



**OFFICIAL POSITION PAPER OF THE  
LEAGUE OF CITIES OF THE PHILIPPINES  
ON HOUSE BILL NO. 4149 (SUBSTITUTING H.B. 257) WHICH SEEKS TO AMEND  
SECTION 450 OF THE LOCAL GOVERNMENT CODE TO INSERT AN EXEMPTION  
ALLOWING MUNICIPALITIES WITH LOCALLY-GENERATED INCOME OF  
250 MILLION PESOS FROM THE LAND AREA AND/OR POPULATION  
REQUIREMENTS TO CONVERT INTO COMPONENT CITIES**

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**I. INTRODUCTION**

The League of Cities of the Philippines **vehemently opposes** House Bill 4149 which seeks to exempt municipalities with 250 million peso locally-generated income from population and/or land area requirements provided for by Section 450 of the Local Government Code.

At the outset, it must be pointed out that Section 450 must be read in conjunction with Section 7 of the Local Government Code which lays down the general rules on creation and conversion of local government units. The proposed bill completely disregards the rationale behind the minimum verifiable indicators of creation and conversion of local government units identified in Chapter II, Section 7 of the Local Government Code, to wit:

Section 7. Creation and Conversion- As a general rule, the creation of a local government unit or its conversion from the one level to another shall be based on verifiable indicators of viability and projected capacity to provide services, to wit:

- a. **Income:** It must be sufficient, based on the acceptable standards, to provide for all essential government facilities and services and special functions commensurate with the size of its population, as expected of the local government unit concerned;
- b. **Population:** It shall be determined as the total number of inhabitants within the territorial jurisdiction of the local government unit concerned; and
- c. **Land Area:** It must be contiguous, unless it comprises of two or more islands or is separated by a local government unit independent of the others; properly identified by metes and bound with technical descriptions; and sufficient to provide such basic services and facilities to meet the requirements of its populace.

Currently, Republic Act 9009 which amends Sec. 450 of the Local Government Code is the governing law as regards the city conversion. The said law provides that for a municipality to be converted into cities, they must have *"a locally generated average annual income, as certified by the Department of Finance, of at least One hundred*

million pesos (P100,000,000.00) for the last two (2) consecutive years based on 2000 constant prices, and if it has either of the following requisites:

- a contiguous territory of at least one hundred (100) square kilometers, as certified by the Land Management Bureau; or
- a population of not less than one hundred fifty thousand (150,000) inhabitants, as certified by the National Statistics Office”

We believe that the current law is sufficient for the conversion of municipalities. Section 450 already provides opportunity and leeway for municipalities to meet the cityhood requirements since it was liberally amended to either comply with the population or land area requirement. To waive all these requirements violate the intention of the verifiable indicators as reflected in the Local Government Code of 1991.

For clarity, the League fully supports and welcomes the development of municipalities into cities based on reasonable established criteria. We remain consistent with our principle to adhere with the rules and bases already set by the Local Government Code of 1991.

While it is true that income requirement is a controlling verifiable indicator of the viability and capacity of local government units in handling its affairs, the same cannot stand on its own. It is well established that land area and/or population must complement the income requirement and thus are equally important criteria for conversion to cities.

Under the proposed measure, the requirements of both land area and population have been set aside in favor of Php 250 Million locally generated income. The League humbly requests that the sponsor of the bill expound on the basis and rationale on why the income requirement was set at Php 250 Million.

## **II. THE TWIN CRITERIA AS A MINIMUM**

As mentioned, Section 7 of the Local Government Code provides for the general rules for the conversion of a local government unit. While there is no hard and fast rule on the optimum populace for land area or city, there is value in pairing the locally generated income requirement with either land or population.

The sponsor of the Bill took note of small states specifically Monaco and San Marino. We respectfully point out that these are not analogous in the case of Philippine municipalities and cities particularly when these are small states in first world countries that do not operate under the same regulations as those in place in the Philippines.

