phase of development (2000-2005), aimed at ensuring that safe water was supplied, future demand of the franchise area was assured, and systems loss was reduced. This phase of development works was achieved, which included the upgrading of pump control system, refurbishment of wells and boosting facilities, refurbishment and upgrading of reservoir and control system, non-revenue water (NRW) reduction program, and provision of isolation facility. It also included the laying of primary transmission mains and secondary distribution mains, metered water connection program, and refurbishment of water treatment facilities.

The result of their rehabilitation and expansion works are shown in Figure 6.6. Since the beginning of its operations, BWUI has exceeded the projections stated in the Joint Venture Agreement for system capacity and daily water production, which indicates that consumers have experienced better service. In addition, even though actual daily water demand was, most of the time, greater than the projected volume, BWUI's daily water production was always sufficient to meet its demand. Also, the actual system capacity of BWUI was always greater than its actual daily water production, which signifies that BWUI is capable of producing more water when needed. The average reliability of BWUI for 2005 is 98.4 percent. The only factor that has been adversely affecting BWUI's operations is the frequent occurrence of NAPOCOR brownouts. Since BLCI is not self-generating, power interruptions caused by NAPOCOR brownouts is beyond its control. Thus, operation of pumping units of BWUI are affected during said brownouts.

Figure 6.6 Daily Water Demand, Production, and System Capacity

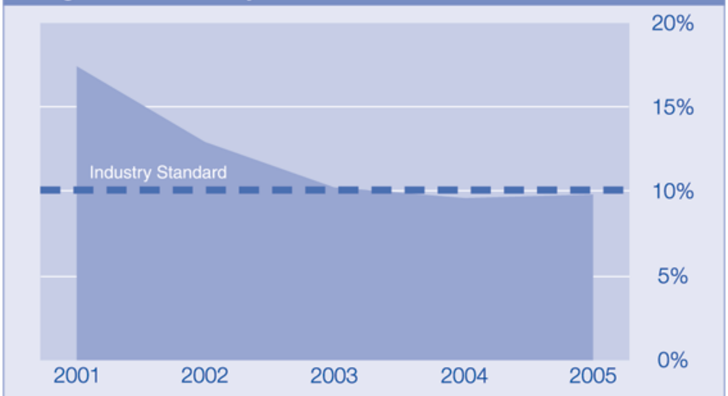


SOURCE: Bohol Water Utilities, Inc.

Power. In the case of BLCI, the following activities were implemented in the past five years to improve the performance of the power system: rehabilitation of the entire power system, installation of a 20 MVA substation, the upgrading of primary and secondary equipment distribution lines, the installation of distribution transformers and line protection equipment, the replacement of rotten poles and the purchase of metering, transportation, and communication tools and equipment.

BLCI's rehabilitation and upgrading of the power system resulted in an average reliability of 99.8 percent in 2005, which was higher than the average on 28 December 2000 of 98 percent. Furthermore, average systems loss of BLCI continued to decrease. Since 2004, systems loss was below the industry standard (see Figure 6.7).

Figure 6.7 BLCI Systems Loss



SOURCE: Bohol Light Company, Inc.

Again, NAPOCOR's frequent brownouts appear to be the only problem affecting its operations.

Quality service expanded to a bigger area to service more consumers

Water. During the period from 2004-2005, potable water was available 24 hours daily. Reservoirs used by BWUI have chlorinators and filters which ensure that safe water is supplied. A project for clustering supply and distribution are on-going to improve water distribution to the whole system of the franchise area, which had been uneven, especially in Tagbilaran City, where terrain is mostly rolling. Under this scheme, the franchise area was divided into four clusters, depending on their elevation. The number of customers of BWUI as of September 30, 2005 totaled 10,488, an increase of 2,833 customers since BWUI's takeover five years ago. The provision in the joint venture agreement that allows residents outside the franchise area to take advantage of the services of BWUI, where their respective waterworks system is not capable of providing continuous water supply, had led to the absorption in July 2003 of 395 customers of Tagbilaran City Water System. There are 10 other towns which will most likely require water supply from BWUI. Bulk water supply is already provided by BWUI to the towns of Dauis and Corella.

Power. On the otherhand, BLCI's service has become customer-oriented and efficient, as shown by the following: (1) response time to application of new electric service and replacement works is much faster; (2) meters are affordable. (The meters are supplied free for residential customers, while commercial customers pay only meter deposit which also earns 6 percent per annum); (3) meter-reading is more accurate and faster since meter poles are placed outside the premises; (4) cost of acquisition of transformer is recovered by phased reimbursement in the monthly electric bill; and (5) billing and collection are computerized. From the perennial problem of delinquent payments, collection efficiency has improved to 97 percent, on the average, for the years 2003-2005, especially after an incentive of 6 percent interest on one month deposit payment was offered. Streetlights have been upgraded, and now use energy-saving lamp with timer and photo-sensor device, to ensure more efficient use of electricity.

Since the power system was turned over to BLCI, the number of customers increased by 1,199, bringing the number to 16,157 as of September 30, 2005.

Financial Freedom: Relief from Operations and Maintenance Burden

Perhaps the biggest impact of the Joint Venture Agreement is that the Province is now liberated from the exorbitant cost of operating and maintaining the water and power systems, amounting to an annual average of Php 173.5 million during 1995-2000, when imputed costs were included. This enabled the Province to increase its allocation for its general operations (from an average share of 18 percent in total expenditures or Php 85 million, to an average of 33 percent or Php 192 million during 2001-2004) and social services (from an average of 22 percent or Php 108 million during 1995-2000, to an average of 27 percent or Php 158 million. These amounts would have been used to defray the operating and maintenance costs for the two utilities, had the Provincial Government not taken the radical decision.

The impact of the turn-over of water and power utilities on the Province's income is shown in Table 6.11. Payments for the purchase of the fixed assets and franchise of PWS and PES which totaled Php 155 million, as well as the Province's 30 percent equity share in BWUI and BLCI, which amounted to Php 46.5 million, were recorded under "other receipts" for the year 2001. Thus, the share of other receipts in the total local source income was unusually high for that year.

