

A Municipality's Experience on Revenue Generation and Public Economic Enterprise Development

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Abstract - The Local Government Code of 1991 has opened opportunities for local government units (LGUs) to generate more revenues beyond traditional sources like the Internal Revenue Allotment (IRA). This study focused one municipality in Bukidnon and its experience on revenue generation and economic enterprise development for 1996-2007. Initially, the study looked into the socio-economic profile of the municipality. It then surveyed successful experiences on revenue generation by other LGUs. The study's analytical framework considers the LGU as operating within a market environment and the community. The 1991 Local Government Code acts as the major policy guide for LGU operations towards efficient and effective delivery of goods and services to the public. The study analyzed trends in the municipality's

revenue generation along traditional sources: Internal Revenue Allotment (IRA), real property tax (RPT), and other local taxes. It then examined trends in the LGU's economic enterprises: waterworks, public market and slaughter house, and the heavy equipment unit. The focus group discussion among the enterprises' stakeholders revealed a number of organizational factors which affected the enterprises' operations.

Keywords - Local Government Code of 1991, local government units (LGUs), revenue generation, public economic enterprises, Internal Revenue Allotment (IRA), real property tax (RPT), local tax, business tax, and local self-sufficiency ratio.

INTRODUCTION

Local government units (LGUs), under the Local Government Code of 1991 (also known as R.A. 7160) are mandated to manage their resources efficiently and effectively in delivering services to their constituents. The Code has also authorized the LGUs to generate their own revenues and manage their fiscal operations—financial and fiscal management. But despite these powers, many LGUs still depend on the Internal Revenue Allotment (IRA) from the national government. Many of the LGUs' priority projects are still implemented through the national government funds and locally-generated income still contributes minimally to the total LGU funds.

This research is a benchmark case study on the experience of a Bukidnon 1st class municipality, on revenue generation and enterprise development, from 1996-2007. It analyzes the trends in revenue generation along the following, namely: (a) Internal Revenue Allotment (IRA); (b) Real Property Tax (RPT); (c) Local Tax; and (d) Business Tax and other local sources. Likewise, it looks into the contribution of the following public economic enterprises to the municipality's revenue generation: (a) Waterworks; (b) Public Market and Slaughterhouse; and (c) Heavy Equipment Unit. Finally, it examines factors affecting the performance of economic enterprises in the municipality.

Lessons learned from these revenue generation efforts should lead to better policies and program implementation along revenue generation and enterprise development not only for the municipality, but also for other LGUs.

FRAMEWORK

The study proceeds from the concept and fundamental principles of RA 7160, also known as the Local Government Code of 1991. The Code has enabled the LGUs to be self-reliant—devolving powers and authority to the sub-national level and to also create other sources of revenues, subject to limitations provided by the latter and other applicable laws.

The study's analytical framework is illustrated in Figure 1 below. The Local Code has provided a conducive policy support for resource generation among LGUs. LGUs operate within a market and a community at the same time; these three units distinctly operate from one another or enmeshed at any given point in time—they have inherent interconnectedness and interdependence within a shared environment. The LGUs can offer opportunities to the market and vice versa; the LGUs can also offer opportunities to the community and vice versa; finally, the market can also benefit the community, and vice versa. In their various revenue generation efforts, the LGUs actually engage the market and the community. The LGUs collect real estate taxes from landowners in the community—individuals or businesses. When the LGUs embark on economic enterprises, they are guided by market principles; the more the LGUs operate like real business or market enterprises, the more efficient and viable they are, thus, ultimately earning more revenues. The more efficient and effective the LGUs are in providing basic services to the community and the market, the better is the business climate in the community—encouraging more business transactions and economic activities, and ultimately making the local economy more vibrant. With a vibrant economy, the LGUs' tax base expands, allowing more tax revenue generation. All these can lead to a general expansion of revenues for all stakeholders—the community, the market, and the LGUs—which ultimately should result to better provision of goods and services to the public.

