

**FISCAL DECENTRALIZATION AND REVENUE MOBILIZATION:
CASE OF OLONGAPO CITY, PHILIPPINES**

by

VANDANA SAREEN

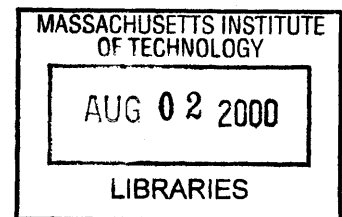
B.P., Physical Planning
School of Planning & Architecture, New Delhi, 1997

Submitted to the Department of Urban Studies and Planning in Partial Fulfillment of the
Requirements for the Degree of

Masters in City Planning
at the
Massachusetts Institute of Technology

June 2000

ROTCH



© 2000 Vandana Sareen. All rights reserved.

The author hereby grants to MIT permission to reproduce and to distribute publicly paper
and electronic copies of this thesis document in whole or in part.

Signature of Author

.....

Department of Urban Studies and Planning
May 5, 2000

Certified by

.....

Associate Professor Paul Smoke
Thesis Supervisor

Accepted by

.....

Associate Professor Paul Smoke
Chair, MCP Program
Department of Urban Studies and Planning

**FISCAL DECENTRALIZATION AND REVENUE MOBILIZATION:
CASE OF OLONGAPO CITY, PHILIPPINES**

by

Vandana Sareen

Submitted to the Department of Urban Studies and
Planning on May 12, 2000 in Partial Fulfillment of the
Requirements for the Degree of Master in City Planning

ABSTRACT

This study examines problems encountered in revenue mobilization by the Local Government of Olongapo City under the Philippines fiscal decentralization policy. It documents the revenue generation processes in Olongapo City, analyses the various administrative and procedural roadblocks faced in generating revenue from major local sources, and recommends steps that can be taken to increase local revenues. It concludes that revenue reform and performance at the local level is highly dependent on local administrative, technical and managerial capacity. Developing local capacity in these areas is critical for effective implementation of the broader decentralized fiscal system.

Thesis Advisor: Paul Smoke

Title: Associate Professor of the Practice of Development and Planning

ACKNOWLEDGEMENTS

My research was made possible by the generous support of MIT and the World Bank. I am grateful to Prof. Paul Smoke and Aniruddha Das Gupta for conceiving of this project. I am also grateful to Toru Hashimoto at World Bank office in Manila for overseeing the work in the Philippines. I would also like to thank Paul Smoke, my thesis advisor, for his sturdy support, encouragement, very clear and patient feedback and assisting with the editing; Jennifer Davis, my reader for her comments and suggestions.

I also owe a great deal of gratitude to Mayor Kate Gordon for her invitation to work with Olongapo City Government; Attorney Ferdinand Ariosteranos and Elizabeth Simpa-Zavalla for their insight and hospitality, Cecelia and Lynette for providing me with a wealth of information on Olongapo. I would also like to thank the City officials: Oscar Augustine, Anselmo Santos, Dennis Martinez, Dante Ramos and Attorney Bargado for devoting their time and making available the data and information for the study. I am grateful to a number of people in the City Council, the central agencies, and the CDS consultants who took time to discuss the issues. I am also grateful for the varied support provided by the staff at Olongapo City.

The trip to the Philippines has been a learning experience in more ways than one. It wouldn't have been the same without the rest of the team Sophia, Ashna, Nayana and Masako. Finally, I want to thank my friends and family, who encouraged and supported me throughout, especially Srikrishnan and the dispersed 'indiaclub' for keeping me on track, Brandon Mitchell and Carolyn Glee for sticking it out in the CRL, my sister, Mandira, and my parents, Renu and Subhash, for their unwavering faith in me.

TABLE OF CONTENTS

ABSTRACT	3
ACKOWLEGEMENTS	5
TABLE OF CONTENTS	7
LIST OF FIGURE	9
LIST OF ACRONYMS	11
<u>1. INTRODUCTION</u>	<u>13</u>
1.1 INTRODUCTION	13
1.2 METHODOLOGY	15
1.3 STRUCTURE	18
<u>2. FISCAL DECENTRALIZATION IN THE PHILIPPINES</u>	<u>20</u>
2.1 DECENTRALIZATION AND FISCAL DECENTRALIZATION IN THE PHILIPPINES	20
2.2 FISCAL DECENTRALIZATION AND REVENUE MOBILIZATION AT THE LOCAL LEVEL	23
<u>3. THE CASE OF OLONGAPO CITY – PAST & PRESENT</u>	<u>27</u>
3.1 SOCIO ECONOMIC PROFILE OF OLONGAPO	27
3.2 REVENUE GROWTH AND SOURCES OF REVENUE	31
3.3 PROPERTY TAX AND BUSINESS TAX REVENUE	34
3.4 REVENUE FROM LOCAL ENTERPRISES	35
3.5 INTERGOVERNMENTAL TRANSFERS	37
3.6 CONCLUSIONS	37
<u>4. REVENUE MOBILIZATION VIA TAXES FOR OLONGAPO CITY</u>	<u>39</u>
4.1 PROPERTY TAX FRAMEWORK	40
4.2 PROBLEMS AND LIMITATIONS OF PROPERTY TAX	42
4.3 RECOMMENDATIONS	44
4.4 BUSINESS TAX FRAMEWORK	47
4.5 PROBLEMS AND LIMITATIONS OF BUSINESS TAX	48
4.6 RECOMMENDATIONS	50
4.7 CONCLUSION	51
<u>5. REVENUE GENERATION VIA PUBLIC ENTERPRISES</u>	<u>53</u>

5.1 PUBLIC UTILITIES DEPARTMENT	53
5.1.1 PROBLEMS OF COST RECOVERY	54
5.1.2 RECOMMENDATIONS	54
5.2 ENVIRONMENT AND SANITATION DEPARTMENT	55
5.2.1 PROBLEMS WITH COST RECOVERY	55
5.2.2 RECOMMENDATIONS	56
5.3 PUBLIC MARKETS	56
5.3.1 PROBLEMS OF COST RECOVERY AND FINANCING	57
5.3.2 RECOMMENDATIONS	58
5.4 CONCLUSION	59
6. CONCLUSIONS	61
<hr/>	
APPENDIX A: SERVICES & REGULATORY POWERS DEVOLVED UNDER 1991 LGC	67
APPENDIX B: FINANCIAL STATEMENT & BUSINESS TAX RATE STRUCTURE	68
APPENDIX C: LIST OF INTERVIEWS	72
BIBLIOGRAPHY	73

LIST OF TABLES

TABLE 3.1 EMPLOYMENT BY SECTOR FOR OLONGAPO CITY	30
TABLE 3.2 OLONGAPO CITY REVENUE GROWTH, 1989 - 1999	32
TABLE 3.3 PER CAPITA REVENUE GENERATION FOR OLONGAPO.....	33
TABLE 3.4 GROWTH OF PROPERTY AND BUSINESS TAX, 1989 – 1999	34
TABLE 3.5 PER CAPITA INCOME & SOURCES OF REVENUE	35
TABLE 4.1 RPTA COLLECTION EFFICIENCY IN OLONGAPO	42
TABLE 5.1 MONTHLY STALL MARKET FEES	58
TABLE 1 PERCENTAGE OF TOTAL INCOME/EXPENDITURE 1993 - 1999.....	68
TABLE 2 OLONGAPO CITY BUDGET OPERATIONS STATEMENT, 1993 – 1999	69
TABLE 3 OPERATION STATEMENTS OF ECONOMIC ENTERPRISES	70
TABLE 4 BUSINESS TAX RATE STRUCTURE.....	71

LIST OF FIGURE

FIGURE 2.1 LOCAL GOVERNMENT ORGANIZATION IN THE PHILIPPINES	22
FIGURE 2.2 CITY GOVERNMENT ORGANIZATION STRUCTURE IN THE PHILIPPINES	24
FIGURE 3.1 MAP: SUBIC BAY AREA.....	28
FIGURE 3.2 DISTRIBUTION OF ESTABLISHMENTS BY SECTOR IN THE CITY	30
FIGURE 3.3 SOURCES OF INCOME	33
FIGURE 3.4 GROWTH OF VARIOUS SOURCES OF REVENUE.....	33
FIGURE 3.5 REVENUE-EXPENDITURE FOR PUD.....	36
FIGURE 3.6 REVENUE- EXPENDITURE ESMO	36
FIGURE 3.7 REVENUE-EXPENDITURE MARKETS.....	36
FIGURE 4.1 ASSESSED VALUE OF LAND EXEMPTIONS	44

LIST OF ACRONYMS

BIR	Bureau of Internal Revenue
CDS	City Development Strategy
EBB	East Bajac Bajac
ESMO	Environment Sanitation Department
IRA	Internal Revenue Allotment
JG	James Gordon
LGC	Local Government Code
LGU	Local Government Unit
PUD	Public Utilities Department
RPTA	Real Property Tax Assessment
SBMA	Subic Bay Metropolitan Authority

1. INTRODUCTION

This paper is about the problems encountered in revenue mobilization by the Local Government of Olongapo City under the Philippines fiscal decentralization policy. It is based on a project conducted for the city of Olongapo over a period of two months in the summer of 1999. The study was supported by the World Bank City Development Strategy (CDS) program.

1.1 Introduction

Over the years, a major concern of urban governance in the developing countries has been the financial management and performance of local governments. The primary problem cited is the mismatch between the revenue authority and the expenditure responsibility¹. Thus, an essential prerogative of fiscal decentralization is the power given to local units to raise their own revenues through taxes, fees and user charges, and carry out spending activities. In the Philippines certain responsibilities have been devolved to the local units under the 1991 Local Government Code (LGC)². Local units are to undertake the provision of services with the assistance of the means of revenues given to them.

A number of authors argue that fiscal decentralization improves allocation of resources and increases accountability at the local levels³. For instance, Oates argues that

¹ Bahl, R. & Miller, B. (Eds.) (1983), Local Government Finance in the Third World, Case Study of the Philippines; Praeger Publishers; Tanzi, V. (1995), Fiscal Federalism and Decentralization: A Review of some Efficiency and Macroeconomics Aspects, World Bank Conference Paper, Washington D.C.; Smoke, P. (1994), "Evaluating the Fiscal Role of Local Government in Developing Countries" in Local Government Finance in Developing Countries: The Case of Kenya. Oxford University Press: Nairobi.

² I use the terms 1991 LGC and LGC as interchangeable.

³ Oates, W. (1993) "Fiscal Decentralization and Economic Development" in National Tax Journal, Vol. 46, No.2; Cheema, G. & Rondinelli, D. (1983), Decentralization and Development: Policy Implementation in Developing Countries. Sage Publishing, California; Tiebout, C. (1956), "A Pure Theory of Local Expenditure" in Journal of Political Economy.

local units are closer and thus better able to understand and respond to the needs of their constituents (Oates, 1993). As an intermediary they are accountable to both the regulations issued by the central government and the wishes of their citizens. Reflecting on these arguments, Bird states that ‘the most efficient allocation of public sector resources can be secured only if services are provided (and paid for) by governments responsible to those most directly affected’ (Bird, 1993).

Following similar logic, the Philippines 1991 LGC devolved to the local units the power and the responsibility to provide services and raise their own revenues by levying user charges, additional taxes, and higher rates on existing taxes. In addition, they have been given increased shares from the collection of nationally levied individual and corporate income taxes. Through the case study, I express that while policy can be based on general principles⁴, its implementation is highly dependent on effectively understanding the organization and the activities of the institutions it is designed for. An analysis and review of a local government’s revenue generation methods is undertaken here to better understand Olongapo’s organizational capacity and its limitations to perform under the fiscal decentralization policy.

During the CDS workshop in June 1999 held at Olongapo City Hall, city officials expressed serious concerns about the growth of local tax revenues, which have not kept pace with new responsibilities delegated under the LGC, and their high dependency on intergovernmental transfers. The city officials identified the need to rejuvenate the city economy in order to improve the city’s revenue generation. Although the capacity of a city to tax and raise revenues is defined by its economic base, the city has little direct influence

over the size and growth of its economic base. Instead, in my fieldwork, I looked into the internal factors influencing the Local Government's revenue generation -- how well it is able to tax the available base? I focused on the revenue mobilization problems intrinsic in the management and administration of the local revenue resources.

The main objective is to evaluate the performance of different key sources of revenues, identify the problems associated with valuation of the revenue base and the collection of revenue, and suggest recommendations that would improve the fiscal and administrative performance of the Local Government and render revenue generation more efficient and predictable. The paper highlights issues to be considered under fiscal decentralization policy and constraints on the design and the implementation of revenue mobilization mechanisms. It also provides recommendations for improving local government tax administration and collection for Olongapo City. Although the analysis and the recommendations deal with a specific case, some general conclusions can be drawn from the exercise.

1.2 Methodology

To define the problem, I focused on the discussions of the local officers and the participants in the CDS workshops. Olongapo City, like other cities in the Philippines is orienting itself to its decentralized roles and responsibilities defined under the 1991 LGC. A key objective of the study is to understand the structural and administrative issues and problems faced by local units with respect to revenue under the current trend of fiscal decentralization.

⁴ The literature on fiscal federalism has dealt substantially with assignment of services and revenues to the local governments. See, for example: Bahl, R. and Linn, J. (1993), Urban Public Finance in Developing Countries. Oxford University Press; Litvak, J., Ajmad & Bird, R. (1998) Rethinking Decentralization at the World Bank, The World Bank: Washington, D.C.

Initially, the fiscal condition of the Local Government was assessed from the presented budgets. Budgets for different years were assessed to determine the major trends in revenue and expenditure. Different revenue generating means of the city were identified: tax base and non-tax base. Taxes studied included property tax and business tax. Minor taxes such as community tax, occupation tax, and tricycle fees, were not looked into. Among non-tax base, revenues from public enterprise were assessed. Public enterprises examined included the Public Utilities Department (PUD), Environment and Sanitation Management Office (ESMO) and Public Markets. Hospitals and slaughterhouses were left out due to time constraints.

Data were gathered from various departments in the City Hall. Secondary information included gathering city ordinances on enactment of taxes and user charges. Ordinances enacted for the establishment and running of public enterprises were also studied to understand the role of various administrators. An overview of the functions undertaken by the Local Government was gathered from the annual accomplishment reports of the city. A major part of the revenue analysis is based on information gathered from the Budget Department on city budgets and budgets of the various economic enterprises. Data were also collected from individual departments on assessment and estimation of tax base, number of users accounted for, number of delinquents and defaulters.