Year	Real Property Tax	Business Tax	Other Tax .	Receipts from Econ Ent	Fees/ Charges	Other Receipts
2001	15,511,539	1,615,979	4,878,289	45,750,529	7,643,484	216,538,397
2002	26,088,570	2,666,715	593,353	11,320,957	274,984	15,021,425
2003	19,723,415	1,525,637	2,103,761	7,516,470	509,478	6,742,939
2004	28,279,101	5,797,775	909,442	2,748,843	13,977,439	11,937,655

Table 6.11. Profile of Local Source Income, 2001-2004

In Philippine Peso (Php)
SOURCE: Bureau of Local Government Finance, DOF

Since the Province is not operating other economic enterprises, there should not be any entry on receipts from economic enterprise after the turn-over of the utilities on December 28, 2000. However, there were entries in the receipts from economic enterprise for the following reasons: (1) some people who opposed the privatization of the water and power systems chose to still pay their water and charges to the Province; (2) delinquent payments came in even after the privatization; and (3) a portion of the water and power charges during the turn-over period were booked first in the Province's account because of some misunderstanding on the cut-off date. All these accounts, booked under receipts from economic enterprise, totaled more that Php 67 million by 2004, which, however, is decreasing.

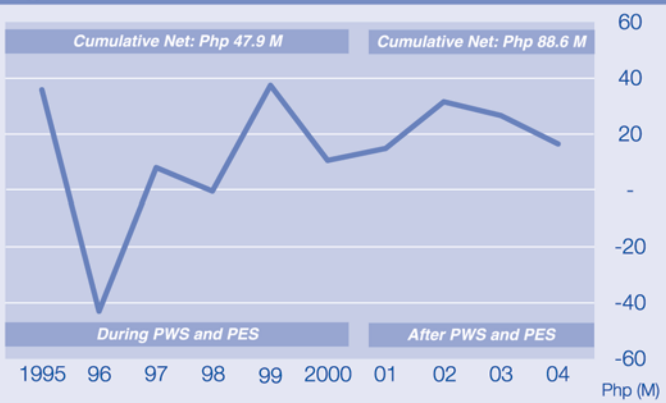
Among the other sources of local income, real property tax collection continues to be the primary contributor, accounting for an average share of 48 percent during the years 2002-2004. There is a significant improvement in business tax collections which increased by 289 percent, from almost Php 1.5 million in 2000, to Php 5.8 million in 2004.

Access to the New Water and Power Utilities Technology

The joint venture with the private sector has provided the opportunity for the introduction of new and highly modernized technologies. This would not have been possible if the Provincial Government continued to operate and manage these facilities, considering the lack of resources to fund expensive new technologies in upgrading and expanding the facilities.

Both BWUI and BLCI are still experiencing net deficits because of on-going massive infrastructure construction to rehabilitate the system and expand their coverage area. Hence, the Provincial Government has yet to receive its 30 percent equity share as provided in the Joint Venture Agreement. Fortunately, the BLCI expects to start generating net surplus in 2005, which shall, hopefully, signal an increasing trend in its income and a decline in its expenditures. The Province will then start benefiting from its 30 percent equity annually. BWUI, on the other hand, expects a net surplus once the proposed rate increase is approved. Even though the Province has not yet benefited from its 30 percent equity share on the joint venture companies, its combined net income, after the utilities' turnover, was Php 40.7 million more than the cumulative net surplus of Php 47.9 million during 1995-2000 (see Figure 6.8).

Figure 6.8 Profile of Net Income



SOURCE: Bureau of Local Government Finance, DOF

The Provincial Government has definitely gained financially from the privatization of the two utilities, with the cumulative net surplus of Php 88.6 million, averaging Php 22 million annually from 2001 to 2004, essentially through a reduction in its expenditures. In turn, it has been able to allocate a bigger budget for other basic services and Province-wide projects.

Summary

By the privatization of water and power utilities through the joint venture agreement (JVA), the Province of Bohol was able to tap private sector resources, such as capital, technology, and expertise, in improving the efficiency and expanding the coverage of service delivery of the two antiquated utilities. The JVA liberated the Province from the annual expenditures in operating and maintaining the water and power utilities, brought about the complete rehabilitation of the water and power systems, and increased its annual budgetary allocation for general operations and social services. It also contributed to the expansion of the LGU revenue base, not only for the Province but also for the City of Tagbilaran, the Component City of Bohol Province, where these facilities are located and to which the private consortium has to pay real estate taxes and other assessments. The Province of Bohol, being a joint venture investor in the Consortium, with 30 percent equity in the Project, shares in the profits of the joint venture companies and, at the same time, maintains two seats each in the Board of the water and power companies.

The active management of these utilities, being in the hands of the private consortium, the problems of unpaid accounts, delinquent payers and delayed procurement of parts, which used to plague the utilities, are now things of the past. The lifestyles of Boholanos have changed. One resident confided that they used to take a bath with a few *tabo* (local dipper) of water, but now, the taps always yield enough clean water for them to luxuriate in a shower. More reliable power, on the other hand, has stimulated the growth of businesses and industries in the Province. Tourism is growing so fast Bohol is now the tourist mecca in Eastern Visayas.

The Bohol experience revealed important insights in the financing and implementation of development projects. It underscored at least five salient points of public-private partnership (PPP) which are beneficial to the Provincial Government:

1. More sophisticated technology are accessed;
2. Design, construction and/or operation of projects are cost-effective;
3. Private sector resources are used and financing is flexible;
4. Project risks and responsibilities are delegated/shared; and
5. Cost of projects are guaranteed by virtue of a contract or agreement

The joint venture agreement (JVA) through ROOM has injected an entrepreneurial spirit in the governance paradigm of the Province of Bohol, thereby catalyzing and elevating its proprietary and corporate powers to a new dimension. It has also altered consumption patterns, where consumers are now more judicious in their use of power and water, realizing that they have to pay for them.