The literature show varied LGU experiences on revenue generation and economic enterprise development. The experiences of Olongapo and Gingoog involved comprehensive interventions. In response to a major economic setback due to the pull-out of the US military base, Olongapo embarked on a general development planning and economic conversion. It engaged both the business sector and the community in transforming the city into a commercial seaport and trade hub, ensuring production and employment (Salas, 2004), and ultimately, broadening the LGU's tax base. Gingoog implemented a new fiscal management system which computerized the RPT and business tax collection and improved tax collection; this resulted to increased tax income for the city (Amatong, 2005). The tax mapping computerization complemented with the Geographic Information System (GIS) of Sta. Rosa Laguna also expanded the LGU's tax base, increased its local tax collection, and improved the quality of its service to client-taxpayers (Amatong, 2005). Muñoz, Nueva Ecija built a flourishing equipment pool out a junk and idle equipment under the leadership of a very enterprising and resourceful Mayor (Kaban Galing, 2001). There are a number of cases illustrating viable public-private partnerships/stakeholder engagements in enterprise ventures, e.g., the public market of San Jose de Buenavista under a build-lease-transfer scheme (Kaban Galing, 2001), charging of users' fees for better health service delivery of Malalag, Davao del Norte (Amatong, 2005), and the LGU-civil society partnership for improved public terminal management of Esperanza, Sultan Kudarat, among others.

MATERIALS AND METHODS

The researchers used secondary data—mostly from financial records of the municipality. Among the official documents reviewed for this research were the following: (a) Municipal Ordinance & Annual Audit Reports from the Office of the Sangguniang Bayan; b) Socio Economic Profile and Annual Report from the Office of the Municipal Planning Coordinator; c) Annual Budget from the Municipal Budget Office; d) Annual Statement of Income and Expenditure from the Municipal Treasurer's Office, and e) Audited Income and Expenditures from the Commission on Audit.

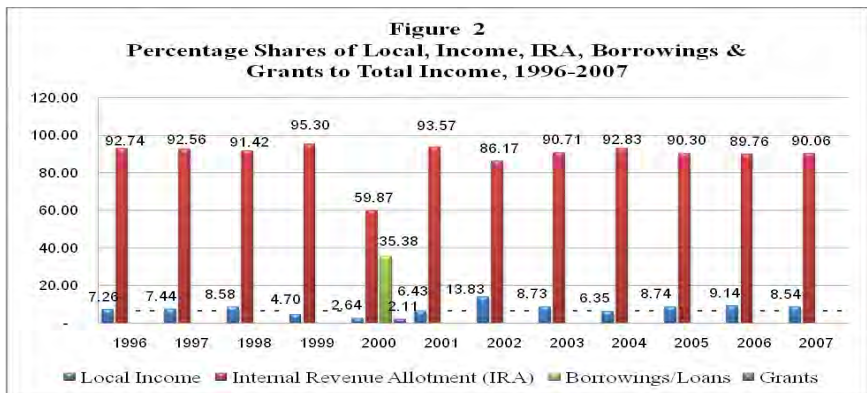
Secondary data used were mostly income and expenditures of the municipality from 1996 to 2007 from different sources—IRA, local taxes, and economic enterprises, etc. These were tabulated and analyzed. Descriptive statistics were used—averages, growth rates, and percentage shares. The data were also plotted on graphs to better illustrate trends.

To validate data and information gathered from the secondary sources and to find out more about the management, organizational structure and the operations of the LGU’s economic enterprises, the researchers also conducted focus group discussion with the following: seven (7) personnel, including the manager from the Heavy Equipment Unit, two (2) from Market and Slaughterhouse Unit, and five (5) from the Water System Unit.

