Section 4.2

SHOW ME THE MONEY

A DISCUSSION PAPER ON THE FINANCIAL BENEFITS OF FEDERALISM TO CITIES

I. INTRODUCTION

Experts are still at odds on whether or not the country's decentralization policy has been successful. Some say that it failed because it resulted in underspending and poor delivery of basic services. Others believe that innovations in local governance show that decentralization was able to increase people participation, transparency, and accountability. Still others claim that it is too early to tell, decentralization is a process and the outcomes will take time to manifest. Despite the differences, these experts are in agreement that autonomy for local governments can best be served under a federal structure. Discussions and debates on the merits and demerits of federalism have continue to intensify but nowhere in the discourse will you see a discussion on how federalism will affect cities.

Despite the proliferation of various materials on federalism and its benefits to our country, discussions revolve around the model that fits us best and not on how it will affect local government units, specifically, cities. If development is the main principle behind the shift to federalism, then, cities need to weigh in on the discourse. After all, cities are considered the engines of growth. This paper argues that the shift to federalism is beneficial to cities because it will increase local revenues through direct remittance of shares from national wealth, it will facilitate the achievement of true and meaningful local autonomy, and it will stop the passage of laws that has no corresponding funding requirements. The first two benefits are on the revenue side while the latter deals with the expenditure side.

II. FINANCIAL BENEFITS OF FEDERALISM TO CITIES

A. Increase local revenues through direct remittance of shares from the national wealth

The 1987 Constitution provides for the equitable share of local government units in the proceeds from the utilization and development of the national wealth, as enshrined in Article 10, Section 7. On the other hand, the Implementing Rules and Regulations of the Local Government Code of 1991 provides that the LGUs shall be given forty (40%) of the gross collection derived by the National Government from the preceding fiscal year in the utilization and development of the national wealth within their territorial jurisdiction. But in the current system, the taxes paid for the utilization and development of national wealth are remitted first to the national government and will be withheld in the government treasury for three (3) years until it is released to the concerned LGUs. To illustrate, in the case of mining or minerals, mining companies pay the tax to the Bureau of Internal Revenue, the cities share is first determined by the Mines and Geosciences Bureau, certified by the Department of Budget and Management, and released to the National Treasury. Without the DBM certification that certain amount will be deposited to the respective cities' account, cities will not receive its share from the mining taxes. Figure 1 shows the process of computing the 40% LGUs share from the mining taxes. Notice that there are five national government agencies that "computes" the LGUs shares before it reaches the LGUs. If one agency failed to perform any of its task, LGUs can expect delays in the release of their share from the national wealth.

