



**DEPARTMENT ORDER NO. 076.2024**

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

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**Section 1. Rationale.** This Department Order (DO) establishes the updated rules and guidelines in the attestation or certification of income relative to the requirement of existing laws governing the creation, conversion, merger, or abolition of local government units (LGUs). Pursuant to Sections 7, 8 and 9 of Republic Act (RA) No. 7160, or the Local Government Code (LGC) of 1991, and RA No. 11683<sup>1</sup>, the Department of Finance (DOF) is mandated to attest the income indicator in the creation, conversion, merger or abolition of LGUs. Likewise, the provincial treasurer or the city treasurer is mandated by the LGC to certify the income requirement respectively for the creation of municipalities and for the classification of a city into a highly urbanized city.

**Section 2. Purpose.** This Department Order shall guide the BLGF and the concerned provincial and city treasurers in attesting and certifying the income requirement of LGUs for purposes required by applicable laws to ensure uniformity in the computation thereof.

**Section 3. Legal Bases.** The following are the legal bases of this DO:

- 3.1 Section 7 of the LGC provides that the creation of an LGU or its conversion from one level to another level shall be based on verifiable indicators of viability and projected capacity to provide services;
- 3.2 Section 8 of the LGC prescribes that the division and merger of existing LGUs shall comply with the same requirements of Section 7 of the LGC; provided, however, that such division shall not reduce

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<sup>1</sup> An Act Amending Section 450 of Republic Act No. 7160, Otherwise Known as the Local Government Code of 1991, as Amended by Republic Act No. 9009, by Providing for the Requisites for the Conversion of a Municipality into a Component City, and for Other Purposes.



the income, population, or land area of the LGU or units concerned to less than the minimum requirements prescribed in the LGC; provided, further, that the income classification of the original LGU or units shall not fall below its current income classification prior to such division;

- 3.3 Section 9 of the LGC provides that an LGU may be abolished when its income, population, or land area has been irreversibly reduced to less than the minimum standards prescribed for its creation under Book III of the LGC, as certified by the national agencies mentioned in Section 7 of the LGC to Congress or to the Sanggunian concerned, as the case may be;
- 3.4 Section 450(a) of the LGC, as amended by RA No. 11683, provides that the conversion of a municipality or a cluster of barangays into a component city shall be based on the locally generated average annual income (AAI) for the last two (2) consecutive years, which shall be at least One Hundred Million Pesos (Php100,000,000.00) based on 2000 constant prices or at least Four Hundred Million Pesos (Php400,000,000.00) based on 2012 constant prices; provided, that three (3) years after the effectivity of RA No. 11683 and every three (3) years thereafter, the threshold amount of Four Hundred Million Pesos (Php400,000,000.00) shall be increased by five percent (5%);
- 3.5 Section 461(a) of the LGC provides that a province may be created if it has an average annual income, as certified by the Department of Finance, of not less than Twenty Million Pesos (Php20,000,000.00) based on 1991 constant prices; provided, that, the creation thereof shall not reduce the income of the original unit or units at the time of said creation to less than the minimum requirements prescribed by the LGC;
- 3.6 Sections 442(a) and 452(a) of the LGC provide that the income requirement for the creation or conversion to municipality and classification into highly urbanized city shall be certified by the provincial treasurer and the city treasurer, respectively. Specifically, for the creation of municipality or conversion of barangay into a municipality, the required average annual income shall be at least Two Million Five Hundred Thousand Pesos (Php2,500,000.00) for the last two (2) consecutive years based on the 1991 constant prices; provided, that the creation thereof shall not reduce the land

area, population or income of the original municipality or municipalities at the time of said creation to less than the minimum requirements prescribed by the LGC. As for the classification into highly urbanized city, the latest annual income of at least Fifty Million Pesos (Php50,000,000.00) based on 1991 constant prices is required;