BUILD, LEASE, AND TRANSFER (BLT) SCHEME
MUNICIPALITY OF SAN JOSE DE BUENAVISTA, ANTIQUE

In 1993, a man-made disaster struck this 3rd class Municipality as it was struggling to develop its economy. The Municipal leadership saw in the tragedy a challenge to exercise its new powers under the Local Government Code of 1991. Together with the local businesses and the citizens, the Municipality wasted no time in planning and implementing infrastructure projects using available resources.

The initiative earned recognition for San Jose de Buenavista in Galing-Pook's Achiever Programs for "energizing the local economy."

QUICK FACTS	
LOCATION	Western Visayas (Region VI)
LAND AREA	44.50 km^2
POPULATION	48,261
POPULATION DENSITY	1,084 /km^2
MAJOR INDUSTRY	AGRICULTURE

VISION

San Jose de Buenavista as a progressive urbanizing community, a Center of Trade, Commerce, Education and Services for the Province of Antique

MISSION

Facilitate, plan and implement measures, ways and means, and initiatives to achieve a higher standard of living for every San Josenhon

Facilitate, plan and implement requirements for San Jose to develop into an urban center

Facilitate, plan and implement programs and projects for improved education and increased socio-economic activities befitting a service center

Profile of the Municipality

The capital of the province of Antique, San Jose de Buenavista, has been named to honor its patron saint and to perpetuate the name of Jose Sumandi, son of a local hero credited for successfully stopping the frequent adventurous landings of Moro pirates in Sitio Malaiba, as the place was called in the 1700s. It became a town during the Spanish era, and government officials and church dignitaries who came to attend its religious ceremonies were so impressed by the marvelous view of the place that they described it as *de Buenavista,* the Spanish term for "with beautiful views". Through the years, this appellation was added to its name. At present, the town is often associated with Evelio Javier, San Jose's modern hero and the beloved former Governor of the Province who, in the dark days of martial law, offered his life for the survival of the country's democratic institutions.

San Jose de Buenavista is one of the smallest of 18 towns in the Province of Antique with an annual population growth rate of 2.4 percent. As the capital town, it is the center of trade and commerce, with a growing number of banks, business and commercial establishments, and premier educational and medical institutions. The steady growth of business in the community and expanding basic services have been further enhanced by the emergence of telecommunication technology facilities like cell sites, telephone lines, internet cafes and computer shops. Farming and fishing, however, have continued to be the basic livelihood of its residents.

The Municipality has institutionalized a planning system where its plans and programs are based on an executive agenda established by the Office of the Mayor. This is presented to the Sangguniang Bayan (SB) for integration into an Executive-Legislative Agenda (ELA) formulated by a team of four SB members and the department heads of the Municipality, pursuant to their common vision, mission, plans, and programs. This planning system has made possible meaningful cooperation between the Mayor and the Sangguniang Bayan on major issues affecting the Municipality, as illustrated in this case.

The Disaster that Triggered Innovation

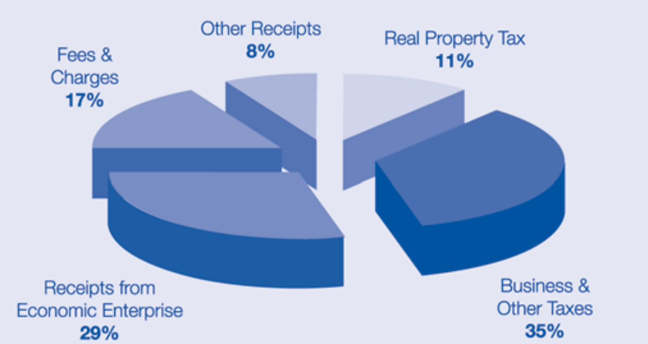
In May of 1993, the 0.8-hectare public market located in the heart of the Municipality was totally destroyed by fire. At that time, the municipal leaders were already preparing to transfer the wet market to a new commercial complex, a kilometer away. It was considered a major setback to the economic development of the town because the public market was a major income source, primarily derived from business space rentals, business taxes, and fees. Displaced were some 200 local businessmen, mostly market vendors.

A Snapshot of the Municipal Finances

In 1993, the income of San Jose de Buenavista amounted to only Php13 million. Out of this amount, Php 7.2 million (55 percent) came from the Internal Revenue Allotment (IRA) while Php 5.8 million (45 percent) came from local sources, consisting of taxes being imposed by the LGU such as business tax, real property tax, peddler's tax, occupation tax, franchise tax, amusement tax, tax on fishing vessels and community tax and non-tax sources, such as receipts from economic enterprises, fees and charges (i.e. Mayor's permit fees, building permit fees, marriage fees, etc.), and other receipts.

In 1993, the LGU's local revenue sources was primarily derived from business taxes, which accounted for 35 percent of local income; economic enterprises, 29 percent; fees and charges, 17 percent; and other receipts, 8 percent (Figure 7.1). The operation of a public market provided substantial revenues to the LGU through market stall rentals, and taxes and fees on the various businesses operating in the area and nearby places in the poblacion.

Figure 7.1 Sources of Local Income in 1993



SOURCE: Bureau of Local Government Finance, DOF

Against this income, expenditures for the year 1993 was Php 11.8 million. General Public Services accounted for more than one-third of the expenditures. A surplus of Php 1.3 million was recorded, which was hardly enough to fund any development project.

With the absence of a public market, economic activity abruptly slowed down, depriving the Municipality of its much-needed revenues. This made the Mayor and other local officials decide that a new public market must be constructed immediately.

A plan for the new market was subsequently discussed. The national government, through the National Disaster Coordinating Council (NDCC), released Php 10 million calamity fund for the construction of a new market. This, however, was not sufficient to finance the proposed one-hectare structure for the new market which was estimated to cost around Php 30 million. During the discussions on the new public market, it was agreed that the new structure should be able to accommodate the many vendors who were original stall occupants in the old market, and at the same time provide additional spaces for potential stallholders.