In the absence of more adequate and reliable data and documents, much of the information was assembled by interacting with the department heads and the officers. Interviews and discussions were conducted with the city officials⁵. People interviewed included: Vice Mayor, City Administrator, Budget Officer, Assessor, Treasurer, and staff

⁵ See Appendix B: List of Interviews.

within various departments. Data were gathered from the Budget Department, Land Assessment Office, and managers of public enterprises.

Extensive interviews were carried out with the revenue generating departments: the Treasury, Land Assessment and the Business Tax Department. Questions were asked regarding the administration procedures of their various functions, how they gathered and estimated information, means used to identify tax payers and delinquent persons, and methods used for collection and enforcement. Observations were made and questions asked regarding the functioning and administrative aspects of various departments in the Local Government Unit (LGU). The assessment and collection officers were asked about the difficulties and obstacles encountered in implementation of their tasks. In this manner the institutional capacity to carry out the fiscal role of the local unit was assessed. Questions were asked and observations made of their record keeping methods, if and how they set objectives and collection targets for their respective departments. These inquiries aided in analyzing the systems and the technology in use. Tax assessment and collection systems and procedures were noted from the interviews, assessing the extent to which the various elements of the LGC were followed and the areas of concern were identified. Meetings were also arranged with Bureau of Local Government and in order to get their perspective on the fiscal management of Olongapo.

With respect to user charges and their implementation, interviews were carried out with the some members of the Planning Council⁶ and the managers of the enterprises. Both were asked questions regarding the procedure for setting, implementing and collecting user fees and charges. Inquiries were made regarding how the beneficiaries and delinquent cases were identified, and if enforcement measures were strictly followed. Finance sheets were

assessed to see the extent the collected fees met the expenses. Information for PUD and ESMO was gathered through the respective account administrators. Markets were visited along with the market inspectors to observe the procedures and the system. In this manner the core problem areas for different revenue generation mechanisms were identified.

Analysis is limited due to non-availability of continuous data over the years, in addition to limited detail available on the Local Government finances and fiscal management practices. There is also a lack of consistency in the accounting methods and the terminology over the years, which make comparisons difficult. Secondly, the analysis is based on revenue issues alone, largely ignoring the inter-dependency of revenues and expenditures, which are difficult to understand without appropriate cost data. Furthermore in the absence of regional income accounts or reliable employment data and limited population and income data, it is difficult to say much about the urban economic base, which determines the fiscal potential of LGU. Olongapo's historical context and negative growth rate make it somewhat an atypical case of an intermediate size city, yet the issues of fiscal management under the Philippines 1991 LGC are not unique to the Local Government of Olongapo.

Even with its various limitations, the fieldwork provides reasonable amount of information and perspective on the working and fiscal condition of the LGU. Besides the data collected on the field, other sources were used to understand the history of the city and the role of Local Government before the implementation of the 1991 LGC.

1.3 Structure

The paper is structured in the following manner. After the introduction, I briefly lay out the context of the study in Chapter two. Chapter three is an introduction to the case of

⁶ Planning council is the legislative branch of a local government, which is elected by its constituency and has the Vice-Mayor as its presiding officer.

Olongapo City. It introduces the city and describes the fiscal position and growth of major sources of revenue for the City since the inception of 1991 LGC. Chapter four gives an in-depth account of revenue mobilization through property tax and business tax. It looks into the structure of taxes as stated in the Code and their implementation in practice. Chapter five looks at the problems in revenue generation of local public enterprises. Finally, I summarize the major revenue issues identified in the city of Olongapo and how they relate to the larger issue of fiscal decentralization in general.

2. FISCAL DECENTRALIZATION IN THE PHILIPPINES

In 1991, the Philippines Government passed and incorporated into its constitution the Republic Act 7160, also known as the Local Government Code (LGC) of 1991. This chapter lays out the salient features of the Code, specifically those related to fiscal decentralization. It further focuses on revenue mobilization at the local level. The objective is to introduce the umbrella under which the study took place, and the prevalent organizational structure under decentralization.

2.1 Decentralization and Fiscal Decentralization in the Philippines

According to a number of analysts the Philippines 1991 LGC is considered to be one of the most revolutionary local government reform laws in Asia (McCarney, 1996; Tapales, 1999). The Code gives the local units the power and responsibility to undertake basic services previously performed by the central government through its regional offices. Furthermore, the Code empowers people at the grass roots through a system of sectoral representatives in the local legislative councils. Finally, the Code has given LGUs more power and responsibility not only by devolution of functions but also by providing them the power and responsibility over sources of revenue⁷.

Prior to 1991, the public sector was highly centralized. Under the centralized system, the provincial level of government along with central agencies coordinated delivery of services, which included hospitals, education, welfare, public works and highways, rural health, agriculture extension, environmental protection, as well as property tax assessment.

⁷ Dillinger, W. (1994), Decentralization and Its Implications for Service Delivery, Urban Management Program Discussion Paper No. 16, The World Bank: Washington DC. Dillinger outlines different forms of

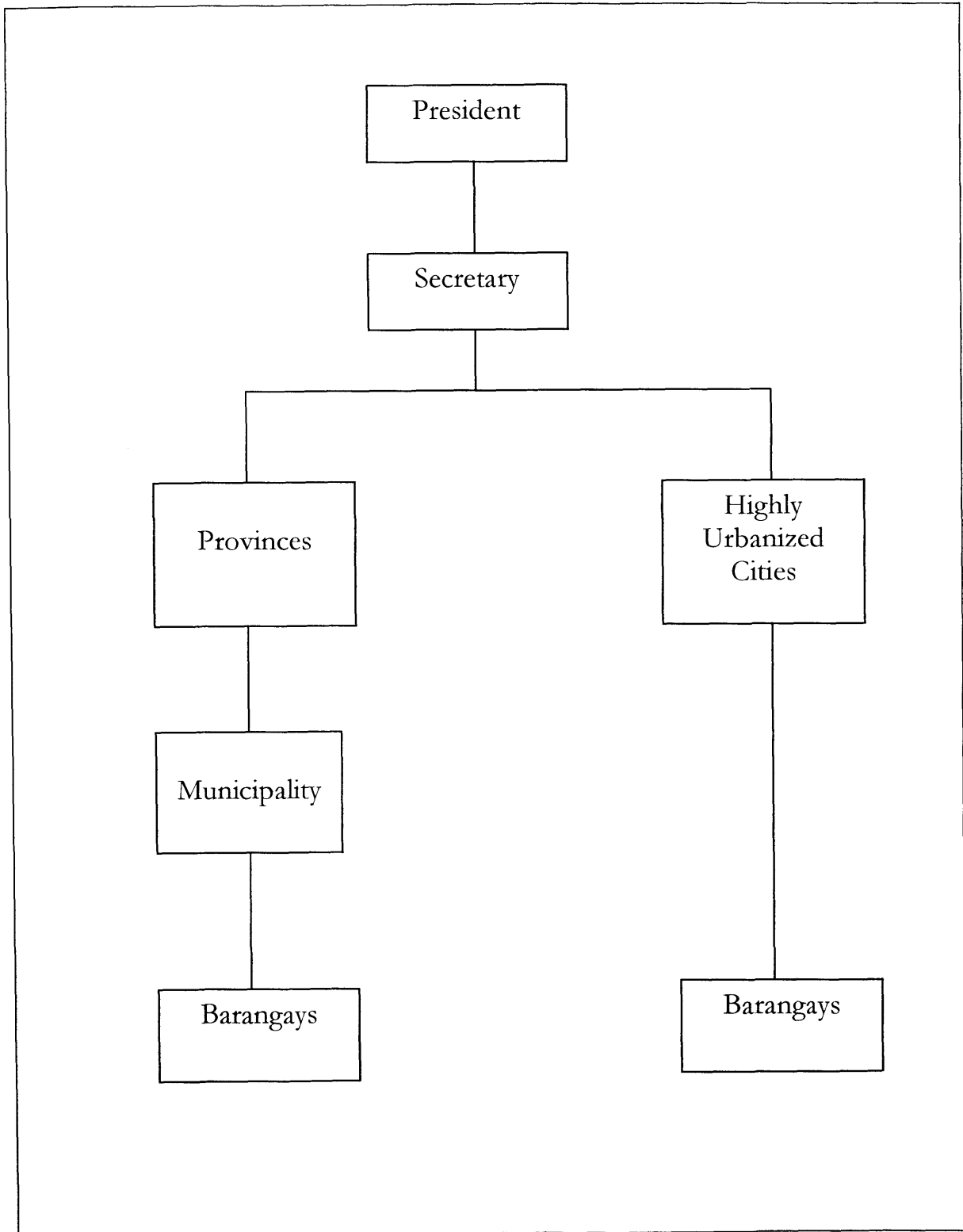
The cities and municipalities provided markets, slaughterhouses, garbage collection, traffic management, and sanitation, business licenses, fire protection and police (along with central government). Under the centralized system housing and water supply were a national responsibility. Presently, housing service delivery has been devolved to the local level, water service is regionalized and power is provided by the private sector. Under the Code, comprehensive lists of additional services and regulatory powers have been devolved to the municipalities and the cities (see, Appendix A). Figure 2.1 shows the different levels of the national organizational structure.

In terms of financial resources, funding for the provincial and central services came largely from the national government grants. Now, the LGC authorizes revenue mobilization for local governments through property tax, business, income from local economic enterprises, and through use of fees and charges, in addition to an inter-governmental transfer - a share of the national internal revenue. For both property and business tax, the LGC allows higher ceilings on the tax rate than were previously allowed. With regard to business tax, the LGC increases the tax base by allowing local government units to tax banks and financial institutions and natural resource extractions. For property tax, it allows the local planning council to adopt assessment levels lower than or equal to those given in the LGC. Share of internal revenue is divided among the provinces, cities, municipalities and *barangays*⁸. The transfer is allocated based on a formula that includes population, land area and equal sharing of resources. The LGC also encourages sub-national borrowing and donations from private and foreign sources. The LGC bestows substantial power to the local planning councils and the chief executive- the Mayor.

administrative decentralization: deconcentration, deregulation, devolution and privatization. Level of autonomy of the 'decentralized organization' increases in latter cases.

⁸ *Barangay* is the smallest physical and political unit of a local government organization.

Figure 2.1 Local Government Organization in the Philippines



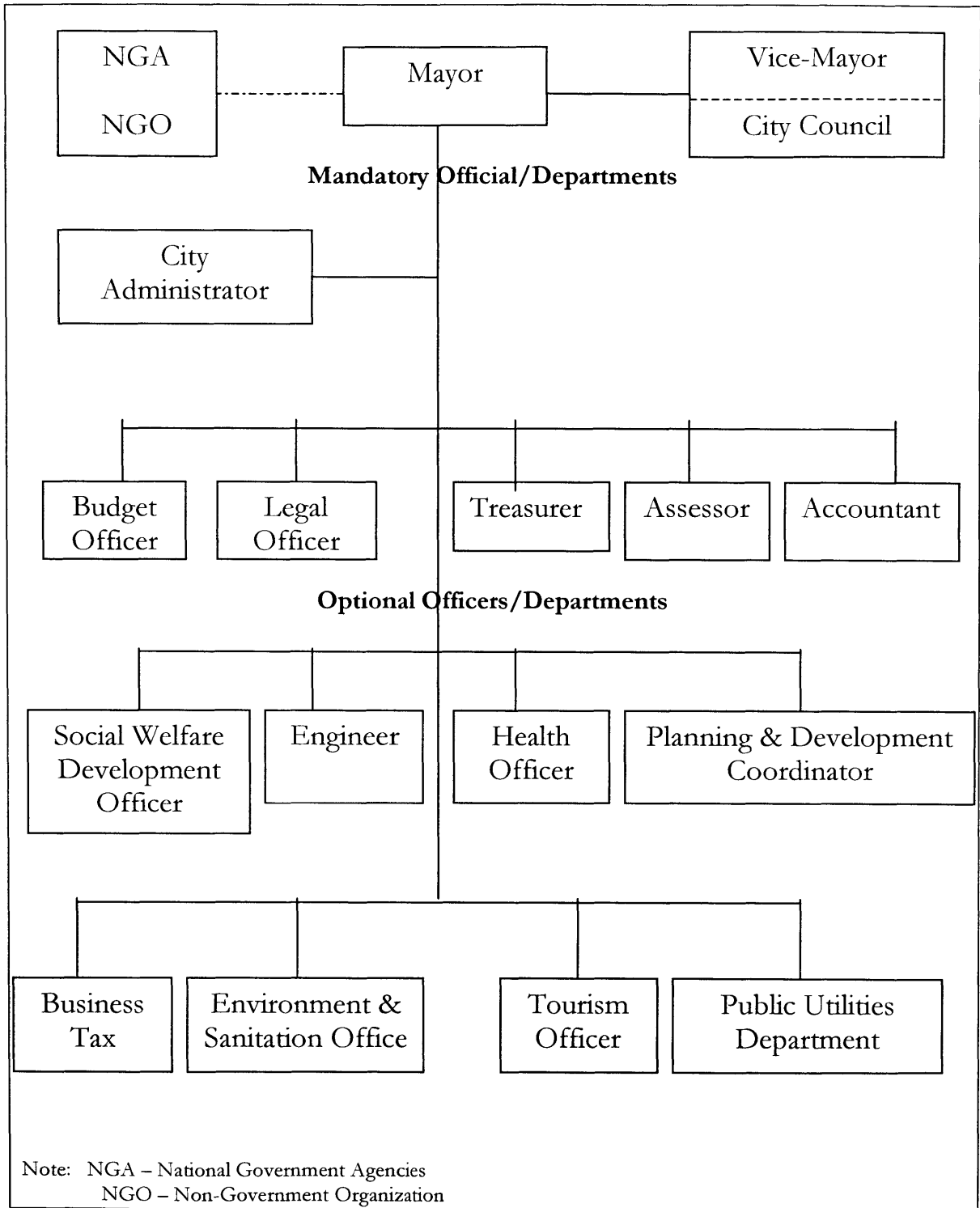
2.2 Fiscal Decentralization and Revenue Mobilization at the Local Level

At the city level, the structure of the local unit is shown in Figure 2.2. The Mayor is the executive branch while the city council under the leadership of the Vice-Mayor is the legislative branch at the local level. The office of City Administrator and the other departments assist the Mayor in executing various responsibilities of the local government. Local units are ideally expected to collaborate and co-ordinate with national government agencies and non-government organizations. In addition local government can create optional offices as seen fit for performing its functions or delivery of services.