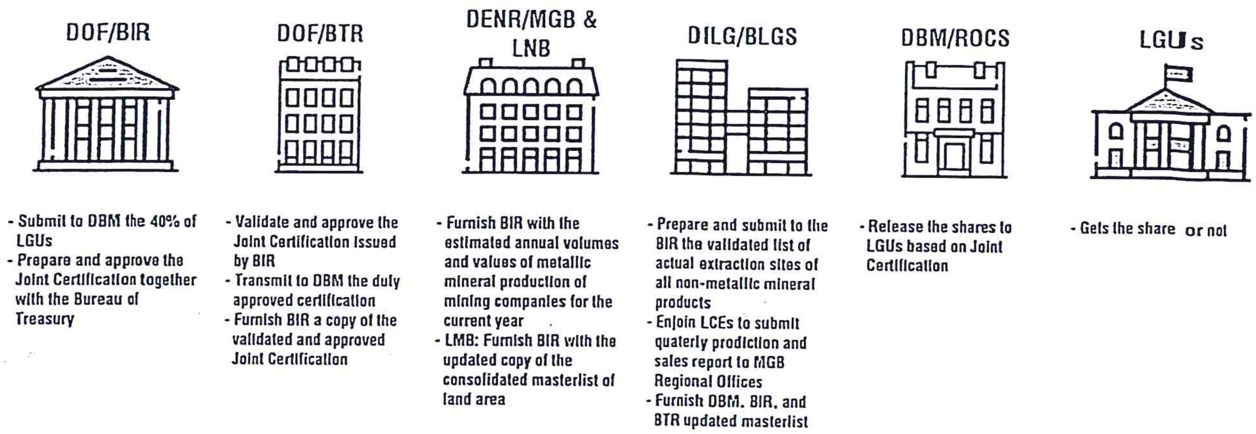

*Figure 1: **Why it takes three years or forever.** The process flow on the release of LGUs shares from mining taxes. Based on Joint Circular No. 2009-1, issued on March 31, 2009.*

This process results in delays and sometimes non-remittance. For the longest time, cities have been supporting legislative measures calling for the direct remittance of LGUs share from the national wealth to finance the implementation of projects designed to spur development in host cities.

In the proposed Federal Constitution, LGUs share from the national wealth will be directly deposited to their accounts. Mining companies will directly pay the local and regional governments. It will be the local and regional governments that will remit to the Federal Government its share. The simplified process is presented in Figure 2. It cuts the steps from six to two.