Where to Get the Money

The main problem that confronted the Municipality was where to get the money for the construction of the new market to start immediately. The Mayor, together with the officials that comprise the Executive Committee, met with the SB members to decide on the matter. The discussion narrowed down to two options, namely:

1. Bank loan, with the Internal Revenue Allotment (IRA) as collateral
2. Build, Operate, and Transfer (BOT)

In weighing its financing options for the construction of the public market, the Executive Committee considered several factors:

1. The possibility of existing stallholders shouldering a portion of the construction costs;
2. The purchasing power of the public;
3. Prevailing rental rates for business space;
4. The survival of small and medium scale enterprises in the new market; and
5. The threat of competition from neighboring towns and provinces.

Bank financing did not seem attractive because of high borrowing costs at that time, which ranged from 18 to 24 percent per annum. Furthermore, the Municipality did not have sufficient real property assets which could be used as collateral for the loan.

The possibility of using the Municipality's Internal Revenue Allotment (IRA) was considered. However, the group realized that since, on the average, about 60 percent of the LGU's income was derived from the IRA, assigning a portion thereof as security for the loan, was too restrictive and would deprive the LGU of sufficient funds for allocation to basic services and other programs.

The Build, Operate, and Transfer (BOT) financing scheme, involving a joint venture arrangement with the private sector was introduced by the Mayor. It seemed very attractive as an option because it would not entail the utilization of local government funds. Under this scheme, a private investor/entity infuses funds for the construction of the public market, then operates and manages the public market within an agreed period of time. Then, it remits the assessments due, including but not limited to lot rentals, real property taxes for the building, and business taxes. At the end of the cooperation period, it transfers the ownership of the building to the LGU.

The Municipal officials surmised that a competitive bidding will likely work in favor of large-scale investors from the neighboring cities of Iloilo and Negros, leaving out local entrepreneurs who lack the financial capability for the huge investment required. More importantly, the LGU was looking for a quicker, simpler, and possibly cheaper source of financing that would eventually redound to the benefit of the vendors/ stallholders who were engaged mostly in small and medium scale businesses.

The Mayor believed that it was best to consult all the stakeholders, including the market vendors, particularly the fire victims and potential investors who could eventually be the occupants of the building, on how funds may be raised for the project. Meanwhile, as the financing of the Project was being deliberated upon, the local officials decided that market operations should resume. Vendors were, thus, allowed to put makeshift stalls along the streets without having to pay the usual market fees, until the new market became operational. The Municipal Engineering Office (MEO) and the Municipal Planning and Development Offices (MPDO) were tasked to allocate space that was to be temporarily occupied by stallholders. The temporary stalls were to be set up in an orderly any tidy manner to avoid and obstruction to traffic.

There were concerns about adopting the BOT financing option, though. Among them were: (1) securing approval to adopt the scheme is a long and tedious process where several national government agencies are involved and the paper work is extensive; (2) a public bidding process required to identify and choose the BOT partner is likewise inordinately long and often complex; and (3) BOT, being a relatively new concept, there were concerns about how it will work, and how to go about its requirements.

Adopting the Build, Lease, and Transfer (BLT) Scheme

The outcome of the consultation was a decision to adopt the BOT scheme with refinements. These refinements do not require the Municipality to undergo the approvals and public bidding. This was the Build, Lease, and Transfer (BLT) scheme. Under this arrangement, the vendors were to provide funds for the construction of their own stalls on government-owned property, following specifications established in the master plan of the new market. They were to pay the required lot space rentals for a period of 20 years, after which the stalls were to be ceded to the Municipality. During the 20-year period, the stallholders were deemed to be owners of the stalls; therefore, they were to pay the corresponding real property tax.

The BLT scheme was also chosen because unlike the conventional BOT arrangement, there was no need to go through a long, tedious approval process that involved several national government agencies. Furthermore, there were no objections to the concept from the vendors and businessmen whose opinions and cooperation were sought.

On August 26, 1993, the Sangguniang Bayan approved the BLT scheme. The local government and the stallholders and structure lessees entered into a memorandum of agreement guaranteeing the latter's right of occupancy, regardless of the change in local leadership. A master plan for the new public market was designed by the MEO in coordination with the Department of Public Works and Highways (DPWH). The project was called the San Jose Business Park. The Business Park was designed as a two-story building to accommodate more businesses in the future. Phase I, the ground floor was intended to house the displaced businessmen and additional new applicants. It was estimated to cost Php 40 million. Phase II, the second storey, was estimated to cost Php 30 million.

With the Php 10-million calamity fund from the national government, it was decided that the rest of the cost was to be funded through BLT.

Two structures were planned, based on sources of funding, namely:

1.) Government-Built, wherein the construction of the entire structure was to be funded by the LGU using the aforementioned Php 10 million calamity fund from the national government through the NDCC; and
2.) Self-Built, wherein the structure was to be funded by qualified vendors through the Build, Lease, and Transfer scheme (BLT).

Government-Built Stalls. Under the master plan of the San Jose Business Park, the government-built structure was to be built at the center (inner portion) of the Business Park. The master plan designed a building foundation that provided for a two-story structure.

The stalls were leased out to vendors, particularly those who did not qualify for the self-built stalls, for a time duration stipulated in the contract of lease, but not exceeding five years. The lease was subject to renewal at the option of the LGU. Conforming to the Municipal Revenue Code which provided for the rates and fees to be charged to stallholders, the daily rental fees for the government-built stalls were Php 2.30/sq. m for corner stalls, Php 2.00/sqm. for prime stall and Php 1.70/sqm. for regular stalls. The Revenue Code also included a provision which allowed an increase in these rates by a maximum of 3 percent every three years.

Self-built Stalls. The self-built structures were considered prime stalls located at the ground floor in the outer portion of the Business Park. These structures were awarded to vendors capable of financing the construction of individual stalls. Based on 1993 price levels, each stall was estimated to cost between Php 280,000 to Php 300,000. The plan provided for each stall to measure 8 meters by 4 meters. They were to be built one at a time, based on the financial capability of the vendors. Those who were ready to have their stalls constructed could already do so, while those who were still awaiting availability of funds or financing could build their stalls later but not beyond the deadline set in 1994. The stallholder who was to build a stall adjacent to an already existing structure was to reimburse the owner of the existing structure an amount equivalent to 50 percent of the cost of the wall dividing their stalls. The construction of the BLT stalls was supervised by the Municipality through the DPWH to ensure that the building specifications were strictly followed. This construction did not entail any cost on the part of the LGU. Another Php 2 million was provided from the IRA of the Municipality which was spent for drainage and other utility support structures, including landscaping.