- 3.7 Section 442(c) of the LGC provides that the composition of the average annual income of a municipality shall include the income accruing to the general fund, exclusive of special funds, transfers and non-recurring income;
- 3.8 Section 461(c) of the LGC provides that the composition of the average annual income of a province shall include the income accruing to the general fund, exclusive of special funds, trust funds, transfers and non-recurring income;
- 3.9 Section 450(c) of the LGC, as amended by RA No. 11683, provides that the average annual income of a city shall include the income accruing to the general fund, exclusive of specific funds, transfers, and non-recurring income;
- 3.10 Under Department Special Order No. 6-92 dated August 21, 1992, or the Code of Approving and Signing Authorities, the Bureau of Local Government Finance (BLGF) of the DOF is mandated to certify the income of LGUs;
- 3.11 DOF Department Order No. 08-2011 dated 11 February 2011 states that the electronic Statement of Receipts and Expenditures (eSRE) maintained by the BLGF shall be the official reporting system of the DOF on local fiscal and financial matters, which aims to establish a reliable, accurate and timely reporting and monitoring system in the country;
- 3.12 Resolution No. 2, series of 2009, entitled *“Approving the Synchronized Rebasing of Price Indices to Base Year 2006”* of the National Statistical Coordination Board (NSCB), now known as the Philippine Statistics Authority (PSA), approved the rebasing of the price indices to base year 2006;
- 3.13 Resolution No. 15, series of 2021, entitled *“Approving the Rebasing of the Consumer Price Index (CPI) for All Income Households from Base Year 2012 to Base Year 2018”* of the PSA provides that



releasing of 2012-based CPI for all income households will continue until December 2021 series;

- 3.14 Department Order No. 031.2018, issued by the Secretary of Finance, dated 04 May 2018, provides guidelines on the computation and certification of income for creation, conversion, merger or abolition of a local government unit pursuant to RA No. 7160 and RA No. 9009;
- 3.15 RA No. 11683 provides for an alternative locally-generated average annual income requirement for a municipality or a cluster of barangays with a population of not less than one hundred thousand (100,000) inhabitants but less than one hundred fifty thousand (150,000) inhabitants or a contiguous territory of at least one hundred (100) square kilometers, and for this income threshold to be increased every three years starting on the third year after the effectivity of the said law; and
- 3.16 RA No. 11964 otherwise known as the Automatic Income Classification of Local Government Units provides for the institutionalization of the Automatic Income Classification of Provinces, Cities, and Municipalities. The Act defines Annual Regular Income as referring to revenues, including fees and receipts actually realized which are reported yearly on cash basis by provinces, cities, and municipalities from regular sources, including the National Tax Allotment (NTA) and other shares in national wealth, but exclusive of non-recurring receipts, such as national aids, grants, financial assistance, loan proceeds, sales of assets, miscellaneous income/receipts and similar others. The Act further stipulates that for the purpose of income reclassification, Annual Regular Income includes: (1) shares from national wealth; (2) excise tax on tobacco; (3) incremental collection from Value-Added Tax (VAT) under RA No. 7643, otherwise known as An Act To Empower The Commissioner Of Internal Revenue To Require The Payment Of The Value-Added Tax Every Month And To Allow Local Government Units To Share In VAT Revenue, Amending For This Purpose Certain Sections Of The National Internal Revenue Code; (4) gross income tax paid by businesses and enterprises in Special Economic Zones under RA No. 7916 or “The Special Economic Zone Act of 1995”, as amended; and (5) such other shares as may be granted by law to the province, city, or municipality.

**Section 4. Primary Data.** The BLGF and the concerned provincial and city treasurers shall use the approved Statement of Receipts and Expenditures (SRE) submitted by the LGUs through the eSRE system for the last two (2) consecutive years, and three (3) years prior to the issuance of the latest income reclassification, as the primary data for computing and attesting the income requirement. In cases where the SRE is unavailable, such as, but not limited to, the creation of a new LGU from barangays belonging to different municipalities and/or cities, the duly approved Financial Statements (FS) may be used in lieu of SRE as primary data.