Revenue mobilization at the local level, which is the focus of this study, is basically required to underwrite service delivery, a primary goal of decentralized local government. Under the 1991 LGC, cities and municipalities in the Philippines have been devolved the responsibility to provide for the basic services for health, social welfare, agriculture, environmental protection and local public works and highways. Needless to say the role of the local units has been substantially enlarged from their earlier responsibilities of providing city roads & drainage, operation of public markets, and collection of garbage. As mentioned earlier the Code provides the local units fiscal autonomy to make revenue and expenditure decisions to undertake the above devolved services. In case such services are not made available or are inadequate to meet the requirements of its inhabitants, the Mayor can request the national government or the next higher level of local government unit to provide or augment the basic services and facilities assigned to the local government unit⁹. The local governments have been given the autonomy over decisions on service delivery and service

⁹ Decentralization often creates vertical and horizontal imbalances. In order to deal with the imbalance, the central government assists the lower local units by providing transfers or grants either directly or through a central agency. The disadvantage is that grants may create a disincentive for the local units to tap their own sources of revenue. For detailed discussion please see Bird, R. & Vaillancourt, F.(1997)

Figure 2.2 City Government Organization Structure in the Philippines



prioritization, though little attempt has been made towards benchmarking municipal services or in terms of performance assessment of local governments in service delivery.

Largely concerned with division of power, roles and responsibilities of various levels of governance, the literature on fiscal decentralization assumes the existence of institutions and institutional capacity to undertake revenue generation and service delivery at the local level¹⁰. Revenue mobilization procedure is intensive, involving tax design and enactment, setting of user charges, estimating subsidies, information collection, identification of tax payers and beneficiaries, assessment of liabilities, enforcement and collection. Problems with institutional capacity, administration, and implementation of revenue mobilization would have to be addressed for effective service delivery. Burgess illustrates in his article on taxation the constraints and pressures on tax systems and the limitation of tax theory to address issues of institutional capacity, administration and implementation (Burgess, 1993). He cites tax administration, tax evasion, political pressures, inflation and international constraints as common problems in the taxation system. The problems of inadequate procedures, systems, human resources and technology are particularly common for smaller and intermediate cities and towns, but inadequate attention is given to them at the time of devolution with little assessment of the varied conditions on the ground. There is a need to understand more fully the problems and the shortcomings of the revenue generation tools provided to the local units.

The paper draws on a single local unit for insight into the issues of revenue mobilization under a decentralized system. It identifies policy issues and areas of concern that Olongapo City Local Government needs to address in order to fulfill its revenue needs. There is extensive literature on fiscal decentralization and urban finance, but little empirical

¹⁰ Litvak, J. et al. (1998) makes a strong case to focus on institutions in implementing decentralization policy.

research or analysis on barriers to revenue mobilization for non-metropolitan, intermediate cities¹¹. I focus on the case of Olongapo City to understand the limitations and problems with the structure and administration of some major revenue sources for intermediate local governments. The next chapter looks at major sources of revenue, local taxes, user charges and intergovernmental transfers, and outlines resource mobilization issues confronting Olongapo City.

¹¹ Bahl, R. & Linn, J. (1992); Mathur, O.P. & Einsidel, N. (1996), *Increasing the Income of Cities: tapping the Potential of Non-land-based Sources of Revenue*. United Nations Center for Human Settlements: Nairobi

3. THE CASE OF OLONGAPO CITY – PAST & PRESENT

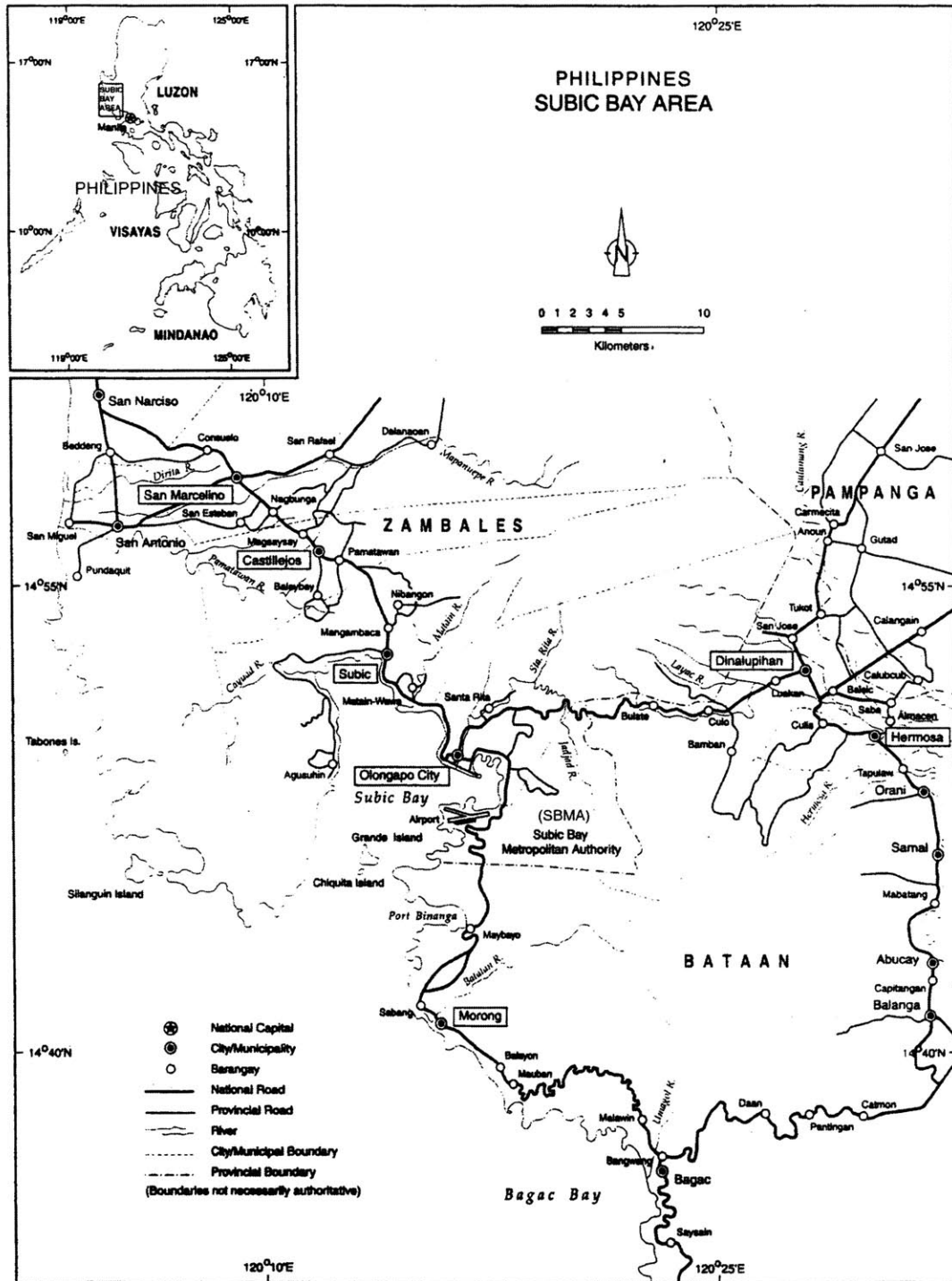
This chapter presents an analysis of the sources of revenue for the local government of Olongapo City and their growth trends. It assesses the overall performance of different sources of revenue from 1990 to 1998. The beginning of the chapter provides a backdrop to the City of Olongapo, describing its socio economic setting. An assessment of revenue growth and the growth of different sources of revenues incorporated by the city are then discussed.

3.1 Socio Economic Profile of Olongapo

Olongapo City is located at the southern region of Zambales province, on the West Coast of Central Luzon region of Philippines, 127-Km northwest of Manila. Olongapo is the only municipality with the city status in the province of Zambales (see Map Fig.3.1). The second largest town, Subic, which borders Olongapo City in the north, has one-fourth the population of Olongapo City. The city is adjacent to the former Subic naval base on the southwest, presently Subic Freeport zone, popularly known as Subic Bay Metropolitan Authority (SBMA). Topographically the city is located along a river delta, surrounded by rolling to steep mountains, separated from the bay by the base. The city has 17 barangays covering an area of 18,500 hectares. It is a highly urbanized city with 13 percent of its built-up land distributed among the 17 barangays and the remaining land classified as forest reserve.

Historically, the city grew as a service center for the American naval base. The town, which was originally a part of the base, was relocated in 1950's along with its population to the current location under the central government administration. The town elected its first

Figure 3.1 Map: Subic Bay Area



97-2831 HR

Source: City Development Strategy for Olongapo, (1999) Report prepared for the World Bank

Mayor in 1963, and soon after gained the status of a city. Its past and present links to the base have had both positive, as well as negative effects on the economy and the culture of the city and on its inhabitants. The city has worked hard at transforming its tarnished image as a night entertainment center for the base to a decent and efficient service and market center for the region. Limited in natural resources, the city continues to strategically link its growth to the former naval base, currently a Freeport zone.

Population

According to the 1995 census, Olongapo City had a population of 179,754 and an annual growth rate of 2.1 percent. The City had total 38,904 households with an average household size of 4.6 persons. Olongapo observed a decreasing growth rate between 1990 and 1995, after the closing of the base in 1992. The population density of the City is 12.4 persons per hectare while the urban density of the city varies greatly between 723 and 8 persons per hectare, with an average density of 96 persons per hectare. The City has a large young population; 25 percent are below 15 years, while 45 percent are below 19 years of age. The city has a 98 percent literacy rate compared to the national average of 95 percent (World Bank, 1999). The family median income in Olongapo is 28,029 pesos (US 701 dollars) compared to the 20,480 pesos (US 512 dollars) average median income for the Philippines (US 1 dollar = 40 pesos).

Employment

Olongapo has an 81 percent employment rate. 90 percent of the City's workforce is employed either in the secondary or the tertiary sector. Almost 60 percent are employed in the service sector and 16 percent in trade (Table 3.1). Within the service sector, government services and transportation equipment each accounts for 11 percent of the employment. The high percentage of workforce in the service sector to some extent can be attributed to the tourism and manufacturing jobs created in the Freeport zone, which are distributed among

the population of Olongapo City and the neighboring towns of Morong, Dinlapuihan, Bataan, and Subic.

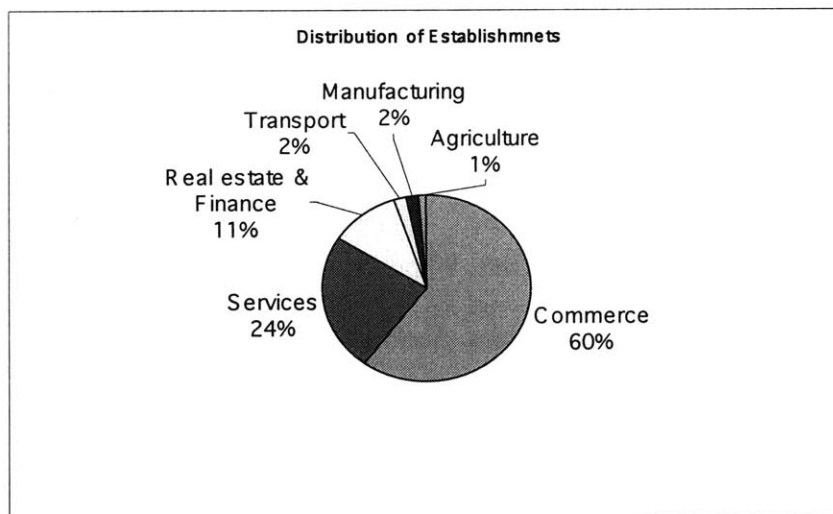
Table 3.1 Employment by Sector for Olongapo City

Sector	Employment (%)
Agriculture, Fishing & Mining	2
Manufacturing	10
Construction	12
Trade	16
Services	60

Economic Development

The expansion and strong presence of the adjoining American Naval Base established in 1898 was largely responsible for the physical and economic growth of the city until 1992. According to the newspaper articles and a 1993 study on Subic base, the city was 'economically dead' after the base left in 1992¹². More recently, economic revival within the city can be attributed to the conversion of the base to a Freeport Zone. Currently, the city serves as a retail and service center for the residents of the Freeport Zone, neighboring towns and its own population.

Figure 3.2 Distribution of Establishments by Sector in the City



Source: Accomplishment Report 1998

Its main economic sectors are commerce and services (see Fig 3.2). Manufacturing and agriculture constitute only 18 percent and 5 percent of the city's economy respectively (1995 Census of Population & Housing). After the bases withdrew in 1992 and the volcanic eruptions of 1991, the number of business in the city declined by 60% from 1991 to 1995. The population of the city declined with an average annual growth rate of 1.4 percent. As the base was converted into a Freeport zone with industrial parks and hotels under the then Mayor of Olongapo, employment was regenerated within the base for people of Olongapo. The city experienced a 12% increase in its business establishments from 1995 to 1998.

3.2 Revenue Growth and Sources of Revenue

In terms of City's revenue, Table 3.2 shows an uneven rate of growth of revenue. The growth rate shows a sharp decline in 1991 after the eruption of Mt. Pinatobu; a slight increase in 1992 followed by zero growth rate in 1993 after the naval base closed in November 1992. There was a substantial increase in real revenue after 1995 because the city council adopted new property tax rates under the 1991 LGC, and the number of business establishments have also been on the rise since 1995. The latter can be attributed to the establishment and stabilizing of the Freeport zone economy. In current prices, revenue increase from 1991 to 1998 is more than 150 percent, but at constant prices the revenue has only realized an 11 percent increase.