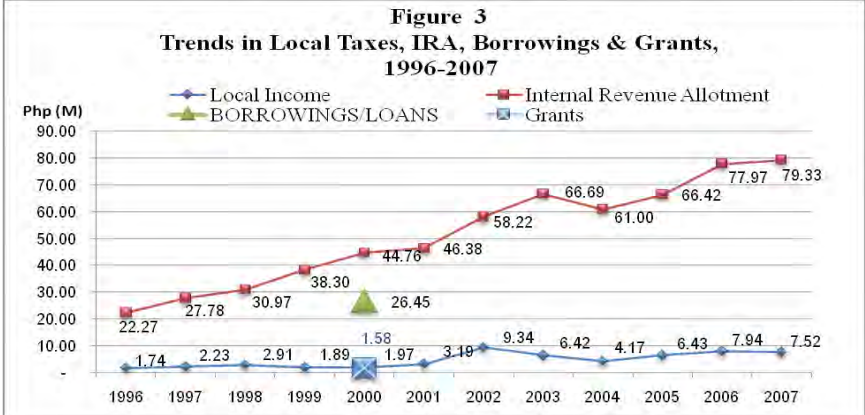
RESULTS AND DISCUSSION

The IRA and Local Sources

Figure 2 illustrates the consistently high average share (> 90%) of the IRA to the total revenues of the municipality; this was pulled down only in 2000 because then, the municipality’s total revenues were abnormally pulled up by its investment in a ₱26, 452,826.00 DBP loan for heavy equipment. About this time, it also became a recipient of a grant.

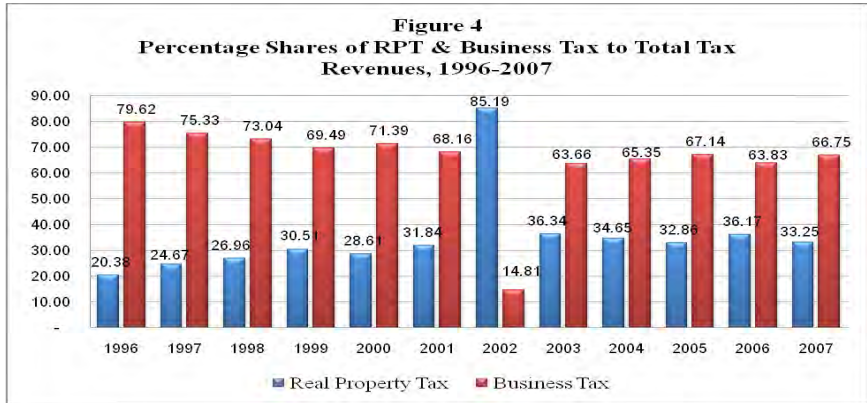


Share of local income to total revenues has always been low although it started to pick up after 2000—this was clearly due to the income generated by the operations of the heavy equipment unit created through the DBP loan. Figure 3 shows the substantial gap between the trends for IRA and local revenues within the 12-year period. Although both sources exhibit increases throughout the period, the trend for local revenues is much flatter.



Real Property and Business Taxes

Looking at local tax generation, the two main sources are the real property taxes and the business taxes. Comparing the two during the period, the latter has consistently been much higher than the real property tax revenues, except for a major slump in 2002 (this was due to the transfer of the public market to a new site; many of the stall lessees then were not able to renew their business permits). In fact, after its share fell in 2002, although local tax revenues returned to shares higher than the real property taxes, there has not been a share that was higher than those before 2002. This can mean that the business climate in the recent years may not have been as conducive as that before 2002. This is quite puzzling, considering that in the recent years, many agribusiness firms have settled in the municipality. Apparently, these big farm enterprises may not have triggered much backward or forward economic activities in the locality.



Economic Enterprises in the Municipality

Economic enterprises in the municipality have contributed positively to total municipal income. In 2000, the LGU embarked on a heavy equipment venture through a loan. Before 2000, the contribution of economic enterprises to total municipal income ranged at an average of two (2) percent. When the heavy equipment unit started to operate, in 2001 up to the present, the total enterprise income contribution has gone up to an average of six percent. These trends are clearly illustrated in Table 1 below. Evidently, among the local enterprises, the heavy equipment unit stands out as a major income earner. In 2002, the enterprise income contribution reached a peak of 9.46 %, again, most of it should be attributable to the heavy equipment unit, whose operations also peaked. The decline in the later years reflect the slow down of the unit’s operations and the maintenance problems that it was starting to experience.