Since the vendors provided the funds for the construction of their stalls, space rentals were about 60 percent lower than the market rates charged on government-built stall spaces. For the self-built structures, the Municipal Revenue Code provided a daily rental fee of Php 0.90/sq. m for corner stalls and Php 0.70/sq.m for prime stalls, subject to an increase of not more than 3 percent every three years. The stallholders, in this case, were guaranteed a 20-year contract.

In awarding the stalls, rewards were based primarily on record of payment performance and number of years of stall occupancy. Thus, priority was given to the fire victims for occupying the original location of their stalls, provided that they had been good payers. This turned out to be a wise decision since collection of rentals, fees and taxes from these vendors did not pose a problem.

The Municipality managed the construction of both government-built and self-built structures in coordination with DPWH. The Municipal Engineering Office (MEO) and the Municipal Planning and Development Office (MPDO), on the other hand, developed the mechanics for vendor qualifications and stall distribution. The government-built structures, numbering fifty four stalls, were completed in 1994. Of the targeted 176 beneficiaries of BLT, 90 of whom were fire victims, additional 82 stalls (excess) were built or 95 percent of target.

Operating the Rebuilt Market

To date, sixty three stalls have been constructed in the Business Park under the BLT scheme. The ground floor area is 100 percent occupied. After the completion of the construction of the market and the assignment of the stalls, guidelines were prepared to ensure the efficient operation of the Business Park. The maintenance and upkeep of the stalls are made the sole responsibility of the stallholders, but other services, such as drainage, and other amenities like comfort rooms are the responsibility of the local government.

Participants in the BLTs were given other incentives as well. They were provided mezzanines at their option, free of charge, with no additional space rental fee. Subleasing of spaces by stall owners to other vendors was allowed by the Market Code of 1999. This enabled the stallholders to earn additional income that would partially pay for their own space rentals. At the same time, this encouraged new and additional businesses in the community, which would result in higher business tax revenues. Subleasing in government-built structures, however, was strictly prohibited.

Today, an association of vendors called the Business Park Businessmen's Association manages and maintains the Business Park. However, municipal inspectors have been assigned to ensure that occupants strictly adhere to the rules and regulations, particularly on cleanliness and orderliness in the Business Park. Corresponding penalties are imposed on violators.

The Association also provides the venue wherein individual vendors and groups may bring their concerns for resolution or elevation to the Market Committee of the Municipality. The elected president of the Association occupies a seat in the Committee, a collegial body that acts on all public market-related issues and concerns, including the formulation of policies and strategies to ensure the efficient management and operation of the Business Park. The other members of the committee are the Mayor (who acts as Chairman), the Chairman of the SB Committee on Economic Enterprise, and the Municipal Treasurer. This Committee, which was responsible for awarding stalls to vendors, is now in charge of adjudicating any disputes that may arise among the vendors, and between them and the Municipality. The Business Park is now fully occupied and more small businesses are locating to the area.

BLT for the San Jose Development Center

The success of the Build, Lease, and Transfer scheme in the San Jose Business Park encouraged the local officials to consider building a Development Center under the same scheme. The Development Center was envisioned to be a commercial building to be built on an idle government property which used to hold the old municipal hall. The lot was a non-revenue (non-performing) asset of the LGU for quite a while, and using it for this purpose did not entail expense to the government.

The Development Center was designed to be a two-storey structure, the second floor of which was to house the Municipal hall. The ground floor area was to be opened to private businesses under the same BLT scheme as the San Jose Business Park. The Development Center was completed in 1994. Among the present occupants of the ground floor are the Land Bank of the Philippines and a cooperative bank. Only offices are allowed to occupy the stalls in the area of the Development Center adjacent to the Municipal hall. Businesses with operations which are hazardous to fire such as restaurants are allowed only in areas away from the Municipal hall.

Presently undergoing construction in the Business Park is the Bingo Amusement Center with franchise from the Philippine Amusement and Gaming Corporation (PAGCOR). This will be operated by a private entity, the Antique Gaming Corporation, and will occupy about 928 m^2 of the second floor of the self-built structures at the Business Park. Upon completion, it is expected to bring additional regular income to the Municipality.

Business Park and Economic Enterprise Development

The operation of the new public market (Business Park) and the Development Center have spurred economic activities and the proliferation and clustering of businesses in the poblacion. Transportation, provided primarily by buses, jeeps, and tricycles started to compete with ambulant vendors for the available open space in the area. In 1995, the Municipality decided to develop a bigger space to accommodate the spill-over businesses from these two buildings, and provide space for more commercial establishments, not only to bring in more income but also to promote and enhance the socio-economic well-being of the constituents of San Jose de Buenavista. The above developments triggered the decision of the Mayor to retrieve the original Provincial Town Plan which included the establishment of a big commercial complex in the Municipality. The Provincial Planning and Development Office (PPDO) of the Province of Antique originally developed the Plan in the early eighties, but this was shelved due to various problems during the pre-1986 People Power Revolution.

The Town Plan called for the transfer of the public market for wet and dry goods to a new complex. The area where the old public market was located, now the San Jose Business Park, was to have been transformed into a strictly dry goods market area.

In 1995, the Mayor decided to restore the Plan to construct and develop the Tradetown, a commercial complex that would provide more commercial stalls, particularly for those who could not be accommodated in the Business Park. The Tradetown was also intended to decongest the area, create a corridor for growth, expand the commercial opportunities for the vendors, and increase the income of the Municipality.

A 6.5-hectare idle land was purchased at Barangay Funda-Dalipe, about 800 meters away from the *poblacion*, for Php 2.5 million, using Municipal funds. A Php 39 million loan was secured from the Program for Essential Municipal Infrastructure, Utilities, Maintenance and Engineering Development (PREMIUMED), a World Bank-assisted sub-loan from the Municipal Development Fund Office (MDFO) of the Department of Finance (DOF) for the development and construction of the Tradetown. A resolution to avail of the loan was approved by the SB in 1995. Loan proceeds were released in four tranches from 1996 until the first quarter of 1999. The loan was to be paid over a period of 15 years, inclusive of a grace period of three years, at the rate of 14 percent per annum. The annual amortizations amount to about Php 6 million and full payment of the loan is expected by 2009.