Figure 3.3 shows percentage contribution of the major sources of income. The composition varies across time. The proportion of income from taxes has generally declined, while income from Internal Revenue Allotment (IRA), a transfer from the center increased

¹² Laraya, M. L. (1993) "The Philippines Subic Special Economic and Free Port Zone: A New Approach to an Old Strategy:", Unpublished MIT Thesis, Department of Urban Studies and Planning

after the LGC was passed¹³. Since 1995 proportional contribution from IRA has seen a steady decline while the proportional contributions from non-tax revenues have increased, which implies a reduction in dependency on IRA¹⁴. But in 1991 constant prices, income from taxes and non-tax revenues have generally declined and only IRA has shown an increase in constant pesos (Fig. 3.4).

Table 3.2 Olongapo City Revenue Growth, 1989 - 1999

Year	Revenue (in million pesos)	Growth Rate of Revenue	1991 Constant (in million pesos)
1989	190.5	n.a	n.a
1990	248.5	30.5%	n.a
1991	266.0	7.0%	266.03
1992	296.1	11.3%	272.98
1993	295.8	-0.1%	252.91
1994	363.9	23.0%	274.38
1995	388.4	6.7%	264.14
1996	462.4	19.0%	277.87
1997	564.4	22.1%	305.32
1998	676.8	19.9%	296.42

Source: Data compiled and calculated from: Olongapo City Budget Summary 1999

Notes: Constant values at 1991 prices, calculated from annual inflation rates from National Statistics Office (NSO) of Philippines

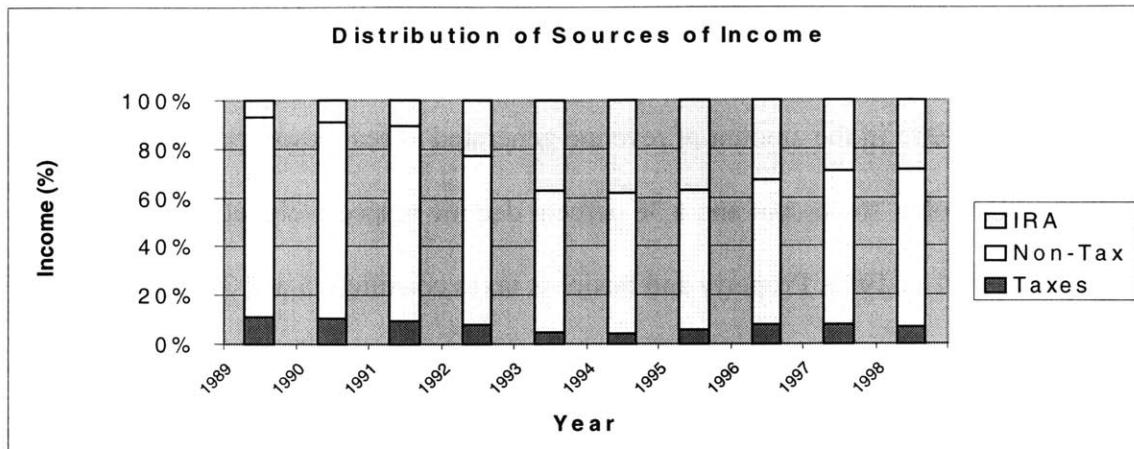
n.a = not available; \$1 = 40 Pesos

Per capita figures for revenue generation show an increase in real and constant pesos. But per capita figures for local tax generation show a decline in real and constant pesos, despite the increase in tax rates in 1995 (Table 3.3). The per capita revenue from taxes in constant prices is higher than the national average in 1991 but dropped to less than 50 percent of the national average in 1995. The next section takes a closer look at the trends of some of the main sources of income, which are property tax, business tax, and income of public enterprises and inter-governmental transfers.

¹³ Since the 1991 LGC mandated higher IRA levels. Manasan, R. (1995) "The Early Years of Local Government Code Implementation", Discussion Paper No. 95-02, Philippines Institute for Development Studies: Manila.

¹⁴ Though income is highest from non-tax revenue sources, caution has to be exercised in interpreting since more than 90 percent of the income is from the Public Utilities Department, which distributes and charges for electric power purchased from the Manila Electric Company.

Figure 3.3 Sources of Income



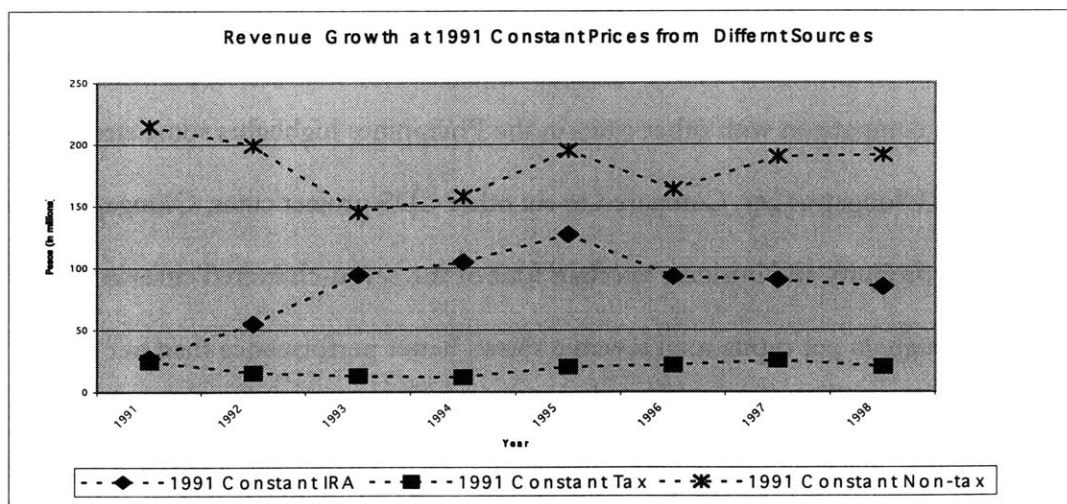
Source: Calculated and Compiled from Budget data from Budget Department
 Note: Non-Tax = Receipts from Economic Enterprise + Fees + Other Receipts
 Tax = RPTA + Business Tax + Other Taxes & Fees

Table 3.3 Per Capita Revenue Generation for Olongapo

Year	Population	Total Revenue		From Taxes		National Avg.
		Unadjusted	In 1988 prices	Unadjusted	In 1988 prices	In 1988 prices
1991	193327	1376.06 (\$34)	1376.06 (\$34)	266.48 (\$7)	266.48 (\$7)	180.28 (\$5)
1995	179754	2160.95 (\$54)	1469.45 (\$36)	127.5 (\$3)	86.7 (\$2)	192.75 (\$5)
1997	187614	3008.09 (\$75)	1627.38 (\$41)	251.42 (\$6)	129.23 (\$3)	Not available

Source: City Budget Summary 1998
 National Average tax data from Manasan (1995); \$1 = 40 Pesos

Figure 3.4 Growth of Various Sources of Revenue



Source: Compiled and Calculated with data from Olongapo Budget Office

3.3 Property Tax and Business Tax Revenue

Examining property and business tax revenue in Table 3.4, there was generally a decline in total revenue generated from 1991 to 1994. Although there was a substantial increase after 1995 in the amount of revenue generated in real pesos, property tax and business tax took a 16 percent and a 38 percent decline respectively, at 1991 constant price from 1991 to 1998. Property and business taxes constitute 5 and 3 percent of the total revenue, which is much below average (1981 – 1993) for Philippines at 25 and 20¹⁵ percent respectively.

Table 3.4 Growth of Property and Business Tax, 1989 – 1999

Year	Property tax (in million pesos)			Business tax (in million pesos)		
	Real	Growth Rate	1991 Constant	Real	Growth Rate	1991 Constant
1989	4.94		n.a	12.59		n.a
1990	8.8		n.a	13.85		n.a
1991	8.27		8.27	13.95		13.95
1992	6.98	-22%	6.44	11.84	-22%	10.92
1993	3.75	-50%	3.21	7.91	-38%	6.76
1994	4.3	1%	3.24	7.68	-14%	5.79
1995	7.42	56%	5.05	9.68	14%	6.58
1996	9.96	19%	5.99	14.69	34%	8.83
1997	17.51	58%	9.47	17.95	10%	9.71
1998	15.89	-27%	6.96	19.61	-12%	8.59
1999	20.93		n.a	21.36		n.a

Source: Data compiled and calculated from: Olongapo City Budget Summary 1999

Notes: Constant values at 1991 prices, calculated from annual inflation rates (NSO)

Some basic comparison with other cities in the Philippines highlights some strengths and weakness of Olongapo City. Compared to six other CDS project cities, Olongapo raised lower per capita property and business tax than four of the seven-chartered cities in Table 3.5 in 1997. Though its per capita total revenue shows better performance than per capita

¹⁵ Manasan, R. (1995), "The Early Years of Local Government Code Implementation", Discussion Paper no 95-02. Manila: Philippines Institute for Development Studies. The author also establishes a decline in proportion of RPTA in general in the Philippines.

tax revenue, caution has to be examined in interpreting, since Olongapo is the only city that distributes electric power and collects revenue for it while others depend on Meralco for production and distribution. This constitutes more than 50 percent of its revenue (Appendix Table 1).

Table 3.5 Per Capita Income & Sources of Revenue

City	Population	per capita RPT (in pesos)	per capita BT (in pesos)	per capita total income (in pesos)	% Tax	% AID	% Non-tax
Lapu Lapu	212590	315	152	1425	32%	42%	26%
Roxas	125129	122	147	1391	18%	74%	8%
Sagay	126060	113	29	1618	8%	82%	10%
Olongapo	187614	93	96	2830*	9%	30%	61%
Dipalog	98015	32	41	1632	4%	78%	18%
San Fernando	96400	27	215	636	38%	38%	24%
Dapitan	66672	12	14	2519	2%	98%	0%

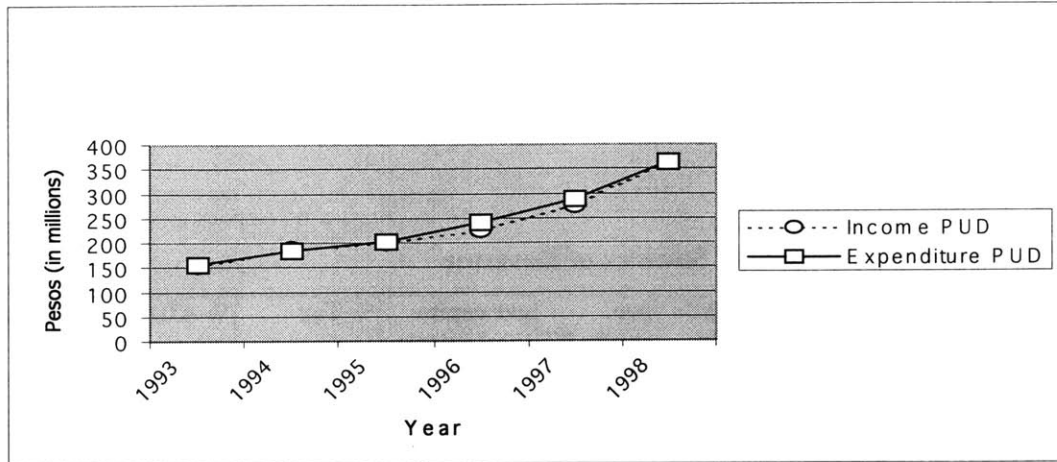
*Note: per capita total income for Olongapo after excluding income from PUD=1289 pesos

Source: Calculated and Compiled from CDS workshop Pacific Consultant Presentation

3.4 Revenue from Local Enterprises

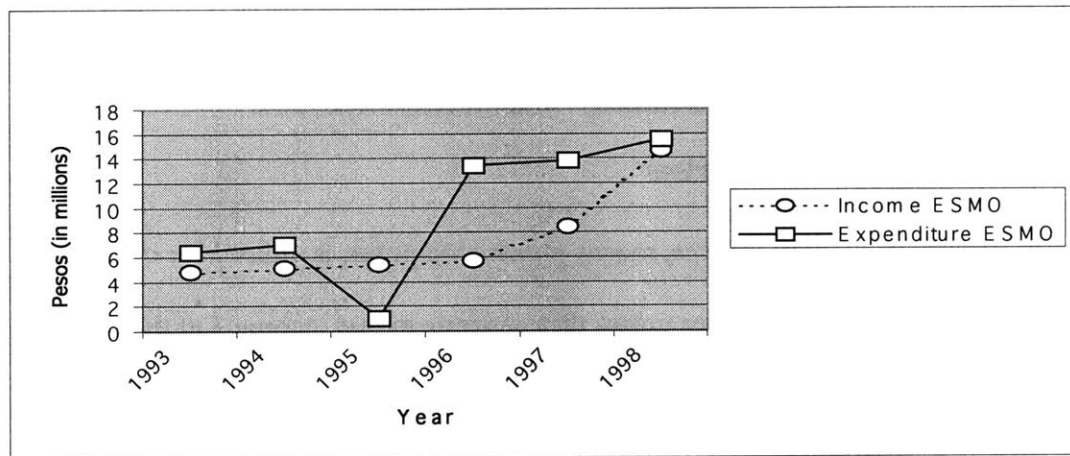
Income from non-tax sources, mostly public enterprises, is utilized for operations and maintenance of these enterprises unless they generate excess income. On the contrary, economic enterprises of the city: Public Utilities Department (PUD), markets and slaughterhouse, and Environment and Sanitation Management Office (ESMO) have fairly consistently accumulated deficits because revenues are not matched by increases in expenditures (See, Fig 3.5, 3.6, 3.7 & Appendix Table 2).