Table 1. Income from economic enterprises and percentage shares of total municipal income, 1996 to 2007

Calendar Year	Income from Economic Enterprises	Total Municipal Income	Percentage Contribution to Total Income
1996	356,939.63	24,017,161.57	1.49
1997	571,632.56	30,009,234.64	1.90
1998	783,478.37	33,872,639.33	2.31
1999	783,298.50	40,191,656.61	1.95
2000	787,664.30	74,766,375.45	1.05
2001	1,881,003.25	49,562,881.58	3.80
2002	6,391,856.65	67,565,946.90	9.46
2003	4,871,269.21	73,524,896.40	6.63
2004	2,440,392.58	65,715,224.14	3.71
2005	3,843,157.48	73,551,672.84	5.23
2006	4,627,262.24	86,864,205.30	5.33
2007	3,296,255.61	88,083,286.58	3.74

Source MTO

Market and Slaughterhouse

Contribution of the market and slaughterhouse enterprises to total municipal income on the average has been the lowest and as Figure 4 shows, this has been decreasing through the years. Evidently, the enterprise has been performing very poorly. Table 2 below shows that operating the market and slaughterhouse has made the LGU incur more expenditures beyond what the enterprise could generate as revenues. Hence, the enterprise has consistently been on deficit throughout the period.

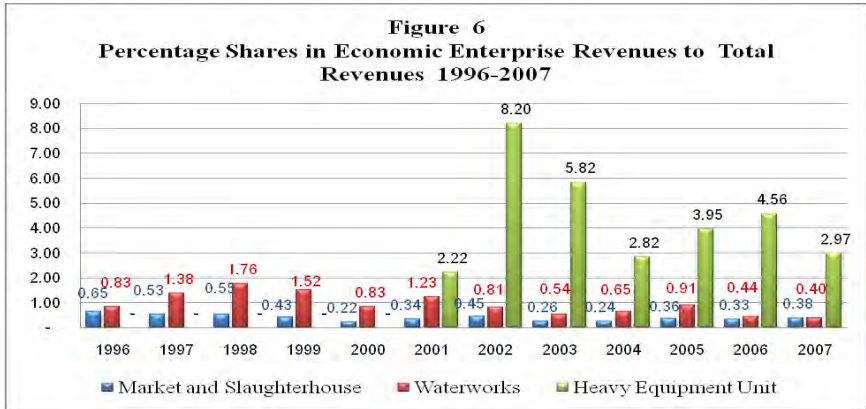


Table 2. Receipts and expenditures for the market and slaughterhouse enterprises, 1996 to 2007

Calendar Year	Market and Slaughterhouse Receipts	Expenditures	Surplus/Deficit
1996	156,939.02	-	
1997	158,564.10	-	
1998	186,075.12	257,775.48	(71,700.36)
1999	171,791.25	270,639.61	(98,848.36)
2000	166,003.83	219,447.42	(53,443.59)
2001	169,416.25	272,786.38	(103,370.13)
2002	302,939.75	468,252.61	(165,312.86)
2003	190,454.00	532,119.67	(341,665.67)
2004	159,504.25	282,088.88	(122,584.63)
2005	267,112.05	301,077.94	(33,965.89)
2006	288,007.15	326,831.92	(38,824.77)
2007	254,445.00	258,448.18	(4,003.18)

Source: MTO

Water System

The contribution of the water system to total municipal income has been on a fluctuating trend. Generally, among the three enterprises, the water system has been contributing the least. The number of households in the municipality has been increasing through the years but there has not been any expansion in the water system. This has resulted to a decreasing water supply; many households have stopped paying their water bills. Meanwhile, the cost to operate the system has been very high and a major cost item has been the electricity for operating the water pumps.

Table 3 shows that the water system has generally been operating on deficit, through the years. The positive values in years 2000 and 2001 were only made possible due to infusion of subsidy. Like the market and slaughterhouse enterprise, the water system operations cost higher than what it earns as revenues.