The cost of the lot represented the equity portion of the total project cost. The LGU had opted to tap this sub-loan (versus other bank loans/financing) because of the huge amount involved; the longer repayment period and the technical assistance to be extended on market development and operation, all of which were available under the loan package.

The technical assistance entailed the participation of selected local officials and staff in a seminar/workshop on public market construction and development, as well as operation and management. This was to ensure that the commercial complex would be able to generate sufficient income to repay the loan secured for its construction.

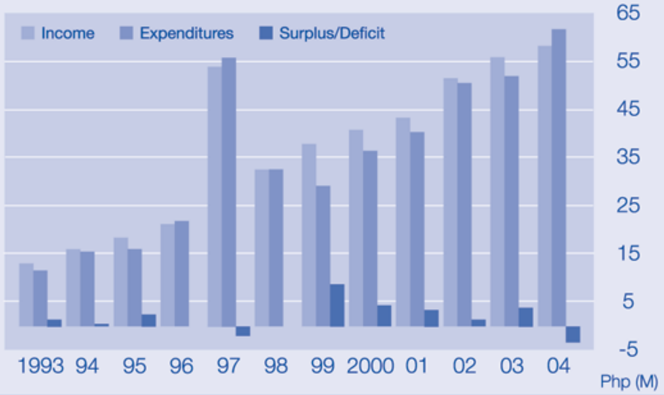
The construction of the Tradetown was completed in 1998 and it became fully operational on December 8, 1998. With its operationalization, the San Jose Business Park was then converted to a strictly dry goods commercial area.

A Municipal Economic Enterprise Office (MEEO) was created to supervise the Business Park, Development Center and Tradetown, among others.

Financial Performance (1993-2004)

In 1994, when the BLT-funded Projects became operational, the income of San Jose de Buenavista was Php 15,922,763, an increase of 15 percent over 1993. This grew progressively in the next 10 years. In 2004, total income was Php 58,125,370, registering a 265 percent increase over 1994 (Figure 7.2).

Figure 7.2 Income and Expenditures



SOURCE: Bureau of Local Government Finance, DOF

During this period, the Municipality continued to be IRA-dependent but, income from locally-generated sources significantly increased to Php 24,207,910 in 2004, from Php 5,803,829 in 1993, or an increase of 317 percent.

Local Income

Since the operation of the Business Park, the Development Center, and the Tradetown, local income had gone up steadily. From a level of Php 5.2 million in 1994, it went up to Php 24.2 million, representing an increase of 362 percent. In 2004, business and other taxes comprised 33 percent of local income.

The biggest income generated in 2004 came from receipts from economic enterprises, where the pattern of growth has steadily gone up from 1994 to 2004. This income is directly derived from the operations of the Municipal Economic Enterprise Office (MEEO) which was set up to oversee the operation of all economic enterprises, i.e. the business park, the Development Center, and the Tradetown, including the slaughterhouses and public cemeteries.

Comparative Share of Various Local Tax Sources

In 1994, real property tax income was Php 658,235. This grew progressively through the years, reaching Php 4,139,040 in 2004. Business tax, however, grew even more, from Php 2,293,956 in 1994 to Php 8,128,930 in 2004. Economic Enterprise, however, which was the top local tax earner in 1993 and 1994, continued also to be the top earner for 2004, increasing its 29 percent of tax income in 1993 to 34 percent in 2004 (Figure 7.3).

Figure 7.3 Comparative Sources of Local Income

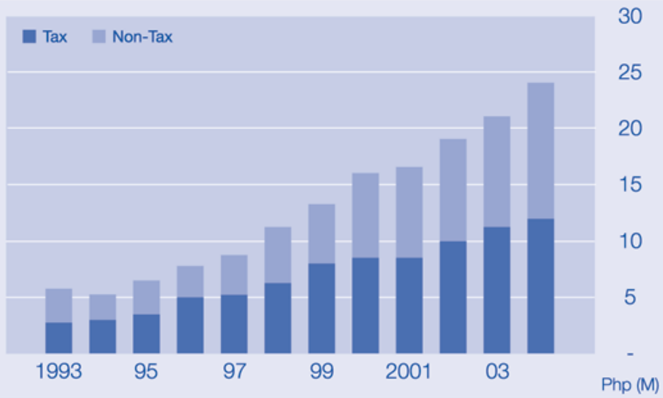
SOURCE: Bureau of Local Government Finance, DOF

Income from economic enterprises, business tax, and fees and charges, altogether comprising 82 percent of total income, are directly attributable to the market activity generated by the Business Park, the Development Center and the Tradetown.

The phenomenal growth in local income from 1993 to 2004 may also be attributed to the increasing trend in tax collection when the Business Park and Development Center started operations (Figure 7.4). Real property tax collections also grew as an outcome of the operations of the Business Park and Development Center, which triggered the rise in the values of real property units within the vicinity of these buildings. What is also notable is that non-tax revenues grew 474 percent from Php 3.1 million in 1994 to Php12.2 million in 2004. These were derived mainly from:

1. Rental of lots and commercial spaces at the San Jose Business Park (forming the public market), the government commercial place for dry goods at the heart of the poblacion;
2. Space rentals at the San Jose Development Center, the Commercial area near the municipal hall;

Figure 7.4 Local Income



SOURCE: Bureau of Local Government Finance, DOF

3. Space rentals, terminal parking and entrance fees for wholesale and auction of goods at San Jose Tradetown, the public market for dry and wet products, and
4. Income from slaughterhouses.