In reality, there is a high demand for city conversion in the Philippines because of the assumption that becoming a city results in participation to a sizeable Internal Revenue Allotment. Once a municipality becomes a city, its IRA will increase tremendously. Population and/or land area as criteria cannot be sacrificed. A city with no sufficient

number of population and/or land will have no need for the excess in funds. It will only diminish the current IRA of affected cities and is a disservice to those cities with high population to the detriment of its inhabitants.

If that new city only has a small population and/or land area below the current requirement, and what will it do with the "windfall" of resources? By allowing municipalities with high income without complying with the land or population requirement to become cities, HB 4149 creates "artificial cities," or those with high capacity to spend and provide but with meager population and/or land area to spend it in. Further, this will result in an uneven distribution of resources across cities.

With respect to the land area requirement to become a city, a local government unit with a larger land area naturally will have more capacity to become cities as it develops and would thus need more national support to maintain the territory.

### **III. THE POLITICS OF CONVERSION**

**A. The diminishing IRA per capita of cities.** While it is true that becoming a city provides the so called "increase in the IRA", an aspiring city shall also have to deal with the diminishing IRA per capita of cities.

The exodus of municipalities eager to be converted into cities had impacted on the anticipated increased of the existing cities' IRA share. One way of concretely translating the impact of conversion is through the IRA per capita or by measuring how much a typical LGU can spend for its inhabitant. Table 1 presents IRA per capita of cities as opposed to IRA per capita of provinces and municipalities. In periods where census of population is released, column 3, 5 and 7 shows that starting 2005, inhabitants of provinces and municipalities are better off in terms of the amount of money that their LGU can spend for them. In fact, an inhabitant of a province or municipality enjoys 1,500 pesos more than an inhabitant of the city.

**Table 1. COMPARATIVE IRA PER CAPITA OF CITIES  
(1996, 2005 and 2011)<sup>1</sup>**

| 1                                       | 2                 | 3                     | 4                 | 5                     | 6                 | 7                     |
|---|-------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|
| TYPE OF LGU                             | Population (1995) | IRA PER CAPITA (1996) | Population (2000) | IRA PER CAPITA (2005) | Population (2007) | IRA PER CAPITA (2011) |
| Cities and Component Barangays          | 17.07M            | 981.36                | 26.09 M           | 1,650.56              | 33,698,991        | 2,290.51              |
| Provinces, Municipalities and Barangays | 50.69M            | 815.95                | 50.42 M           | 2,153.35              | 54,871,009        | 3,822.72              |
| <b>DIFFERENCE</b>                       |                   | <b>165.41</b>         |                   | <b>-502.79</b>        |                   | <b>-1532.22</b>       |

This draws us to the conclusion that a newly converted city cannot fully depend on IRA alone to finance the demands of urbanization.

**B. Conversion greatly affects smaller cities more than the bigger cities.** On average, each city loses 3 million pesos when a municipality converts into a city. Based on LCP experience, every time the IRA is slashed, smaller cities felt it more than the bigger cities. Conversion affects smaller cities that are greatly depend on the IRA to finance the bulk of social services more than the big cities.

Based on Section 284 of the Local Government Code, cities get 23% of the Internal Revenue Allotment. This amount is divided among cities using the formula 50% population, 25% land area, and 25% equal sharing. Often, cities with large population keep their share intact because 50% of the IRA is computed based on population. The same story can be shared with regard to land area. Cities with bigger land area tend to get more because 25% of the IRA is based on land area. This means that the chance of a small city to get a bigger share on the IRA is through equal sharing. Seventy percent of the IRA formula is already enjoyed by bigger cities.

<sup>1</sup>The IRA per capita is simply the ratio of the IRA share of a certain type of LGU to its population. To resolve the issue of double and triple-counting inhabitants in deriving the IRA per capita (arising from the fact that provincial and barangays residents are also residents of either a city or a municipality), the population is dichotomized as either city or non-city residents. This approach allows the computation of the city IRA per capita (represented by the combined IRA share of cities and their component barangays divided by the total city population), and the non-city IRA per capita (represented by the combined IRA share of provinces, municipalities and their component barangays divided by the total municipal population).