Table 3. Receipts and expenditures for the water system
1996 to 2007

Calendar Year	Waterworks	Expenditures	Surplus/Deficit
1996	200,000.61	-	
1997	413,068.46	-	
1998	597,403.25	812,504.93	(215,101.68)
1999	611,507.25	672,138.20	(60,630.95)
2000	621,660.47	483,259.01	138,401.46
2001	610,906.50	560,201.35	50,705.15
2002	548,597.20	694,318.46	(145,721.26)
2003	400,637.00	803,389.52	(402,752.52)
2004	424,683.00	1,037,421.10	(612,738.10)
2005	667,670.00	592,238.07	75,431.93
2006	380,587.00	521,685.83	(141,098.83)
2007	347,980.00	796,042.47	(448,062.47)

Source: MTO

Heavy Equipment Unit

Among all the LGU enterprises, it is the heavy equipment unit that has exhibited the highest contribution to total municipal income. For the past seven (7) years of its operations, its share reached the highest in 2002 at 8.2 % (Figure 5). Its revenue-generating capacity is distinctly higher than the market, slaughterhouse and the water system – while their shares to total municipal income hovered below one percent to two percent, the heavy equipment unit contributed an average of more than four percent (the 2002 share was omitted in computing the average since it was during this time that huge subsidies from the Congressional and provincial funds were infused into the municipality, for infrastructure projects). Still, despite its higher capacity to earn, the unit, just like the other enterprises has been besieged with deficit. (Table 4)

Table 4. Receipts and expenditures for the heavy equipment unit 2000 to 2007

Calendar Year	Heavy Equipment Unit	Expenditures	Surplus/Deficit
2000	787,664.43	-	787,664.43
2001	1,100,680.50	1,487,715.40	(387,034.90)
2002	5,540,319.70	3,177,750.00	2,362,569.70
2003	4,280,178.21	3,264,771.55	1,015,406.66
2004	1,856,205.33	2,860,077.35	(1,003,872.02)
2005	2,908,375.43	3,965,421.77	(1,057,046.34)
2006	3,958,668.09	5,265,232.87	(1,306,564.78)
2007	2,611,796.61	4,634,924.29	(2,023,127.68)

Source: MTO

Local Self-Sufficiency

The local self-sufficiency ratio reflects an LGU's ability to finance its own expenditures. This ratio is computed based on the actual total local income incurred during the year divided by the total expenditure incurred in the same year. Table 5 shows that on the average, the municipality has been supporting around five (5) percent of its expenditures from its own local revenues. Therefore, for the period covered in this study, the municipality has been relying solely on its IRA to support its operations.

Table 6 below shows a computation of self sufficiency ratio that includes all income from economic enterprises. It shows that with economic enterprises, the LGU has better capacity to finance its expenditures from local sources. Hence, the more efficient and viable its economic enterprises are, the better the LGU can spend for its operations.

Table 5. Total Local Revenues (without economic enterprises income),
Total

Local Expenditures and Self-Sufficiency Ratio 1996-2007

Year	Local Income	Total Expenditures	Self-Sufficiency Ratio
1996	1,386,082.45	23,132,313.61	5.99
1997	1,661,990.14	30,185,020.62	5.51
1998	2,123,110.96	32,486,867.06	6.54
1999	1,104,103.11	40,516,924.49	2.73
2000	2,762,622.15	70,202,948.33	3.94
2001	1,304,558.33	41,959,041.00	3.11
2002	2,952,405.02	45,772,775.00	6.45
2003	1,548,055.36	42,484,495.40	3.64
2004	1,731,614.78	48,162,524.31	3.60

2005	2,584,538.21	54,648,637.51	4.73
2006	3,310,524.87	54,715,797.73	6.05
2007	4,226,660.01	57,744,391.67	7.32
Note: Local incomes include real property taxes (RPT) and business taxes only.			

Table 6
 Total Local Revenues (with economic enterprise income), Total
 Local Expenditures and Self-Sufficiency Ratio
 1996-2007

Year	Local Income	Total Expenditures	Self-Sufficiency Ratio
1996	1,743,022.08	23,132,313.61	7.54
1997	2,233,622.60	30,185,020.62	7.40
1998	2,906,889.33	32,486,867.06	8.95
1999	1,887,401.61	40,516,924.49	4.66
2000	28,426,861.58	70,202,948.33	40.49
2001	3,185,561.58	41,959,041.00	7.59
2002	9,344,261.67	45,772,775.00	20.41
2003	6,419,324.57	42,484,495.40	15.11
2004	4,172,007.36	48,162,524.31	8.66
2005	6,427,695.69	54,648,637.51	11.76
2006	7,937,787.11	54,715,797.73	14.51
2007	7,522,915.62	57,744,391.67	13.03

Note: Local income included income from real property and business taxes plus the incomes from the local enterprises.