Figure 3.5 Revenue-Expenditure for PUD



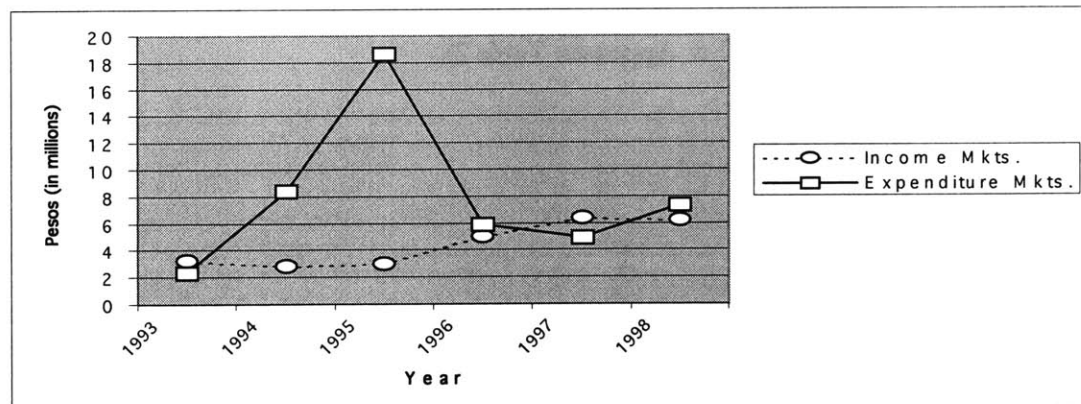
Source: Local Enterprise Operating Statements

Figure 3.6 Revenue- Expenditure ESMO



Source: Local Enterprise Operating Statements

Figure 3.7 Revenue-Expenditure Markets



Source: Local Enterprise Operating Statements

3.5 Intergovernmental Transfers

Local government units have the power and the authority to create their own sources of revenue and levy taxes, fees and charges, and they also get a share in national taxes which are automatically and directly released to them. The allocation of inter-governmental transfers for a province, city or municipality is based on 50 % of the population of the unit, 25% of land area of the unit and 25% on equal sharing of resources. The proceeds of national taxes, local revenues and other funding support from the national government are intended to fund part of the basic services and facilities.

For Olongapo City, the amounts of transfers in real pesos show a gradual increase after the implementation of the 1991 LGC, and a steady decline after 1995 (Fig. 3.4). The percentage of transfers relative to total revenue is higher for the first three years after the implementation of the Code, but has also been on a decline since 1995 due to increased contributions from public enterprises (Fig. 3.2). Transfers are mostly used to cover Public Welfare and General Government recurrent expenditures. Only twenty percent of the annual internal revenue is used for development projects as mandated in the LGC.

3.6 Conclusions

The assessment of revenue generation over the years since decentralization shows poor performance in the generation of revenue of the City. The City receives only 8 percent of its total revenue from taxes, and its public enterprise accounts run regular deficits. The analysis clearly shows that the city is unlikely to continue providing services without being extremely dependent on the central government and its agencies. Under declining IRA and stagnant growth of real income from taxes and other sources, service delivery in Olongapo could be severely hampered.

A number of additional functions devolved to Olongapo Local Government under the 1991 LGC do not have direct cost recovery mechanisms and are solely dependent on tax revenues. The analysis reveals that local tax revenue has clearly failed to keep pace with new responsibilities. Moreover, the center can only provide limited assistance through inter-governmental transfers. Increasing revenue and improving revenue generation mechanisms from different sources is thus crucial for a financially viable and sustained service delivery in Olongapo. The next chapter looks more closely at the present structure and mechanisms of property and business tax and identifies areas for improvement.

4. REVENUE MOBILIZATION VIA TAXES FOR OLONGAPO CITY

The Philippines government adopted the Local Government Code of 1991 under a broader decentralization agenda. As noted earlier the implementation of the Code has led to devolution of functions previously performed by the center, and it requires the local government units to be responsive to their fiscal needs. The 1991 LGC provides an extensive framework to utilize a mix of taxes to be adopted by the local planning council. In keeping with the centralized orientation of Philippines finance systems rate ceilings are imposed on taxes. While the Code gives the local governments the power to create their own sources of revenue, it also states that taxes, fees and charges can only be levied subject to provisions in the Code¹⁶.

The main sources of local tax for the city of Olongapo are property tax and business. Since Olongapo has officially adopted the highest rate structure for property and business tax provided in the Code, revenue increase is dependent on local government tax efforts and the revised assessments of the City's tax base.

The next section examines some of the reasons why the City has failed to utilize these strategies to maximize its tax revenue. It looks into the specifics of property and business tax structure and their administration with respect to revenue generation. I identify problems and limitations of the present system and consider how they might be addressed based on international experiences.

The tax framework subsections briefly explain the structural limits of property and business taxes as defined under the Code within which the City operates to raise its revenue.

It also identifies some of the positive features inherent within the system. The problem subsection outlines the bottlenecks and the difficulties hampering effective tax implementation. Finally, long-term and short-term recommendations are suggested that can improve local revenue generation for each tax.

4.1 Property Tax Framework

The local government planning council has the power to adopt property tax as provided under the Code. The Code specifies a maximum 2 percent tax per annum on the assessed value that the city can impose on property. The Code further authorizes the city to levy and collect an additional tax for a special education fund (SEF) equal to 1 percent of the assessed value of property for school building program, which was earlier imposed by the central government. The taxable base is the assessed value, which is supposed to be calculated from the fair market value and the assessment levels. The Code also provides ceilings on assessment levels for various uses of land and building. According to Bahl and Miller the tax rate and the assessment levels for Philippines have historically been low compared to other countries (Bahl, R 1983)¹⁷. Since the assessment levels and the tax rate are fixed under the Code, property tax yield of the local government is dependent on the correct assessment of the fair market value and collection performance.

Valuation of property tax is carried out by the Assessor's Office while the billing, collection and enforcement is the responsibility of the Treasurer's Office. The valuation exercise covers assessment of both taxable as well as exempt¹⁸ properties. Collection of tax is

¹⁶ These provisions as laid out in the Code include that taxation shall be uniform in each local government unit. Furthermore, taxes shall be equitable, fair, progressive, for public purposes only, managed by a public agency and consistent with national agenda.

¹⁷ Bahl, R. & Miller, B. (Eds.) (1983) Local Government Finance in the Third World, Case Study of the Philippines. Praeger Publishers: New York, NY.

¹⁸ All government property, equipment and corporations, and charitable institutions are tax exempt.

centralized under the City Treasurer, although the Code provides for barangay treasurers to assist in the collection. The Code also specifies the sharing of proceeds between local units. The city unit shares 30 percent of the total tax revenue with the barangays. Thus, the barangays have an incentive to aid in the collection of property tax.

The Code provides taxpayers an incentive whereby it allows up to 20 percent discounts for advanced payment of property tax. Payments can be made in four equal installments over the year, failing which there is a maximum 2 percent per month penalty, with an upper limit of 24% charged on the total delinquent amount. But there is no additional cost for non-payments after a year.

Olongapo has adopted all the provisions for property tax as stated under the Code. In addition, the city has an ongoing attempt to tax map its seventeen barangays to improve the fiscal cadastre, which incorporates the entire built-up area in all the barangays. The City has also attempted to improve collection by auctioning properties in 1997.

Olongapo receives only 4 percent of its income from property tax, while the average for Philippines is 25 percent¹⁹. Given the basic tax structure of the tax base and the tax rate, the amount of revenue collection is determined by tax administration and tax collection efficiency. Collection efficiency in Olongapo is as low as 25 percent (Table 4.1). Table 4.1 also shows a 138 percent increase from 1994 to 1995 in the assessed value per parcel followed by a further 10 percent increase in the subsequent year and remaining more or less the same since 1995. The assessed value per building increased by 49 percent from 1993 to 1994 and has remained steady. While assessments have more than doubled, the collection has lagged behind until 1997, when collection almost doubled. This increase was due to the Local Government auctioning three delinquent properties in 1997. This resulted in increased

compliance from taxpayers. In order to increase revenue generation there is a need to further improve tax collection efforts along with enforcement.

Table 4.1 RPTA Collection Efficiency in Olongapo

Year	Total Assessment	Assessed Value per Parcel	Assessed Value per Building	RPT	Constant 1988	Actual Collections	Collection Efficiency
1997	2,033,371,780	65346.58	33400.78	47,169,880	19,717,010	17,510,668	37%
1996	2,013,405,813	65114.49	33462.75	35,561,792	15,647,188	9,964,793	28%
1995	2,000,984,360	59356.41	33904.92	22,917,844	10,908,894	7,423,580	32%
1994	1,338,230,820	24907.84	34046.42	15,672,968	15,672,969	4,307,334	27%
1993	1,268,892,499	15975.23	22804.90	15,003,761	8,417,110	3,756,384	25%
1992	1,253,783,500	16094.35	22696.07	n.a		6,986,369	
1991	1,154,998,900	16070.24	22786.75	n.a		8,271,866	
1990	1,129,857,840	16036.11	22334.53	n.a		8,800,232	
1989	701,828,340	n.a	n.a	n.a		4,949,333	
1988	678,832,240	n.a	n.a	n.a		n.a	

Source: Olongapo City Assessor's office

Note: n.a = not available

\$ 1 = 40 pesos

4.2 Problems and Limitations of Property Tax

Record Keeping and Management

Outdated procedures and inadequate organization of tax collection records in the treasurer's office somewhat undermine the potential benefits that could be realized from improving the fiscal cadastre. Records are managed manually; staff assignment is low, which coupled with lack of skill and incentive results in inefficient monitoring. There are no data available on the total amount of revenue lost due to delinquencies. Insufficient record management and failure to follow up on records result in weak enforcement of property tax.

Underestimation of Fair Market Value

Under the given system, accurate knowledge of the fair market value is essential for assessment of property tax over a period of time. Valuation of property tax is based on a schedule of fair market value. The city utilizes limited sources for determining fair market

¹⁹ 1988 Annual Financial Reports of Local Government (Provinces, Cities and Municipalities) Vol. III, Local

value. Assessment of fair market value is based either on sales records of land and property from the registry of deeds or sworn statements by the owners, both of which are susceptible to under reporting. Furthermore, there is apparently not enough coordination or consistent exchange of information between the local land assessment office and the registry of deeds, which is a central government department.

Delays in Billing

Billing of property tax and most other taxes has to take place by January 31. The billing is carried out simultaneously, which creates a resource crunch in staff. The bills do not get dispatched on time. Although the LGC 1991 provides for coordinating with barangay treasurers to assist in billing and collection of property tax, there appears to be much more room for systematic involvement and communication to seek their assistance in practice.

Infrequency of Reassessment and Revaluation

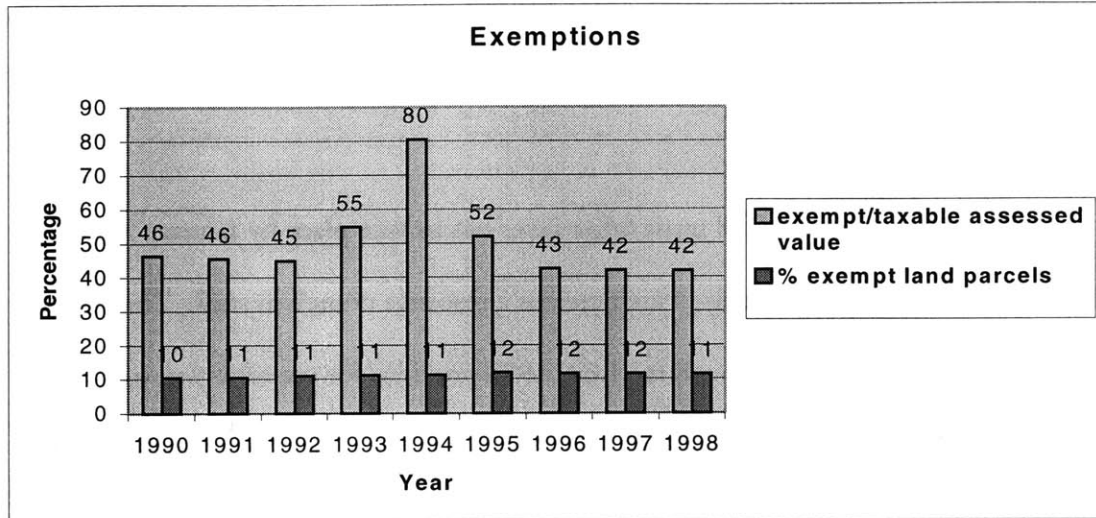
An assessment of the fair market value was last done in 1994 and based on it the assessment value per parcel increased by 100 percent while the assessment for building remained constant. The statute requires reassessment every three years and annual updates of the tax roll. Infrequent reassessment result in enormous increments to assessed value that are politically unpalatable.

Exemptions

Figure 4.1 shows that only 10 to 12 percent of the total land parcels are exempted, but they account for 40 to 50 percent of the total amount of taxable assessed value. Though a further analysis is required, it can be inferred that some exempted properties have higher land values. In this respect the city might be unable to take advantage of a significant portion

of its most lucrative tax base, unless exemption provisions are changed or some payment is required in lieu of tax on exempt properties.

Figure 4.1 Assessed Value of Land Exemptions



Source: Compiled with data from Land Assessor's Office

4.3 Recommendations

Making property tax more productive involves improving different elements of tax administration - identification of properties, record keeping, assessment and collection need to be improved and coordinated. While some improvements are within the control of the local governments, certain changes and adjustments can only be mandated through the revision of the 1991 LGC by the central government. Olongapo City has made some progress in identification of properties under the tax-mapping project, which is to be completed by the end of this year. The improvement in tax base identification should be matched with improvements in collection and assessment of taxes to achieve real gains in revenue. Focus on a single element would fail to capture total revenue potential of the tax. Because everything cannot be done at once, some sequential priorities are detailed below.

Short Term

- *Records Management:* Record keeping needs to be updated to be able to follow up on delinquent owners. The treasurer's office should identify and follow up on delinquent owners and take appropriate enforcement actions on time.
- *Teamwork with Barangay Treasurers:* Barangay assistance for dispersal of bills and collection should be integrated in the existing system. At the moment it tends to be ad hoc. The treasurer needs to make an effort to incorporate their aid and provide them incentives to participate. Billing delays can be reduced and enforcement mechanisms utilized more effectively under co-ordination with the barangays. Barangays can use moral suasion whereby names of delinquents can be posted outside the Barangay hall.
- *Strategic Management:* Staff and time resources could be managed more effectively. In this respect following up with a few major delinquent owners dispersed in different neighborhoods can set an example for the rest of the community. For example, in Indonesia under time, manpower and budget constraints, scarce resources were concentrated on higher value properties. In case of Indonesia it was estimated that 2 percent of the properties accounted for 64 percent of the urban property revenue²⁰. This example also shows the need to disaggregate data to understand the composition of the tax base. In Hyderabad, India the local government asked the property owners to submit self assessed valuation, and the City inspected all properties that belonged to the lower quartile of assessments. In order to avoid inspection and penalty for erroneous reporting, the property owners had a disincentive to quote a low valuation²¹.