**Section 5. Elements of the Certification.** The certification of the average annual income shall indicate the following income requirements computed based on 2000 and 2012 CPI:

5.1 Average Annual Income of Proposed LGUs:

5.1.1. Average Locally Generated Annual Income, in the case of conversion of municipality/ies or cluster of barangays into component city; and

5.1.2. Average Annual Income, in the case of creation of province, creation of municipality, or conversion of barangay into municipality.

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

5.3 Resulting Average Annual Regular Income of the Original LGU or LGUs as basis of the income classification of the original LGU or LGUs at the time of said creation or conversion, per guidelines as outlined in Section 4(d) of RA No. 11964.

**Section 6. Determination of Annual Income.** Based on the definition of annual income under the LGC, RA No. 11683, and RA No. 11964, it shall be computed as follows:

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

$$\text{Annual Income} = \text{Real Property Tax (General Fund) + Tax on Business + Other Taxes + Regulatory Fees (Permits and Licenses) +}$$



*Service/User Charges (Service Income) + Receipts from  
Economic Enterprises (Net Income)<sup>2</sup> + Interest Income +  
Share from National Wealth + Share from Tobacco Excise  
Tax (RA 7171) + Share from EVAT + Shares from Philippine  
Economic Zone Authority (PEZA) + National Tax Allotment  
(NTA)*

## 6.2 Conversion of Municipality/ies or Cluster of Barangays into Component City:

$$\begin{array}{l} \text{Locally} \\ \text{Generated} \\ \text{Annual} \\ \text{Income} \end{array} = \begin{array}{l} \text{Real Property Tax (General Fund) + Tax on Business + Other} \\ \text{Taxes + Regulatory Fees (Permits and Licenses) +} \\ \text{Service/User Charges (Service Income) + Receipts from} \\ \text{Economic Enterprises (Net Income)}^3 + \text{Interest Income +} \\ \text{Shares from PEZA} \end{array}$$

## Section 7. Computation of the Average Annual Income by Indexing

7.1 In the absence of the PSA-issued CPI based on the required base year, the BLGF shall compute the CPI factor and apply to the average annual income at current prices using the following steps indexing approach:

7.1.1 Compute the growth rate of CPI based on available constant price released by PSA for fiscal year (t) by dividing the difference of current year and prior year CPI based on available constant prices to prior year CPI based on available constant price.

$$\begin{array}{l} \text{Growth Rate of CPI based on} \\ \text{available constant prices}_t \end{array} = \frac{\text{CPI based on available constant price}_t - \text{CPI based on available constant price}_{t-1}}{\text{CPI based on available constant price}_{t-1}}$$

7.1.2 Estimate the CPI based on required constant price of fiscal year (t) for the creation of province/municipality and conversion into component city using the computed growth rate of CPI based on available constant price.

$$\text{Required CPI}_t = (1 + \text{Growth Rate of CPI based on available constant price}_t) \times \text{Required CPI}_{t-1}$$

The CPI based on required constant prices is 100. Hence, compute the required CPI factor shall be as follows:

<sup>2</sup> Net income/loss from operations as stated in the Statement of Financial Operations (SFO) under the SRE shall be used in the computation.

<sup>3</sup> Ibid.

$$\text{Required CPI factor}_t = \frac{\text{CPI based on Required Constant Price}_t}{100}$$

7.1.3 Divide annual income at current prices by the CPI factor based on required constant prices, depending on the LGU type to get the annual income at constant price.

$$\text{Annual income at constant prices (AICP)}_t = \frac{\text{Annual income at current prices}_t}{\text{Required CPI factor}_t}$$

- 7.1.3.1 Creation of Province: compute the annual income at constant prices received by the province from all the subject municipalities;
- 7.1.3.2 Conversion into Component City: compute the locally generated annual income at constant prices of component municipality or cluster of barangays;
- 7.1.3.3 Creation of Municipality: compute the annual income at constant prices received by all the subject barangays;
- 7.1.3.4 Classification of Component City as Highly Urbanized City: compute the latest annual income at constant prices of the subject component city;
- 7.1.3.5 Add each annual income at constant price for a given year to get the total annual income and divide the total annual income by the number of fiscal years to get the average annual income based on constant prices.