Challenges Facing the Municipality's Economic Enterprises

The focus group discussion (FGD) revealed a number of problems encountered in the operations of the municipality's three economic enterprises.

Undoubtedly, these economic enterprises have been established and made operational to earn more income for the LGU and provide better services to the public. Unfortunately, the data have shown that all these enterprises have been operating through the years, on deficit; at times, when they seemed to have incurred surpluses, these were actually due to subsidies infused into the system.

Generally, the rates for the various services provided by all the enterprises are all artificially low, giving the impression that these enterprises are not managed as real businesses. The enterprises also have poor collection system—many services are delivered without payment collected.

In terms of personnel, there were unclear delineations of functions. Most of the management and staff lacked the training and experience to run a business enterprise. Since most of the staff were just on detail from permanent positions somewhere in the LGU system, there was lack of continuity and focus in their attention to the enterprises assigned to them. Anytime, these detailed personnel can be recalled, replaced or in some cases, not even replaced, leaving the post unmanned. There was some political interference, hence, there was hesitation in making decisive moves in the enterprise for fear of being reprimanded by the superiors. Changes in administration also affected staff complement, leaving the offices floating.

Other problems were also discussed during the FGD. Matters needing urgent or important attention are set aside; in-action or delays in processes are common, making the enterprises lose income opportunities. Lack of appropriation for maintenance costs, especially for the heavy equipment has seriously hampered the unit's operations, again, foregoing income. Lack of available funds and spare parts that are needed to repair equipment in order to keep them in good working condition has been a chronic concern.

CONCLUSIONS

The LGU operates not as an isolated island but rather, within an environment where it is very much connected with the market and the rest of the community; hence, opportunities abound for stakeholder engagements that can lead to better revenue generation for the LGU, and therefore, higher capacity for the latter to provide better services to the public. There is evidence to show that the LGU can succeed in improving its revenue generation not only through taxation but also through economic enterprise development, on top of its given role of creating a conducive ambiance for the local economy to flourish.

The revenue trends in the municipality studied, for the period 1996-2007 have shown the predominance of the Internal Revenue Allotment (IRA) as a revenue source. Real property taxes (RPT) and local business taxes have contributed meagerly to the total municipal income. Still, the municipality has great potential to expand its tax base in many ways. In has a big land area. Like other LGUs, it may benefit, in terms of higher RPT, from a thorough review and improvement of its tax collection system. Improvements to these lands, if documented properly, can also be source of additional RPT. There have been a number of agri-businesses that have located within the municipality. The LGU can closely engage with them to ensure proper collection of taxes/dues and promotion of other services beneficial to the community and the environment, etc.

Its economic enterprises have shown slightly higher contribution over the RPT and the local business taxes. They have strong potential for strengthening the capacity of the LGU to be more self-sufficient: self-sufficiency ratios for the municipality significantly improved when computed incomes included enterprise incomes. This potential though, will not be realized unless the enterprises' consistent deficit operations can be properly addressed. A number of areas signal for attention: capacity building for the enterprise management and staff, improved and rationalized operations (cost-based rates, better standards, policies, and procedures), elimination of political interference, sufficient appropriation for proper equipment maintenance, etc.

Meanwhile, the study has shown that the municipality has yet to explore the many other sources of revenues and engagements

that it can make with prospective partners in the market as well as in the community. Other LGU experiences have shown that the non-government organizations (NGOs) and the civil society organizations (CSOs) can be effective and efficient business partners. This has yet to be tried and tested in this municipality.

The future holds a great promise for the municipality to be more than self-sufficient. It is abound with resources and comparative advantages, which if properly tapped can really make the local economy more vibrant. It is up to the municipality and its stakeholders, to be as creative as they can be in maximizing their existing resources in order to generate more revenues and better serve the community.

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