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The real story behind conversion is it impacts the smaller cities more than the bigger cities. The result is stunted development. This is where the concept of "preparing a city" becomes urgent and merits the attention of legislators.

#### **IV. CONCLUSION**

In conclusion, the League supports the conversion of municipalities to cities provided they meet the criteria already established in the Local Government Code of 1991 i.e. income and, land area or population. Philippine municipalities are not comparable with states and cities in highly developed economies. The League believes that the shortsightedness of HB4149 will be a disservice to majority of the Philippine cities.

To reiterate, we believe that the current law is sufficient for the conversion of municipalities. Section 450 already provides opportunity and leeway for municipalities to meet the cityhood requirements since it was liberally amended to either comply with the population or land area requirement. To waive any of these requirements violate the intention of the verifiable indicators as reflected in the Local Government Code of 1991.

Lastly, we would like to request the Committee that any bill on conversion should be thoroughly studied, debated, and deliberated to eliminate any lasting negative repercussions. We checked our records and we have not received any notice for the deliberation of House Bill 257 or HB 4149. We would be happy to share with the Committee our insights on the issue of conversion.

  
**Mayor EDGARDO D. PAMINTUAN**  
National President





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## Supplemental Position Paper of the League of Cities of the Philippines (LCP)

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### In response to the Reply of Hon. Roy M. Loyola

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The League of Cities of the Philippines would like to reiterate its stand and to respectfully respond to the REPLY of Hon. Loyola to our Official Position Paper on House Bill No. 4149.

### DISCUSSION

To summarize the arguments presented by Hon. Loyola:

- A. Shall we consider as an exemption to the general rule, locally-generated income as the sole verifiable indicator for the conversion of a municipality into city?
- B. Does obiter dictum have a binding effect?

### ARGUMENTS

1. Although we agree that economic viability is the primordial consideration in the creation of LGUs, the proponent equates the same with high locally-generated income only. We beg to differ. Economic viability of LGUs does not rest solely on income. It has to be sustainable. For conversion of LGUs to be sustainable, it has to meet the TWIN REQUIREMENT. It should have INCOME and POPULATION or INCOME and LAND AREA, otherwise, it will not be sustainable;
2. Assuming without conceding that income can be accepted as the only indicator of economic viability, the response that 250 Million Pesos was based on a Committee Report done in 16 March 2015 shows that there is still a need to conduct a research on baselines and growth indexes to arrive at the required level of locally-generated income for a municipality to be considered economically viable to convert to a city.
3. The bill is proposing an exemption to the general rule. Thus, there is a reasonable expectation of careful scrutiny and due diligence in the creation of the same. To conclude that income is equivalent to economic viability is a sweeping generalization. We believe that income is not the sole determinant of economic viability. It is a necessary but not sufficient requirement. A holistic vision in the analysis of economic, financial, and physical attributes of municipalities converting into cities must be conducted to ensure that we are creating cities ready to attain sustainable economic growth and not merely "artificial" cities.
4. In **Latasa vs. Comelec, G.R. 154829** as mentioned in the Reply, the main issue in the said case was the disqualification of Mayor Latasa due to violation of the three-term limit rule. Clearly, the jurisprudence used is not applicable to the issue at hand;



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5. An obiter dictum is an opinion “uttered by the way”, not the point or question pending, as if turning aside from the main topic of the case to collateral subjects or the opinion of the court upon any point or principle which is not required to decide. (People vs. Macadaeg GR L-4316);
  
6. As mentioned in paragraph 11 of the Reply stating that “for as long as there is compliance with the income requirement, the legislative intent is, after all, to the effect that the land area and population requirements may be overridden by the established economic viability of the proposed province, **was just an obiter dictum or mere opinion which has no legal effect;**
  
7. We hope that this may help Congress in arriving at a favorable legislation towards strengthening local autonomy.

*~Nothing follows~*

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