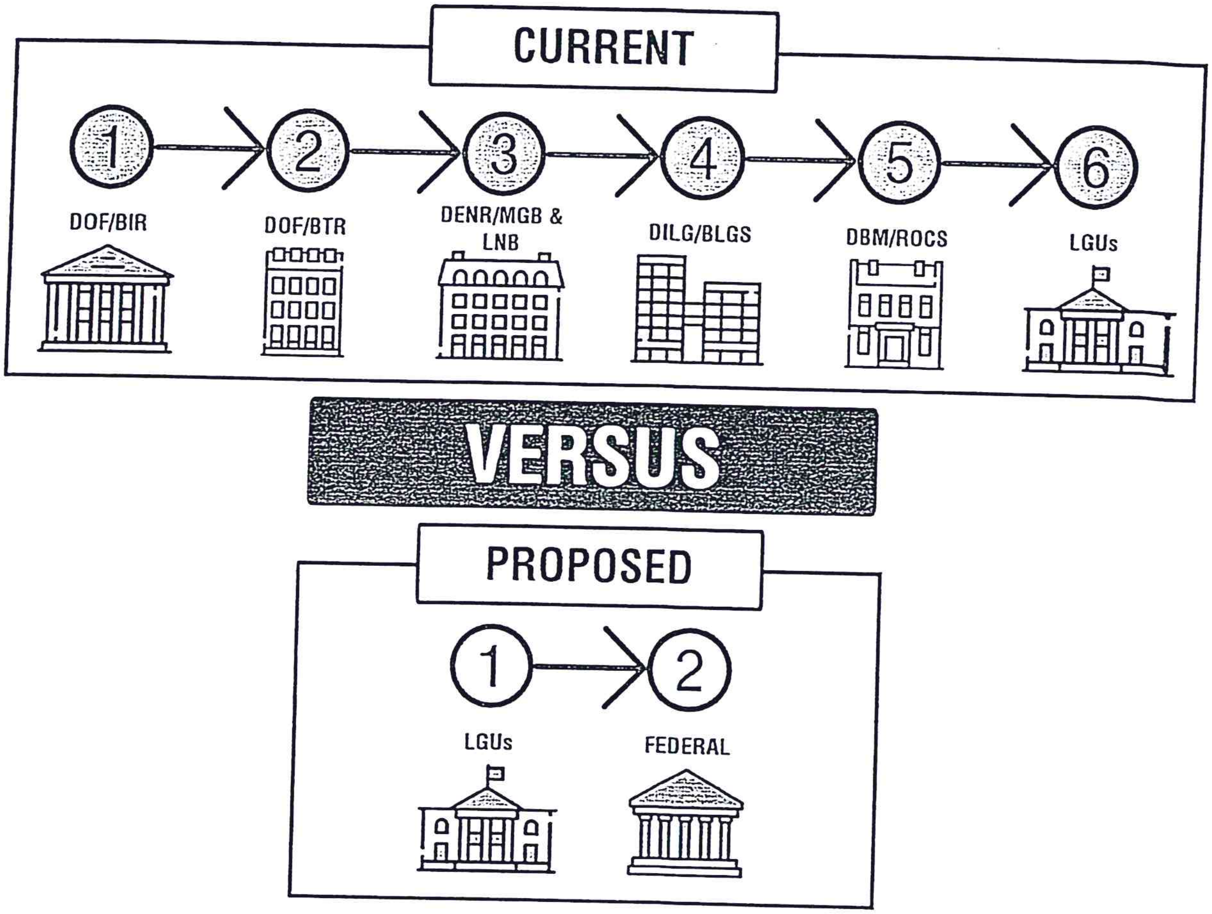

Figure 2. Direct Remittance of LGUs share in Mining Taxes as discussed in the Proposed Federal Constitution.

The direct remittance and collections of the LGUs' share from the national wealth will fast track the development of provinces, cities and municipalities. The funds will be readily available to the local governments, restraining it from the tedious process of validation and approval by different national government agencies.

B. Facilitate the achievement of true and meaningful local autonomy

Currently, local government units are mere agents of the national government and therefore has no inherent power of taxation. Its taxing power is limited to that which is provided for in the Local Government Code. Any grant of power is to be construed strictly, with doubts resolved against its existence. It has been declared state policy that the territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to attain their fullest potential as self-reliant communities and as effective partners of the national government in the attainment of national goals.

In a federal system, each state has the power to impose taxes within its area. Every region or state will have its own State Tax Administration and Tax District Offices that would be responsible for the setting the tax rates, collection of taxes, and in the execution of judgments in all cases decided on its favor by the Court of Tax Appeals. Further, it has a reversed way of remitting shares from the taxes collected. States remit to the Federal Government. A decentralized tax administration will enhance the ability of local government units in planning and budgeting because it would make the flow of resources more predictable and efficient.

C. *Make the passage of laws without funding requirements virtually non-existent*

Apart from increasing local revenues through direct tax remittance and more authority to set and collect taxes, a federal government will also be beneficial to cities because it will make the passage of laws without funding requirements ("unfunded mandates") virtually non-existent. The presence of unfunded mandates stands as utter irony to the country's decentralization policy. Unfunded mandates displace other essential local government priorities, impose contradictory and inconsistent requirements and compound the fiscal difficulties of local government units to render basic services to the people. Since the enactment of the Local Government Code, at least 134 laws remained unfunded or underfunded. According to the report prepared by the Congressional Policy and Budget Research Department (CPBRD), there is a funding deficiency of P125 billion pesos to implement these laws. The breakdown of the unfunded laws per sector is shown on Table 1. Social Services, which is the 3rd unfunded sector is generally the responsibility of local government units.

Table 1. Unfunded Laws Per Sector

Particulars	Amounts, In Billion Pesos			Deficiency (%)
	Requirement	Allocated	Deficiency	
Economic Services	238.9	159.9	79.0	33.1
Defense	75.2	54.9	20.3	27.0
Social Services	41.6	26.1	15.5	37.2
General Administration, Public Order and Safety	11.6	1.2	10.4	89.7
Total	**367.3**	**242.1**	**125.2**	34.1

Source of basic data: DBM

In the proposed amendments to the 1987 Constitution, federalism is seen to prevent the creation of unfunded laws by granting constitutional standing to regional and local governments. In the same study conducted by CBPRD, the unfunded laws were itemized. Table 2. lists these unfunded laws and those that directly affect local governments units were highlighted. It is interesting to note that some of these laws are without specific budget requirements. For instance, the declaration of some churches in Iloilo City as Cultural Heritage Tourism Zone has no corresponding budget requirement. This only goes to show that the 125 billion pesos funding deficiency is a conservative estimate.