²⁰ R. Kelly (1992) "Implementing Property Tax Reform in Developing Countries: Lessons from the Property Tax in Indonesia" in Review of Urban and Regional Development Studies, No.4

²¹ Discussion with Prof. Jennifer Davis (MIT, Department of Urban Studies & Planning) 8 May, 2000.

- *Enforcement:* Collections of large delinquent payments could be prioritized and the relevant enforcement measures undertaken. There is a need to assess the type of enforcement measures taken in the past and to what extent they have achieved desired results.

Long Term

- *Improving Information and Data:* Under-estimation of the fair market value could be overcome by adopting other means of analysis and sources of information. The city could utilize the existing sources, such as the zonal values of real property used by the Bureau of Internal Revenue, and professionals and real estate agents. The efforts could be combined with training of public inspectors who can make informed judgments on the information from different sources. They can also be trained to use better but appropriately simple models of assessment. Record processing can be improved through computerization, which would also require staff training so as to be more productive.
- *Simplifying the System:* Reassessments and re-evaluations could be carried out regularly and on time. Given time, resource and political constraints, a reasonable indexing system can be adopted to incorporate inflationary effects between evaluations. The overall valuation system could be simplified, for example by adopting a mass appraisal system. In Brazil scarcity of skills and inaccessibility of market data was overcome by simplifying valuation methods, central assistance and use of construction data for valuing buildings²².
- *Improve Performance Monitoring:* Land Assessment and Treasury departments could review their administration and collection costs relative to actual revenue generated. This would assist in setting performance targets and improving operation and staff efficiency within each department.

- *Revising the LG Code:* There is no additional cost or penalty policy for non-payment of tax after a year while measures such as public auction and civil remedies are used sparingly. The local governments should petition the center to remove the one-year limit on tax penalty to make the penalty structure more effective. It is also recommended that the City determine the overall importance of the exempt properties and use the information to suggest reforms in the Local Government Code.

4.4 Business Tax Framework

Business tax is levied on the gross receipts of the preceding year at rates prescribed according to a graduated scale specified in the 1991 LGC. Different schedules apply to manufacturers, retailers, wholesalers and exporters at an ad valorem rate (Appendix Table 3). The Code extended local government business tax power by increasing the allowable tax rates (10 to 50 percent increases on different categories), allowing ad valorem rates and by allowing them to tax banks and financial institutions on gross receipts. The Code specifies the maximum tax that the city can apply on the graduated scale. Olongapo has adopted the maximum allowable tax structure for all categories. There is also a fixed professional tax of 300 pesos and an amusement tax of no more than 30 percent of the gross receipts. The barangays are also allowed exclusive taxing powers under the Code for any business that has gross receipts less than 50,000 pesos. These are usually the neighborhood sari-sari (general) stores. This creates room for coordination and management between the local unit and the barangays.

Despite the importance of business tax to the city, little attention is given to its administration. As mentioned earlier Olongapo has an extensive commerce and service

²² Dillinger, W. (1988), "Urban Property Taxation: Lessons from Brazil, Policy and Research Staff Report". No. INU37. The World Bank: Washington, D.C.

sector. It is a market city, which also services the neighboring towns. According to 1995 census 74 percent of the labor force is in the services and trade sector, most of these activities are concentrated along the main spine of the city. Despite the base, the collection from business tax is only 3 percent of the total local income compared to the national average of 20%. Examination of business tax administration reveals tax assessment and problems associated with it as key area of concern.

4.5 Problems and Limitations of Business Tax

Assessment of Gross Receipts

The major problem lies in the estimation of gross receipts, which is neither easy nor accurate. The collectors are dependent on assessing self-declaration of gross receipts by businessmen. These are suspected of often being under reported, and the collectors have little confidence and incentive to challenge the under reporting. In practice, the only information available to compare the accuracy of self-declared amount is the gross receipt amount in the previous year. This further creates a problem of estimating collection efficiency of the business tax, since the ratio of collection to collectibles cannot be accurately determined due to the under reporting of the base.

Lack of Staff and Training

Checking for account payments and correcting for under-reporting is dependent on the proficiency of the collectors. There are only three inspectors for the city, with approximately 4000 establishments. The enforcement of business tax also suffers due to the scope of tasks undertaken by the business office. Besides collecting and enforcing tax on gross receipts, the office is also responsible for collecting taxes on fishing vessels and

bicycles, which constitute only 1 to 2 percent of the total business tax collections, but use considerable time and resources.

Lack of Adequate Management Structure

Unlike other departments (Property Assessment, Treasury, Budget, Social) of the City, the Government Business Tax Department lacks direct management control and tends to get neglected in daily supervision. The tax has to be paid before annual renewal of the mayor's permit, a fee for the privilege of engaging in business, occupation and other activities within the city. A number of establishments however, escape detection since there is little incentive for the collectors to go after those who do not obtain the Mayors permit and the delinquent owners who pay late. Thus the timely tax enforcement and collection is largely dependent on voluntary compliance by business owners. Again there is little coordination with the Brangays to enhance coverage or enforcement.

Inadequate Penalty

There is a one-time 25 % surcharge on late payment, which is comparatively low since a safe investment can easily yield 12 percent savings interests to 18 percent lending interests annually. Although the Code provides for quarterly payment of taxes and delinquency letters are sent after each quarter, there is lack of incentive as no strict enforcement measures are applied to encourage the businesses to pay promptly.

Regressive Nature of Tax Rates

Tax rates are progressive up to 50,000 pesos, after which the tax is regressive. A regressive rate structure implies that as the business real income increases, it gets charged a lower rate (see, Appendix Table 3). The regressive tax structure is prescribed in the LGC. In addition to the questions concerning equity, the tax revenue is less elastic than what it would be under a flat or a progressive rate structure.

4.6 Recommendations

Short Term

- *Improving means of Assessing Gross Receipts:* The city needs to make concerted efforts to improve assessment of the gross receipts and the under reporting. Larger establishments should provide accounts while limited manual assessments can be carried out for smaller establishments so that the collectors can make informed decisions. Efforts can also be made to coordinate with the regional Bureau of Internal Revenue (BIR) office located in the City. The BIR manager fully acknowledged the potential benefits of co-operating with the City. The City could insist on having the business income tax declaration, which would not only create an enforcement mechanism for the BIR, but also assist the City to estimate gross receipts based on the BIR income tax proceeds.
- *Strategic Management & Enforcement:* The coordination with the barangay is crucial for effective administration of the tax. Division of areas for supervision could help maximize coverage and cost saving in the collection of tax. The department could improve record keeping for better management and establish targets on number of delinquent owners and estimated revenue owed. Spot checks and auditing can be incorporated as effective deterrents for tax avoidance. Unless penalties are a substantial percentage of the taxable amount and stringently enforced, attitudes would not be changed.
- *Training:* Collectors and Inspectors should be trained to analyze accounts and balance sheets of business enterprises.

Long Term

- *Estimating Tax Revenue:* A sectoral analysis of the business tax base would provide a better sense of the role of various sectors in the City, and it would also aid in estimating gross receipts for each kind of establishment and the elasticity of the tax base.

- *Rate Structure:* The city should look into the regressive tax structure and its effect/distortions on the taxpayers and the revenue yield. Any adjustments to the rate structure would have to be petitioned since it is mandated under the 1991 LGC.
- *Revising Penalties:* The penalty structure should be made more aggressive by charging compound interest on payments due. The City however, has little independent power in this respect since penalties are fixed under the Local LGC.

4.7 Conclusion

Under the Code, the local government through the planning council has substantial powers to institute a mix of taxes. Property and business tax are the two main tax bases for the City of Olongapo.

Major problems with the property and business tax are related to assessment and collection of the tax. For property tax the fair market value is underestimated due to absence of reliable sources of data. Business tax estimates of gross income are also under-represented. The collection of property tax is done through the Treasury Department while the Business Tax Department collects the business tax. The collection rate for property tax is as low as 25 percent whereas the collection rate for the business tax cannot be assessed since the total gross income to be taxed cannot be estimated. If the city can increase its collection rate to 60 percent, which is the average for RPT in Philippines, the city would realize a 60 percent increase in its actual collections. The need to augment business tax assessment for Olongapo, which is a trade center cannot be stressed enough to realize the City's tax potential. In light of limited resources and expertise, it is suggested that the City co-ordinate its activities and collaborate with the appropriate national offices to improve assessment, and with the barangays to increase tax base coverage and to process delinquent owners swiftly in

order to increase tax revenues. In the long run the City should assess implementation of Code and petition the Decentralization Commission for required change that would improve its performance.

5. REVENUE GENERATION VIA PUBLIC ENTERPRISES

The City of Olongapo runs three public enterprises: the Public Utilities Department (PUD), which distributes the city's electricity; the Environment and Sanitation Management Office (ESMO), which collects the city's garbage; and the city Public Markets. Underlying public enterprise is the concept of cost recovery although, as mentioned earlier the enterprises in Olongapo have faced sizeable deficits in the past five years. A brief analysis is carried out for each of the public enterprises. Issues of cost recovery and user charges and fees are discussed.

5.1 Public Utilities Department

The Public Utilities Department of Olongapo has been a corporation since 1960s. It distributes power to the city, which is bought from the privatized Manila Electric Company (Meralco), and is responsible for the city's power distribution infrastructure. PUD revenue accounts for approximately 50% of the LGUs total income. A significant part of the total earnings are paid as fees to purchase electricity, while the rest covers some portion of operations and maintenance. The electricity is bought at 1.78 pesos and sold in the range of 3 to 4 psos. The amount of the user charge is calculated every month through a set basic rate that is adjusted for the oil prices and inflation by a PEA factor (Purchased Energy Factor). The charge is also based on the type of use (residential, commercial, government and industrial).

The department has been undergoing significant changes since a new manager took control in 1997. The distribution losses have been reduced from 30% to 20%. The department has reorganized itself into four zones instead of three. It is also planning to co-

ordinate with Meralco for training of staff. The utility needs to tackle issues of cost recovery, which are identified below.

5.1.1 Problems of Cost Recovery

First, the collection efficiency of PUD is only 66% of the total billing. The balance is covered by the City's general fund, even though PUD is an enterprise. Second, at the moment the enterprise faces 20% distribution losses of the total volume of electricity purchased for distribution. These are due to utilizing old infrastructure and pilferage of power. The department is trying to cut down the pilferage by taking stricter measures at the zonal level offices. Third, estimation of costs to be covered by user charges does not include the cost of capital investment. Fourth, the billing is often incomplete and delayed, which hinders enforcement of payment. Finally, since the service never breaks even, much less generates a profit, the enterprise has no capital to upgrade the infrastructure.

5.1.2 Recommendations

The department could improve collection efficiency and recover costs more fully. The following short and long-term remedies could be considered.

Short Term

- Pilferage of electricity is cited as the most common problem, which can be rectified by more vigilant management and enforcement.
- Not only is there a need to update the billing cycle, but also to identify delinquent consumers to keep all accounts up to date.

Long Term

- In order to cut these large loses; the city needs to invest in better distribution infrastructure.

- The department needs to make a long term plan and generate options for capital investment.
- There is a need to assess the operations, maintenance cost and capital cost more accurately and completely, and these should be incorporated into the charges and the billing structure.

5.2 Environment and Sanitation Department

The function of ESMO is limited to solid waste management of the city. Solid waste collection was first undertaken by the LGU in 1989, when garbage fees were established. It serves 31,152 residential and commercial clients. There has been a 33% increase in the number of clients since 1994. This is largely attributed to the fact that the garbage fee is administered as part of the electricity bill, and as the number of electric connections increases, the number of clients who pay the fees also increases.

In 1997, new garbage fee ordinances were passed after eight years. The department has tripled its collection and reduced its annual deficit while maintaining 98% collection efficiency for the year. The fees are based on the basis of ability to pay, residential versus commercial, type of enterprise or use, and type of garbage (rather on the amount of garbage generated by the household or an establishment). The system of including the fees in the electricity bill minimizes the cost of collecting and enforcing fees.

5.2.1 Problems with Cost Recovery

Although the garbage collection function of ESMO is supposed to be self sufficient, it faces large deficits, which have to be covered by the general fund. Revenue only cover the cost of collection operations and exclude the cost of maintenance and operation of the landfill site. Only 5% of the collections get allocated for running the landfill site, which is a

negligible amount that basically covers only the cost of fuel required to run the crane and the bulldozer on site.

The fee structure is fixed and is not revised on a regular basis. It is based on the size of residential plot and on the type of commercial establishment. It does not take into consideration either the expanding cost of maintenance and operations or the rate of inflation.

5.2.2 Recommendations

- The city should assess the total cost of providing the service of garbage collection and maintaining the landfill site as part of the service. Decisions should then be made about whether the enterprise can maintain full cost recovery or would need to be subsidized. An analysis of the potential benefits of privatization of the dumpsite could also be considered.
- The city could index garbage fees for inflation and to keep up with increasing expenditure costs.

5.3 Public Markets

Markets and Slaughterhouse generate 1% of the total local revenue and 2% of the non-tax revenue. Olongapo public markets have the poorest cost recovery record among the three enterprises. Costs are related to supervision, regulation and maintenance of the markets. Operation and maintenance of markets are subsidized through the general funds and there is no effort to recover capital costs.

There are three public markets in the city, East Bajac-Bajac (EBB), James Gordon (JG) and Night Market. EBB is the most active; it is situated on the main spine across from the city hall. James Gordon and Night Market are located closer to the gates of the naval

base. An active market at one time the JG market has a number of vacant stalls. Although it is close to the base, it is located on a feeder road in a predominantly residential area. The Night Market is operational only in the evenings.

Markets and slaughterhouses are leased to the owners who cannot sub-lease their stalls. The Planning Council fixes the schedule of rates. In EBB stall fees are structured on a monthly basis according to the type of commodity sold and position of the stall while in the other two markets the rates are structured on a daily basis dependent on the type of commodity and not the stall position (Table 5.1). There is a 20 percent penalty on unpaid monthly rental .