$$\text{Average Annual income at constant prices (AICP)}_{t1, t2} = \frac{\text{AICP}_{t1} + \text{AICP}_{t2}}{2}$$

7.2 To determine whether the creation or conversion of an LGU or conversion will not reduce the income of the original unit or units at the time of said creation or conversion to less than the minimum requirements prescribed in the LGC, compute the reduced average annual income of the original unit or units by deducting the shares of income of the proposed LGU to the annual income of the original unit or units.



**Section 8. Increase in the Threshold Amount for Proposed Cities to be Created Through Alternative Income Requirements Every Three (3) Years.** The threshold amount for proposed cities created through alternative income requirements is set by RA No. 11683 at Four Hundred Million Pesos (Php400,000,000.00) based on 2012 prices for the first three (3) years after the effectivity of the law. A factor of 1.05 shall be multiplied to this threshold amount, corresponding to a five percent (5%) increase, on the third year after the effectivity of RA No. 11683 and every three (3) years thereafter, to be used as the threshold amount for the corresponding three-year period.

**Section 9. Resulting Income Classification of the Original LGU/LGUs.** The average Annual Regular Income of the original LGU/LGUs less than its shares from the proposed LGU at current prices, shall be the basis in determining the resulting income classification of the original LGU/LGUs, based on policy implemented in RA No. 11964 and its Implementing Rules and Regulations.

**Section 10. Responsibilities of the BLGF.** The BLGF shall implement this DO properly and efficiently, and shall be responsible for the following:

- 10.1 Update annually the CPI Factors based on the available CPI data released by the PSA, which shall be confirmed by the Secretary of Finance;
- 10.2 Provide annually the matrix of CPI table to be used by the provincial and city treasurers in computing and certifying the annual income;
- 10.3 Issue the Certificate of Average Annual Income to requesting local chief executives (LCEs), local treasurers, legislators, and requesting authorities, as prescribed in the LGC, indicating the results of the abovementioned income requirements;
- 10.4 Capacitate provincial and city treasurers on the process and methodology of computing and certifying the latest annual income;
- 10.5 Issue appropriate guidelines/update/advisory relative to the implementation of this DO; and
- 10.6 Provide an annual report to the DOF on the certifications issued.

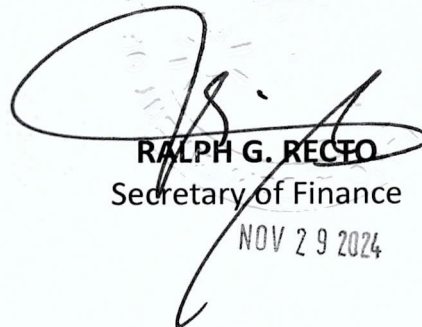
**Section 11. Responsibilities of Local Treasurers.** Local treasurers shall be responsible for the following in line with the guidelines set herein:



- 11.1 Submit all other documents/reports which the DOF and BLGF deemed necessary for the computation of the annual income for the creation or conversion from one level to another;
- 11.2 In the case of provincial treasurer, compute and certify the average annual income for the creation of a municipality;
- 11.3 In the case of city treasurer, compute and certify the latest annual income for the conversion to highly urbanized city; and
- 11.4 Perform such other functions as may be provided by the law, and rules and regulations of the DOF and the BLGF.

**Section 12. Repealing Clause.** All department orders, memorandums, circulars, and other issuances that are contrary to or inconsistent herewith are hereby repealed, amended, or modified accordingly.

**Section 13. Effectivity.** This Department Order shall take effect upon its filing with the Office of the National Administrative Register of the University of the Philippines Law Center.

  
**RALPH G. RECTO**  
Secretary of Finance  
NOV 29 2024