Table 2. List of Unfunded Laws

Republic Acts	Year Enacted	Description	Budget Required
Economic Services			
RAs 8293 & 10372	1997 & 2013	Amendments to the Intellectual Property Code of the Philippines	2.2
RA 10586	2013	Imposition of penalties to persons driving under the influence of alcohol, dangerous drugs, and similar substances	-
RA 10557	2013	Product Development and Filipino Design Center Act	30.0
RA 10616	2013	Fish Port in Dagupan, Pangasinan	140.0
RA 10628	2013	Fish Ports in Sulu	20.0
RAs 10369 & 10379	2013	Reconstitution of an Engineering District Office into two Regular District Engineering Offices and Establishment of a Second District Engineering Office	-
RAs 10337, 10338, 10346, 10347, 10388, 10391 & 10528	2012 & 2013	Conversion of some LTO extension offices into regular LTO district office	-
RAs 10385, 10399, 10404, 10405, 10408, 10418, & 10549	2013	Conversion of some municipal and provincial roads into national road	-
RAs 10409, 10560 &10561	2013	Declaration of some provinces, as a Tourism Dev't Area	-
RA 10555	2013	Declaration of some churches and plazas in Iloilo City as Cultural Heritage Tourism Zone	-
Social Services			
RA 10650	2014	Institutionalizing open distance learning in all levels of tertiary education	-
RA 10657	2015	Regulating and modernizing the practice of chemistry in the Philippines	-
RA 9509	2008	Barangay Livelihood and Skills Act of 2008	-
RAs 9419, 9420, 9421, 10090, 10613, & 10614	2007, 2010 & 2013	Increasing bed capacity of some municipal and provincial and tertiary hospitals	-
RA 10647	2014	Strengthening the ladderized interface between technical-vocational education and training, and higher education	-
Under various RAs	2012 & 2013	Establishing elementary/primary schools, city schools, farm school, national high schools, national vocational high schools, & conversion of some high schools into independent national high schools in some regions	19.6*
RAs 10288, 10595, 10597, 10604 & 9519	2012 & 2013	Converting some colleges into state universities	1,782.8*
Gen. Administration, Public Order and Safety			
RA 10084	2010	Granting survivorship benefits to spouse of deceased retired member of COA, CSC, COMELEC and OMBUDSMAN	-
RA10173	2012	Creating the National Privacy Commission to protect individual personal information and communication systems in the government and private sector	70.0
RA 10380	2013	Providing for local absentee voting for media	-
RA 10366	2013	Authorizing COMELEC to establish precincts exclusively for persons with disabilities and senior citizens	-
RA 10590	2012	Providing for a system of overseas absentee voting for Philippine citizens abroad	-
RAs 10339, 10565,10571, 10580, 10582 & 10602	2012 & 2013	Creating additional branches of Regional Trials Courts	48.8*
RA 10640	2014	Strengthening the Comprehensive Dangerous Act of 2002	-
Defense			
RA 7696	1994	Amending the law that standardizes and upgrades the benefits for military veterans and their dependents	1,853.2
TOTAL			3,966.6*

Source: List of Unfunded Mandates (1995 to 15 October 2015), Excel File, DBM.
** Excluding RAs without budget estimates*

Under the federal system, policy-making and funding powers are lodged with the local and regional governments. Such powers, therefore, cannot be changed, modified, altered, or repealed through simple legislation. These provisions shall be self-executing in nature which means that it does not need enabling laws to be implemented. In addition, Article 10, Section 25 of the proposed Federal Constitution provides that regional governments shall not exercise their exclusive legislative powers unless their respective regional governments have the financial and organizational capacity to implement and administer the legislation.

III. CONCLUSION

Despite the mixed reviews on the efficacy of the decentralization policy to improve local governance or to improve the quality of the delivery of basic services to the people, experts describe federalism as the "next logical step" after devolution. For cities, a shift to federalism means more resources to finance the delivery of basic services, more predictability in the sources of revenues, and less occurrence of unanticipated costs brought about by the passage of unfunded mandates. Given these benefits, is it not logical to say that cities support federalism?