5.3.1 Problems of Cost Recovery and Financing

A key issue of the public markets concerns the assessment of stall rents. The rate structure prevailing during the occupation of the base has continued after the base was closed. While the base was operating, JGM had a high economic turnover compared to EBB. Not only did JGM attract customers from the base, but it was also located in a high activity zone, whereas EBB market was a local run-down market and less popular. The schedules were set on the basis of turnover derived from each market. Loss of activity in JGM after the base withdrew, renovation of EBB and the existing lower rates in EBB led to concentration of activity in EBB. In 1997 the Planning Council adopted new rates for EBB market, 500% higher than the earlier rate and 65% higher than James Gordon stall fees (Table 5.1). Though new rates are required for the public markets, there is little rational explanation for the current rate structure of different markets in the City. Furthermore, the rates are not structured to account for the effects of inflation.

A second major reason for low collection of market fees is poor record keeping and records management. Market administration and collection is decentralized, whereby the

collectors and inspectors function from on site and report to the treasurer. Although decentralized administration is suitable for a market system, it requires an efficient record keeping and management system that has not been developed for Olongapo public markets. The organization and handling of records and the procedures for updating are not adequate. Record keeping is manual and collection targets are unknown. A card is kept for each stallholder where the daily or the monthly collections are noted. At the end of each month the treasurer is given a summary of the total amount of fees collected. There is no estimation of the number of delinquent owners or the amount of money owed to the city. The only information on the delinquent stall owners is on the cards.

Table 5.1 Monthly Stall Market Fees

		East Bajac-Bajac Market Rent		James Gordon Market Rent
Type of Stall	Position	Previous Rate (1991)	New Rate (1997)	Rate 1991/1997
Dry Good	Regular	236	600	750
	Front stall	315	690	750
	front corner	315	720	750
	Inside corner	267	660	750
Fish	Regular	79	457	300
	Front stall		526	300
	front corner		548	300
	Inside corner		503	300

Source: Olongapo City Market Ordinance

5.3.2 Recommendations

- *Rational Basis for setting Stall Rents:* The local government could reassess its fee structure and market policy from a broader perspective to justify disparities among the market rents and reflect market activity. The setting of rental rates should be based on a rational need for covering capital and operations cost. It should also account for inflation or carry out frequent adjustments. The City should resolve the issues through a process that involves all stakeholders, stallholders, vendors and public.

- *Records Management*: Record keeping and the reporting should be improved for the purpose of better management and budgeting. In a number of cities in Philippines as well as in other developing regions, markets have generated profits for the local governments, particularly in a highly urbanized market city like Olongapo. It is suggested that the City look into a public-private partnership for the management of public markets and involve the business interests to participate in the internal decision making process of the markets. In a public market case in Uganda, a public-private partnership improved service delivery and increased its income from markets by 250 percent²³.

5.4 Conclusion

Cost recovery is a major concern of the City's public enterprises. Although public enterprises should be self sufficient, more often than not in Olongapo, they have encountered deficits, which are financed through the City' s general resources from local taxes and intergovernmental transfers. The PUD accounts for 50 percent if the total City revenue but it has few surplus capital funds to replace its depleted infrastructure. The department maintains 66 percent collection efficiency and suffers high (20 percent) distribution losses.

The management of ESMO is commendable with 95 percent fee collection efficiency, though it's role is limited to garbage collection and contributes little time and resources on garbage disposal. High collection efficiency is a result of a simple billing structure and combining the bill along with the electricity bill, which takes care of enforcement, otherwise difficult to achieve for solid waste service. The issue with the

²³ Makerere Institute of Social Research (1998) "What makes markets tick? Local Governance and Service Delivery in Uganda" UNDP/MIT Research Program on Decentralized Governance. Kampala, Uganda.

ESMO is that the rate structure fails to cover full costs. It does not take into account inflation and is not revised on a regular basis. As a result its operations accumulate losses.

Despite commerce and services being the two major sectors of the City, the revenue from public markets have failed to generate a surplus. This is largely due to non-comprehensive and inconsistent assessment, collection and management of the market fees structure for different market sites in the City. The City Government needs to justify its market fee structure and reduce arbitrariness in its implementation.

6. CONCLUSIONS

This chapter concludes by briefly summarizing the key findings and recommendations for improving revenue generation for Olongapo City. It also highlights some key issues of fiscal decentralization that play out in the study at the local and national level. I conclude the chapter by posing a number of research questions that need to be answered in order to prepare more comprehensive and conclusive local tax reform recommendations.

Main Findings

From the existing economic sector and tax base, business tax and property tax will remain major sources of tax revenue for Olongapo City. Increasing revenues will largely depend on the performance of these two taxes. Secondly, public enterprises demonstrate reasonable collection efficiency but have poor costing and pricing mechanisms. Lastly, the local capacity to undertake the new decentralized role is limited because management and financial control systems are often deficient. There is little co-ordination between different levels of the decentralized system. In addition, however well designed systems might be, they cannot achieve the desired results unless the local governments have the capacity to undertake administration, implementation and enforcement of policies in an efficient and effective manner.

Unless local governments improve and streamline their revenue generation mechanisms and expenditure decisions, fiscal decentralization will not be successful. Furthermore, fiscal decentralization is very much a top down reform and has missed opportunities for creating good links to the working conditions on the ground at the local

level. As can be seen from the assessment of Olongapo City, there are limitations within the local unit that obstruct its performance. Part of the problem is that a national Code applied uniformly may not be able to deal with differences across cities. Furthermore, creating Codes is not enough. Without incentives and local initiative little can be implemented. For instance, the Code lays down the provision for co-operation between barangays and the City for collection of property tax, but little use is made of this arrangement in Olongapo.

Main Recommendations

Olongapo has a strong tertiary sector and therefore should put emphasis on business tax and licensing on service and commercial activities as the main source of revenue generation for the City. Furthermore, in comparison to property tax, business tax is a more buoyant and an elastic tax base. The downside of utilizing business tax is that a substantial amount of the tax can be passed on to the community or evaded, which calls for innovative local approaches by the City to dissuade the inefficiencies and administrative short comings linked to the business tax. For instance, since the City envisions complementing the development in the Subic Freeport Zone by attracting visitors, it can differentiate its businesses that cater to local versus visiting services and design a business tax strategy where the visitors contribute a fair share of the costs of service provision. Other efforts like tax on business capital (for example the franchise tax) and tax on business rental value will make the tax more progressive whereby, higher income businesses are targeted. Adopting vigilant and easily administered tax strategy can minimize tax evasions.

With respect to taxes in general, priority would most effectively be placed on improving tax collection both for property and business tax especially since the City has already adopted maximum allowable rates. Low tax collection efficiency exists largely due to

absence of correct assessments, inadequate management of records, lack of enforcement and weak coordination among agencies.

Second, the Assessors Office should continuously improve tax base coverage in order to improve the revenue yield of real property tax while the Business Tax Department should establish a better accounting system for documenting gross receipts for business tax assessment.

Third, valuation and assessments of tax bases should be indexed for inflation between formal revaluation. The City should make an attempt to counteract the scarcity of time, manpower and budget resources required to carry out extensive assessments by simplifying the assessment procedures and by utilizing all possible existing resources. For example, real estate and agents and central zonal values can be used for assessing property taxes, while gross receipts for the business tax can be assessed in collaboration with the BIR.

Fourth, the City could switch where possible to service fee structures that are rational and buoyant. Current fixed fee structures, which fail to account for certain basic inputs, capital depreciation, and inflation, cannot be expected to cover costs. Even if full cost recovery is not the objective, clearly defined assessments are essential for transparency and accountability of the services. Better fee performance would also assist in overall budget management since enterprise deficits are currently underwritten by the general fund.

Fifth, the City should consider devising performance indicators for itself. It could target revenue collections based on calculated and well-estimated tax bases. The departments could also determine revenue yield per collector and the amount of revenue that should be collected per taxpayer.

Finally, the City could request the central government to review the 1991 LGC, with goal of making tax policy responsive to the changing needs and requirements of the local

governments. More broadly, the center should assess whether the decentralization policy framework meets the functional needs of the local government units.

Poor in exploitable natural resources, the City of Olongapo intends to enhance its service operations via better use of its current human resources and external investment to complement the development in the city to that in the Subic Freeport zone. The City has a vision of becoming an investment hub and in the CDS has aimed to project itself as a corporation. To be able to attract investments the city has to create transparent, accountable and efficient administration in its various functions. To meet the increasing local government functions and responsibilities, Olongapo City government needs to improve its performance. In order to do so, it needs to develop a viable revenue system that generates in a fair and efficient manner the revenue required to serve its local population.

In general, the study emphasizes the need to develop good financial management practices at the local level. It also highlights the need to focus on improving budgeting process, management processes and institutional capacity at the local level for effective fiscal decentralization. This would help achieve better performance and accountability at the local level.

Further Research

The study identified problems and suggested improvements in the revenue mobilization system for the Local Government of Olongapo City. For an overall assessment of fiscal performance, further research efforts are need in the following areas: assessment of revenue potential, assessment of the Local Government expenditure requirements, and determination of data and information required for tracking and monitoring local government fiscal performance and service outcomes.

This analysis of revenue mobilization in the context of fiscal decentralization has primarily focussed on sources and mechanisms of revenue generation. Further analysis is required on assessment of the revenue potential of the local government tax base, specifically with respect to revenue potential for property tax and business tax. The analysis that the expected yield from the present base is not realized because of low collection efficiency should be extended to find out how the present tax and rate structure relates to the revenue potential of the City. In order for the Local Government to make informed decisions, studies should be developed on the implications of using different tax mixes and rates.

Secondly, fiscal analysis is incomplete without the assessment of local government expenditure requirements. Revenue reforms are essential, but an assessment of revenue requirements must be matched to expenditure needs of the Local Government. The 1991 LGC has identified areas of expenditure for the Local Government, but at the local level little is done to budget or cost the assigned responsibilities. A number of assigned functions have never ever been undertaken at the local level.

Finally, a key research task is to determine and collect the data and information required for tracking and monitoring local government fiscal performance and service outcomes. This would assist in setting benchmarks for the local government to measure its progress and to develop strategies to perform better. At the national level a comparison across local governments is required, to account for the disparities between different cities and municipalities and accordingly set standards and benchmarks for service provision.

APPENDIX A: Services & Regulatory Powers Devolved under 1991 LGC

Local governments are responsible for the following *basic services and facilities*:

- Agriculture Extension and On-Site Research
- Community Based Forestry Projects
- Field Health and Hospital Services and other Tertiary Health Services
- Public Works and Infrastructure Projects Funded Out of Local Funds
- School Building Program
- Social Welfare Services
- Tourism Facilities and Tourism Promotion and Development
- Telecommunications Services for Provinces and Cities
- Housing Projects for Provinces and Cities
- Other Services, e.g. Investment Support, Industrial R & D etc.

The Code also devolves the following *regulatory powers* to the local governments:

- Reclassification of agriculture lands
- Enforcement of environmental laws
- Inspection of food products
- Quarantine
- Enforcement of the National Building Code
- Operation of Tricycles
- Processing and approval of subdivision plans
- Establishment of cockpits and holding of cockfights

APPENDIX B: Financial Statement & Business Tax Rate Structure

Table 1 Percentage of Total Income/Expenditure 1993 - 1999

PARTICULARS	ACTUAL						BUDGETED
	1993	1994	1995	1996	1997	1998	1999
INCOME							
LOCAL SOURCES	63%	62%	63%	67%	71%	71%	73%
Revenue From Taxation	5%	4%	6%	8%	8%	7%	7%
Real Property Tax	1%	1%	2%	2%	3%	2%	3%
Current Year	1%	1%	1%	1%	2%	2%	2%
Previous Year	0%	0%	1%	0%	1%	0%	0%
Penalty	0%	0%	0%	0%	0%	0%	0%
Business Taxes & Licenses	3%	2%	2%	3%	3%	3%	3%
Other taxes & Fees	1%	1%	1%	2%	2%	2%	1%
Non-Tax Revenues	58%	58%	57%	59%	62%	65%	67%
Receipts from Eco. Ent.	53%	52%	52%	50%	50%	55%	55%
Market & Slaughterhouse	1%	1%	1%	1%	1%	1%	1%
Public Utilities Department	52%	51%	52%	49%	49%	54%	54%
Fees and Charges	4%	3%	3%	2%	3%	4%	8%
Loans and Borrowings							
Other Receipts	1%	2%	2%	7%	9%	6%	4%
AIDS AND ALLOTMENTS	37%	38%	37%	33%	29%	29%	27%
BIR Allotments	37%	38%	37%	33%	29%	29%	27%
National Aids							
National Wealth							
TOTAL INCOME	100%	100%	100%	100%	100%	100%	100%
EXPENDITURES							
CURRENT EXPENDITURES							
General Government	22%	20%	27%	28%	29%	27%	24%
Personal Services	12%	12%	39%	11%	13%	12%	12%
Maint. & Other Oprtng Exp.	5%	5%	20%	4%	4%	5%	7%
Capital Outlay	5%	3%	42%	13%	12%	10%	5%
Public Welfare & Internal Safety	13%	12%	11%	13%	14%	13%	9%
Personal Services	11%	10%	86%	11%	13%	11%	3%
Maint. & Other Oprtng Exp.	2%	1%	13%	2%	2%	2%	6%
Capital Outlay							
Economic Enterprise	63%	66%	56%	57%	54%	58%	62%
Market & Slaughterhouse	1%	3%	8%	1%	1%	1%	1%
Personal Services	1%	1%	18%	1%	1%	1%	1%
Maint. & Other Oprtng Exp.		2%	82%	0%	0%	0%	0%
Capital Outlay							
Public Utilities Department	62%	63%	92%	55%	53%	56%	61%
Personal Services	3%	3%	5%	3%	3%	2%	3%
Maint. & Other Oprtng Exp.	60%	60%	93%	52%	50%	53%	57%
Capital Outlay		1%	0%	1%	1%	2%	1%
Other Charges	1%	2%	6%	2%	2%	2%	5%
5% Calamity Fund	0%	1%	9%	0%	0%	1%	2%
20% Dev't Fund	1%	1%	91%	2%	2%	1%	3%
TOTAL EXPENDITURES	100%	100%	100%	100%	100%	100%	100%
EXCESS (DEFICIT) OF INCOME OVER EXPENDITURES							