The growth in income could also be attributed to the finance strategies and practices adopted by San Jose de Buenavista to ensure the steady increase in its receipts from economic enterprises, and taxes and fees related to the operation of businesses and other commercial activities in the Municipality. The LGU, for instance, provides the support facilities and infrastructures to address the rapid growth in business activities, and these attracted more investors which has resulted in increased business taxes. For example, by putting up a terminal for buses, jeeps and tricycles within the Business Park, more people have been attracted to the area and business has picked up. Corresponding fees and charges are also imposed for the maintenance of these facilities and infrastructure, which triggered the increase in non-tax revenues.

Excess in Income over Expenditures

Annual incomes consistently exceeded annual expenditures over the 12-year period (1993-2004), except in 1996-1998 when the construction and development of its vast commercial complex was ongoing. The deficit in 2004, on the other hand, was due to the slight delay in the release of the IRA by the Department of Budget and Management when the national elections were held and the country, thereafter, declared to be experiencing a fiscal crisis. General Public Services account for about 41 percent of current expenditures, on the average, the rest spent for Public Welfare and Internal Safety and Economic Services. However, starting in 1998, debt service for repayment of the PREMIUMED loan accounted for about 16 to 20 percent of total expenditures.

Summary

By adopting the BLT scheme, the Municipality of San Jose de Buenavista has opened a new avenue for local businessmen to participate in government projects. From the public market, the concept was subsequently applied to the Development Center. The construction of the Tradetown and the slew of private commercial buildings that is on-going in the Municipality, including one that is being constructed by a group of local businessmen, are indicative of the success of the BLT initiative in stimulating investment and economic activities in San Jose de Buenavista.

The success of the BLT scheme can be traced to a number of factors, foremost of which is the common vision shared by San Jose de Buenavista's municipal mayors, former mayor Efren Esclavilla and incumbent mayor Fernando C. Corvera who espoused and ensured the continuity of the BLT project implementation, and whose consultative and team management approach enabled them to get the support of other municipal government officials and stakeholders.

The support of the Sanggunian and the willingness of other LGU officials to adopt new methods and strategies for revenue generation must also be cited, as well as the planning system that was adopted to ensure the implementability of the project. The assistance of the Canadian International Development Agency (CIDA) and the Local Government Support Program (LGSP) in various aspects of governance had been eye-openers to LGU planners and decision-makers of the Municipality.

The Municipality must also be credited for taking measures to ensure sustainability of the initiatives. Among these are: (1) the creation of the Municipal Economic Enterprise Office (MEEO) for the effective management and operations of the Business Park, the Development Center, the Tradetown, and other related revenue generating public facilities; (2) the formulation and adoption of a Market Code and Revenue Code which institutionalized the policies, systems and procedures on revenue generation and market administration; and (3) the introduction of self-discipline among market vendors and customers of the market to ensure its viable operations.

CONCLUDING STATEMENT

The cases of the local government units depicted in this Study are examples of "thinking out of a box" stories. They provide models for other LGUs to replicate. The documentation of the processes and methodologies used, the results achieved, and the fiscal and development impacts of action taken, is the major contribution of this book. It is, therefore, hoped that other LGUs will take advantage of the experiences in the seven case studies and see if their own fiscal and financial system can be improved or enhanced with the adoption of the models provided here.

A word of caution is, however, necessary. As the case studies show, success did not happen instantly. Long preparation, well-thought out plans, and firm decisions led to the actions taken. In spite of these, there exist certain pitfalls. The success factors and the problems or pitfalls are identified.

Success Factors

Leadership. In these cases, the local chief executives generally served as initiators and advocates of the innovations. This role is particularly palpable in LGUs which have decided on new financing options for funding their priority projects. Although they are or were politicians who realize the possible "costs" of a new idea that disturbs the status quo, they took the required "risks," nonetheless. They are generally young leaders with some experience or training in entrepreneurial activities.

Those who chose to operate more conservatively within existing traditional fiscal and financial management systems made this advocacy by introducing new ideas or alternative means in their implementation. This second group of innovative local chief executives is generally more senior in age and political experience, which probably explains their exercise of initiatives within existing fiscal structures.

Both groups of local leaders, however, observed a common consultative style that immeasurably helped in securing support for their ideas, not only within the local government, but also with the community.

The Role of the Sanggunian. The strong support of the LGUs' respective Sanggunians, collectively and as individuals, complemented the advocacy of the local chief executive toward successful results. The Sanggunian Members, being the ultimate decision and policy makers in the LGUs, play an equally vital role as advocates of the fiscal and financial initiatives with the local chief executives.

Management Team. Invariably, there is a strong support base provided by the management team in each respective bureaucracy of these LGUs. The team attended to the detailed planning and implementation of the project and managed the financial systems. In particular, a strong financial team is noted; in some cases, certain members of the financial team made some initiatives which were adopted by the leader of the LGUs, or made remarkable contributions in their implementation. Credit must also be given to the other personnel in these LGUs who showed a willingness to "adopt" to new ways of doing things.

Planning and Social Marketing. The success of the fiscal and financial initiatives may also be traced to good planning and effective plans of action. These make them conducive to better understanding and appreciation by the stakeholders. A well-designed communication program and social marketing also enabled the LGUs to generate the cooperation and support of all stakeholders in the community. Acceptance of the project by the community translates into support in all phases of implementation

Use of Information Technology. Computerization and other technologies like the Geographic Information System (GIS) have been extensively adopted by these LGUs. This progressive attitude in the use of technology has provided the LGUs with complete, current and easily accessible information for planning and decision-making, as well as in monitoring and reviewing their progress. A complete and updated database also ensured prompt service to taxpayers, and enhanced effective governance.

Networking Capability. A wide network, effectively utilized, helped the LGUs in securing support and assistance for their initiatives, especially by institutions, which established networks enabled LGUs to have access to both technical and financial assistance, as well as support in capacity-building of these LGUs. The LGUs either actively sought institutional help on these initiatives, or were offered such assistance by existing networking systems or institutions of which they are part.

Problem/Pitfalls Encountered

Nonintegration of budgeting and fiscal planning in the Development Plan.
In instances where the local government unit has a development plan, the financial aspect has been neglected, thus, there is no coherence between the planned investment

programs and their financing requirements. In most instances, however, investment projects are planned and executed in isolation from the overall development perspective. This situation can only lead to piecemeal planning and ad hoc decision making. In general, budgets are made on an annual basis, so the financial requirements of the projects which require multi-year implementation are not provided for. The lack of integration of the budget and fiscal planning in the overall development plan pose problems in determining the sources and uses of funds.