Source: Olongapo City Budget Operations Statement, see Appendix B Table 2

Table 2 Olongapo City Budget Operations Statement, 1993 – 1999

PARTICULARS	ACTUAL						BUDGETED
	1993	1994	1995	1996	1997	1998	1999
INCOME							
LOCAL SOURCES	185,306,829	225,100,117	244,170,914	307,757,908	398,044,895	483,231,192	570,736,105
Revenue From Taxation	15,003,761	15,672,968	22,917,845	35,561,792	47,169,881	45,868,005	53,808,000
Real Property Tax	3,756,385	4,307,334	7,423,581	9,964,793	17,510,669	15,894,353	20,935,000
Current Year	2,220,989	2,535,925	4,304,243	6,045,923	11,507,322	10,419,717	13,500,000
Previous Year	897,478	1,177,518	2,141,083	1,985,690	3,505,533	2,706,795	3,800,000
Penalty	637,917	593,891	978,255	1,933,180	2,497,814	2,767,841	3,635,000
Business Taxes & Licenses	7,917,461	7,682,263	9,684,385	14,696,161	17,951,697	19,616,261	21,365,400
Other taxes & Fees	3,329,916	3,683,372	5,809,879	10,900,838	11,707,515	10,357,391	11,507,600
Non-Tax Revenues	170,303,067	209,427,148	221,253,070	272,196,116	350,875,014	437,363,187	516,928,105
Receipts from Eco. Ent.	155,723,355	189,113,262	203,214,195	230,219,520	281,665,744	370,478,117	428,417,700
Market & Slaughterhouse	3,248,971	2,854,776	2,989,555	4,991,765	6,399,834	6,203,165	7,015,000
Public Utilities Department	152,474,384	186,258,487	200,224,640	225,227,755	275,265,910	364,274,952	421,402,700
Fees and Charges	11,304,309	12,440,021	12,042,218	10,415,894	17,645,175	24,205,834	61,184,105
Loans and Borrowings	-	-	-	-	-	-	-
Other Receipts	3,275,404	7,873,865	5,996,657	31,560,701	51,564,095	42,679,236	27,326,300
AIDS AND ALLOTMENTS	110,501,592	138,803,415	144,278,553	154,596,071	166,324,913	193,529,080	206,550,000
BIR Allotments	110,501,592	138,803,415	144,278,553	154,596,071	166,324,913	193,529,080	206,550,000
National Aids	-	-	-	-	-	-	-
National Wealth	-	-	-	-	-	-	-
TOTAL INCOME	295,808,421	363,903,532	388,449,467	462,353,979	564,369,807	676,760,272	777,286,105
EXPENDITURES							
CURRENT EXPENDITURES							
General Government	55,007,651	57,682,792	106,854,821	122,334,855	155,669,014	175,523,449	183,237,090
Personal Services	30,156,207	33,792,662	41,586,685	49,528,289	68,654,252	80,099,047	94,034,990
Maint. & Other Oprtn Exp.	12,353,821	15,926,915	20,883,683	17,355,745	22,949,879	30,688,248	49,752,100
Capital Outlay	12,497,622	7,963,215	44,384,453	55,450,821	64,064,884	64,736,154	39,450,000
Public Welfare&Internal Safety	33,015,036	33,550,821	44,242,422	57,639,943	78,577,064	84,461,180	69,500,327
Personal Services	27,619,048	29,226,410	38,225,111	46,799,982	68,543,457	72,819,980	25,569,327
Maint. & Other Oprtn Exp.	5,055,088	4,324,411	5,940,221	8,843,481	9,879,426	11,561,899	42,831,000
Capital Outlay	340,900	-	77,090	1,996,480	154,182	79,300	1,100,000
Economic Enterprise	157,513,756	192,904,212	221,458,693	246,707,162	295,473,540	371,325,780	470,875,633
Market & Slaughterhouse	2,307,161	8,375,291	18,667,684	5,865,205	6,604,124	7,376,468	9,109,830
Personal Services	2,050,363	2,587,914	3,374,321	3,994,383	4,694,110	4,819,721	6,037,530
Maint. & Other Oprtn Exp.	256,798	5,787,376	15,293,362	1,870,822	1,910,014	2,556,747	3,072,300
Capital Outlay	-	-	-	-	-	-	-
Public Utilities Department	155,206,595	184,528,921	202,791,010	240,841,957	288,869,416	363,949,312	461,765,803
Personal Services	6,402,113	8,196,225	10,260,023	10,998,552	13,853,232	13,680,721	20,407,953
Maint. & Other Oprtn Exp.	148,065,462	173,442,126	188,691,895	227,622,799	271,434,532	340,180,649	433,257,850
Capital Outlay	739,020	2,890,570	3,839,092	2,220,606	3,581,653	10,087,942	8,100,000
Other Charges	2,889,344	6,493,917	22,151,980	8,606,074	13,163,960	12,907,460	34,502,100
5% Calamity Fund	665,434	3,031,762	2,080,421	324,700	2,609,693	7,252,331	13,192,100
20% Dev't Fund	2,223,910	3,462,155	20,071,559	8,281,374	10,554,268	5,655,130	21,310,000
TOTAL EXPENDITURES	248,425,787	290,631,742	394,707,916	435,288,034	542,883,579	644,217,869	758,115,150
EXCESS (DEFICIT) OF INCOME OVER EXPENDITURES	47,382,634	73,271,790	-6,258,449	27,065,945	21,486,228	32,542,403	19,170,955

Source: Olongapo City Budget Office

Table 3 Operation Statements of Economic Enterprises

	Year/Dept.	PUD	Hospital	ESMO	Markets/ Slaughterhouse
Income (Pesos)	1998	364274951	9605743	14600090	6203165
	1997	275265909	9169952	8475222	6399833
	1996	225227754	4694676	5721217	4991765
	1995	200224640	6651376	5390840	2989554
	1994	186258486	7313524	5126496	2845775
	1993	152474383	6491873	4812435	3248970
Expenditure	1998	363949312	43057413	15574965	7376467
	1997	288869416	53859515	13798189	4885123
	1996	240841957	24962082	13381353	5865205
	1995	202811009	18386507	1027668	18667683
	1994	184528921	13715455	6992013	8375290
	1993	155206594	11572777	6391545	2307161
Deficit/ Surplus	1998	325,639	(33,451,670)	(974,875)	(1,173,302)
	1997	(13,603,507)	(44,689,563)	(5,322,967)	1,514,710
	1996	(15,614,203)	(20,267,406)	(7,660,136)	(873,440)
	1995	(2,586,369)	(11,735,131)	4,363,172	(15,678,129)
	1994	1,729,565	(6,401,931)	(1,865,517)	(5,529,515)
	1993	(2,732,211)	(5,080,904)	(1,579,110)	941,809

Source: Olongapo City Budget Office

Table 4 Business Tax Rate Structure

Tax on Manufacturers			Tax on Wholesalers		
Gross Receipts	Tax	Rate	Gross Receipts	Tax	Rate
10000 - 15000	330	2.2	1000 - 2000	50	2.5
15000- 20000	453	2.2	2000 - 3000	78	2.6
20000 - 30000	660	2.2	3000 - 4000	108	2.7
30000 - 40000	990	2.4	4000 - 5000	150	3.0
40000 - 50000	1238	2.4	5000 - 6000	182	3.0
50000 - 75000	1980	2.6	6000 - 7000	215	3.0
75000 - 100000	2475	2.4	7000 - 8000	248	3.1
100000 - 150000	3300	2.2	8000 - 10000	281	2.8
150000 - 200000	4125	2.0	10000 - 15000	330	2.2
200000 - 300000	5775	1.9	15000 - 20000	413	2.1
300000 - 500000	8250	1.6	20000 - 30000	495	1.7
500000 - 750000	12000	1.6	30000 - 40000	660	1.6
750000 - 1000000	15000	1.5	40000 - 50000	825	1.6
1000000 - 2000000	20625	1.0	50000 - 75000	1485	1.9
2000000 - 3000000	24750	0.82	75000 - 100000	1980	1.9
3000000 - 4000000	29700	0.74	100000 - 150000	2805	1.9
4000000 - 5000000	34650	0.69	150000 - 200000	3630	1.8
5000000 - 6500000	36533	0.56	200000 - 300000	4950	1.7
			300000 - 500000	6600	1.3
			500000 - 750000	9900	1.3
			750000 - 1000000	13200	1.3
			1000000 - 2000000	15000	1.3
			2000000 - above		0.75

Note: Receipts less than 50000 are to be taxed by the barangays
 Regressive nature of rates i.e. rates decrease with increase in gross receipts.

APPENDIX C: LIST OF INTERVIEWS

List of people interviewed in the Philippines during June – July 1999

Olongapo City

Cynthia Cajudo, Vice Mayor
Dick Gordon, Ex-Mayor/Ex-Chairman SBMA
Attorney Ferdinand Aristorenas, City Administrator
Mamuto Malabute, City Councilor
Elizabeth Simpao-Zavalla, City Planning & Development Coordinator
Johny Chowa, City Budget Office
Dennis Martinez, City Accountant
Oscar Augustine, City Assessor
Domingo Antolin Business Tax Department
Cecelia Buenafe, Buisnes Tax Department
Anselmo Santos, City Treasurer
Attorney Carmela Bargado, General Manager, PUD
Ariel B. Napalan, Divison Chief, PUD
Dante Ramos, Manager, ESMO
Pierre Ordon, Market Superintendent
Dr. Pacita Encina-Alcantar, City Health Department
Erlinda Crispin, Chairperson, Chamber of Commerce, Olongapo City
Rosendo Manalang, Internal Revenue, Zambales Provincial Office
Richelda De Silva, Department of Trade & Industry, Zambales Provincial Office
Graham J. Fairclough, Director, Subic Water & Sewerage Co. Inc

Manila

Prof. Rosario Manasan, Philippines Institute of Development of Studies
Dr. Sosmena, Director, LOGODEF
Dr.. Erlito Paido, Ministry of Finance
Connie Tabuzo, Bureau of Local Government Finance
Joy Abelardo, American Consulting Engineers Council

BIBLIOGRAPHY

Bahl, R. & Miller, B. (Eds.) (1983), Local Government Finance in the Third World, Case Study of the Philippines. New York, NY: Praeger Publishers

Bahl, R. and Linn, J. (1993), Urban Public Finance in Developing Countries. New York, NY: Oxford University Press

Bird, R. (1993), "Threading the Fiscal Labyrinth: Some Issues in Fiscal Decentralization" in National Tax Journal, Vol.46, No.2, pp.229-235

Cheema, G. & Rondinelli, D. (1983), Decentralization and Development: Policy Implementation in Developing Countries. Beverly Hills, CA: Sage Publishing

Dillinger, W. (1988), Urban Property Taxation: Lessons from Brazil, Policy and Research Staff Report No. INU37. Washington, D.C: World Bank

Jose N.Nolledo (Ed.0 (1998), The 1991 Local Government Code with Basic Features. Caloocan: Philippine Government

Kelly, R. (1992), "Implementing Property Tax Reform in Developing Countries: Lessons from the Property Tax in Indonesia" in Review of Urban and Regional Development Studies, No.4

Laraya, M. L. (1993), "The Philippines Subic Special Economic and Free Port Zone: A New Approach to an Old Strategy", Unpublished MIT Thesis. Cambridge, MA: Department of Urban Studies and Planning

Litvak, J., Ajmad & Bird, R. (1998), Rethinking Decentralization at the World Bank. Washington, D.C: World Bank:

MaCarney, P. (Ed.) (1996), The Changing Nature of Local Government in Developing Countries, Center for Urban and Community Studies. Toronto: University of Toronto Press

Makerere Institute of Social Research (1998), "What makes markets tick?" Local Governance and Service Delivery in Uganda", UNDP/MIT Research Program on Decentralized Governance. Kampala, Uganda: Makerere Institute

Manasan, R. (1995), "The Early Years of Local Government Code Implementation", Discussion Paper no 95-02. Manila: Philippines Institute for Development Studies

Mathur, O.P. & Einsidel, N. (1996), Increasing the Income of Cities: tapping the Potential of Non-land-based Sources of Revenue. Nairobi, Kenya: United Nations Center for Human Settlements

Oates, W. (1993), "Fiscal Decentralization and Economic Development", National Tax Journal, Vol. 46, No.2

Smoke, P. (1994), "Evaluating the Fiscal Role of Local Government in Developing Countries" Chapter 3 in Local Government Finance in Developing Countries: The Case of Kenya. Nairobi, Kenya: Oxford University Press

Smoke, P. (1999), Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice, Draft prepared for United Nations Institute for Social Development, Geneva

Tanzi, V. (1995), Fiscal Federalism and Decentralization: A Review of some Efficiency and Macroeconomics Aspects, World Bank Conference Paper, Washington D.C.

Tapales et al. (eds.) (1999), Local Government in the Philippines: A Book of Readings (Vol.2). Quezon City, Philippines: Center for Local and Regional Governance

Tiebout, C. (1956), "A Pure Theory of Local Expenditure", Journal of Political Economy, pp.416-424.

Ursal Sofronio (1993), Local Government Taxation, Vol. 3. Manila, Philippines: Philippine Government

Report & Documents

1988 Annual Financial Reports of Local Government (Provinces, Cities and Municipalities) Vol. III, Local Government Audit Office, Commission Audits

1994 Family Income and Expenditure Survey, Integrated Survey of Household, Series No. 80. Manila: National Statistics Office

1995 Census of Population & Housing: Socio Economic and Demographic Characteristics, Olongapo City (1997) Report no. 2-70C. Manila: National Statistics Office

City Development Strategy of Olongapo (1999) Report presented to the World Bank, Olongapo: Olongapo City

Olongapo City Ordinances for Markets and RPTA 1991-1998

Philippines Power Merger Studies of Olongapo City and SBMA, (1996), World Bank Technical Report

The World Bank. Entering the 21st Century: World Development Report 1999/2000, <http://www.worldbank.org/wdr/2000/overview.html>, December 1999.

(I) The World Bank. "Global Urban and Local Government Strategy," http://www.worldbank.org/html/fpd/urban/strategy/urb_str.htm, December 1999.

(II) The World Bank. "Philippines at a Glance", <http://www.worldbank.org/data/countrydata/countrydata.html>, December 1999.

(III) The World Bank. Urban Development Strategy and City Assistance Program in South East Asia (China, Indonesia, Philippines, Thailand, Vietnam), Inception Report, Prepared by Pacific Consultants Int., ALMEC Corp., Nikken Sekkei Ltd., March 1999.