Inadequate or lack of technical capability at the local level. Resource mobilization and the selection of financing options for the local governments require a well-equipped and well-trained and skilled staff. Most of the local governments in the Study do not have staff trained in financial/fiscal analysis and management. In the area of resource mobilization, majority of the local government units depend on the traditional means of raising revenues. The internal revenue allotment from the national government remains as the main source of revenues for many LGUs. Benchmarking is unheard of. Revenue administration remains weak. The lack of technical skill in financial planning is most evident in the local government units. This is the major reason why many local government units in the Study which have embarked on innovative financing schemes, such as the BOT or Bond Flotation, have hired financial consultants to undertake feasibility studies and the processing of the financing scheme, from start to completion. The engagement of expensive consultants adds tremendously to the cost of the project which the LGUs can ill afford.

Absence of adequate and up-to-date database.
Many LGUs still have to establish and develop a solid and updated datebase on which they could develop plans and make vital development decisions. Little or no planning can be done in the absence of complete, accurate, and up-to-date data and information.

The fear of the unknown. Whether it is revenue mobilization or the use of the various financing options, chief executives are wary of the possible consequences. The mindset among local government executives and administrators has surfaced in the light of the desire to see favorable results in a short time horizon and to please the constituency for political reasons. This has been brought about because of the shortness of the time during which elected officials hold office—a term of three years. The desire for quick and favorable results has hindered the visioning process and institutionalization of systems.

LIST OF ACRONYMS AND ABBREVIATIONS

ARD	Associates In Rural Development, Inc.
ASEM	Asia-Europe Meeting
BAPB	Boracay-Aklan Provincial Bonds
BIMP-EAGA	Brunei-Indonesia-Malaysia-Philippines East Asian Growth Area
BLCI	Bohol Light Company, Inc.
BLGF	Bureau of Local Government Finance
BLT	Build, Lease, and Transfer
BOHECO	Bohol Electric Cooperative, Inc.
BOT	Build, Operate, and Transfer
BSP	Bangko Sentral ng Pilipinas
BT	Build and Transfer
BT	Business Tax
BTO	Build, Transfer, and Operate
BWUI	Bohol Water Utilities, Inc.
CALABARZON	Cavite, Laguna, Batangas, Rizal, and Quezon
CAO	Contract, Add, and Operate
CCPSP	Coordinating Council for Private Sector Participation
CIDA	Canadian International Development Agency
CO	Capital Outlay
COA	Commission on Audit
CPCN	Certificate of Public Convenience and Necessity
DAP	Development Academy of the Philippines
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DOF	Department of Finance
DOH	Department of Health
DOT	Develop, Operate, and Transfer
DOT	Department of Tourism
DOTC	Department of Transportation and Communications
DPWH	Department of Public Works and Highway
ECC	Environmental Clearance Certificate
ELA	Executive-Legislative Agenda
EPZA	Export Processing Zone Authority
ESOP	Employee Stock Option
FLA	Foreshore Lease Agreement
FMS	Fiscal Management System
GBDC	Gingoog Bay Development Council

GIS	Geographic Information System
GOCC	Government Owned and Controlled Corporation
GOLD	Governance on Local Democracy
GPP	Gross Provincial Product
HGC	Home Guarantee Corporation
IBRD	International Bank for Rural Development
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
JV	Joint Venture
JVA	Joint Venture Agreement
LBP	Land Bank of the Philippines
LBP-TBG	Land Bank of the Philippines-Trust Banking Group
LGC	Local Government Code
LGSP	Local Government Support Program
LGU	Local Government Unit
LGUGC	Local Government Units Guarantee Corporation
LRA	Land Registration Authority
MDFO	Municipal Development Fund Office
MEEO	Municipal Economic Enterprise Office
MERALCO	Manila Electric Company
MHO	Municipal Health Office
MIS	Management Information System
MMINUTE II	Metro Manila Infrastructure Utilities & Engineering II
MOOE	Maintenance and Other Operating Expenses
MPDO	Municipal Planning and Development Office
MVA	Megavolt Amperes
NAIA	Ninoy Aquino International Airport
NAPOCOR	National Power Corporation
NDCC	National Disaster Coordinating Council
NEC	National Electrification Commission
NOD	Notice of Delinquency
NRW	Non-Revenue Water
NTRC	National Tax Research Center
PBAC	Prequalification, Bids and Awards Committee
PC-LGSP	Philippines-Canada-Local Government Support Program
PENRO	Provincial Environment and Natural Resources Office
PES	Provincial Electric System
PEZA	Philippine Economic Zone Authority
PILA	Presumptive Income Level Approach
PIN	Property Index Numbers
PNB	Philippine National Bank

PPDO	Provincial Planning and Development Office
PPP	Public-Private Partnership
PPUD	Provincial Public Utilities Department
PREMIUMED	Program for Essential Municipal Infrastructure, Utilities, Maintenance, and Engineering Development
PS	Personal Services
PVB	Philippine Veterans Bank
PWS	Provincial Waterworks System
QC	Quezon City
QCCCI	Quezon City Chamber of Commerce and Industry
RBGIS	Revenue-Based Geographical Information System
RCC	Revenue Collection Clerks
RDC	Regional Development Council
ROO	Rehabilitate, Own, and Operate
ROOM	Rehabilitate, Own, Operate, and Maintain
RORO	Roll-On, Roll-Off
RPT	Real Property Tax
RPTA	Real Property Tax Administration
RPU	Real Property Unit
SB	Sangguniang Bayan
SEC	Securities and Exchange Commission
SEF	Special Education Fund
SLEX	South Luzon Expressway
TFD	Taxes and Fees Division
TIN	Taxpayer's Identification Number
TRO	Temporary Restraining Order
TWG	Technical Working Group
USAID	United States Agency for International Development
VAT	Value Added Tax

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